



HANKOOK TIRE ANNUAL REPORT 2011

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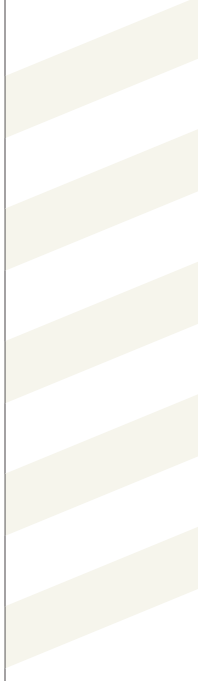


Hankook Tire Sales Unit: KRW million | 2008 - 2009 : K-GAAP | 2010 - 2011 : K-IFRS

WE ARE HERE

We started out as the first Korean tire maker in 1941, and have spearheaded the growth of the Korean tire industry for over 70 years. Hankook Tire has remained among the top seven tire manufacturers in terms of sales revenue ever since 2006. As a major world player, we create new value in automobile-driven lifestyles.

0° latitude



ARE

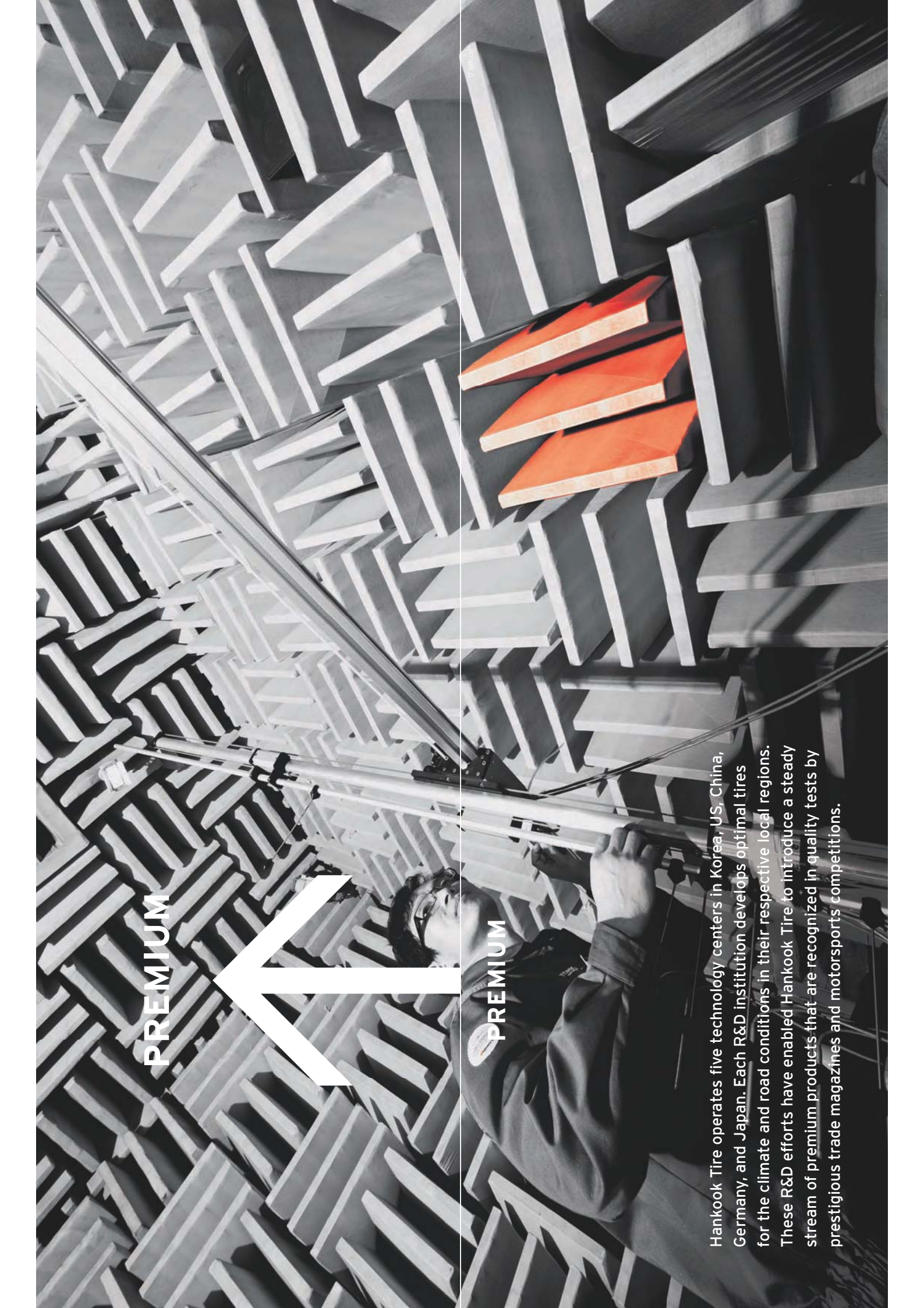
The 70-year history of Hankook Tire is characterized by technological innovation. We supply tires with superb performance, driving stability and ride comfort to the world, while we maintain an eco-friendly mentality throughout our business.



Hankook
driving innovation

Hankook

© Hankook



PREMIUM

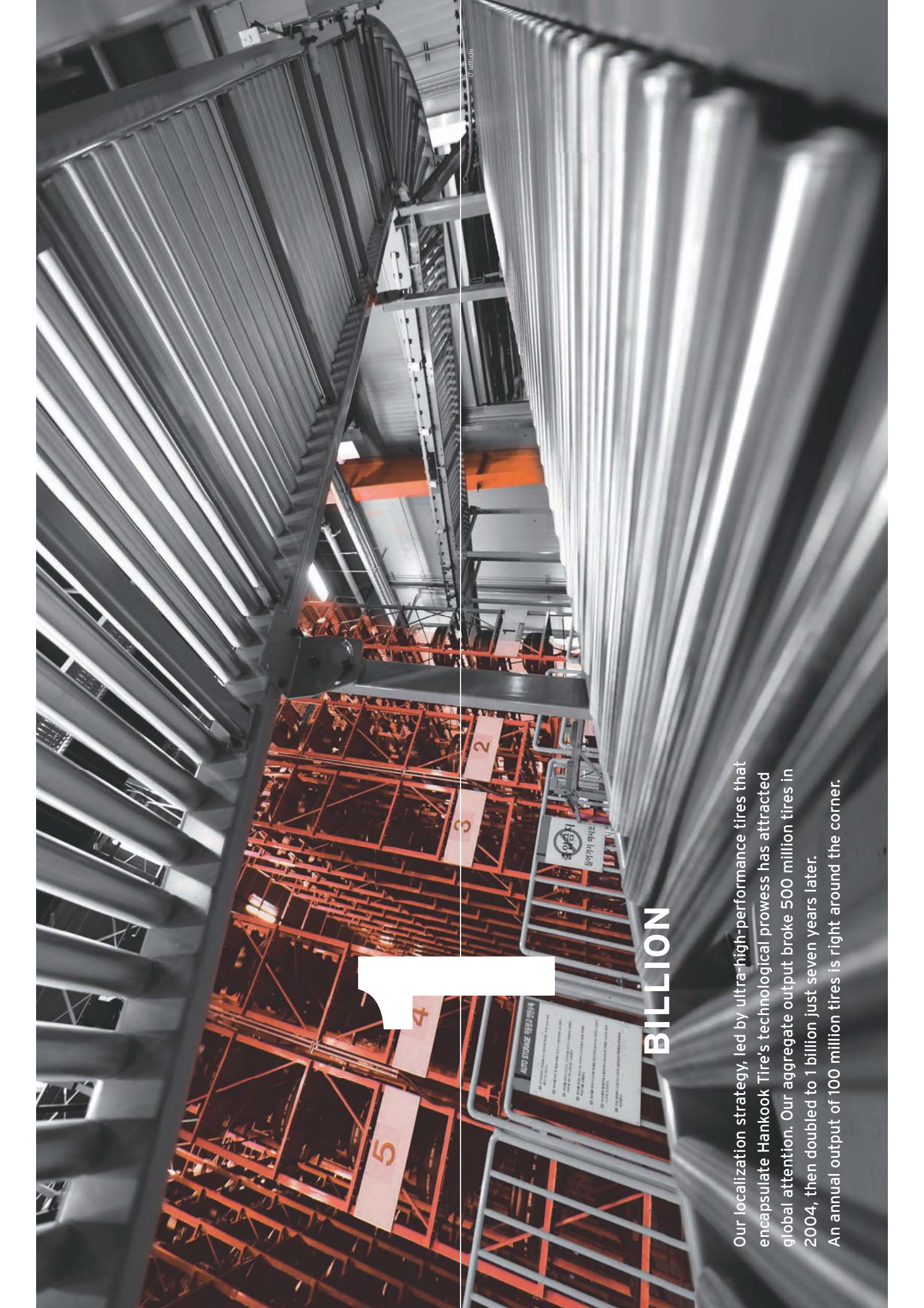
PREMIUM

Hankook Tire operates five technology centers in Korea, US, China, Germany, and Japan. Each R&D institution develops optimal tires for the climate and road conditions in their respective local regions. These R&D efforts have enabled Hankook Tire to introduce a steady stream of premium products that are recognized in quality tests by prestigious trade magazines and motorsports competitions.

ARE

Production and sales volumes are the yardsticks that measure customer satisfaction. Hankook Tire sets new production and sales records each year, thanks to our excellence in technology and quality.

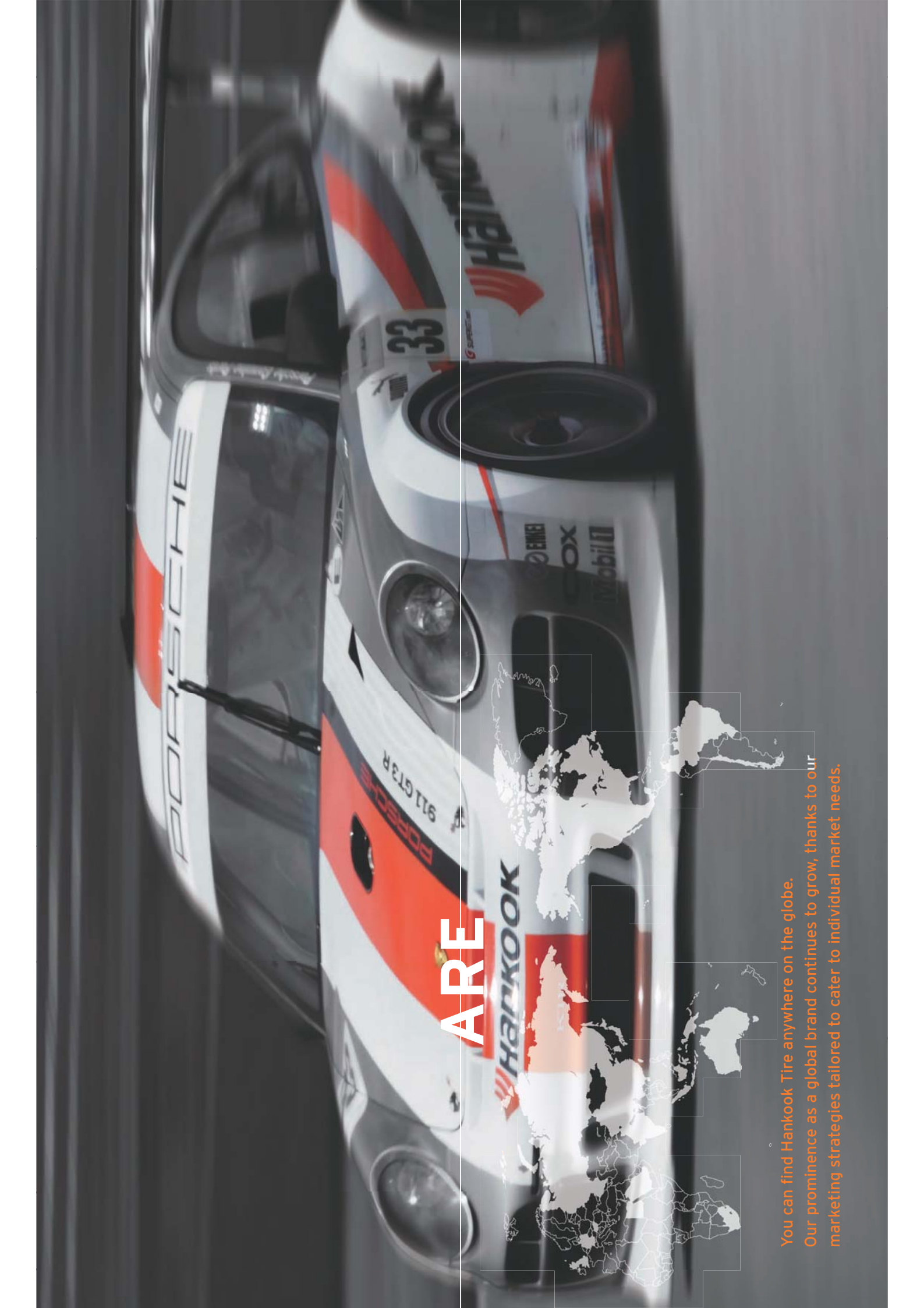




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BILLION

Our localization strategy, led by ultra-high-performance tires that encapsulate Hankook Tire's technological prowess has attracted global attention. Our aggregate output broke 500 million tires in 2004, then doubled to 1 billion just seven years later. An annual output of 100 million tires is right around the corner.



ARE

You can find Hankook Tire anywhere on the globe. Our prominence as a global brand continues to grow, thanks to our marketing strategies tailored to cater to individual market needs.

HERE

We promote the Hankook Tire brand under the slogans 'Be One with It' in the Americas and Europe, and '一路通天下' in China. Hankook Tire continues to elevate its image as a top-tier brand that breathes together with the world by incorporating robust marketing campaigns waged through diverse channels close to customers. Major motorsports events from the campaign include Deutsche Touring Car Masters (DTM), motor shows, and outdoor advertisements at Times Square in Manhattan.

SOLID

A company can advance higher and farther when the corporate vision and employees' vision are in sync. We pursue the growth of both Hankook Tire and our people by helping them achieve a healthy work-life balance. This approach allows Hankook Tire to become a leading global tire company that provides value and pleasure to customers and employees alike.

ORGANIZATION

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We are acquiring sustainable growth drivers that are unaffected by changes in the external business environment.

To Our Valued Shareholders

Let me begin by sincerely thanking you for the unwavering interest and support you have shown Hankook Tire.

Our industry faced much adversity in 2011 as a result of the global economic downturn following the European fiscal crisis, as well as an unstable supply and demand for commodities, such as natural rubber. Despite these difficulties, our sales grew 19.72% year-on-year to just under KRW 6.5 trillion, thanks to your solid support and our employees' concerted efforts.

We expect many challenges in our business during 2012 as well. Europe's fiscal uncertainties are likely to persist and chances of improvement are still remote for major economic indicators such as economic growth rates and oil prices.

However, we are determined to overcome these unfavorable conditions. We will step up our development in four strategic directions: (1) raise brand value, (2) bring quality to the global standard, (3) accelerate global growth, and (4) optimize global operations to sustain growth and achieve world-class profitability as a tire maker.

To this end, we have set an ambitious goal of KRW 818.2 billion in operating income on sales revenue of more than KRW 7.23 trillion, a 11.5% increase compared to the previous year. Increasing brand value is the key to achieving our performance goals. Therefore, we will leverage the trust in Hankook Tire that we have built up over the years to carry out a more aggressive and customer-oriented marketing strategy. Also, our status and value as a global brand will be firmly established as we increase our supply of OE tires to premium automakers, and we will diversify our global distribution channels.

Next, we need to focus our company-wide competencies on enhancing the quality of our products.

The Tire Labeling System was recently introduced in European countries and is expected to affect the tire industry enormously in the future. This initiative will serve as an opportunity for those companies with the capabilities to produce tires that meet market quality requirements. Those that cannot, however, will be facing a major crisis.

We will continue to reinforce the R&D technologies and production technologies that we have developed. In this way, we will be able to accommodate the new rules and obtain the technological prowess necessary to lead the tire market.

Lastly, we need to strategically make steady inroads into growing markets and important regions.

We will expand our global production network to secure the supply capacity necessary to become the 5th ranked tire maker in the world. At the same time, we will create a consistent cycle between production and sales to realize the economy of scale. In the process, our operations will be more efficient and our costs will be reduced.

The business climate in the coming year, too, may look inauspicious to us. However, you all know that historically, every difficult situation also represents a new opportunity for success.

Our people are passionate and committed to solidifying Hankook Tire's position as a leading global tire company and to meeting your expectations for sustainable growth, unhampered by temporary setbacks in the external environment. I ask for your continued interest and support going forward.

In closing, may you and your families enjoy the best of health and happiness.



Suh, Seung Hwa Vice Chairman & Global CEO



Mission & Vision

We have established the framework for our mission and vision, redefining our core values and corporate direction. The mission framework systematically details our raison d'être and core values. It is divided into two parts: the mission statement, which demonstrates what Hankook Tire has to do, and core values, which summarize what business principles we pursue and how our people are to act accordingly. The Vision framework consists of Vision 2020, which defines the status we aim to achieve in five to ten years, our detailed mid-term goals, and the strategic direction we must take to attain these goals.

Mission Frame

Mission
Contribute to Advancement
in Driving

Voice, Environment, People,
Innovation, Ethics, Execution

Passion, Innovation, Trust, Global

Vision Frame

Vision 2020
A Leading Global Tire Company Providing
Customers with Value and Pleasure

Mid-term Goals 5-1-1
5: Global 5th Tire Maker
Global M/S Over **5%**
1: Global EBITDA **1** Billion. USD
1* in Profitability
1: Global Production **1** Hundred Mil.
1* in Quality & Productivity

Strategic Direction
Brand Value-Up
Quality Level-Up
Global Growth Acceleration
Global Operation Excellence



Mission Framework

Mission

Our mission statement, "Contribute to Advancement in Driving", shows our commitment to promoting progress in our society and individual lives by making driving a safer, more pleasant, more comfortable experience.

Business Principles

Our six basic principles serve as the basis of our business activities and provide common standards in making decisions and setting the business direction.

Voice: A company that pursues excellence proactively by placing the highest priority on giving every customer a voice

Environment: A company that ensures that the environment comes first

People: A company that ensures fairness in allowing all its employees opportunities to realize their full potential

Innovation: An innovative company filled with an entrepreneurial spirit that responds aggressively to changes in the business environment

Ethics: A company that fulfills corporate social responsibilities and earns a sound reputation through transparent management practices

Execution: A company that carries out strategies through effective communication and cooperation

Core Values

Our core values provide employees with a common set of priorities regarding how they go about their work. These are the standards for thinking and acting that all employees must respect and follow in order to realize the mission and vision.

Passion: positive attitude, performance orientation, and ownership mindset

Innovation: creativity, flexibility, and change leadership

Trust: ethics, respect for others, and customer satisfaction

Global competencies: open mindset, global communication, and global perspective

People

Hankook Tire's core values can be summed up in one word: "proactive." We want to work with the kind of people who encompass these values and put them into practice. They also can be defined as global "Proactive Leaders," who passionately take the initiative for change and to satisfy customers.

Top Management

for automakers have been raised. As such, we pursue sustainable growth based on outstanding quality. As for raw materials, the focus of our sourcing practice is on higher quality, not lower costs.

On the operational management side, we have improved all manufacturing processes in order to optimize production volume and improve product line balance in consideration of the stabilization of product quality. We conduct planned maintenances and overhaul our facilities regularly, and we have developed a product uniformity criterion for thorough quality control.

The third is "Global Operation Excellence." We will maximize business efficiency in preparation for uncertainties in the business environment, optimizing our global operation.

To this end, we are seeking ways to use company resources as efficiently as possible, including cost and investment rationalization schemes.

Moreover, the global supply chain management (SCM) project is in progress as part of the efforts to optimize business processes. Innovations are also being made from the mid-long term perspectives to better manage potential risk and respond quickly and comprehensively when actual problems occur.

The fourth direction is "Global Growth Acceleration." Attaining an economy of scale is critical for the survival of the manufacturers. The tire industry poses a high entry barrier, given its technology-, labor-, and capital-intensive nature. Global tire companies are, however, aggressively making new investments, while mergers and acquisitions occur frequently in this industry because the tire market has already matured in advanced economies. As such, our investment continues in expanding global production facilities, and relentless effort is being made to raise our profitability.



Creation of Stakeholder Value

We simplified our definition of stakeholder value so that stakeholders can realize the importance of our vision and achieve a secure feeling of sustainability in the company. By doing so, our stakeholders are fully aware of their roles as we continue to progress in achieving our mission.



Proactive Award Ceremony

Vision 2020

The vision for Hankook Tire is to become a "Leading Global Tire Company that Provides Customers with Value and Pleasure." This is the status our entire organization strives to attain. We have established step-by-step goals for ourselves in order to achieve our vision by 2020.

Mid-term Goals

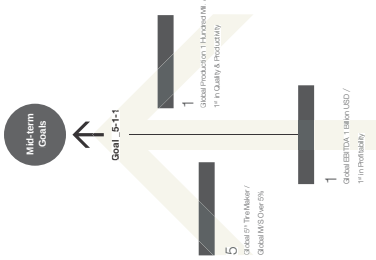
Our mid-term goals describe what we should achieve within the next three to five years in order to realize our envisioned future. These goals can be summarized as "5-1-1," where each of the three numbers refers to three separate targets. The "5" stands for becoming the world's fifth-largest tire maker and taking at least five percent of the global market share. The first "1" represents earning EBITDA of US\$ 1 billion and achieving the industry's highest profit rate, while the second "1" means producing 100 million tires annually and topping the industry in terms of quality and productivity.

Strategic Directions

The four strategic directions to help achieve the mid-term goals that are set to actualize our ultimate vision are as follows:

The first strategic direction is "Brand Value-up." We are committed to improving our responsiveness to market changes and eventually emerge as a market-oriented company that leads market trends. Accordingly, we have launched new corporate identity and brand identity logos in 2004, securing the standards and platforms for raising our brand value. Moreover, we are working hard to build prestigious brand recognition by developing products that cater to customers' needs, engaging in vigorous marketing activities, and strengthening distribution competence through integrated marketing and brand building strategies.

The second direction is "Quality Level up." The widespread disclosure of tire performance grades has elevated customer expectations for quality, and the performance assessment standards

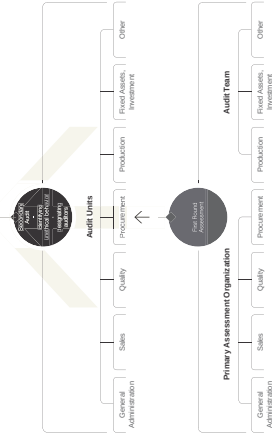


Performance Assessment Processes

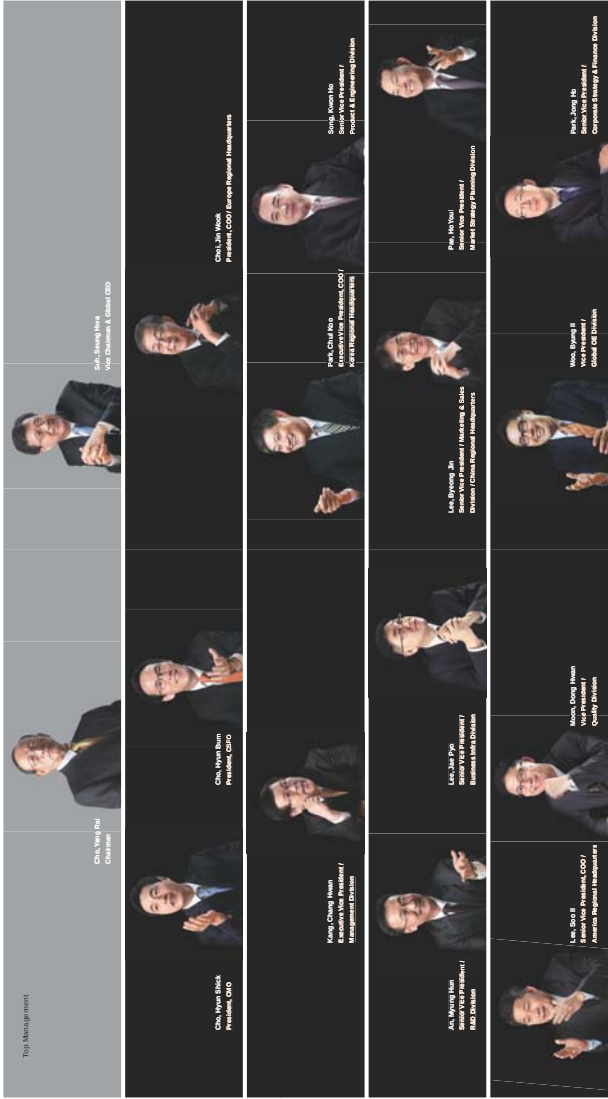
Hanjinco, Tin has adopted a Code of Ethics to promote transparency and integrity in business conduct and ensure stable profitability for shareholders over the long term. Various performance assessment activities are conducted to monitor the company's performance and identify areas for improvement. In addition to the activities of the Audit and Compliance Committee, the company has established a team of primary and secondary inspectors on the plant floor to monitor management diagnosis programs, assessment activities to prevent inefficiency throughout various management diagnosis programs, and assessment activities to prevent inefficiency throughout various management diagnosis programs. Moreover, the Hanjinco, Tin Risk Monitoring System (RMS) began operations from June 2011. This permanent warning system is aimed at preventing unfavorable accidents. Information about accidents and incidents is collected and analyzed in real time. The company is also conducting additional analysis. Management Diagnosis Committee meetings were held to review the effectiveness of follow-up measures after an initial committee audit. These committee activities will help to strengthen management monitoring.

Hanjinco, Tin Performance Assessment System

Targets: Global Staff, Regional Headquarters (Korea, China, Americas, Europe)
Monitoring management activities with unified performance assessment processes
«Management Diagnosis Committee»



Organizational Structure



Hanjinco, Tin has the optimal organization to realize its vision of becoming a "Leading Global Tin Company". We are largely divided into the Global Staff and Regional Headquarters. Effective communication among them allows us to establish strategies and implement them efficiently. In 2011, we improved joint management functions to start the operation of new overseas facilities globally. In addition, some units were restructured to gain a first-mover advantage in the ASEAN and Indian regions. The Corporate Social Responsibility team was transferred from the Planning and Finance Division to the Management and Administration Division. These changes are expected to enhance our business performance and contribute to the continuous growth of the company.

SOLID ORGANIZATION



Roles and Composition of Technical Committees

Hankook Tire has established technical committees under the Board of Directors to maximize the efficiency and professionalism of the Board operations. Part of the BOD's authority is delegated to these committees, made up of specialists who systematically examine and settle issues within their respective areas of expertise. Currently, under the BOD are the Audit, NED Nomination, and Management Committees. The Articles of Incorporation provides that additional committees can be established if necessary.

Audit Committee

The needs for auditory activities are surging as various unconventional risks are emerging in line with the expansion of global corporate operations. The function of internal monitoring, which is aimed at managing potential risks, must be strengthened. As such, corporations now have increasing needs to secure a management assessment system, which help prevent accidents by thorough monitoring processes, beyond responding to emergency situations. The Audit Committee was established under a resolution from the 2007 General Shareholders' Meeting, and has been in operation since. Membership consists of three non-executive directors for maximum independence, and they have the right to veto the selection of the head of the internal auditing department for the company. The Audit Committee members also assist in company audits, serving as an overseer and regulator of the top management. Hankook Tire's regulations regarding the Audit Committee allow it to request reports from executive directors or examine the company's financial standing at any time, helping to ensure transparency in business activities. Hankook Tire has the Operational Rules for the Audit Committee, which allows the Committee to have access to business information necessary for its auditory activities. The rules serve as a foundation for the Committee's activities. The Committee meets regularly each quarter, and additional meetings may be called whenever necessary.

NED Nomination Committee The NED Nomination Committee was established as a technical committee under the BOD to maximize the fairness and independence of the process to recommend candidates for the non-executive director position. The Committee consists of five members, of which the NEDs outnumber the internal directors. This is yet another way that Hankook Tire enhances transparency and fairness of the nomination process. The Committee was established 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

We have engaged in aggressive business activities in response to the increasingly competitive global business environment. As a result, the frequency of BOD meetings has increased and its work scope has expanded. The Management Committee was established in 2008 under the BOD in order to reduce the number of BOD meetings and to streamline the business management processes. This has helped to raise corporate professionalism and efficiency by accelerating the decision-making process. The Management Committee deliberates and decides on general management and financial affairs, which are the most frequent in business management. Given that the Committee plays such a role, regular BOD meetings become a forum for discussing more important issues. Such a systematic support for the Board activities promotes managerial accountability at the same time. Within five days of each meeting, the Management Committee is obligated to present the minutes and an explanation of the resolutions passed to the NEDs. During the following two days, the NEDs may call a Board meeting to deliberate further on the agenda passed on by the Management Committee. According to the regulations, if any of the resolutions passed by the Management Committee is vetoed during the ensuing Board meeting, the issue is automatically disallowed.



Hankook Tire is committed to providing customers around the world with tires that ensure safe and comfortable driving, enhancing their lifestyles and pleasure. Our sales network currently spans 35 sales offices in Korea, where the Global Headquarters is located, along with locations in China (1 subsidiary & 16 sales offices), Europe (8 subsidiaries & 3 sales offices), the Americas (3 subsidiaries & 4 sales offices), and the Middle East/Africa/Asia Pacific (2 subsidiaries & 8 sales offices). This network allows us to offer various products that meet the preferences of customers in different regions.

In addition, we operate offices of customers in different regions. These offices maintain close ties with local automakers. Meanwhile, the Singapore branch has been opened to respond quickly to various issues regarding the supply of raw materials.

In 2011, we established sales offices in Kuala Lumpur, Malaysia, and Warsaw, Poland, which will serve as platforms for making roads to the emerging ASEAN and Central European markets and for becoming a Leading Global Tire Company.

- Korea**
1 Subsidiary, 2 Plants, 35 Sales Offices, Main R&D Center, Academy House (6,292 employees)
8 Subsidiaries, 3 Plants, 16 Overseas Sales Offices, China Technical Center (6,210 employees)
3 Subsidiaries, 1 Plant, 3 Overseas Sales Offices, 1 OE Liaison Office, Europe Technical Center (2,462 employees)
2 Subsidiaries, 4 Overseas Sales Offices, 6 Administrative Offices, 1 OE Liaison Office, Avon Technical Center (200 employees)
2 Subsidiaries, 1 Plant, 8 Overseas Sales Offices, 1 Liaison Office, Japan Technical Liaison Office (258 employees)
- China**
Main R&D Center (Daejeon, Korea), Avon Technical Center (Ohio, USA), Europe Technical Center (Hannover, Germany), China Technical Center (Jiaxing, China), Japan Technical Liaison Office (Osaka, Japan)
Korea (Daegu & Gyeongsang), China (Jiangsu & Jiangxi), Hungary (Lucerne), Indonesia (Bekasi)
- Americas**
Operating in 27 countries
- Middle East, Africa and Asia-Pacific**
R&D Centers
Plants
Regional Headquarters
Subsidiaries & Sales Offices

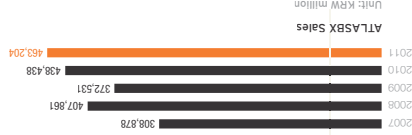
Affiliates



ATLASBX Co., Ltd.

ATLASBX was established in 1944 to make batteries for cars and trucks. Over the years, the company has continued to develop and introduce new products, expanding into marine batteries and industrial batteries to lead Korea's battery industry. After ATLASBX 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, ATLASBX 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. In 1994, it was listed on the KOSDAQ benchmark index, securing a channel to attract investment in the direct financial market.

In 1999, the Jeonju plant was established, which is now capable of producing 3.2 million batteries a year. Total annual output stands at 9.4 million units, making ATLASBX the world's sixth-largest battery maker. The company obtained QS 9000, ISO 9001 and ISO 14001 in the late 1990s, and in 2004, the ISO-TS 16949 certification was acquired. ATLASBX became Korea's first battery maker to win the \$200 Million Export Tower in 2007, and the \$300 Million Export Tower in 2008. In 2009, the company received the "P" Mark from the Ministry of Knowledge Economy for the first time among Korea's battery makers. This serves as testimony to outstanding product quality. The City of Daejeon also honored the company with its KRW 400 Billion Sales Tower award in 2009, while the Ministry of Labor designated ATLASBX as an outstanding company for labor-management relations. Moreover, the Ministry of Knowledge Economy designated ATLASBX as the sole supplier of lead storage batteries for the Ministry's Smart Grid pilot project. Thus, the groundwork has been laid for the company to grow as an environment-friendly energy specialist. In 2010, the company was named "Fortune" magazine's 2010 "Great Workplace in Korea," showing its aspects as an industry forerunner. It was once again recognized as a leader in building harmonious and cooperative labor-management relationships by receiving the Prime Minister's Prize in the 2011 Labor-Management Culture Awards.



Main Products

- Automotive Batteries
- Taxi Batteries
- Marine Batteries
- Industrial Batteries
- Truck and Bus Batteries
- AGM Batteries
- Batteries for Imported Vehicles
- Micro-HEV Batteries
- Batteries for Agricultural Equipment
- Batteries for Renewable Energy Storage

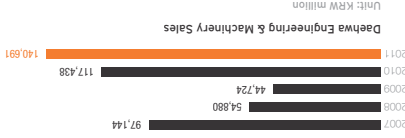


Daeхва Engineering & Machinery Co., Ltd.

Daeхва Engineering & Machinery was established in 1992 as a builder of essential machines used in tire manufacturing. The company's own research center has contributed to the localization of tire-manufacturing equipment and technologies. Facilities and equipment built with its in-house technologies include the tire-building machine, curing press, uniformity tester for mid-sized and large truck and bus radial (TBR) tires, high-speed driving performance tester for UHP tires, and one-operator TBR tire-building machine that is now in operation at the Gaumsan Plant. Daeхва Engineering & Machinery established the Chinese subsidiary as a platform to make inroads into overseas markets in 2004. In 2006, the company completed the development of a tire builder customized for the European market, and this machine model has been installed in the Hankook Tire plant in Hungary. In 2007, the company expanded into bead-related work on behalf of Hankook Tire. A world-class quality management system has also been put in place, as evidenced by the ISO 9001 certification received in 2009. Going forward, the continuous R&D efforts will allow the company to develop proprietary technologies and be on the road toward becoming a world-class maker of tire production machinery.

Main Products

- Steel Belt Cutter
- Curing Press
- Bead Winder/MC
- Tire Building MC
- Uniformity



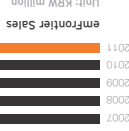
emFrontier Inc.

The Data Systems Division at the Hankook Tire Corporate Headquarters was spun off to create emFrontier in August 2000. This integrated IT service provider leverages extensive business network and outstanding system integration capabilities and know-how, which was obtained from operating the Hankook Tire information system, to provide integrated IT solutions. The company engages in building and operating customers' IT systems, and it has performed diverse projects in the private and public sectors as well as in the service and security segments. Average annual sales growth stands at 12%, more than double the IT industry average of 5.5%.

The company has remained an industry leader in other ways as well. The Korea Contents Association bestowed its Industrial Award on emFrontier in 2003, and the 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 (air-WOS) as "new software" in 2008. Moreover, the Korea IT Industry Promotion Agency gave the "air-WOS" and "air-WMS" warehouse management solution a certificate for Good Software. In the future, emFrontier will provide customers with new value by leveraging advanced expertise in its specialized areas and serve as an outstanding partner that grows along with the customer by understanding customer needs and providing optimized solutions.

Providing Service

- IT Sourcing
- SI / Consulting
- Enterprise Service



FRIXA Co., Ltd.

FRIXA was established in 1991 as a brake specialist, and the business portfolio now includes brake pads, brake lining, racing brake pads, disc rotors, and industrial-use brakes. The company has played a leading role in elevating Korean friction material technologies to world-class status. FRIXA's products boast outstanding braking performance as well as exceptional heat resistance and durability, helping drivers drive safely. Moreover, technologies for lowering brake noise and particulate matter from wheels help drivers mitigate concerns about negative environmental effects. FRIXA is the sole supplier of racing brake pads and disc rotors to Korean auto racing events, beating prestigious products from overseas makers. These items are also selling well in the UK, where the automobile racing was born.

The Hankook Tire Main R&D Center and FRIXA collaborate on new technology and product development. At the same time, FRIXA products are sold through the Hankook Tire network, helping the company to increase sales volume consistently. FRIXA received the QS 9000 and ISO 9001 certification in 2004 as well as TS 16949 in 2008, exporting its products to more than 20 countries. In 2009, FRIXA received an exclusive right to use the logo of CARPOS, the largest automotive repair shop association in Korea, helping to promote sales growth going forward. At the same time, the company has stepped up development of environmentally friendly materials for brakes in order to lower pollution, improve auto shop working conditions, and protect the health of mechanics.

Main Products

- Racing Brake Pads & Disc Rotors
- Brakes for EVs
- Brake Pad & Shoe Assemblies
- Brake Lining for Trucks & Buses
- Brakes for S1
- Brakes for Taxis & Ultra Taxis
- Brakes for Industrial Uses
- Ordered Brake Pad & Shoe Assemblies



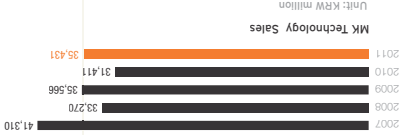


MK Technology MK Technology Co., Ltd.

MK Technology established in 1973, has led Korea's tire mold-manufacturing industry. The product portfolio covers tire molds, containers for tire curing press machines, and precision parts for various areas. The company has a vision of "Becoming a Leader in Tire Molds and Precision Machinery." Under this vision, its proprietary casting technologies and five-axis precision milling technologies have guaranteed the company market competitiveness. MK Technology is a supplier for the tire-manufacturing industry's big weights in Japan, East Asia, Europe and Americas. The company was acquired by Hankook Tire in November 2011. Since then, it has supported Hankook Tire in maintaining the market-leading position in Korea, and provided necessary facilities for new Hankook Tire plants overseas. Moreover, MK Technology is engaged in full-pledged efforts to further diversify markets. The company's mold business unit won the ISO 9001 quality certificate in 1999. The MK Technology R&D Center was established in 2001, and it has developed the engraved mold, vent-less puzzle mold and other products, and applied for eight patents. As a result, MK Technology was awarded the INNO-BIZ certificate, which is given to innovative Korean small- and medium-enterprises by the government. These quality-oriented activities have continuously upgraded the technologies and product qualities, allowing the company to be well known for its superior products in the global market. As such, MK Technology has diversified the customer base and increased sales. The company is now fully engaged in manufacturing precision parts for aerospace and defense uses as well as for turbochargers. The precision-part business unit acquired AS 9100 certificate in 2011, and adopted a 3D coordinate-measuring machine, emerging as a dependable precision machining house. The company entered the strategic alliance with Korea Aerospace Industries and LG Electronics, under which it shares more sophisticated quality control and manufacturing systems with those partners, enhancing competitiveness and maximizing synergy. The partnership contributes to produce quality airframe structural materials, core parts of the state-of-the-art gas turbine engines and impellers for turbo compressors. The company completed the construction of the Jiaxing plant in China in 2004 as a part of the efforts to increase responsiveness to rapidly changing overseas markets and to expand production capacity. The Chinese plant provides Hankook Tire's Jiaxing and Jiangsu plants with tire molds, and it will start the regular production of tire curing press containers in 2012. This will help Hankook Tire's Chinese plants secure a complete set of manufacturing and processing technologies.

Main Products

- Engraving Mold
- Casting Mold
- Precision parts
- Tire curing press container



Business Portfolio

Brand Portfolio

Hankook Tire operates three global tire brands, catering to the diverse needs of global customers. The flagship, Hankook, is used worldwide; while Aurora, which mainly provides passenger car tires, and Kingstar, which focuses on economic tires, are the brands exclusively for overseas customers.

Hankook	          
Our global brand, Hankook, has several product-brands that cover diverse segments in terms of applications and compatible vehicle types. These are: Ventus(UHP: Ultra High Performance tire line and racing tires), Optimo (for premium sedans), Kinergy (global eco-friendlier tire brand), enfren (Korea's first eco-friendly tire), Dynampro (for SUVs), Smart (economy line sold inside Korea), and Vantra (for vans). In addition, winter tire lines are classified as Winter i*pike (studded tires sold globally) and Winter i*cept (studless tires sold globally). We became the first Korean tire maker to incorporate eco-friendliness into tires by launching the enfren brand. We launched a new eco-friendly line, Kinergy (standing for Kinetic + Energy) in the European and American markets in 2010. Our continuous efforts to develop products that reflect global trends have helped us position ourselves as a "Leading Global Company."	
Aurora	 
Aurora, a brand dedicated to customers outside Korea, has a product-brand named Route Master, or "tires that are the masters of the road."	
Kingstar	 
Kingstar is another brand exclusively sold outside Korea. This brand runs the Road Fit product brand, which stands for tires that deliver optimal on-road performance.	

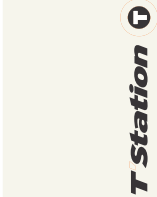
Distribution Channel Portfolio

Our Korea Regional Headquarters operates 1,117 service locations nationwide, leading the trends of integrated customer services in Korea. We provide customers in over 180 countries with our quality products and outstanding services through our global sales network. All the more, we continue to expand the overseas retail channels.

T'Station _

Premium tire shops that offer integrated services to car owners

The T'Station network is our premium distribution channel designed to offer top-quality services at reasonable prices for exceptional customer satisfaction. This network has continued to expand since the first T'Station shop opened in July 2004, and a total of 377 shops are in operation as of the end of 2011. In 2012, we expect the 400th shop to open. T'Station shops are equipped with the RFM (Radio Frequency Module) system, 3D wheel aligners, UHP tire changers and other sophisticated equipment. They also provide customers with a premium total service package, which is not available in conventional tire shops and repair centers. The network of T'Station shops contributes to the promotion of the "Right Tire, Right Service" program, which is aimed at informing customers of the importance of tires for safe driving.



Tire Town _

A nationwide tire distribution network serving Korean consumers

Tire Town is a nationwide tire service network for both dealers and general consumers in Korea. As of the end of 2011, 369 locations are in operation, providing customers with services such as installing and changing tires as well as aligning wheels.



The Tire Shop _ A discount tire chain

The Tire Shop is Hankook Tire's discount shops responds to increasing demands for low- and medium-priced products. As of the end of 2011, 151 locations are in operation in Korea.



Hankook Masters · Red Hankook _ Overseas retail network

We expanded the Hankook Masters Membership program, which had been for European dealers, to include the Middle East and Asia-Pacific region in 2011. This marked the first step to build an integrated overseas retail network. The Hankook Masters Membership network now includes more than 1,100 retail shops in major European countries, Saudi Arabia, UAE and Australia. The program is scheduled to expand into China, Thailand and Indonesia in 2012. In Latin America, we are running the Red Hankook Membership program, which consists of about 750 retail dealers as of the end of 2011. Major discount chains and automobile dealers are seeking to raise market share in the US and Canada. Responding to this trend, we are improving communications with these emerging channels. We are also engaged in various marketing and sales promotion activities customized for major local players in these channels in order to boost customer contacts.



TBX · Hankook Truck Masters _ A distribution network specializing in truck & bus radial tires

TBX is a distribution network that specializes in the sale and retreading of truck & bus radials. As of the end of 2011, 585 locations are providing services with up-to-date equipment and dedicated professionals in Korea and China. In addition, we are running the Hankook Truck Masters network, which provides services exclusively for truck & bus radials in major European countries.



HIGH

When dreams are dreamt by individuals, nothing happens in reality. Dreams shared by all, on the other hand, can come true. Hankook Tire is making strong global inroads based on the close cooperation between our regional headquarters in Korea, China, Europe, the Americas, the Middle East, Africa and Asia Pacific. The record of 1 billion tires in aggregate production, 19.72% year-on-year growth in global sales, and new plants in China and Indonesia are significant milestones we have achieved on the way toward our goal of becoming “the world’s fifth-largest tire maker.”

PERFORMANCE

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046 Performance Review by Region

052 Performance in the OE Tire Market and Future Strategies

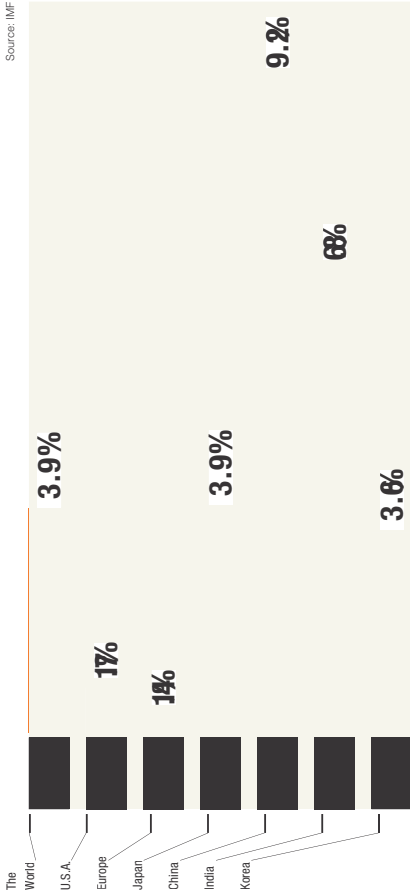
054 Performance by Product Group and Future Strategies

055 Key Operating Activities

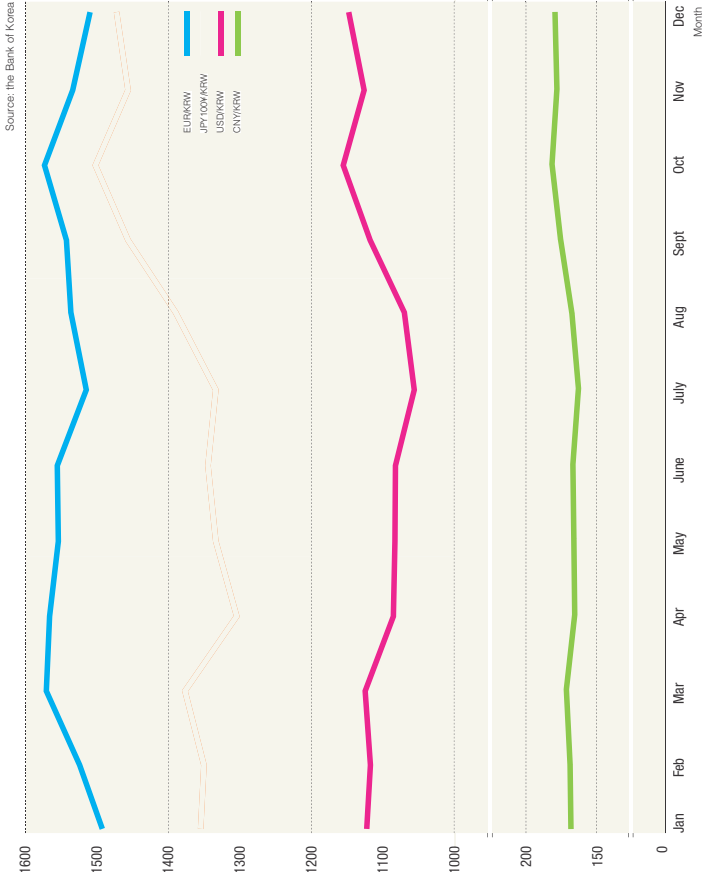


K F B

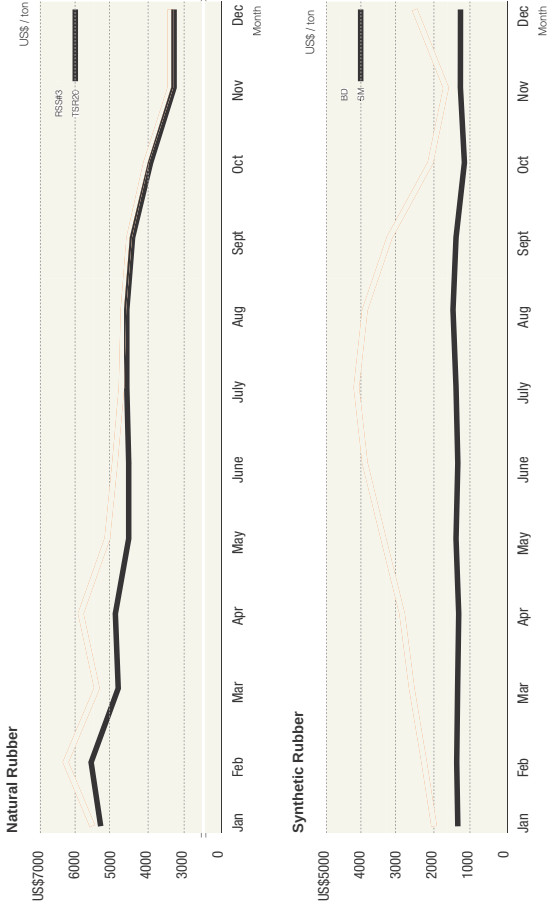
Global Economic Growth Rate in 2011



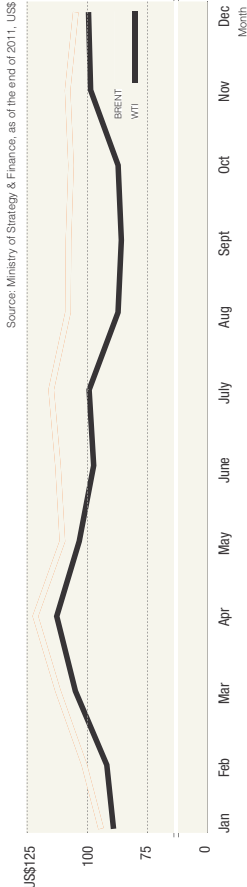
Exchange Rates in 2011



Raw Material Prices in 2011

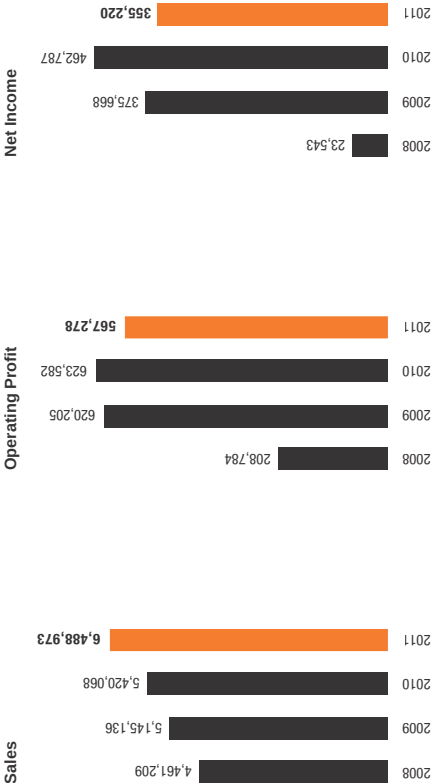


WTI Prices in 2011



Financial Highlights

Unit: KRW million | 2008 : 2009 : K-GAAP | 2010 : 2011 : K-IFRS



Stock Market Data

	2011	2010	2009	2008	2007
Year High	50,000	34,450	25,950	14,350	21,500
Year Low	27,650	20,000	11,200	9,800	13,800
High/Low	1.81	1.72	2.32	1.46	1.56
Fiscal year-end final offering	45,250	31,750	25,500	15,300	17,900
Annual KOSPI floating rate index (Unit: %)	-10.98	21.88	49.65	-40.73	32.25
Volatility Rate	39.28	24.51	66.67	-14.53	13.29
Total number of shares	152,189,929	152,189,929	152,189,929	152,189,929	152,189,929
Market Capitalization	6.89	4.83	3.88	2.33	2.72
Average daily trading volume	1,002,988	721,002	1,061,162	973,816	1,019,911
Dividend per share	400	350	350	150	250

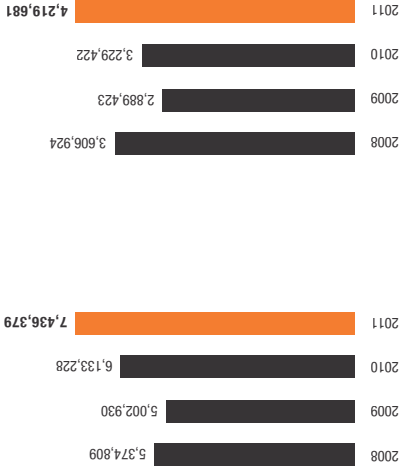
Listed on the Korea Exchange (KRX)
ISIN Code : K9700024002
Per Value 500 KRW
Total number of voting shares: 145,189,929

Data Per Share

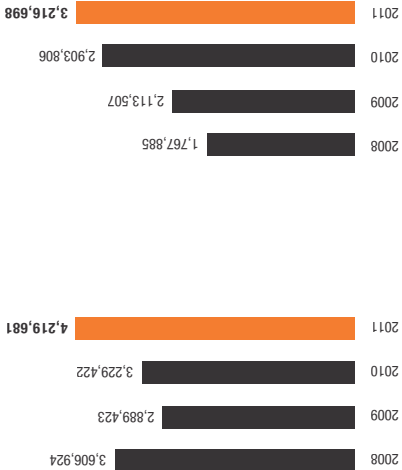
	2011	2010	2009	2008	2007
Net income	267,188	358,902	350,887	25,412	162,306
Earnings per share	1,756	2,358	2,417	173	1,095
Cash dividend rate	22.78%	14.84%	14.48	85.70	23.30
Cash dividend yield	0.90%	1.10%	1.43	0.98	1.30

2007 : 2008 : 2009 : K-GAAP | 2010 : 2011 : K-IFRS

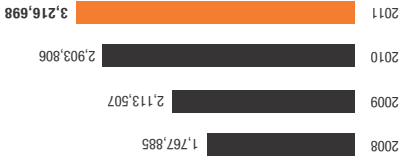
Assets



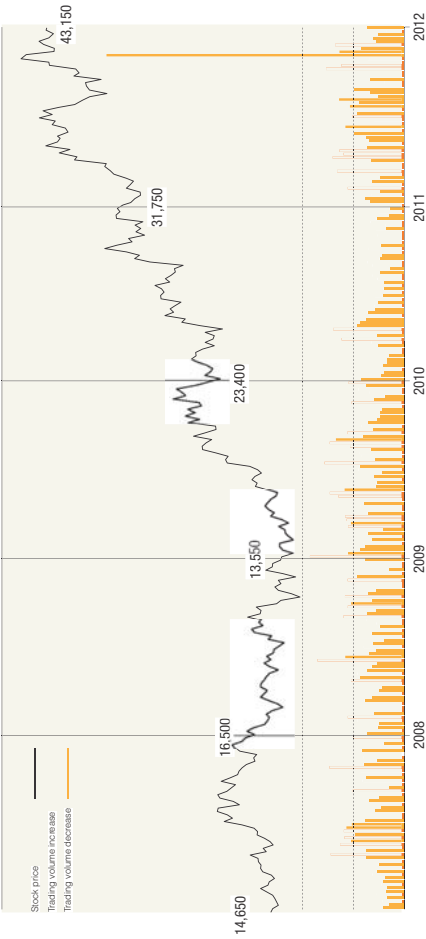
Liabilities



Capital



Stock Price Trend (2008-2012)



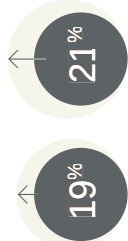
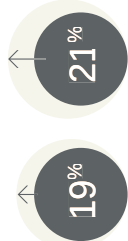
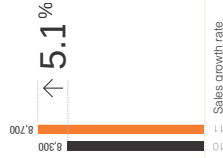
HIGH PERFORMANCE



The Korean economy grew 3.6 percent in 2011, lower than the 2010 figure of 5.9 percent.

The European sovereign debt crisis and other global economic uncertainties as well as the protracted global economic slowdown dragged down both export and domestic demand, negatively affecting the overall Korean economy. Under this economic environment, the Korean automotive market expanded just 0.8 percent over the previous year and the tire market contracted 2 percent from a year ago.

2011 Results in Korea



The Korea Regional Headquarters has held the dominant market share since 2009 when we implemented an aggressive marketing strategy that has turned crisis into an opportunity. With an expectancy that competitors would fight back fiercely, we set "Marketing Innovation" as the key business goal for 2011 to maintain Hankook Tire's dominant position in the regional market. To this end, the HQ established three action plans: building new brand recognition, ensuring new product competitiveness, and strengthening sales promotion activities with a new support system.

First, we strengthened the No. 1 brand position by highlighting the awards and honors Hankook Tire had received and launching a year-long safety campaign for customers. We concentrated our marketing resources in the high-performance, premium tire segment, such as ultra-high-performance (UHP) tires, increasing the sales of those products by 19 percent year-on-year.

We also launched a series of winter tires to raise the sales of winter products by 21 percent over the previous year. At the same time, we provided customers with services distinct from competitors by launching the SMART CARE Service. The new service initiative was designed to mitigate customer concerns over prices and offer them a total care package for their automotive lifestyles. As a result, the HQ recorded a revenue of KRW 870 billion in 2011, up 5.1 percent year-on-year, despite unfavorable market conditions. Moreover, Hankook Tire scored more than twice as high as the runner-up in an in-house ad tracking survey that measured the recognition of tire makers and tire shops. The economic growth rate of the Korean economy is forecasted to stand at 3.7 percent in 2012, a relatively low figure. As such, domestic automotive sales will contract by about 2 percent, and the tire market will shrink 1 percent, indicating that competition in the tire market will be ever fiercer. The Regional HQ declared 2012 as the "Year of Strengthening Retail Distribution Channels," and planned to reorganize sales network into a retail-centered model.

We also plan to reorganize and to build robust sales channels as a safety net to cushion against external shocks. In detail, we will increase the percentage of products sold through our directly-owned or franchise dealerships to 57 percent of total sales. To this end, we will upgrade the operation systems of our premium franchises: T'Station for passenger car radials and TBX shops for truck & bus radials. We will also establish the Retail Market Team to promote sales promotions.

Moreover, we will expand "The Tire Shop" channel, which was launched in 2009 as a specialist in economy lines, thereby improving our responsiveness to the economy tire market, which is now a key segment. In addition, as Korea's No. 1 brand, we will conduct marketing activities that can set new market trends. For example, we will reinforce our sales effort, targeting imported car dealers. We will train and equip the people at our franchise tire shops to handle foreign cars. This will enable us to take an early lead in Korea's fast-growing imported car replacement-tire sector. Other plans call for the launching of the efrren eco line, a successor to the current efrren tires, to lead the segment for eco-friendlier tires. In the coming year, we will launch various campaigns to reward customers for their support that further strengthens our unrivaled market dominance and customer recognition.

HANKOOK TIRE ANNUAL REPORT 2011

China

China's GDP growth rate stood at 9.2 percent for 2011, down 1.1 percent from a year ago. Despite the slower pace, China still has the world's second largest economy with overall GDP of RMB 47 trillion (according to statistics from the National Bureau of Statistics of China). China owns the world's largest auto market, with 18.51 million units sold in 2011, accounting for 24.4 percent of the global vehicle sales (according to China Association of Automobile Manufacturers). Accordingly, the local tire market is growing steadily and the competition over market share is intensifying, and tire makers are expanding investment to increase production capacity.

2011 Results in China



The China Regional Headquarters has continued to pursue the following strategies aimed at "Becoming the No. 1 Player in China," while maintaining a strong position in the rapidly-changing market.

First, product competitiveness was bolstered by the timely launch of the premium VENTUS S1 Noble tires for luxury sedans, premium Dynapro HL2 line for SUVs, and other new products that meet the changing needs of Chinese drivers. Retail distribution channels for premium products were expanded and strengthened. This approach allowed us to raise the proportion of value-added taller tires in the sales mix.

Second, we ran TV commercials for major cities in mainland China, mainly through the state TV broadcaster CCTV, and we plan to launch new versions of TV ad series to position Hankook Tire as a premium brand.

Third, we expanded our supply for local automakers as well as for Audi, Benz and other premium cars in a bid to make China a second home market for Hankook Tire.

Fourth, we continued to increase sales of truck & bus radials (TBR) and raised our share in the TBR market, which has steadily grown.

Finally, as for the cost side, we reduced raw material costs and optimized inventory management and the supply chain management system for efficient production. These activities help raise cost competitiveness.

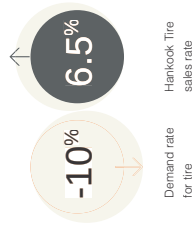
Our continued efforts to strengthen the Hankook Tire brand position and our market-oriented sales strategies resulted in a significant growth in sales. In 2011, The sales volume of replacement equipment (RE) tires rose 20 percent year on year, while the figure for original equipment (OE) tires increased 32 percent over the same period. China's GDP growth rate for 2012 is expected to slightly drop due to unfavorable foreign exchange conditions and weaker export caused by the economic slowdown in advanced countries. Despite this, the Chinese government's stimulus packages are likely going to help maintain the economic growth rate in the range of 7 to 8 percent. Going forward, the China Regional Headquarters will continue quantitative growth by increasing production capacity through a local plant in Chongqing. At the same time, qualitative growth will be pursued by positioning Hankook Tire as a premium brand and the No. 1 Player in China.



EP

The European economy, negatively affected by the sovereign debt crisis of southern European countries, grew just 1.6 percent in 2011 from a year earlier. Meanwhile, Russia, CIS members, and other Central European countries posted solid growth rates of around 5 percent. The regionally unbalanced economic growth resulted in a drop in overall new vehicle sales, especially in Western Europe. About 12.8 million units were sold in 2011, down by about 170,000 units from the previous year. Germany managed to maintain relatively solid growth and its vehicle market expanded 9 percent year on year. However, growth pace of the country began to slow down in the second half of the year.

2011 Results in Europe



The replacement tire market increased 2.7 percent year-on-year because of the rising demand for winter tires. Demand for TBRs, which is an indicator of the overall economic activity, dropped 1.2 percent over 2010. To break down the figure by sub-region, TBR demand decreased more than 10 percent in Spain and Greece, which are the epicenters of the European debt crisis. Despite the unfavorable market conditions, the Europe Regional Headquarters outperformed the market benchmark to record a 6.5 percent increase in sales over the previous year. Moreover, profitability rose as the proportion of value-added products, including UHP tires, significantly increased in the total sales portfolio. In 2012, our strategic plans are aimed at raising the percentage of lucrative product lines in the entire sales mix. The second-phase facility expansion at the Hungary plant was completed and began production to its full capacity. The Europe Regional Headquarters set improving productivity and quality as the top priorities in order to ensure product quality. Hankook Tire improved responsiveness to customer needs in the European region by leveraging the advantages gained from running the local production facilities.

Moreover, the Europe Regional Headquarters will expand investment into marketing efforts to strengthen the current stature as the top 2nd-tier brand and to position Hankook Tire among the 1st-tiers as earliest as possible. Our marketing activities were conducted through TV commercials and sponsorships for motor sport and athletic events. These efforts were aimed at positioning the Hankook Tire brand as a premium brand and raising public recognition. TV commercials were broadcasted in Hungary and Russia as well as in five Western European countries. We ran a new TV ad series entitled "Be One with It" in 2011. We took part in Europe's most influential motorsport events. Some of the examples include Deutsche Tourenwagen Masters (DTM), the Nürburgring 24-Hour Race (VLN), and the Europe IRC Championship. It is noteworthy that Hankook Tire is an official supplier to DTM, one of the most prestigious of all European auto races.

Given that soccer is the most popular sport in Europe, we elevated our brand status by running ads at major soccer matches. Our ads were shown at the home games of major teams in five West European countries, Sweden and Russia: AC Milan (Italy), Borussia Dortmund and Bayer 04 Leverkusen (Germany), Valencia (Spain), Paris Saint-Germain (France), Aston Villa (England), CSKA (Russia), and elsewhere. We also attended the International Automobile Ausstellung (IAA), also known as Frankfurt Motor Show, Essen Reifen Show, Moscow International Automobile Salon and other major trade events to boost our technological prowess. Articles about Hankook Tire were covered by some major European press media. All these efforts helped to strengthen the stature of the Hankook Tire brand.

The Europe Regional Headquarters also highlighted our product competitiveness by responding to tire magazine tests. Our products were evaluated in 17 tests conducted by prestigious magazines, including "ADAC", "Auto Bild" and "Auto Motor Und Sport". In 2010, Hankook Tire products fared very well, winning five "Very Recommendable" and ten "Recommendable" marks. In 2012, we will use the test results in developing improved products to guarantee customers best satisfaction and safe driving.

DTM



Frankfurt Motor Show

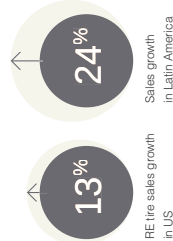


Expectations for a US economic turnaround started to appear with the start of 2011, as the US government's stimulus package had raised consumer confidence and increased manufacturers' output and inventories since 2010. However, the possibility of the US economy plunging into a double dip could not be ruled out because of the lackluster housing market and weak employment with a 9 percent unemployment rate.

Against this backdrop, the automotive industry has been undergoing a major restructuring, with many highly fuel efficient new models being introduced. As a result, new vehicle sales increased 10.2 percent from a year earlier to reach 12.73 million units in 2011. At the same time, surging output in the emerging markets resulted in real growth in manufacturing.

In the Latin American region, exchange rate volatility began to expand in the second half of 2012, and governments announced policies to curb imports such as the imposition of anti-dumping duties and stricter standards for import permission. These factors have heightened trade barriers. Particularly in Brazil and Argentina, the governments are expanding direct intervention in the market in order to prevent economy from being overheated by inflation. The America Regional Headquarters diversified production sources to circumvent the additional safeguard tariff on Chinese-made tires that was imposed from the fourth quarter of 2009. Moreover, we expanded warehouse retail sales and optimized the distribution channel portfolio to concentrate sales in channels that were growing steadily. In the US, a "Mail-in Rebate Program" on Ventus V12 evo tires and other strategically important models led to a 13 percent growth in the sales of RE tires, including UHP tires, from 2010. Hankook Tire's US subsidiary broke the US\$ 1 billion revenue mark for the first time in 2011. In Canada, we attracted new dealerships in the Western region and expanded warehouse sales to Ontario and Vancouver, and kept diversifying distribution channels into the Eastern area. The Latin American region grew the fastest globally, and we focused on minimizing sales uncertainties stemming from external factors. Thus, the Mexican sales office was upgraded to a subsidiary status. The new subsidiary acted as a re-seller of Hankook Tire products so that local retailers were able to use local currencies in transactions, which gave greater stability in settling payments. The increased investment in the franchise network, Red Hankook, in Brazil and other key countries, enabled us to continue to expand our distribution channels. The Latin America Department put aggressive efforts to attract new dealers in order to lay the groundwork for quantitative growth. As a result, regional sales rose by 24 percent over 2010. In addition, we have prepared and implemented strategies to reinforce the stature of the Hankook Tire brand and raise our product prices in the Americas. We computed optimal prices by monitoring the market supply and demand, and applied brand-specific pricing policies through different distribution channels, bolstering our sales competencies in the advanced North American and fast-growing Latin American markets.

2011 Results in Americas



ATC (Akron Technical Center)



Hankook Tire Canada Corp.



The US economy is expected to continue to grow slowly, but recovery will be limited because the weak housing market and high unemployment rate of about 9 percent. The Latin American economies will likely continue to grow with driving force of the massive new investment and high domestic demand. Growth rates, however, will be compromised compared to the figure for 2011 because export is likely to be lowered due to slower economic growth in China; uncertainties will grow due to expanded political and regulatory volatility in advanced economies. In the American automotive and tire markets, the US government is expected to continue protectionist trade policies against Chinese-made products, and the imbalance in supply and demand, as well as inflation pressure, will last in the foreseeable future. This situation requires us to adopt careful business strategies. The regional HQ will implement the following key action plans to overcome those unfavorable market conditions, thereby achieving both quantitative and qualitative growth.

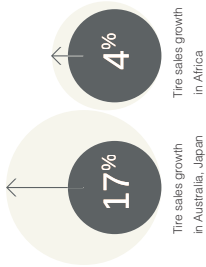
The first action plan calls for the optimization of distribution channels. The distribution network has been dependent on a small number of dealers. The America Regional Headquarters will improve the unbalanced sales portfolio by cultivating dealer network in areas where we have weak or no presence, such as Mexico and Brazil, both of which are major emerging markets in Latin America. We will pursue regionally balanced growth by boosting sales in metropolitan areas and in the Southeast where there are large market volumes. The US subsidiary plans to reinforce the stage-management of distribution channels by expanding support to final retailers. In Canada, we will provide promotional sales support to medium- and large-sized wholesalers in the Eastern region, which began to handle Hankook Tire products by selling our winter models. In addition, we will strive to increase Canadian warehouse sales to develop a retail network.

Second, we will raise our price position. We are running a suggested retail price system, where major dealers sell our products at the prices that we recommended. The purpose of the system is to create a platform for both Hankook Tire and dealerships to raise the Hankook brand stature and grow together by setting optimized retail prices for our products. We will also introduce distinctive promotional sales initiatives and campaigns for value-added (high-performance, taller) tires to respond proactively to rapidly changing OE tire market trends. In addition, a timely launch of strategically important products will also help raise product competitiveness. Third, we will enhance the image of the original "Hankook" brand. We will expand the home plate signage ad campaign to include the stadiums of 26 major league baseball teams. ESPN, CNN and other major TV networks will air our new ad campaigns. During the winter season, when baseball games are suspended, our sport sponsorship program will focus on the NCAA, securing the continuity in our sport sponsorship marketing drive. Our outdoor advertising programs will be continued in Manhattan's Time Square and expanded into LA and other major cities to raise brand recognition in those metropolitan areas. Our plans also call for an aggressive response to digital promotion opportunities, such as Facebook and Twitter, which has emerged as increasingly important marketing vehicles, leading new trends in the tire industry. Furthermore, we will create a system to analyze and evaluate the effectiveness of our marketing activities. The results will be used for the accurate assessment of our communication with our customers and the establishment of future plans that are effective. In Canada, we will expand our sponsorship for Canada's national pastime, hockey games, PR activities, and events for dealerships. In Latin America, we will continue efforts to expand the distribution network, which had been on priority since in 2010. This will allow us to build a more solid sales channel. Finally, we will reinforce logistics services to respond to even small and frequent orders from dealerships and to raise the order fill rate, which has gained importance these days. In detail, the six warehouses in the US, which are in charge of supplying tires to more than 300 wholesalers and 4,000 retailers, will maintain a proper level of inventory to increase the order fill rate. In Mexico, a new warehouse will be built to maximize customer contacts in a location so that delivery lead time can be minimized.

The Middle East, Africa & Asia-Pacific

In 2011, the Middle Eastern and African countries posted a moderate average growth rate of 3.1 percent despite armed conflicts in some states and high oil prices. The growth was led by large-scale plant in some oil-producing countries. In the Asia-Pacific region, Australia and Japan posted relatively low growth rates of 1.3 percent and negative 0.9 percent respectively, amidst the fallout of the 2010-2011 Queensland floods in Australia and the Tohoku Earthquake in Japan. However, India and ASEAN emerging economies posted a high rate of 7.9 percent on average.

2011 Results in the Middle East, Africa & Asia-Pacific



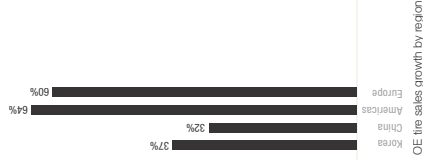
Hankook Tire engaged in the following strategies to reinforce sales and marketing competencies as well as to enhance brand value in these regions with a high growth potential: First, we prepared and implemented region-specific strategies to enhance our brand stature. Our continuous market monitoring and proactive response allowed us to raise the price position of our products. We also expanded value-added taller PCRs to maximize profitability. As a result, we saw sales rise by 17 percent year-on-year in Australia and Japan, key markets in this region, and 4 percent in the Middle East and Africa, over the same period. Second, we expanded customer contacts by improving local sales channels and by diversifying the distribution network. In the Middle East and Africa, we launched the franchise, Hankook Masters chain, which helped to differentiate our products from competitors and position our brand as a premium tire maker by providing customers with quality products and services. The current service network will serve as a platform for expanding into other areas without our direct presence. In the Asia-Pacific region, we secured solid distribution channels and strengthened sales activities at customer contact points by opening the second warehouse in Australia and attracting new retailers in Japan.

Third, to secure new growth engines, we focused our competencies on strengthening the organizational capabilities in India and ASEAN countries. Local marketing units were established to promote our products in these regions that have huge growth potential, and a new office was opened in Malaysia. These activities allowed us to secure solid sales channels for production volume from a new plant in Indonesia, which will begin operations in the second half of 2012. Moreover, a platform was founded to boost sales in India and ASEAN countries.

The economy of the Middle Eastern and North African regions is expected to grow slowly by leveraging the continuously rising oil prices and state-sponsored infrastructure projects.

The Asia-Pacific regions will also post higher economic growth rates than those of 2011. Hankook Tire will continue its efforts to maximize marketing capabilities to position our brand as a premium maker at customer contact points in the Middle East, Africa, and Asia-Pacific regions. We will also create new growth models by raising aggressive marketing activities in India and ASEAN countries, which will serve as a solid platform for growth.

Global vehicle sales rose just 4.2 percent year on year in 2011 to stand at 737.2 million units. The weak sales growth rate is attributable to the production cuts by Japanese automakers due to the East Japan Earthquake, austerity policies implemented in emerging economies, and the global impact of the European sovereign-debt crisis. Despite the limited growth of the global vehicle market, our OE tire sales rose 43 percent year on year, contributing significantly to the increased sales for the company as a whole.



To break down the figure by region, the Korean tire market continued to grow in 2011 for the third consecutive year. This was made possible thanks to the continued sales momentum in popular segments and the launch of numerous new small car and luxury sedan models. As a result, the Korean Regional Headquarters saw OE tire sales rise by 37 percent year on year in 2011. The growth pace of the Chinese vehicle market was significantly compromised because the government reduced or cut subsidies and incentive programs for new car purchases. Hankook Tire, however, sold 32 percent more OE tires in China in 2011 than in 2010, outperforming the market benchmark. This was made possible because our region-specific marketing strategies catered to the preference of Chinese customers.

The US original equipment tire sales rose more than 64 percent in 2011 from a year ago. The pent-up demand for tires, which had grown since the 2008 Financial Crisis, saw sales climb as the recession eased despite the Japan Earthquake and weak domestic economy. In 2011, the governments of major European countries implemented austerity measures to tackle the Eurozone Crisis, negatively affecting consumer confidence. As such, the regional vehicle sales failed to return to positive growth with the sales volume being

99.5 percent of the previous year. However, Hankook Tire expanded its supply to major premium automakers such as Audi, BMW and Mini, and sales increased by about 60 percent from a year earlier. Uncertainties in the global business climate are likely to continue in 2012, and the growth of global automobile sales are expected to remain similar with the 2011 figure by growing about 4 percent year-on-year. The weak performance in the advanced automobile markets and slowed growth momentum in emerging economies are expected to continue for a foreseeable future. Against this backdrop, automakers will be involved in an intensified price competition to expand sales in the US, Europe, China and other key markets and will compete to take early lead in the eco-friendlier vehicle segment. Another issue worth mentioning is the growing concerns about over-supply to the emerging BRICS.

We will implement the following strategies to respond to the changing business environment and to maintain our growth momentum: First, we will expand the weight of premium tires in our global OE portfolio.

We have continued to increase our supply volume to global automakers, including the overseas makers: Ford, Volkswagen and GM, as well as, domestic makers: Hyundai and Kia. Moreover, we began to supply tires for the Audi A3 sedan in 2009, the Ford Lincoln MKT crossover SUV in 2010, and the Mini small cars and the BMW New 1 Series models in 2011. We are significantly raising the proportion of the premium OE tire segment in our sales mix. In the future, an increasing number of vehicles will roll out with our tires equipped, as we are in discussion with several global automakers to supply our tires for their premium models. Second, our R&D focuses will be on developing eco-friendlier technologies such as low rolling resistance tires and lighter tires for higher fuel economy. Our R&D strategies also call for the assessment and development of sophisticated, future-oriented technologies to respond proactively to technological progress in the global auto market. We will also upgrade our capabilities to develop key technologies for improving wear resistance and implementing new materials, as global auto makers are showing an increasing demand for our run-flat and safety tires. These innovative new technologies will facilitate the

development of next-generation, eco-friendly, high-efficiency products, thereby contributing to the expansion of our OE product lines.

Moreover, we will continue to concentrate our resources on securing technological competitiveness to expand supply to premium vehicles and to ensure our tires meet the performance requirements of each model. Third, we will increase the profitability of our OE tire segment. We will flexibly adjust prices by reflecting the fluctuations in raw material and oil prices and build the optimal product portfolio in order to increase production volume and raise profitability. In addition, raising the proportion of premium OE tires in our sales mix will further increase sales and profits at an enterprise level. Fundamentally, we will upgrade production, logistics and sales capabilities and secure in-house core technologies to maximize price competitiveness and enhance profitability.

Fourth, we will continue to expand our communication initiatives to strengthen partnership and promote cooperation with various global automakers. For us to respond preemptively to rapidly changing market trends and customer needs, we need to understand technological requirements from automakers and secure relevant technological capabilities.

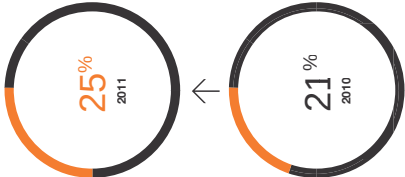
We will advertise our quality products and technological prowess, and build network with global automakers by strengthening participation in major regional trade shows and motor sport events. Examples include the International Automobile Ausstellung (IAA), also known as Frankfurt Motor Show, Shanghai/Beijing International Automobile Exhibition (Auto China), Moscow International Automobile Salon, and Dubai International Motor Show as well as the Deutsche Tourenwagen Masters (DTM). Technology sharing workshops and collaboration with automakers for developing new technologies will offer other chances for Hankook Tire to share our strategies and demonstrate our competency in technology and product quality. Communication channels will be strengthened for us to better collect opinions from our corporate customers and have access to better solutions.

Our strategies for proactively addressing changes in the international environment and sustaining the growth of Hankook Tire



Performance by Product Group and Future Strategies

Hankook Tire sold more than 85 million units in 2011. 63 percent of this figure is composed of replacement (RE) tires sales and 37 percent of it is original equipment (OE) tires sales.



Share of UHP tires in PCR tire sales

By region, the Korean market accounted for 15 percent of our RE tire sales. The other regions are China (12%), Europe (33%), North America (20%), Latin America (6%), the Middle East & Africa (8%), and the Asia-Pacific (6%). Noteworthy is that Europe and North America, the most advanced markets in the world, together accounted for more than 50 percent of total RE tire sales, serving as a main driver for the growth of Hankook Tire. By product line, more than 76 million PCR tires were sold in 2011, up 6 percent from 2010. PCR tire sales for 2011 break down as 61 percent for the RE segment and 39 percent for the OE segment. As is in the total sales figure, Europe and North America collectively accounted for the majority of total sales at 55 percent. Noteworthy is that the sales volume for UHP tires rose 26% year-on-year, reaching the 19 million mark and leading the improvement of profitability. UHP models accounted for 25 percent of the PCR sales portfolio, 4 percentage points higher than the figure for 2010. The RE and OE segments each accounted for 50 percent of total UHP tire sales in 2011. Over the mid-/long term, the share of UHP tires in total RE tire sales is likely to rise, since the OE segment performance directly influences future RE tire sales.

The regional proportions for replacement UHP tire sales are as follows: Korea (10%), China (7%), Europe (46%), North America (26%), Latin America (2%), the Middle East & Africa (3%) and the Asia-Pacific (6%). Europe and North America combined took up a 72 percent share, higher than in any other product category. The sales of UHP tires in Europe grew significantly at a rate of 32 percent in 2011 from a year earlier. The regional proportions for replacement TBRs are as follows: Korea (21%), China (25%), Europe (19%), North America (12%), Latin America (11%), the Middle East & Africa (7%) and Asia-Pacific (5%). Importantly in 2011, RE TBR sales grew by 24 percent in North America and 12 percent in Latin America.



Key Operating Activities

Increasing Global Production Capacity

We are expanding our production capacity to maintain a steady pace of growth. In 2011, we began constructing a plant in Chongqing, China to become the largest seller of tires in the nation and to make the Chinese market our second "home market." Also we started building a plant in Bekasi, Indonesia as part of our efforts to be the frontrunner in emerging East Asian tire markets. By 2013, when the first phase of the ongoing expansion of two new plants is complete, we expect to be able to generate more sales by producing an extra 6 million tires a year. Going forward, we will continue to step up our efforts to be ranked among the "Global Big 5" by expanding our global production base while enhancing our human resource capabilities.

Developing and Launching New Products

PCR • LTR

Tire-makers are striving to produce lower rolling-resistance tires that offer higher mileage to prevent global warming caused by greenhouse gas emissions and minimize environmental impact. At Hankook Tire, we are committed to following this drive toward eco-friendliness. First, we are almost ready for all of our tires to carry a European standardized tire label, which will be introduced from November 2012. Also, our enfren eco line, scheduled for launch in Korea in April 2012, which is expected to be rated the most energy efficient of all Korean-made tires, demonstrates the high level of Hankook Tire's eco-friendly technology to the world.

In addition, we are continuing our quest to become a leading global tire company by providing more competitive products. To make this happen, we are investing heavily in the development of tires featuring outstanding durability and higher fuel economy through lower rolling resistance and better grip in the wet. These tires will help make driving both safer and more economical.

With the ROK-EU and ROK-US Free Trade Agreements in effect, the volume of imported cars sold in Korea is steadily increasing. To respond proactively to the fast-growing market in imported cars, we are focusing our resources on developing and selling different types of tires to meet all imported car specifications.

Additionally, we held a launching ceremony for our new winter products 'Winter T'cept IZ' and 'Winter T'cept evo', on an ice rink, the first of its kind in Korea; a free test ride was organized, in which participants could ride a car equipped with our tires, experience their excellent performance, and then compare them with competitors. The event was a great success. Going forward, we will do our best to strengthen our product portfolio ranging from passenger car tires to ultra-high performance tires for premium sedans and sports cars, to meet the diverse needs of our customers and make driving a safer and more pleasant experience.

Eco-friendliness of enfren



TBR

In 2001, we were committed to realizing our corporate mission, to "Contribute to Advancement in Driving", especially in the truck and bus radial (TBR) tire segment. We continued to develop and launch a series of environmentally-friendly products that meet the needs of the market under the business principles of "Give every customer a voice" and "The environment comes first".

In 2009, we launched e-Cube, one of our key eco-friendly products, in Europe and have made it one of the top sellers in the region through continued quality improvement and aggressive marketing. We also began to sell the product in Latin America, the Middle East, the Asia Pacific region, including China, and other markets, to increase our sales and enhance our reputation as an environmentally-friendly high-tech company.

At the same time, encouraged by the popularity of TBR tires in Europe and North America, we successfully developed and launched a series of ultra-super single products with strong potential demand and profit margins. This has enabled us to consolidate our position as a key global player.

As a result of our intensive push to become a top global tire-maker, we have succeeded in breaking into the OE (original equipment) tire market.

In 2012, we remain dedicated to cementing our position as a "Global Top TBR Player" by intensifying our drive to improve the quality of our products, service and marketing within our corporate mission and vision.

Developing World-Class Products

We are dedicated to realizing our vision of bringing world-beating quality to our customers and becoming the world's No.1 tire-maker.

First, our research and development work will continue to prepare for global enactment of the new standardized tire labeling system. The enfron eco, an eco-friendly tire line we launched in 2011, received the highest rating in terms of rolling resistance from the Korea Energy Management Corporation, which no other Korean tire-maker has ever accomplished. The highest AAA rating was also granted to the product, in Japan.

Second, we have established a customized, customer-oriented quality assurance system to expand production of OE tires for premium cars that require strict quality control and assurance. We began to supply OE tires for BMW Minis and the New 1 Series in 2011, and will expand production for new premium cars. This will allow us not only to achieve more revenue but also to prove that we have world-class quality and technology capabilities that meet the high demands of global automotive manufacturers.

Third, we are committed to achieving the goal of uniform quality at all of our plants around the world. These efforts have paid off; we won a variety of awards, both at home and abroad, in 2011. These include the first prize in the Korea Standard-Quality Excellence Index for three consecutive years, the "Excellent Quality, Competitive Company" for two consecutive years, the "Certificate of Excellent Service Quality" and the "Tire Manufacturer of the Year" in the Tire Technology Award. In late 2012, we will be opening two new plants in Chongqing (China) and Bekasi (Indonesia) that will enhance our global presence. Also, we are responding proactively to the global tire labeling system and other market trends, and continuing investment and technological development to strengthen our market leadership.

Frankfurt Motor Show



Global Advertising Campaign



Brand Marketing

We are engaged in a wide range of brand-marketing activities across the world. Our brand communication activities are primarily aimed at promoting the "Hankook" brand, and are customized according to the status of the brand in each market.

We began a global campaign entitled "Be One with It" in major European and American markets in 2011 to enhance our brand recognition among local consumers in the regions.

We are planning to expand the campaign to the Middle East. In China, we focused on building a highly differentiated brand image by continuing the "Road to Success" campaign featuring Zhang Jing Chu, a popular Chinese actress, which started in 2010.

In 2012, we will launch a new advertising campaign with the concept "Globally Proven", to promote our global premium brand image among Chinese consumers.

In Korea, we continued the "Driving Emotion" campaign featuring top entertainers Jang Dong-Gun and Shin Min-Ah, which was launched in 2010. In 2012, we will build on the "Driving Emotion" campaign to launch a new advertising campaign called "It Is" in order to show off premium functions to customers and reinforce our leadership in the Korean market.

Meanwhile, our "Kontrol Technology" theme has been used in various marketing and PR activities for corporate image enhancement. The stature of our brand as a global player is being reinforced through our participation in various motor sports events, such as DTM motor racing, one of the world's most prestigious motor events, and trade shows, such as the International Automobile Ausstellung (IAA), Shanghai/Beijing International Automobile Exhibition, Tokyo Auto Salon, Moscow International Automobile Salon, Dubai International Motor Show, SEMA Show and Essen Reifen Show. In 2012, these communication

programs will promote our brand image among consumers, dealers, and industry insiders, encouraging their loyalty while building the foundation for sales growth.

Securing Outstanding Personnel

We believe that attracting and keeping the best workers is essential to realizing our vision of becoming the 5th Global Tire Maker. This is the reason for our determination to recruit and cultivate talented researchers. To attract the best, we hold regular job fairs, employment briefings, and campus recruiting events. Going forward, we will employ more experienced workers for R&D, technology and marketing positions, and will be looking for the brightest people with MA and Ph.D. degrees. Our newly-recruited researchers all must take a basic technology training program and complete a project to learn tire development processes.

Once they are assigned to a department, they are required to devise a career development plan based on a systematic competency analysis program. The results of such an analysis will be taken into account to determine the kind of training needed for individual researchers. Leadership training, mandatory courses, special training for tire R&D and a six-month OJT program help them improve their competencies from early on. Besides the official OJT, senior researchers act as mentors for the newly-recruited personnel, helping them to become accustomed to Hankook Tire's corporate culture and build relations with colleagues.

We provide special job training, customized for each job, for highly-experienced workers, to bring on the best technical specialists. Outstanding performers are given training opportunities at research institutes inside and outside Korea. Various internal and external training sessions and a job rotation system also allow researchers to achieve their career goals. They attend internal and external seminars and conferences, both domestic and abroad, to widen their perspective. Meanwhile, global skills are enhanced through courses on foreign language (English and Chinese) and culture as well as assignments in overseas offices.

The 70-year-old Hanko
innovation. Hanko
pires to
driving stability a
helping to make

ECO-FRIENDLY

- 050 Kontrol Technology
- 052 Technology Center
- 054 Mainstay Products & Major Technologies
- 056 Tire Labeling System
- 057 Quality Assurance & Services

Kontrol Technology
Technology Center
Mainstay Products & Major Technologies
Tire Labeling System
Quality Assurance & Services

Hankook Tire's
Technological
Philosophy Lies
at the Heart of
Producing the
Best Tires

Kontrol Technology is a philosophy as well as a set of proprietary innovations—applied throughout research, development and production—developed by Hankook Tire to ensure controlled driving experiences. The 'K' denotes 'kinetic' and reflects the idea that the interaction of the tire with the road while in motion lies at the heart of driving control and performance. In other words, tires must be able to control the movements of a car under any conditions, including racing competitions or daily activities, such as driving children to school on a rainy day.

Kontrol

TECHNOLOGY

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.



Performance

We have maximized the performance of our tires by enhancing their handling performance, driving safety and durability.

Performance



Safety

Our tires keep their integrity, design and material composition at the most dangerous and critical moments to protect drivers and vehicles.

Safety



Comfort

We have reduced impact, noise and vibration of our tires to make driving a more pleasant experience based on a clear understanding of how our tires perform in real situations.

Comfort



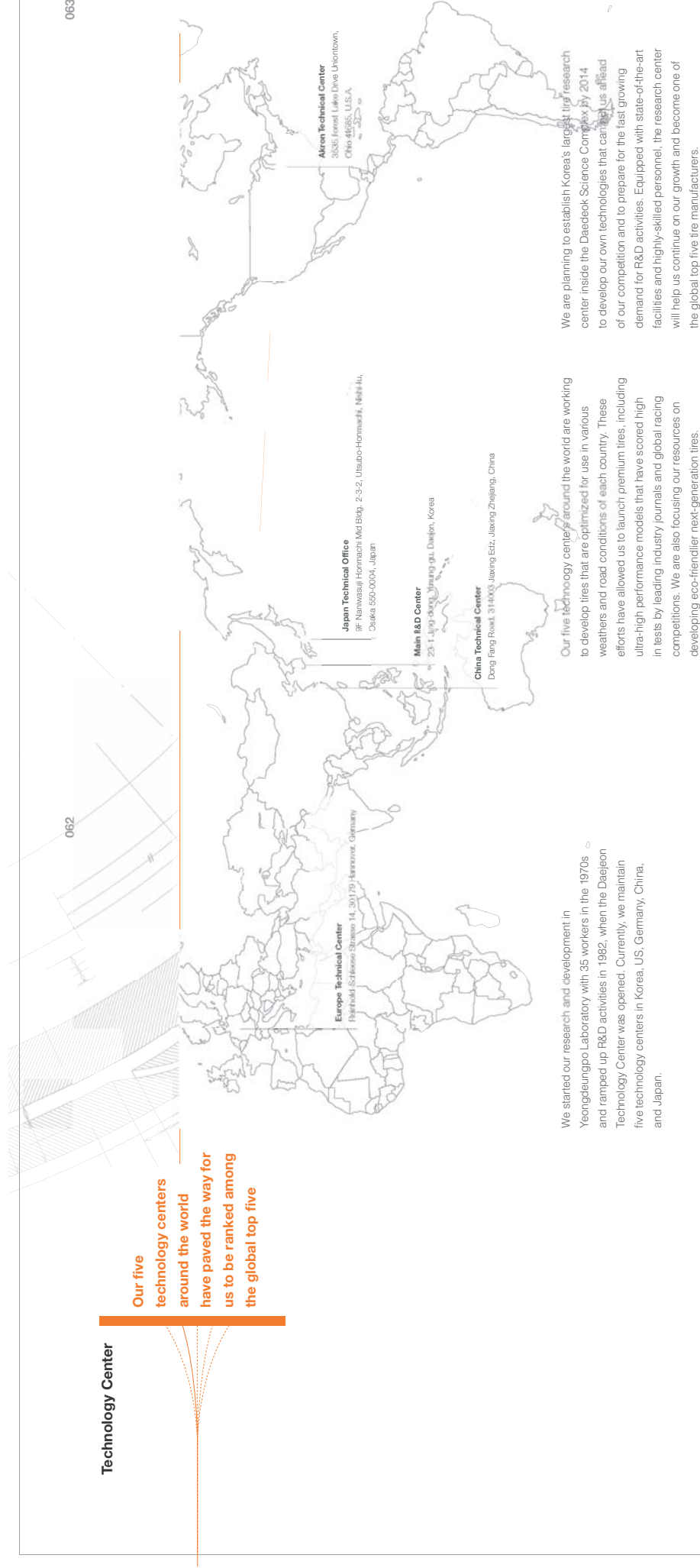
Environment

We help our customers spend less by enhancing the durability and lifetime of our tires while minimizing their environmental impact.

Environment

Technology Center

Our five technology centers around the world have paved the way for us to be ranked among the global top five



Ventus S1 evo 2

Hankook Tire unveiled the Ventus S1 evo 2 at the 64th annual Frankfurt Motor Show. The most advanced technology from Hankook Tire was applied to create this strategically important, high-performance tire, targeting the premium market worldwide. The Ventus S1 evo 2 was the exclusive official tire for the prestigious Deutsche Tourenwagen Masters (DTM, German Touring Car Masters). The first outstanding feature is the high-Tg polymer & specific resin (HPSR) compound, which provides superior wet grip. Second, the profile was designed by optimizing tire-pavement contact pressure and using a computer simulation to arrive at the best possible braking and handling. High-speed driving safety has been heightened as a result. Third, the optimized structure of high-density nylon reinforcement belts maintains even contact pressure distribution when cornering, elevating the handling performance.

VENTUS S1 evo²



Winter i^{cept} evo

The groove design and 3D kerfs of the Winter i^{cept} evo, a winter tire line from Hankook Tire, was inspired by the polar bear. Supplementary kerfs complete the design and improve braking on ice and snow. The tread pattern has been designed to optimize winter driving. A high-dispersion full-silica compound maximizes performance on snow and ice as well as wet road surfaces, while fuel economy, a perennial weakness in winter tires, has improved. The pattern on the outside of the tread is designed for optimal handling and dry performance. Inside, meanwhile, the pattern optimizes performance on snowy and wet surfaces. A 3D cross-section between the kerfs enables them to remain solid even when inclined at an angle, further enhancing handling and providing a great driving experience. Above all else, the Winter i^{cept} evo, with the most advanced 3D kerfs and tire construction is an ultra-high-performance winter tire that is capable of running safely at speeds of up to 240 kilometers per hour.

Winter i^{cept} evo



enfren eco

The enfren eco is scheduled for release in the first half of 2012. Korea Energy Management Corp. oversaw a grading of tire energy efficiency* in January 2012, and Hankook Tire's benchmark eco-friendly tire received the top mark (based on the rolling resistance coefficient). In fact, it was the first domestically-made tire ever to receive KEMCO's highest possible rating. In December 2011, the enfren eco became the first imported tire to receive the top ("AAA") rating under the tire labeling system for measuring tire fuel efficiency by Japan's Tire Fair Trade Commission. The difference in fuel efficiency between the highest and the lowest ratings is about 1.6km per liter. Considering a mid-sized automobile holds an average of 50 liters, choosing the most-efficient set of tires can mean driving up to 80km farther on a full tank of fuel. In addition, the Korean tire labeling system is based on the European counterpart, and Hankook Tire is the only tire maker in Korea to have testing equipment that has been certified by the same agency that verifies the tire labeling system in Europe. The company's 3D simulation and testing equipment is able to create circumstances or conditions that are easier to analyze than in real-life test situations. With this equipment, we are able to simultaneously attain knowledge to make our tires safer and more eco-friendly.

enfren eco



* The tire labeling system assigns a rating between one (highest) and five (lowest) to rolling resistance and wet grip performance. Consumers are then better able to select replacement tires that will save on fuel. Generally, a car's fuel mileage improves as the tires rolling resistance against the road surface decreases.

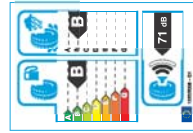
Tire Labeling System

An Opportunity to Prove Hankook Tire's Superb Technology

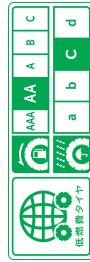
Korea Tire Label



EU Tire Label



Japan Tire Label



The purpose of the tire labeling system is to provide consumers with hard data on fuel efficiency, wet braking stability, tire noise and other performance and quality issues so that they can make informed purchasing decisions. Ultimately, the system leads to improvements in consumer safety, environmental quality along roads, and fuel economy. The mandatory tire labeling system goes into effect in the EU from November 2012. A voluntary system covering fuel efficiency and wet grip (but not noise) has been employed in Japan since January 2010. The Chinese and US governments are currently studying the system and are expected to draft plans for implementation in 2012. In step with these trends, the Korean authorities launched the voluntary "Energy Efficiency Grading System" in December 2011, and the system becomes mandatory from December 2012.

There are two components: labeling the energy efficiency grade* and setting a minimum energy efficiency standard.** The manufacturers will be required to post the energy efficiency grade on their tires and may only produce and sell tires that meet or surpass the minimum standard. The tire labeling system provides Hankook Tire with an opportunity to demonstrate its superior technology and put top-rated tires on the market. The company has invested many years to research and develop tires that can simultaneously satisfy requirements for safety and eco-friendliness. One result has been the enfiner eco series, which took more than two years to develop. These tires received Korea Energy Management Corp.'s Grade 1 for rolling resistance and Grade 2 for wet grip. They were also granted the top rating (AAA) for rolling resistance by the Japanese authorities. They are scheduled to go on sale in the first half of 2012.

* Energy efficiency grade labeling: An alphanumeric grade ranging between 1 and 5 is posted on the tire, allowing the consumer to select the tire that is most fuel efficient.
** Setting a minimum standard: Tire makers will be required to produce tires that meet or exceed the minimum standard.

Quality Assurance & Services

Responsibility from Tire Production to Disposal

Hankook Tire continues to tighten the quality assurance program in a dedicated effort to ensure that customers only get flawless tires. Customer quality requirements are accurately ascertained from the product planning stage and then reflected in the product design. Advanced quality assurance methods are employed in every process, from raw material procurement to the shipping of finished products. In 2011, a standardized quality assurance system was built under the banner of "Global One Quality," and it is applied to all processes. In addition, Hankook Tire is committed to maximizing customer convenience with optimized services and an extensive service network.

First, the company is building a global service network that currently consists of four regional headquarters, along with branches and subsidiaries in 27 countries. In 2011, service in emerging markets through the establishment of new branches in Jakarta and New Delhi, and dedicated serviced engineers, were dispatched to their locations. Company engineers will be assigned to additional overseas locations in 2012 as part of the efforts to provide the very best services possible. Second, the skills of the after-sales service providers are being raised through mandatory training sessions each year.

Customers are also provided with information on available services and on tire specifications. The number of locally-hired specialists is increasing and their competencies continue to be honed.

Third, a Global Safety Campaign is underway to educated drivers on the importance of tire maintenance and tire safety.

Safety wall posters and warranty leaflets have been distributed throughout the Asia-Pacific, Middle East and Latin America, elevating the image of Hankook Tire after-sales services.

Finally, the company has bolstered the system for monitoring tire quality in the marketplace. Markets are regularly checked to ascertain those quality assurance systems that are setting the global standard. Standout services are being provided that reflect the performance that customers want in the tire products.

TECHNOLOGY



BETTER

Beyond attaining a global player status, Hankook Tire aspires to be recognized as a sustainable company. We are returning part of our profits from customers to society through environment-conscious technology development and diverse social contribution activities. In 2011, we completed the CSR Steering Wheel 2011 system, which focuses on five key areas: environmental protection, external stakeholder satisfaction, community involvement and development, employee value creation, and employee health and safety. CSR Steering Wheel 2011 lets Hankook Tire practice sustainable management more systematically.

PLACE

- 073 CSR Activities
- 073 Social Contributions
- 075 Corporate Culture
- 076 Risk Management



CSR (Corporate Social Responsibility) Activities

CSR Report Publication

Hankook Tire published the second annual Corporate Social Responsibility Report in 2011 as part of the overall CSR program. The Report introduces Hankook Tire's more systemized and expansive CSR framework. While the initial CSR Report focused on mostly domestic CSR activities, the 2011 edition includes endeavors at overseas operations, illustrating the global reach of our CSR commitment. The CSR Steering Wheel 2011 system is organized around the five focus areas of environmental protection, external stakeholder satisfaction, community involvement and development, employee value creation, and employee health and safety. Importantly, employee health and safety management, an issue of intense stakeholder interest, was established as an independent focus area. The CSR Report 2010 details our efforts and plans to improve performance in the employee health and safety management area. The entire publication process of this Report was confirmed by an independent assurance provider and rigorously engaged diverse stakeholders to ensure the completeness, reliability and stakeholder relevance of the contents. Presenting the information of greatest stakeholder interest makes CSR Report 2010 more valuable as a communication tool. Hankook Tire adopted the ISO26000 standards released on November 1, 2010 and applies the internationally recognized guidelines of social responsibility to the enterprise-wide CSR programs. The scope of application will be expanded to the monitoring and evaluation of suppliers' CSR activities. Going forward, the application of ISO26000 will be further reinforced to bring our CSR performance in line with the global standards. The executives and managers involved in CSR have convened a Strategy Meeting and established strategic guidelines to ensure CSR subcommittee activities are in line with CSR principles as well as to improve our CSR initiatives. As a result, the subcommittee performance will continue to improve.

"CSR Report 2010"



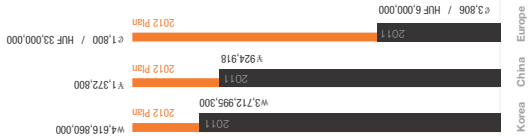
Hankook Tire is committed to fulfilling corporate social responsibilities and we run the Sharing Foundation for company-wide philanthropic activities. We also encourage each worksite to carry out its own social contribution programs autonomously. Our value creation for society is multifaceted. For example we run a website for collecting donations, and we support social welfare facilities and organizations, scholarships and educational initiatives, public health programs and employee volunteering. A systemic, company-wide process makes CSR activities more effective and rewarding.

Focus

- Linkage with the corporate vision, core values and key businesses for integration with the management system
- Systematic and clearly defined activities through R&R reflecting the uniqueness of each worksite
- Maximization of CSR performance through strategic activities rather than simple giving

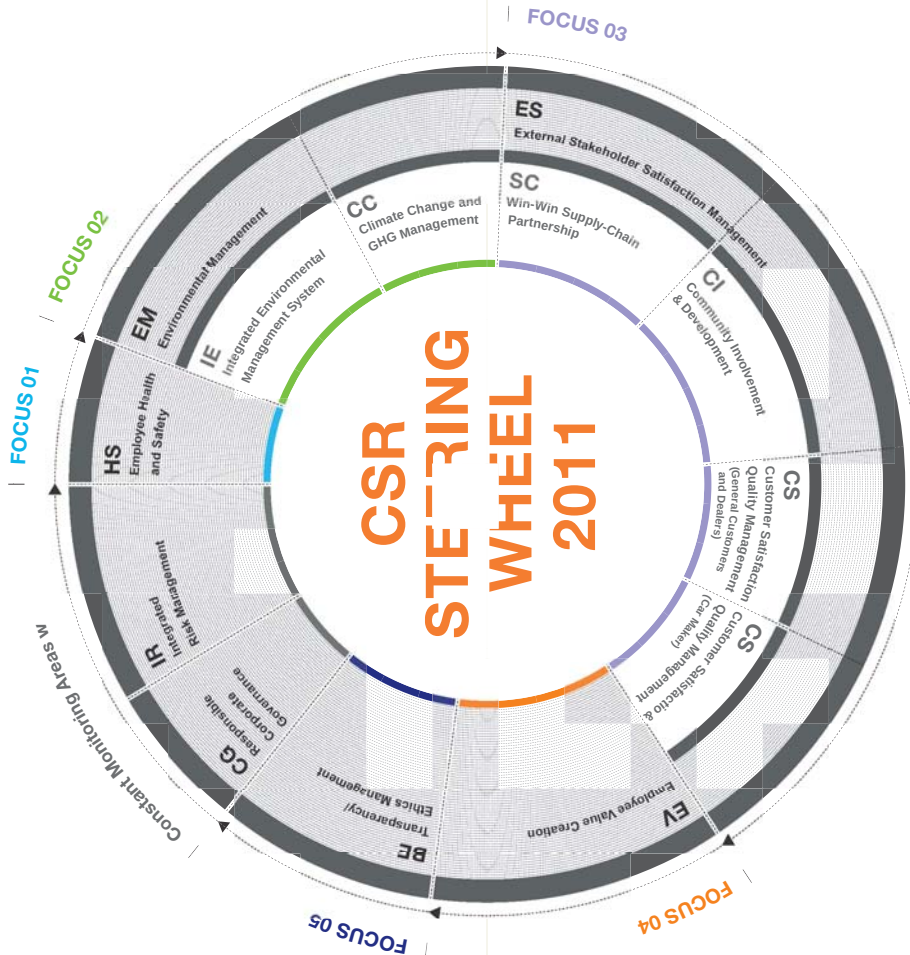
Declaration

Through our business, we help, both directly and indirectly, the nations and communities where Hankook Tire operates, to develop. We also share the value our business generates with society, by taking the initiative in solving community problems through steady communication with the public. We remain faithful to our role and obligations as a corporate citizen and enhance the quality of life for the disadvantaged in society.



2011 CSR Activities Cost and 2012 Plan

Social Contributions



MOU signing for running Dream Pool donation website



Ceremonial handing over of vehicles to social welfare organizations



Presentation of scholarship certificates



Building charity hospitals in third-world nations



Volunteer service by employees



Social Contribution Programs

Joint Operation of Online Donation Site

Apart from offline programs, Hankook Tire co-operates a website called Dream Pool in collaboration with Corporation Leftovers Love Sharing Community, a local NGO, enabling our employees and customers to make charitable donations online.

The proceeds are used to provide needy children with opportunities to get a proper education and develop both spiritually and mentally.

- Total collection: KRW 332,961,613 (in 16,355 donations and including KRW 100,000,000 in matching grant)
- Total distribution: KRW 212,456,369 (to individuals/institutions numbering 1,307)
- The remaining amount is being distributed now.

Support for Social Welfare Facilities and Organizations

Hankook Tire provides various kinds of support to facilities and organizations devoted to the welfare of children, the elderly and the disabled. This support helps to raise the quality of the services that can be provided.

- Vehicles: Hankook Tire has donated vehicles to some 70 social welfare facilities across Korea, helping them improve the efficiency of their services.
- Tires: We also replace, free of charge, the tires on the commercial vehicles driven by 441 social welfare facilities in Korea.
- Other support: Hankook Tire assists institutions for children, the elderly and the disabled, group homes and regional children's centers with the repair and improvement of their buildings and facilities, and donates educational, medical and living supplies so that people in those institutions can live and learn in a better environment.

Scholarship and Educational Programs

Hankook Tire runs a scholarship program for high-performing high-school and university students from low-income households. The funds help them continue their education and fulfill their dreams despite financial difficulties and thus grow into solid citizens.

Public Health Programs

- Support for charity hospitals: Hankook Tire providing funds for operational expenses as well as medical supplies to Holy Family Welfare Hospital, a Seoul-based free charity hospital for homeless patients and other needy people who are often excluded from the official healthcare system.
- Building charity hospitals in third-world nations: Aiming to realize universal human dignity, Hankook Tire has been establishing free charity hospitals for needy people in East Timor, Africa and Latin America since 2007.

Volunteer Service by Employees

Around 1,600 Hankook Tire employees and their family members have gotten involved in community service, enhancing our CSR effort. Activities include neighborhood clean-up campaigns, home repair for seniors who live alone, visits to low-income households and social welfare facilities, and cultural events for underprivileged children.

Corporate Culture

Proactive Friday

1. No regulations are imposed on dress code and other aspects of work except for the start and end of work hours.
2. Employees are freed from their regular duties and spend the day on self-regulated activities that can bring out their initiative such as frank discussions with colleagues and self-development activities.
3. Executives and team heads do not come to work on Proactive Fridays.

Corporate culture is a comprehensive concept that encompasses the common value system, belief and knowledge shared by the workforce. It influences the organization's decision making, individual members' judgment, and ultimately the company's business performance.

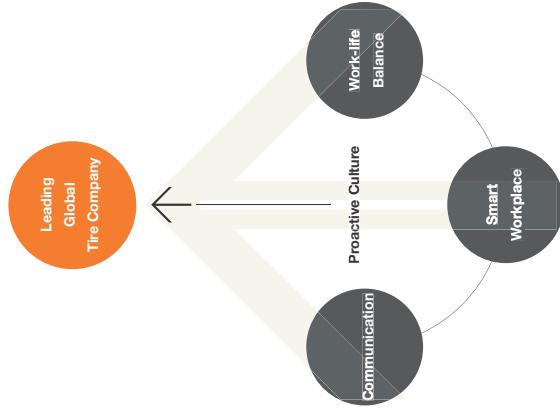
Hankook Tire is striving to build a proactive corporate culture that motivates our people to work and grow, inspired the vision of being a Leading Global Tire Company that delivers value and delight to customers.

For starters, we run the G CEO website to facilitate online communication between the company and employees as well as among the workers. At the quarterly investor relations (IR) meeting, we explain our strategies and policies to our employees and other stakeholders, and discuss primary business issues and achievements. Hankook Tire also offers a mentoring program that pairs a junior employee with a senior to help new employees develop loyalty to the company and better adapt to the organization.

Second, Hankook Tire is pursuing a smart workplace, which is conducive to workforce productivity enhancement. We eliminated unnecessary meetings and reporting requirements, and are waging the Paperless Office campaign. At the same time, our Proactive Friday* initiative is promoting the autonomy of individual employees and communication among peers, making our corporate culture more creative and open-minded.

Third, Hankook Tire is devoted to supporting employees to achieve a proper work-life balance so that they can live as members of healthy society and happy families. We have operated on-site childcare centers (Donggeurami Childcare Centers) at the Korea headquarters and the R&D Center for three years. T Café is our in-house book café where employees can take a break.

Support is also provided to employees' Community of Practice (CoP) activities to improve the spirit of comradeship, help employees manage their stress, and promote self-motivated study organizations. Hankook Tire will continue to develop a corporate culture that encourages passionate and entrepreneurial employees to grow through participation and self-development.



Plant safety training



Operational Risks

Hankook Tire strives to systematically manage and minimize the diverse risks that companies face. To do so, we operate internal and external control institutions and faithfully comply with our risk management guidelines. Each of our business division follows its own business management manual and code to reduce risk associated with its business to the minimum. The enterprise-wide risk management guidelines empower the entire workforce to perform rigorous pre- and post-event risk management. When policy issues such as an FTA or tire labeling system arise, we form a task force represented by the relevant divisions to respond through facilitated company-wide communication. The Management Diagnostic Team strives to minimize internal risks through regular and special inspections.

External risks are managed by the Strategic Planning Department, which steadily monitors the economic environment and the automotive and tire industries, and analyzes significant cases of relevance. On the health and safety front, we ensure plant safety by regularly convening internal and partner companies' industrial safety and health committees as well as promoting other communication events among the committees and within the company.

Hankook Tire has responded to the Greenhouse Gas and Energy Target Management System of the Korean government, completing the reporting on greenhouse gas (GHG) volumes emitted by domestic operations from 2007 to 2011. We also manage GHG emissions at our overseas worksites based on the list of emitting sources we created. Steady endeavors to reduce GHG emissions include the replacement of Bunker C with LNG as boiler fuel.

In addition, Hankook Tire participated in the pilot emission trading project by the Korea Energy Management Corporation and traded emission credits from July to December, 2011. Consequently, our adaptability to the new system was enhanced considerably. Each of our plants established a self-regulated safety management system to prevent industrial accidents.

In 2012, new plants in Bekasi, Indonesia and Chongqing, China went into operation. Hankook Tire applies the manufacturing technology manual and the zero-defect quality assurance system to our entire operations to secure "One Quality Globally." All the more, Hankook Tire identified ten important risks that need to be managed urgently. The ten risks include compliance risk in the industry, risks that have potential to affect our ability to execute business strategies and other risks that almost or actually became problems already and are taken seriously by the top management. Hankook Tire will rigorously manage the ten risks through consistent monitoring and reduce operational risks by enhancing our company-wide risk management capability.

Financial Risks

In 2011, the volatility in the global financial market increased significantly due to the downgrading of the US sovereign credit rate, the prolonged financial crisis in the Eurozone, and pro-democracy movements in the Middle East. It is hard to expect the business environment to improve much in 2012. Uncertainty has intensified with China's downward adjustment of its economic growth forecast and consequent concerns about slower recovery of the global economy, financial debacles in the Eurozone, and persistent geopolitical risk posed by North Korea. Mindful of this challenging reality, Hankook Tire will focus on sustaining stable growth by continuing investment in overseas expansion to create future growth momentum while maintaining a conservative approach to risk management. In order to minimize our exposure to risks in the financial market, Hankook Tire is stepping up the monitoring and management of financial costs and positioning in the foreign exchange markets. In addition, we are upgrading the system for financial market trend reporting to detect variability in the financial market early and thus improve the top management's decision making efficiency. We also share market information with internal and external stakeholders and partners through steady communications.

Fire safety drill



Currency Risk

As of the end of 2011, Hankook Tire does transactions in 14 currencies, including the US Dollar and Euro. We regularly assess the foreign exchange risk associated with multi-currency business transactions and come up with appropriate hedging tools and levels. As the top decision-making body regarding currency risk, the Currency Risk Management Committee presided over by the Global CEO is convened quarterly. Primary currency risk hedging tools adopted by Hankook Tire include matching-netting of foreign currency assets and liabilities internally and foreign currency futures and derivatives externally.

While the currency risk hedging strategy of Hankook Tire focuses on natural hedging through the assets-liabilities matching, we do not exclude artificial hedging based on financial instruments if necessary.

Liquidity Risk

Hankook Tire monitors the borrowing, liquidity levels, and the short- and long-term cash flows of the headquarters as well as overseas affiliates continuously. In particular, we concentrate on conservative liquidity management during a period of intensified volatility in the financial market to maintain operational stability. Hankook Tire also adopts the latest financial management that accompanies the advancement of financial systems and products. Notably, we are building the Global Cash Management System that manages the company-wide cash flows including those of regional head offices and worldwide subsidiaries in an integrated manner.

Fire Risk

Hankook Tire reduces fire risk by making a steady investment in fire prevention and fighting facilities.

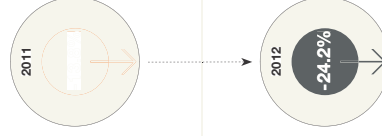
In 2010, we assigned an external company specialized in fire preparedness diagnosis to assess the fire and explosion risk of our domestic plants, and devised a plan for investment in areas of improvement. In Phase 1, Hankook Tire invested KRW 1.31 billion in 2011, lowering our Fire &

Explosion Index (F&EI) by 13.8%. In 2012, we plan to reduce the F&EI by 24.2% below the 2010 level by investing another KRW 1.36 billion in Phase 2. Efforts aimed to reduce fire risk were expanded to overseas worksites. In October 2011, Hankook Tire assessed the fire safety state of our plants in China (Jiaxing and Jiangsu) jointly with a fire risk assessment institution. In July 2010, the Process Safety Management (PSM), a fire and explosion prevention system of the Daegon Plant, achieved Grade S, the top rating. The Geumsan Plant then acquired Grade S in 2011. As such, Hankook Tire is running an advanced fire and explosion prevention system. In tandem with facility improvement and system operation, Hankook Tire manages Special Fire Prevention Zones, designated in accordance with the characteristics of fire that could occur in each step of manufacturing process. Our capability to respond to fire and explosion-related emergencies is improving through regular patrols, safety inspection, and safety education as well as in-house and joint fire drills with the fire-fighting authorities.

Legal Risks

Hankook Tire manages legal risks by seeking legal advice on the drafting and reviewing of contracts and other legally sensitive issues related to diverse projects as well as day-to-day business of operations divisions. We also provide full-pledged support for the resolution of legal disputes (litigations, arbitrations etc. at home and abroad). In 2011, Hankook Tire experienced legal risks associated with the toughened regulations of the Fair Trade Act (domestic) and intellectual property right disputes (overseas). The Fair Trade Commission investigated companies in diverse industries, including Hankook Tire, regarding price-fixing, and Hankook Tire was proven to have no problem. In addition, there was a claim by a competing company on an intellectual property right (trademark) possessed by Hankook Tire and we won the lawsuit eliminating the associated legal risk in advance. Hankook Tire has also performed thorough and rigorous legal due diligence on important business projects in a bid to carefully control legal risk. When the Commercial Law was partially amended, we took measures to ensure that there was no problem complying with the amended Commercial Law. The North American product liability case is being settled through close cooperation with the National Counsel.

Rate of F&EI reduction in 2011
and outlook for 2012



FINANCIAL

REPORT

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1. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2011, December 31, 2010, and January 1, 2010

ASSETS	December 31, 2011	December 31, 2010	January 1, 2010
CURRENT ASSETS			
Cash and cash equivalents (Notes 36, 37)	635,195,528	505,387,359	462,356,638
Short-term financial assets (Notes 3, 37)	297,355,246	406,828,746	21,280,698
Financial assets at FVTPL (Note 5)	5,512,110	-	-
Trade and other accounts receivable (Notes 4, 35 and 37)	1,416,373,590	942,944,282	830,614,487
Inventories (Notes 7, 39)	1,329,259,381	938,780,600	863,306,020
Other financial assets (Notes 6, 37)	12,101,020	10,352,114	5,315,444
Other current assets (Note 8)	80,835,444	37,904,826	28,703,028
TOTAL CURRENT ASSETS	3,776,632,319	2,842,197,927	2,211,575,315
NON-CURRENT ASSETS			
Long-term financial assets (Notes 3, 37)	132,030	15,500	40,293
AFS financial assets (Notes 5, 37 and 39)	14,176,021	22,151,678	20,508,726
Investments in associates (Note 10)	82,317,883	70,406,711	53,857,746
Property, plant and equipment (Notes 11, 39)	3,333,178,978	3,066,247,707	2,929,860,525
Investment property (Note 12)	70,632,237	66,298,573	66,586,248
Intangible assets (Note 13)	93,773,045	37,979,942	28,588,967
Other financial assets (Notes 6, 37)	10,308,657	9,420,919	9,097,986
Other non-current assets (Note 8)	5,019,513	1,089,311	1,057,219
Deferred tax assets (Note 30)	50,208,931	17,420,102	22,272,108
TOTAL NON-CURRENT ASSETS	3,659,747,295	3,291,030,743	3,131,871,818
TOTAL ASSETS	7,436,379,614	6,133,228,670	5,343,450,133

(Continued)

LIABILITIES	December 31, 2011	December 31, 2010	January 1, 2010
CURRENT LIABILITIES			
Trade and other accounts payable (Notes 14, 35 and 37)	893,935,661	781,492,663	572,131,677
Short-term borrowings and current portions of long-term financial liabilities (Notes 15, 37)	2,344,755,387	1,644,975,482	1,309,581,183
Current tax liabilities	67,570,568	57,129,378	77,331,533
Other financial liabilities (Notes 16, 37)	5,785,547	314,957	283,314
Other current liabilities (Note 19)	388,297,717	234,222,470	181,275,041
TOTAL CURRENT LIABILITIES	3,670,344,880	2,718,134,970	2,140,602,748
NON-CURRENT LIABILITIES			
Long-term borrowings and debentures (Notes 15, 37)	452,726,161	403,587,612	589,058,027
Defined benefit obligation (Note 17)	10,793,410	36,244,566	21,514,971
Other provisions (Note 18)	74,953,461	59,780,059	57,066,067
Other financial liabilities (Notes 16, 37)	10,863,564	11,572,163	14,615,345
Other non-current liabilities (Note 19)	-	122,372	-
TOTAL NON-CURRENT LIABILITIES	549,336,596	511,266,772	682,254,410
TOTAL LIABILITIES	4,219,681,476	3,229,421,742	2,822,857,158
SHAREHOLDERS' EQUITY			
Capital stock (Note 20)	76,094,965	76,094,965	76,094,965
Other paid-in-capital (Note 21)	112,259,484	112,266,413	112,266,413
Retained earnings (Note 22)	2,833,834,645	2,556,075,831	2,157,810,671
Other equity (Note 23)	183,700,143	159,418,795	174,340,280
Non-control interest	10,809,301	(49,066)	80,646
TOTAL SHAREHOLDERS' EQUITY	3,216,698,138	2,903,806,928	2,520,592,975
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	7,436,379,614	6,133,228,670	5,343,450,133

See accompanying notes to consolidated financial statements.

2. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2011 and 2010		Korean Won (In thousands, except for income per share data)	
		2011	2010
SALES (Notes 24, 34 and 35)		6,488,973,253	5,420,068,829
COST OF SALES (Notes 24, 32 and 35)		(4,813,903,966)	(3,792,091,779)
GROSS PROFIT		1,675,069,885	1,627,977,050
Selling expenses (Notes 25, 32 and 35)		(572,898,490)	(530,153,613)
Administrative expenses (Notes 25, 32 and 35)		(407,347,563)	(377,393,428)
Research and development expenses (Note 32)		(116,721,481)	(100,423,309)
Other gains and losses (Note 26)		(21,914,140)	(12,232,310)
Other operating income (Note 27)		26,583,584	24,160,377
Other operating expense (Note 27)		(15,473,523)	(8,352,332)
OPERATING INCOME		567,278,272	623,592,435
Financial income (Note 28)		127,026,121	77,067,101
Financial expense (Note 29)		(231,195,024)	(107,421,878)
Gains on disposal of investments in associates (Note 10)		812,056	-
Gains on investments in associates (Note 10)		15,670,481	18,683,894
INCOME BEFORE INCOME TAX EXPENSE (Note 31)		479,591,906	611,911,552
INCOME TAX EXPENSE (Note 30)		(124,370,966)	(149,123,592)
NET INCOME		355,220,940	462,787,960
OTHER COMPREHENSIVE INCOME (LOSS)			
Gains on Valuation of AFS financial assets (Note 23)		793,288	1,124,152
Cash flow hedging reserve (Note 23)		36,660	(440,052)
Equity changes of accounted for using the equity method (Note 23)		(200,504)	5,303
Exchange differences on translating foreign operations (Note 23)		22,490,969	(18,376,644)
Actuarial losses on defined benefit plans (Note 17)		(38,288,419)	(16,945,818)
Retained earnings changes of accounted for using the equity method		1,725,485	(715,889)
Tax effects on the other comprehensive income		10,664,681	6,591,415
		(2,777,940)	(28,757,533)
COMPREHENSIVE INCOME		352,443,000	434,030,427

(Continued)

Korean Won (In thousands, except for income per share data)		2011	2010
NET INCOME ATTRIBUTABLE TO			
Owners of the Company		355,717,357	462,891,068
Non-controlling interests		(496,417)	(103,108)
COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Owners of the Company		352,856,647	434,160,139
Non-controlling interests		(413,647)	(129,712)
NET INCOME PER SHARE (Korean Won)			
Basic and diluted income per share		2,450	3,188

See accompanying notes to consolidated financial statements.

3. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2011 and 2010

For the years ended December 31, 2011 and 2010

	Korean Won (in thousands)								
	Capital stock	Additional paid-in-capital		Other paid-in-capital	Retained earnings	Other equity	Owners of the Group	Non-controlling interests	Total
As of January 1, 2010	76,094,965	115,653,338	53,931,276	57,318,201	2,157,810,671	174,340,281	2,520,512,330	80,646	2,520,592,976
Cash dividends	-	-	-	-	(50,816,475)	-	(50,816,475)	-	(50,816,475)
Comprehensive income	-	-	-	-	462,891,068	-	462,891,068	(103,108)	462,787,960
Net income	-	-	-	-	-	876,839	876,839	-	876,839
Gain on valuation of AFS securities, net	-	-	-	-	-	(333,559)	(333,559)	-	(333,559)
Losses on valuation of foreign exchange forward contracts, net	-	-	-	-	-	-	-	-	-
Capital changes due to investment securities accounted for using the equity method	-	-	-	-	-	4,720	4,720	-	4,720
Losses in translation of foreign operations	-	-	-	-	(15,469,496)	(15,469,496)	(15,469,496)	-	(15,469,496)
Actuarial losses on defined benefit plans	-	-	-	-	(13,196,987)	-	(13,196,987)	(26,606)	(13,223,593)
Retained earnings changes due to investment securities accounted for using the equity method	-	-	-	-	(612,445)	-	(612,445)	-	(612,445)
As of December 31, 2010	76,094,965	115,653,338	53,931,276	57,318,201	2,556,075,832	159,418,785	2,903,855,995	(49,068)	2,903,806,927

(Continued)

Korean Won (in thousands)										
	Capital stock	Additional paid-in-capital			Retained earnings	Other equity	Owners of the Group	Non-controlling interests	Total	
			Other paid-in-capital	Treasury stocks						
As of January 1, 2011	76,094,965	115,653,338	53,931,276	(57,318,201)	2,556,075,832	159,418,785	2,903,855,995	(49,068)	2,903,806,927	
Cash dividends	-	-	-	-	(50,816,475)	-	(50,816,475)	-	(50,816,475)	
Changes in consolidated scope	-	-	(6,929)	-	-	-	(6,929)	11,271,614	11,264,685	
Comprehensive income	-	-	-	-	-	-	-	-	-	
Net income	-	-	-	-	355,717,357	-	355,717,357	(496,417)	355,220,940	
Gain on valuation of AFS securities, net	-	-	-	-	-	614,603	614,603	160	614,763	
Gains on valuation of foreign exchange forward contracts, net	-	-	-	-	-	27,788	27,788	-	27,788	
Capital changes due to investment securities accounted for using the equity method	-	-	-	-	-	(175,684)	(175,684)	-	(175,684)	
Gains in translation of foreign operations	-	-	-	-	-	23,814,651	23,814,651	82,928	23,897,579	
Actuarial losses on defined benefit plans	-	-	-	-	(28,664,586)	-	(28,664,586)	(318)	(28,644,904)	
Retained earnings changes due to investment securities accounted for using the equity method	-	-	-	-	1,522,518	-	1,522,518	-	1,522,518	
As of December 31, 2011	76,094,965	115,653,338	53,924,347	(57,318,201)	2,833,834,646	183,700,143	3,205,889,238	10,808,899	3,216,698,137	

See accompanying notes to consolidated financial statements.

Korean Won (In thousands)		2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of available-for-sale securities	(141,615)	(143,740)	
Disposal of available-for-sale securities	4,538,256	186,212	
Disposal of investments in associates, net	4,672,004	-	
Acquisition of investments in subsidiaries, net	(58,777,267)	-	
Acquisition of financial asset at FVTPL, net	(3,535,360)	-	
Acquisition of property, plant and equipment	(623,552,861)	(603,922,022)	
Disposal of property, plant and equipment	21,495,597	2,537,421	
Acquisition of investment property	(2,387,580)	-	
Disposal of investment in properties	470,000	-	
Acquisition of intangible assets	(24,795,843)	(11,377,233)	
Disposal of intangible assets	-	79,475	
Acquisition of other financial assets	(75,586,875)	(10,598,607)	
Disposal of other financial assets	12,543,920	10,094,392	
Settlement of derivatives	-	(400,496)	
Net cash used in investing activities:	(745,057,624)	(513,544,598)	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings	1,517,530,727	592,722,921	
Proceeds from long-term borrowings	591,180,084	203,564,996	
Increase in paid-in capital	11,264,685	-	
Repayment of short-term borrowings	(1,131,086,469)	(156,643,622)	
Repayment of current portions of long-term financial liabilities	(230,778,138)	(458,028,731)	
Payment of dividends	(50,807,873)	(50,807,126)	
Net cash used in financing activities:	707,303,016	130,808,438	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	125,407,483	50,308,372	
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	505,387,359	462,356,638	
CHANGES IN CASH AND CASH EQUIVALENTS DUE TO FOREIGN CURRENCY TRANSLATION	4,400,686	(7,277,651)	
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	635,195,528	505,387,359	

See accompanying notes to consolidated financial statements.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE GROUP:

Hankook Tire Co., Ltd., (the "Group") was incorporated in May 1941 to manufacture and sell tires, tubes and alloywheels. In 1968, the Group offered its shares for public ownership and all of the Group's shares were registered with the Korea Exchange. The Group's headquarters are located in Gangnam-Gu, Seoul and two manufacturing plants are located in Daejeon and Geumsan.

The authorized number of the Group's common shares is 250 million with a par value of ₩ 500 per share. As of December 31, 2011, the capital stock of the Group is ₩ 76,094,965 thousand (common shares: 152,190 thousand) and the Group's shareholders as of December 31, 2011, are as follows:

	Number of shares owned	Percentage of ownership (%)
Yang Rae Cho	24,335,507	16.0
Hyun Beom Cho	10,798,251	7.1
Hyun Sik Cho	8,817,786	5.8
Others ^(*)	108,238,252	71.1
	152,189,829	100.0

(*) Including 7 million in treasury stock as of December 31, 2011.

2. SIGNIFICANT ACCOUNTING POLICIES:

The Group has adopted the Korean International Financial Reporting Standards ("K-IFRS") for the annual period beginning on January 1, 2011. In accordance with K-IFRS 1101 *First-time adoption of International Financial Reporting Standards*, the transition date to K-IFRS is January 1, 2010. The significant accounting policies under K-IFRS followed by the Group in the preparation of its consolidated financial statements are summarized in Note 41.

Major accounting policies used for the preparation of the consolidated financial statements are stated below. Unless stated otherwise, these accounting policies have been applied consistently to the consolidated financial statements for the current period and the accompanying comparative period.

(1) Basis of preparing consolidated financial statements

- 1) Measurement standard
- The accompanying consolidated financial statements have been prepared on the historical cost basis except for certain accounts and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.
- 2) Enactments and amendments of the K-IFRS
- The Group has not applied the following new and revised K-IFRSs that have been issued but are not yet effective:

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

The amendments to K-IFRS 1107 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred, but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. K-IFRS 1107 is effective for annual periods beginning on or after July 1, 2011.

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

The amendments to K-IFRS 1012 provide an exception to the general principles in K-IFRS 1012 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the Group expects to recover the carrying amount of an asset. Investment property or a non-depreciable asset measured using the revaluation model in K-IFRS 1016 Property, Plant and Equipment is presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The amendments to K-IFRS 1012 are effective for annual periods beginning on or after January 1, 2012.

• **K-IFRS 1019 (as revised in 2011) Employee Benefits**

The amendments to K-IFRS 1019 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and fair value of plan assets when they occur and, hence, eliminate the 'corridor approach' permitted under the previous version of K-IFRS 1019 and accelerate the recognition of past service costs. The amendments to K-IFRS 1019 are effective for annual periods beginning on or after January 1, 2013, and require retrospective application with certain exceptions.

• **K-IFRS 1113 Fair Value Measurement**

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

The Group does not anticipate that the amendments referred above will have a significant effect on the Group's consolidated financial statements and disclosures.

(2) Basis of Consolidation

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

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

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

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the noncontrolling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

When the Owners of the Group lose control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests.

When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Owners of the Group had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings).

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

(3) Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognize and measured in accordance with K-IFRS 1012 and K-IFRS 1019, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

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

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

consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are those that arise from additional information obtained during the measurement period¹ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 or K-IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e., the date when the Group obtains control) and the resultant gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above) or additional assets or liabilities are recognized to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(4) Investments in associates (Equity-accounted investees)

Associates are the entities that the Group is able to exercise significant influence over investees, but is not the Group's subsidiaries or joint ventures. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not controlled or joint controlled of those policies. If an entity holds, directly or indirectly (e.g., through subsidiaries), 20% or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale; in which case, it is accounted for in accordance with K-IFRS 1105. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of K-IFRS 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value, less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

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

(5) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal groups) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(6) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold or services provided in the Group's normal course of business, net of discounts, customer returns, rebates, and related taxes.

1) Sale of goods

The Group recognizes revenue from the sale of goods when the significant risks and rewards of ownership of the goods are transferred to the buyer.

2) Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

3) Royalties

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

4) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

5) Rental income

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

(7) Lease

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

1) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred. Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(8) Foreign currencies

For the purpose of the consolidated financial statements, the results and financial position of the Group entity are expressed in Korean Won (KRW), which is the functional currency of the Group and the presentation currency for the consolidated financial statements. In preparing the financial statements of the individual entities, transactions in currencies other than the Group's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 2, (19) below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Korean Won (KRW) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period; in which case, the exchange rates at the dates of the transactions are used. Exchange differences, if any, are recognized

in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to noncontrolling interests are derecognized, but they are not reclassified to profit or loss. In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences is reattributed to non-controlling interests in equity and are not recognized in profit or loss. For all other partial disposals (i.e., of associates or jointly controlled entities not involving a change of accounting basis), the proportionate share of the accumulated exchange differences is reclassified to profit or loss. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(9) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(10) Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire assets are recognized as deferred revenue in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognized as revenue over the periods that correspond to the costs that the Group intends to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

(11) Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions. For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. The present value of the retirement benefit is calculated using the interest rate of fine securities whose maturity is similar to the payment date. However, if there is no proper market for those securities, the Group uses market interest rate of government securities. The profit or loss incurred from changes in the assumptions and the difference between actual and assumption are recognized in other comprehensive income in the consolidated statements of comprehensive income. The Group allocates recognized actuarial gains and losses as retained earnings, not reclassified to gains and losses. Past service cost is recognized immediately to the extent that the benefits are already vested and, otherwise, is amortized on the straight-line basis over the average period until the benefits become vested.

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

(12) Income tax

Income tax consists of current tax and deferred tax.

1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Also, the Group does not recognize deferred tax on the initial transactions that do not affect the taxable income and accounting income.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

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

(13) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition.

necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Subsequent costs are recognized in carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred. The Group does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

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

If each part of an item of property, plant and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately. The Group reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

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

(14) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized. While land is not depreciated, all other investment property is depreciated based on the respective assets estimated useful lives ranging from 40 years using the straight-line method.

(15) Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives.

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

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

2) Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- improvement of technical feasibility and development of new product and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4) Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

(16) Impairment of tangible and intangible assets other than good will

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

(17) Inventories

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

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

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

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

(18) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

(19) Financial assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss ("FVTPL"), which are initially measured at fair value. Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity ("HTM") investments, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

2) Financial assets at FVTPL

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

- A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling it in the near term; or
 - on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
 - it is a derivative that is not designated and effective as a hedging instrument. A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:
 - such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
 - the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
 - it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other gains and losses line item in the consolidated statements of comprehensive income.

3) HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as HTM investments. HTM investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

4) Financial assets AFS

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

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

5) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables.' Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- the market of financial assets extinct due to financial difficulty.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of the Group, as well as observable changes in national or local economic conditions that correlate with default on receivables. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original

effective interest rate. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

Changes in the carrying amount of the allowance account are recognized in profit or loss. When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period. With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

7) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

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

If an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset and retains control of the transferred asset, the entity continues to recognize the transferred asset to the extent of its continuing involvement.

The extent of the entity's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. The Group allocates the previous carrying amount to fair value of the assets and recognizes as profit or loss the difference among proceeds received, allocated carrying value and allocated accumulated profit or loss.

(20) Financial liabilities and equity instruments issued by the Group

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

3) Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar nonconvertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

4) Financial liabilities

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

5) Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
 - on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
 - it is a derivative that is not designated and effective as a hedging instrument. A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:
 - such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
 - the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
 - it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.
- Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statements of income.

6) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

7) Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037 and
- the amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018 Revenue

8) Derecognition of financial liabilities

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

(21) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps. Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument; in such case, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset and a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realized or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

2) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and nonderivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the consolidated statements of income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship; the hedging instrument expires or is sold; terminated or exercised; or it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

4) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss and, is included in the 'other gains and losses' line item. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss in the same line of the consolidated statements of income as the recognized hedged item.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship; the hedging instrument expires or is sold; terminated or exercised; or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

5) Hedges of net investments in foreign operations

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

3. RESTRICTED FINANCIAL ASSETS:

Details of restricted financial assets as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows
(Korean won in thousands):

Account	Korean Won (In thousands)		
	December 31, 2011	December 31, 2010	January 1, 2010
Short-term financial assets	110,788	96,301	5,589,103
Long-term financial assets	15,500	15,500	26,500
Total	126,288	111,801	5,615,603

4. TRADE AND OTHER RECEIVABLES:

(1) Details of trade and other receivables as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows
(Korean won in thousands):

	Korean Won (In thousands)		
	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	1,092,430,941	(16,443,309)	1,075,987,632
Other accounts receivable	334,086,651	(662,445)	333,424,206
Accrued income	6,527,676	-	6,527,676
Subtotal	1,433,045,268	(17,105,754)	1,415,939,514
Defaulted note receivables	599,233	(165,157)	434,076
Subtotal	599,233	(165,157)	434,076
Total	1,433,644,501	(17,270,911)	1,416,373,590

	Korean Won (In thousands)		
	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	785,394,493	(14,769,265)	770,625,228
Other accounts receivable	170,536,671	(730,770)	169,805,901
Accrued income	2,513,153	-	2,513,153
Subtotal	958,444,317	(15,500,035)	942,944,282
Defaulted note receivables	178,500	(178,500)	-
Subtotal	178,500	(178,500)	-
Total	958,622,817	(15,678,535)	942,944,282

	Korean Won (In thousands)		
	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	693,628,135	(14,610,481)	679,017,654
Other accounts receivable	150,103,182	(782,203)	149,320,979
Accrued income	2,275,854	-	2,275,854
Subtotal	846,007,171	(15,392,684)	830,614,487
Defaulted note receivables	2,099,417	(2,099,417)	-
Subtotal	2,099,417	(2,099,417)	-
Total	848,106,588	(17,492,101)	830,614,487

(2) Credit risk and allowance for bad debt

(1) Aging analysis of the trade and other receivables that are overdue but are not impaired as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)				
	3 months or less	3-6 months	6-12 months	Over 1 year	Total
Trade receivables	354,786	-	-	-	354,786
Other accounts receivable	-	-	-	-	-
Accrued income	-	-	-	-	-
Defaulted note receivables	-	-	-	-	-
Total	354,786	-	-	-	354,786

	Korean Won (In thousands)				
	3 months or less	3-6 months	6-12 months	Over 1 year	Total
Trade receivables	1,149,068	-	-	-	1,149,068
Other accounts receivable	-	-	-	-	-
Accrued income	-	-	-	-	-
Defaulted note receivables	-	-	-	-	-
Total	1,149,068	-	-	-	1,149,068

	Korean Won (In thousands)				
	3 months or less	3-6 months	6-12 months	Over 1 year	Total
Trade receivables	4,358,681	-	24,010	74,248	4,456,939
Other accounts receivable	-	-	-	-	-
Accrued income	-	-	-	-	-
Defaulted note receivables	-	-	-	-	-
Total	4,358,681	-	24,010	74,248	4,456,939

2) Aging analysis of the trade and other receivables that are impaired as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

	Korean Won (in thousands)				
	December 31, 2011				
	3 months or less	3-6 months	6-12 months	Over 1 year	Total
Trade receivables	253,921,523	12,474,092	14,425,592	10,024,151	290,845,358
Other accounts receivable	2,216,043	1,628,511	269,355	451,939	4,565,848
Accrued income	-	-	-	-	-
Defaulted note receivables	-	-	-	599,233	599,233
Total	256,137,566	14,102,603	14,694,947	11,075,323	296,010,439

	Korean Won (in thousands)				
	December 31, 2010				
	3 months or less	3-6 months	6-12 months	Over 1 year	Total
Trade receivables	159,655,497	10,265,495	16,358,123	2,856,726	189,135,841
Other accounts receivable	9,147,908	291,503	295,750	439,468	10,174,629
Accrued income	-	-	-	-	-
Defaulted note receivables	-	178,500	-	-	178,500
Total	168,803,405	10,735,498	16,653,873	3,296,194	199,468,970

	Korean Won (in thousands)				
	January 1, 2010				
	3 months or less	3-6 months	6-12 months	Over 1 year	Total
Trade receivables	189,101,402	23,668,309	4,599,587	4,385,710	221,775,008
Other accounts receivable	2,025,167	518,341	657,740	1,391,447	4,592,695
Accrued income	-	-	-	-	-
Defaulted note receivables	1,496,144	8,000	-	595,273	2,099,417
Total	192,622,713	24,214,650	5,257,327	6,372,430	228,467,120

3) Changes in allowance for trade and other receivables for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	Korean Won (in thousands)			
	Year ended December 31, 2011			
	Trade receivables	Other account receivable	Defaulted note receivables	Total
Beginning balance	14,769,265	730,770	178,500	15,678,535
Bad debt expense	3,577,359	51,581	67,863	3,696,803
Write-offs	(539,261)	-	(62,572)	(601,833)
Recovery	49,593	-	-	49,593
Reversal of allowance for bad debts	(692,632)	(119,906)	(18,634)	(831,172)
Foreign currency translation	(721,015)	-	-	(721,015)
Ending balance	16,443,309	662,445	165,157	17,270,911

	Korean Won (in thousands)			
	Year ended December 31, 2010			
	Trade receivables	Other account receivable	Defaulted note receivables	Total
Beginning balance	14,610,481	782,203	2,099,417	17,492,101
Bad debt expense	1,992,765	24,652	-	2,017,417
Write-offs	(325,244)	(43,382)	(473,786)	(842,412)
Recovery	22,090	-	-	22,090
Reversal of allowance for bad debts	(928,892)	(32,703)	(1,447,191)	(2,408,726)
Foreign currency translation	(601,935)	-	-	(601,935)
Ending balance	14,769,265	730,770	178,500	15,678,535

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

(3) Transfer to financial assets

During the current period, the Group transfers trade receivables of ₩ 690,587 million to Woori bank and others and provide credit guarantee for expected losses of those. Therefore, the Group has continuously recognized total carrying amount of the trade receivables and recognized cash which it received in return for transfer as collateralized borrowing (Refer to Note 15).

Details of transferred short-term receivables (collateral for borrowings) and carrying amount of liabilities related to those as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

Currency	December 31, 2011				December 31, 2010				January 1, 2010	
	Foreign currency	Won equivalent	Foreign currency	Won equivalent	Foreign currency	Won equivalent	Foreign currency	Won equivalent	Foreign currency	Won equivalent
KRW	-	5,170,428	-	-	-	-	-	-	-	10,991,817
AUD	3,224,253	3,770,022	1,041,668	1,206,188	1,883,697	1,968,577	-	-	-	-
CAD	27,150,407	30,672,900	20,743,036	23,619,473	41,741,224	46,207,118	-	-	-	-
CHF	-	-	196,256	237,823	-	-	-	-	-	-
EUR	123,177,566	184,039,601	82,455,506	124,804,653	92,972,733	155,662,388	-	-	-	-
GBP	31,475,564	55,839,630	13,837,914	24,323,178	28,657,398	53,810,856	-	-	-	-
JPY	2,184,532,693	32,443,806	1,867,084,355	26,084,662	1,690,147,723	21,343,523	-	-	-	-
SEK	48,182,940	8,057,633	54,355,893	9,153,968	86,718,716	14,143,623	-	-	-	-
CNY	-	-	1,400,000	241,500	-	-	-	-	-	-
USD	321,245,942	370,492,945	272,795,180	310,686,432	136,143,228	158,960,833	-	-	-	-
Total		690,586,965		520,357,857		463,088,935				

5. FINANCIAL ASSETS AT FVTPL AND AFS SECURITIES:

Details of financial assets at FVTPL and AFS securities as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)		
	December 31, 2011	December 31, 2010	January 1, 2010
Financial asset at FVTPL	5,512,110	-	-
AFS securities			
Equity instruments	669,694	7,691,780	5,950,956
Listed securities	1,506,327	2,459,898	2,506,980
Unlisted securities	2,176,021	10,151,678	8,457,916
Subtotal			
Debt instruments			
Privately placed bonds	10,000,000	10,000,000	10,000,000
Finance bonds	2,000,000	2,000,000	2,000,000
Government bonds	-	-	50,810
Subtotal	12,000,000	12,000,000	12,050,810
Total	19,688,131	22,151,678	20,508,726

6. OTHER FINANCIAL ASSETS:

Details of other financial assets as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)			
	December 31, 2011	December 31, 2010	Foreign currency	January 1, 2010
	Foreign currency	Won equivalent	Won equivalent	Won equivalent
Foreign exchange	-	-	22,877	-
forward contracts			2,944,507	
Loans	9,931,601	3,851,831	2,301,931	3,592,928
Deposits provided	2,169,419	6,456,826	8,027,306	5,905,098
Total	12,101,020	10,308,657	10,352,114	9,097,986

7. INVENTORIES:

Details of inventories as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)		
	December 31, 2011	December 31, 2010	January 1, 2010
	Acquisition cost	Inventory valuation	Inventory valuation reserve
Finished goods	470,409,738	466,975,444	3,434,294
Work in process	41,387,327	41,387,327	-
Raw materials	216,252,802	214,717,029	1,535,773
Supplies	23,244,183	22,864,988	379,185
Materials in transit	583,314,583	583,314,583	-
Total	1,334,608,633	1,329,259,381	5,349,252

	Korean Won (In thousands)		
	December 31, 2010	Inventory valuation	Inventory valuation reserve
Finished goods	292,839,458	280,047,073	2,791,385
Work in process	30,656,652	30,656,652	-
Raw materials	165,432,526	162,880,480	2,552,046
Supplies	21,567,346	21,188,161	379,185
Materials in transit	434,008,234	434,008,234	-
Total	944,503,216	938,780,600	5,722,616

	Korean Won (In thousands)		
	December 31, 2010	Inventory valuation	Inventory valuation reserve
Finished goods	305,527,790	302,575,448	2,952,342
Work in process	23,703,476	23,703,476	-
Raw materials	114,928,896	114,788,082	140,814
Supplies	19,281,967	18,902,782	379,185
Materials in transit	403,338,232	403,338,232	-
Total	866,780,361	863,308,020	3,472,341

	Korean Won (In thousands)			
	Foreign currency	translation variance	Losses (gains) on valuation of inventories	2010
	2011	2010	2011	2010
Finished goods	(379,344)	(86,049)	1,022,253	(74,908)
Work in process	-	-	-	-
Raw materials	-	-	(1,016,273)	2,411,232
Supplies	-	-	-	-
Materials in transit	-	-	-	-
Total	(379,344)	(86,049)	5,980	2,336,324

8. OTHER ASSETS:

Details of other assets as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean won in thousands):

	Korean Won (In thousands)			
	December 31, 2011	December 31, 2010	January 1, 2010	Non-current
	Current	Non-current	Current	Non-current
Advance payments	38,844,503	-	10,821,068	9,685,494
Prepaid expenses	41,642,637	-	26,686,920	17,024,344
Others	348,304	5,019,513	396,848	1,993,190
Total	80,835,444	5,019,513	37,904,826	28,703,028

9. SUBSIDIARIES:

(1) Details of subsidiaries as of December 31, 2011, are as follows:

Subsidiaries	Primary business	Location
Daehwa Engineering & Machinery Co., Ltd.	Manufacture of tire and tube manufacturing machine	Korea
Hankook Tire America Corp.	Sales of tire	USA
Hankook Tyre U.K. Ltd.	Sales of tire	UK
Jiangsu Hankook Tire Co., Ltd.	Manufacture and sales of tire	China
Hankook Tire China Co., Ltd.	Manufacture and sales of tire	China
Shanghai Hankook Tire Sales Co., Ltd.	Sales of tire	China
Hankook Tire Netherlands B.V.	Sales of tire	Netherlands
Hankook Tire Japan Corp.	Sales of tire	Japan
Hankook Tire Canada Corp.	Sales of tire	Canada
Hankook Reifen Deutschland GmbH	Sales of tire	Germany
Hankook Tire France SARL	Sales of tire	France
Hankook Espana S. A.	Sales of tire	Spain
Hankook Tyre Australia Pty, Ltd.	Sales of tire	Australia
Hanyang Tire Sales Co., Ltd.	Sales of tire	Korea
Hankook Tire Europe Holdings B.V.	Building European governance	Netherlands
Hankook Tire Hungary Ltd.	Manufacture and sales of tire	Hungary
Hankook Tire Budapest Kereskedelmi Kft	Sales of tire	Hungary
Hankook Tire Italia S.R.L.	Sales of tire	Italy
Hankook Tire Europe GmbH	Support sales of tire	Germany
Hankook Tire Rus LLC	Sales of tire	Russia
Hankook Tire DE Mexico, S.A. DE C.V.	Sales of tire	Mexico
Chongqing Hankooktire Co., Ltd. ^{(*)2}	Manufacture and sales of tires	China
PT Hankook Tire Indonesia ^{(*)3}	Manufacture and sales of tires	Indonesia
MKT Holdings Co., Ltd. ^{(*)4}	Manufacture and sales of tire mold	Korea
MK Mold (Jiaxing) Co., Ltd. ^{(*)5}	Manufacture and sales of the mold	China
MK Technology Corp. ^{(*)6}	Manufacture and sales of the mold	Korea
Hankook Tire Budapest Kereskedelmi Kft., Sp.zo.o. Polish Branch	Sales of tire	Poland

(2) Details of the Group's investment in subsidiaries as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean won in thousands):

Subsidiaries	Number of shares	Percentage of ownership (%)	Acquisition cost	December 31, 2011	
				Carrying value	
Daehwa Engineering & Machinery Co., Ltd.	380,000	95	1,900,000	1,900,000	
Hankook Tire America Corp.	1,600	100	8,737,823	8,737,823	
Hankook Tyre U.K. Ltd.	25,000	100	30,649	30,649	
Jiangsu Hankook Tire Co., Ltd.	(*)1	100	206,194,345	206,194,345	
Hankook Tire China Co., Ltd.	(*)1	100	200,428,608	200,428,608	
Shanghai Hankook Tire Sales Co., Ltd.	(*)1	100	3,224,960	3,224,960	
Hankook Tire Netherlands B.V.	(*)1	100	1,738,031	1,738,031	
Hankook Tire Japan Corp.	400	100	165,464	165,464	
Hankook Tire Canada Corp.	50,000	100	30,950	30,950	
Hankook Reifen Deutschland GmbH	(*)1	100	126,995	126,995	
Hankook Tire France SARL	(*)1	100	1,601,630	1,601,630	
Hankook Espana S. A.	(*)1	100	76,873	76,873	
Hankook Tyre Australia Pty, Ltd.	(*)1	100	1,554,999	1,554,999	
Hanyang Tire Sales Co., Ltd.	30,000	100	150,000	150,000	
Hankook Tire Europe Holdings B.V.	380,253	100	239,336,418	239,336,418	
Hankook Tire Hungary Ltd.	(*)1	100	232,212,702	232,212,702	
Hankook Tire Budapest Kereskedelmi Kft	(*)1	100	15,067	15,067	
Hankook Tire Italia S.R.L.	(*)1	100	940,618	940,618	
Hankook Tire Europe GmbH	(*)1	100	30,716	30,716	
Hankook Tire Rus LLC	(*)1	100	228,480	228,480	
Hankook Tire DE Mexico, S.A. DE C.V.	10,000	100	330,372	330,372	
Chongqing Hankooktire Co., Ltd.	(*)1	100	54,928,000	54,928,000	
PT Hankook Tire Indonesia	69,999	99.99	76,825,885	76,825,885	
MKT Holdings Co., Ltd.	226,452	50.1	11,322,600	11,322,600	
MK Mold (Jiaxing) Co., Ltd.	(*)1	50.1	1,375,683	1,375,683	
MK Technology Corp.	(*)1	50.1	31,036,950	31,036,950	
Hankook Tire Budapest Kereskedelmi Kft., Sp.zo.o. Polish Branch	-	100	-	-	
Total			1,074,544,818	1,074,544,818	

Korean Won (in thousands)

Korean Won (In thousands)

Subsidiaries	December 31, 2010		
	Number of shares	Percentage of ownership (%)	Carrying value
Daejwa Engineering & Machinery Co., Ltd.	380,000	95	1,900,000
Hankook Tire America Corp.	1,600	100	8,737,823
Hankook Tyre U.K. Ltd.	25,000	100	30,649
Jiangsu Hankook Tire Co., Ltd.	(*)	100	206,194,345
Hankook Tire China Co., Ltd.	(*)	100	200,428,608
Shanghai Hankook Tire Sales Co., Ltd.	(*)	100	3,224,960
Hankook Tire Netherlands B.V.	(*)	100	1,738,031
Hankook Tire Japan Corp.	400	100	165,464
Hankook Tire Canada Corp.	50,000	100	30,950
Hankook Reifen Deutschland GmbH	(*)	100	126,995
Hankook Tire France SARL	(*)	100	1,601,630
Hankook Espana S. A.	(*)	100	76,873
Hankook Tyre Australia Pty. Ltd.	(*)	100	1,554,999
Hanyang Tire Sales Co., Ltd.	30,000	100	150,000
Hankook Tire Europe Holdings B.V.	380,253	100	239,336,418
Hankook Tire Hungary Ltd.	(*)	100	232,212,702
Hankook Tire Budapest Kereskedelmi Kft	(*)	100	15,067
Hankook Tire Italia S.R.L.	(*)	100	940,618
Hankook Tire Europe GmbH	(*)	100	30,716
Hankook Tire Rus LLC	(*)	100	228,480
Hankook Tire DE Mexico, S.A. DE C.V.	10,000	100	330,372
Chongqing Hankooktire Co., Ltd.	(*)	100	23,040,000
Total			922,095,700

(*)1 A portion of subsidiaries does not issue a stock certificate.

(*)2 During the current period, the Group additionally contributes to Chongqing Hankooktire Co., Ltd., which increases the stock acquisition cost of

₩ 31,888,000 thousand.

(*)3 During the current period, the Group establishes PT Hankook Tire Indonesia, which increases the stock acquisition cost of ₩ 76,825,885 thousand.

(*)4 During the current period, the Group establishes MKT Holdings Co., Ltd., which increases the stock acquisition cost of ₩11,322,600 thousand.

(*)5 During the current period, MKT Holdings Co., Ltd. establishes MK Mold (Jiaxing) Co., Ltd., which increases the stock acquisition cost of

₩ 1,375,683 thousand.

(*)6 During the current period, MKT Holdings Co., Ltd. establishes MK Technology Corp., which increases the stock acquisition cost of

₩ 31,036,950 thousand.

Korean Won (In thousands)

Subsidiaries	January 1, 2010		
	Number of shares	Percentage of ownership (%)	Carrying value
Daejwa Engineering & Machinery Co., Ltd.	380,000	95	1,900,000
Hankook Tire America Corp.	1,600	100	8,737,823
Hankook Tyre U.K. Ltd.	25,000	100	30,649
Jiangsu Hankook Tire Co., Ltd.	(*)	100	206,194,345
Hankook Tire China Co., Ltd.	(*)	100	200,428,608
Shanghai Hankook Tire Sales Co., Ltd.	(*)	100	3,224,960
Hankook Tire Netherlands B.V.	(*)	100	1,738,031
Hankook Tire Japan Corp.	400	100	165,464
Hankook Tire Canada Corp.	50,000	100	30,950
Hankook Reifen Deutschland GmbH	(*)	100	126,995
Hankook Tire France SARL	(*)	100	1,601,630
Hankook Espana S. A.	(*)	100	76,873
Hankook Tyre Australia Pty. Ltd.	(*)	100	1,554,999
Hanyang Tire Sales Co., Ltd.	30,000	100	150,000
Hankook Tire Europe Holdings B.V.	380,253	100	239,336,418
Hankook Tire Hungary Ltd.	(*)	100	232,212,702
Hankook Tire Budapest Kereskedelmi Kft	(*)	100	15,067
Hankook Tire Italia S.R.L.	(*)	100	940,618
Hankook Tire Europe GmbH	(*)	100	30,716
Total			898,496,848

(*)1 A portion of subsidiaries does not issue a stock certificate.

(*)2 During the current period, the Group additionally contributes to Chongqing Hankooktire Co., Ltd., which increases the stock acquisition cost of

₩ 31,888,000 thousand.

(*)3 During the current period, the Group establishes PT Hankook Tire Indonesia, which increases the stock acquisition cost of ₩ 76,825,885 thousand.

(*)4 During the current period, the Group establishes MKT Holdings Co., Ltd., which increases the stock acquisition cost of ₩11,322,600 thousand.

(*)5 During the current period, MKT Holdings Co., Ltd. establishes MK Mold (Jiaxing) Co., Ltd., which increases the stock acquisition cost of

₩ 1,375,683 thousand.

(*)6 During the current period, MKT Holdings Co., Ltd. establishes MK Technology Corp., which increases the stock acquisition cost of

₩ 31,036,950 thousand.

10. INVESTMENTS IN ASSOCIATES:

(1) Details of the Group's investment in associates as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

Subsidiaries	December 31, 2011					December 31, 2010				
	Number of shares	Percentage of ownership (%)	Acquisition cost	Net asset share value	Carrying value	Number of shares	Percentage of ownership (%)	Acquisition cost	Net asset share value	Carrying value
Atlas BX Co., Ltd.	2,848,685	31.13	12,229,979	79,880,501	79,702,706					
EniFrontier, Inc.	857,142	29.99	428,571	3,129,165	2,615,177					
Total			12,658,550	83,009,666	82,317,883					

Subsidiaries	December 31, 2010					January 1, 2010				
	Number of shares	Percentage of ownership (%)	Acquisition cost	Net asset share value	Carrying value	Number of shares	Percentage of ownership (%)	Acquisition cost	Net asset share value	Carrying value
Atlas BX Co., Ltd.	2,848,685	31.13	12,229,979	64,380,906	64,260,849					
EniFrontier, Inc.	2,000,000	50.00	1,000,000	6,760,250	6,145,882					
Total			13,229,979	71,141,156	70,406,711					

Subsidiaries	December 31, 2010					January 1, 2010				
	Number of shares	Percentage of ownership (%)	Acquisition cost	Net asset share value	Carrying value	Number of shares	Percentage of ownership (%)	Acquisition cost	Net asset share value	Carrying value
Atlas BX Co., Ltd.	2,848,685	31.13	12,229,979	48,747,356	48,631,643					
EniFrontier, Inc.	2,000,000	50.00	1,000,000	5,834,016	5,226,103					
Total			13,229,979	54,581,372	53,857,746					

(2) Changes in the Group's investment in associates for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

Subsidiaries	2011					2010				
	Beginning balance	Acquisition (Disposal)	Gain (loss) on valuation of equity method securities	Other changes	Ending balance	Beginning balance	Acquisition (Disposal)	Gain (loss) on valuation of equity method securities	Other changes	Ending balance
Atlas BX Motor Sports Co., Ltd. ^(*)	64,260,849	-	15,341,218	100,639	79,702,706	48,631,643	-	17,577,046	(1,947,840)	64,260,849
EniFrontier, Inc. ^(*)	6,145,882	(9,859,947)	329,262	-	2,615,177	5,226,103	-	1,106,848	(187,089)	6,145,882
Total	70,406,711	(9,859,947)	15,670,480	100,639	82,317,883	53,857,746	-	18,683,894	(2,134,929)	70,406,711

Subsidiaries	2010					2010				
	Beginning balance	Acquisition (Disposal)	Gain (loss) on valuation of equity method securities	Other changes	Ending balance	Beginning balance	Acquisition (Disposal)	Gain (loss) on valuation of equity method securities	Other changes	Ending balance
Atlas BX Motor Sports Co., Ltd. ^(*)	48,631,643	-	17,577,046	(1,947,840)	64,260,849	48,631,643	-	17,577,046	(1,947,840)	64,260,849
EniFrontier, Inc. ^(*)	5,226,103	-	1,106,848	(187,089)	6,145,882	5,226,103	-	1,106,848	(187,089)	6,145,882
Total	53,857,746	-	18,683,894	(2,134,929)	70,406,711	53,857,746	-	18,683,894	(2,134,929)	70,406,711

11. PROPERTY, PLANT AND EQUIPMENT:

(1) Details of carrying value of property, plant and equipment as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

Subsidiaries	December 31, 2011				December 31, 2010			
	Acquisition cost	Accumulated depreciation	Accumulated impairment	Carrying value	Acquisition cost	Accumulated depreciation	Accumulated impairment	Carrying value
Land	319,546,779	-	-	319,546,779	1,218,428,331	252,423,820	-	966,004,511
Buildings	82,149,684	30,731,725	-	51,417,959	82,149,684	30,731,725	-	51,417,959
Structures	2,893,641,987	1,589,955,140	-	1,393,686,847	2,893,641,987	1,589,955,140	-	1,393,686,847
Machinery and equipment	40,156,185	26,314,020	-	13,842,165	40,156,185	26,314,020	-	13,842,165
Vehicles	848,765,288	542,446,443	1,693,428	304,625,417	848,765,288	542,446,443	-	304,625,417
Tools, furniture and fixtures	16,517,834	-	-	16,517,834	16,517,834	-	-	16,517,834
Machinery in transit	261,537,466	-	-	261,537,466	261,537,466	-	-	261,537,466
Construction in progress	-	-	-	-	-	-	-	-
Total	5,776,743,554	2,441,871,148	1,693,428	3,333,178,978	5,776,743,554	2,441,871,148	1,693,428	3,333,178,978

Subsidiaries	December 31, 2010				January 1, 2010			
	Acquisition cost	Accumulated depreciation	Accumulated impairment	Carrying value	Acquisition cost	Accumulated depreciation	Accumulated impairment	Carrying value
Land	289,446,326	-	-	289,446,326	1,077,004,839	219,054,115	-	857,950,724
Buildings	81,817,651	27,022,178	-	54,795,473	81,817,651	27,022,178	-	54,795,473
Structures	2,585,679,625	1,334,806,000	-	1,250,873,625	2,585,679,625	1,334,806,000	-	1,250,873,625
Machinery and equipment	37,467,029	23,718,545	-	13,748,484	37,467,029	23,718,545	-	13,748,484
Vehicles	766,306,821	478,925,166	1,600,550	286,181,105	766,306,821	478,925,166	-	286,181,105
Tools, furniture and fixtures	9,561,064	-	-	9,561,064	9,561,064	-	-	9,561,064
Machinery in transit	303,690,906	-	-	303,690,906	303,690,906	-	-	303,690,906
Construction in progress	-	-	-	-	-	-	-	-
Total	5,150,974,261	2,083,125,004	1,600,550	3,066,247,707	5,150,974,261	2,083,125,004	1,600,550	3,066,247,707

Subsidiaries	January 1, 2010				January 1, 2010			
	Acquisition cost	Accumulated depreciation	Accumulated impairment	Carrying value	Acquisition cost	Accumulated depreciation	Accumulated impairment	Carrying value
Land	287,429,124	-	-	287,429,124	287,429,124	-	-	287,429,124
Buildings	1,076,191,319	192,123,351	-	884,067,968	1,076,191,319	192,123,351	-	884,067,968
Structures	85,058,288	23,166,389	-	61,891,899	85,058,288	23,166,389	-	61,891,899
Machinery and equipment	2,455,902,332	1,148,402,310	-	1,307,500,022	2,455,902,332	1,148,402,310	-	1,307,500,022
Vehicles	35,428,885	21,388,494	-	14,040,391	35,428,885	21,388,494	-	14,040,391
Tools, furniture and fixtures	738,390,952	442,739,970	3,174,378	292,476,604	738,390,952	442,739,970	-	292,476,604
Machinery in transit	2,203,810	-	-	2,203,810	2,203,810	-	-	2,203,810
Construction in progress	80,250,707	-	-	80,250,707	80,250,707	-	-	80,250,707
Total	4,760,855,417	1,827,820,514	3,174,378	2,929,860,525	4,760,855,417	1,827,820,514	3,174,378	2,929,860,525

(2) Changes in property, plant and equipment for the years ended December 31, 2011 and 2010, are as follows

(Korean Won in thousands)

	Korean Won (In thousands)							
	Year ended December 31, 2011							
	Beginning the balance	The change in the scope of consolidation	Acquisition	Disposal	Depreciation	Others	Foreign currency translation	Ending balance
Land	289,446,326	1,387,589	32,942,249	4,578,985	-	1,095,952	(746,352)	319,546,779
Buildings	857,950,724	5,839,416	5,752,740	2,884,276	28,089,927	127,959,375	(523,541)	966,004,511
Structures	54,795,473	5,134	37,960	5,053	4,885,349	3,438,682	(1,968,888)	51,417,959
Machinery and equipment	1,250,873,625	8,275,052	24,485,864	9,708,453	244,703,487	371,995,255	(1,531,009)	1,399,866,847
Vehicles	13,748,484	23,547	374,570	298,591	3,967,189	3,887,671	73,673	13,842,165
Tools, furniture and fixtures	286,181,105	9,203,076	35,214,570	8,401,469	75,373,659	57,554,119	247,675	304,625,417
Machinery in transit	9,561,064	-	26,683,979	-	-	(19,355,463)	228,254	16,517,834
Construction in progress	303,690,906	-	498,060,929	-	-	(649,787,167)	9,572,798	261,537,466
Total	3,086,247,707	24,733,814	623,552,861	25,876,827	357,019,611	(3,811,576)	5,352,610	3,333,178,978

Korean Won (In thousands)

	Year ended December 31, 2010							
	Beginning balance	The change in the scope of consolidation	Acquisition	Disposal	Depreciation	Others	Foreign currency translation	Ending balance
Land	287,429,124	-	1,167,151	62,149	-	3,390,210	(2,478,010)	289,446,326
Buildings	884,067,968	-	9,858,820	50,360	28,932,642	3,084,192	(10,077,254)	857,950,724
Structures	61,891,899	-	522,815	3	4,861,910	620,860	(3,378,188)	54,795,473
Machinery and equipment	1,307,500,022	-	81,148,893	1,173,382	208,609,974	93,098,097	(21,090,031)	1,250,873,625
Vehicles	14,040,391	-	953,864	349,126	3,608,108	2,826,372	(114,909)	13,748,484
Tools, furniture and fixtures	292,476,604	-	41,399,730	4,943,950	68,887,608	29,595,527	(3,459,198)	286,181,105
Machinery in transit	2,203,810	-	13,591,443	-	-	(6,240,210)	6,021	9,561,064
Construction in progress	80,250,707	-	355,279,306	39,800	-	(126,335,381)	(5,463,926)	303,690,906
Total	2,929,860,525	-	503,922,022	6,616,770	314,900,242	39,667	(46,055,495)	3,066,247,707

(3) Pledged assets as collateral

As of December 31, 2011, a portion of the Group's property, plant and equipment (land, buildings and machinery) is pledged as collateral for its credit limit and others (Refer to Note 39). The Group has subscribed to property and comprehensive insurance for its buildings (Refer to Note 39).

12. INVESTMENT PROPERTY:

(1) Details of carrying value of investment property as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)		
	Acquisition cost	Accumulated depreciation	Year ended December 31, 2011 Carrying value
Land	49,540,143	-	49,540,143
Buildings	29,683,289	8,591,205	21,092,084
Total	79,223,442	8,591,205	70,632,237

	Korean Won (In thousands)		
	Acquisition cost	Accumulated depreciation	December 31, 2010 Carrying value
Land	49,855,948	-	49,855,948
Buildings	26,570,996	10,128,071	16,442,925
Total	76,426,944	10,128,071	66,298,873

	Korean Won (In thousands)		
	Acquisition cost	Accumulated depreciation	January 1, 2010 Carrying value
Land	49,894,229	-	49,894,229
Buildings	26,570,996	9,876,977	16,694,019
Total	76,465,225	9,876,977	66,568,246

(2) Changes in investment property for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)		
	Land	Buildings	Total
Beginning balance	49,855,948	16,442,925	66,298,873
The change of the scope of consolidation	428,832	-	428,832
Acquisition	-	2,387,580	2,387,580
Disposal	(256,685)	(184,215)	(440,900)
Depreciation	-	(768,473)	(768,473)
Others	(487,952)	3,061,573	2,573,621
Foreign currency translation	-	152,704	152,704
Ending balance	49,540,143	21,092,094	70,632,237

(Continued)

Korean Won (In thousands)

	Year ended December 31, 2010	
	Land	Buildings
Beginning balance		
Acquisition	49,894,229	16,694,019
Disposal	-	-
Depreciation	-	(251,094)
Others	(39,281)	-
Foreign currency translation	-	-
Ending balance	49,855,948	16,442,925
	66,298,873	

(3) Details of income and expenditure for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	Year ended December 31, 2010	
	2011	2010
Rental income	2,132,480	5,260,956
Expenditure in operating	1,092,007	4,676,472

(4) As of December 31, the carrying amount of investment property is ₩70,632,237 thousand and fair value is ₩96,592,936 thousand.

13. INTANGIBLE ASSETS:

(1) Details of carrying value of intangible assets as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)			
	Acquisition cost	Accumulated depreciation	Accumulated impairment	December 31, 2011 Carrying value
Industrial rights	8,758,200	5,277,049	-	3,481,151
Other intangible assets	107,578,622	16,335,830	950,898	90,291,894
Total	116,336,822	21,612,879	950,898	93,773,045

	Korean Won (In thousands)			
	Acquisition cost	Accumulated depreciation	Accumulated impairment	December 31, 2010 Carrying value
Industrial rights	5,829,091	3,759,930	-	2,069,161
Other intangible assets	63,724,253	26,862,574	950,898	35,910,781
Total	69,553,344	30,622,504	950,898	37,979,942

	Korean Won (In thousands)			
	Acquisition cost	Accumulated depreciation	Accumulated impairment	January 1, 2010 Carrying value
Industrial rights	5,452,826	3,577,040	-	1,875,786
Other intangible assets	40,049,572	12,385,493	950,898	26,713,181
Total	45,502,398	15,962,533	950,898	29,588,967

(2) Changes in intangible assets for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	Year ended December 31, 2011		
	Industrial rights	Other intangible assets	Total
Beginning balance	2,069,161	35,910,781	37,979,942
The change in the scope of consolidation	775,400	28,479,872	29,255,272
Acquisition	141,928	24,653,915	24,795,843
Disposal	-	60,287	60,287
Depreciation	930,603	2,763,512	3,694,115
Others	1,420,205	1,237,952	2,658,157
Foreign currency translation	5,060	2,833,173	2,838,233
Ending balance	3,481,151	90,291,894	93,773,045

	Year ended December 31, 2010		
	Industrial rights	Other intangible assets	Total
Beginning balance	1,875,786	26,713,181	28,588,967
Acquisition	-	11,377,233	11,377,233
Disposal	-	78,475	78,475
Depreciation	771,467	3,640,712	4,412,179
Others	964,842	1,350,159	2,315,001
Foreign currency translation	-	189,395	189,395
Ending balance	2,069,161	35,910,781	37,979,942

14. TRADE AND OTHER ACCOUNTS PAYABLE:

Details of trade and other accounts payable as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)	
	December 31, 2011	December 31, 2010
Trade payables	489,687,464	483,070,887
Other accounts payable	308,187,479	220,271,274
Accrued expenses	97,007,993	78,106,399
Dividends payable	52,725	44,123
Total	893,935,661	781,492,683

	Korean Won (In thousands)	
	December 31, 2011	January 1, 2010
Trade payables	489,687,464	404,119,157
Other accounts payable	308,187,479	88,224,515
Accrued expenses	97,007,993	79,753,232
Dividends payable	52,725	34,773
Total	893,935,661	572,131,677

15. BORROWINGS:

(1) Details of borrowings as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows
(Korean Won in thousands):

	Korean Won (In thousands)			
	December 31, 2011		December 31, 2010	
	Current	Non-current	Current	Non-current
Short-term borrowings	1,976,429,062	-	1,357,867,268	-
Long-term borrowings	218,380,479	452,726,161	237,119,538	253,864,502
Debentures	149,945,846	-	49,988,676	149,703,110
Total	2,344,755,387	452,726,161	1,644,975,482	403,567,612
			1,309,581,183	589,058,027

(2) Details of short-term borrowings as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows
(Korean won in thousands):

	Korean Won (In thousands)			
	December 31, 2011		December 31, 2010	
	Lender	Annual interest rate (%)	December 31, 2011	January 1, 2010
General loans	Bank of China and others	2.49-7.56	506,796,083	458,337,182
Bank overdrafts	Unicredit and others	2.39-5.85	252,295,805	90,578,723
Transfer of trade receivables ^(*)	Woori Bank and others	1.02-5.64	690,586,965	520,357,857
Usance	Kookmin Bank and others	1.18-4.80	434,935,673	182,205,644
Trade financing	Bank of China and others	3.10-4.60	89,814,536	106,387,862
Total			1,976,429,062	1,357,867,268
			1,116,724,821	

(*) As financial liabilities recognized with respect to transfer of trade receivables that cannot meet removal requirements, these are secured by the Group's trade receivables (see to Note 4).

(3) Details of long-term borrowings as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows
(Korean Won in thousands):

	Korean Won (In thousands)			
	December 31, 2011		December 31, 2010	
	Current	Non-current	Current	Non-current
Long-term borrowings in local currency (Local)				
Long-term borrowings in foreign currency (Foreign)				

	Korean Won (In thousands)			
	December 31, 2011		December 31, 2010	
	Current	Non-current	Current	Non-current
Local	-	45,034,560	-	400,000
Foreign	218,380,479	407,691,601	237,119,538	253,464,502
Total	218,380,479	452,726,161	237,119,538	253,864,502
			192,856,362	389,675,717

(4) Details of debentures as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows
(Korean Won in thousands):

	Korean Won (In thousands)			
	December 31, 2011		December 31, 2010	
	Current	Non-current	Current	Non-current
The 79-1th debentures	-	-	50,000,000	-
The 79-2th debentures	70,000,000	-	-	70,000,000
The 80th debentures	80,000,000	-	-	80,000,000
Discount on bonds	(64,154)	-	(11,324)	(296,890)
Total	149,945,846	-	49,988,676	149,703,110
			-	199,392,310

16. OTHER FINANCIAL LIABILITIES:

Details of other financial liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows
(Korean Won in thousands):

	Korean Won (In thousands)			
	December 31, 2011		December 31, 2010	
	Current	Non-current	Current	Non-current
Foreign exchange forward liabilities	5,785,547	-	314,957	283,314
Rental deposits	-	10,863,564	-	11,572,163
Total	5,785,547	10,863,564	314,957	11,572,163
			283,314	14,615,345

17. RETIREMENT BENEFIT PLAN:

As of December 31, 2011, the last actuarial valuation of plan assets and defined benefit obligation is performed by Mirae Asset Securities Co., Ltd. The valuation of present value of the defined benefit liability, related current service cost and past service cost is determined using the projected unit credit method.

(1) The principal assumptions used for actuarial valuation December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Unit: %):

	Korean Won (In thousands)			
	December 31, 2011		December 31, 2010	
	Current	Non-current	Current	Non-current
Discount rate	-	-	-	-
Expected return on plan assets	5.38	5.09	6.26	7.06
	4.50	5.09	6.26	5.59

(2) Income and loss related to defined benefit plan for the years ended December 31, 2011 and 2010, are as follows

(Korean Won in thousands):

	Korean Won (In thousands)	
	2011	2010
Current service cost	27,349,404	22,738,155
Interest cost	10,096,455	9,092,896
Expected return on plan assets	(6,830,760)	(5,922,160)
Total	30,615,099	25,928,891

(3) As of December 31, 2011, December 31, 2010 and January 1, 2010, amounts recognized in the consolidated statements of financial position related to retirement benefit obligation are as follows (Korean Won in thousands):

	Korean Won (In thousands)	
	December 31, 2011	December 31, 2010
Present value of defined benefit obligation	139,551,911	157,909,645
Fair value of plan assets	(128,758,501)	(121,665,079)
Retirement benefit obligation	10,793,410	36,244,566
		21,514,971

(4) Changes in present value of defined benefit obligation for the years ended December 31, 2011 and 2010, are as follows

(Korean Won in thousands):

	Korean Won (In thousands)	
	2011	2010
Beginning balance	157,909,645	132,449,583
Current service cost	27,349,404	22,738,155
Interest cost	10,096,455	9,092,896
Actuarial losses before tax	36,242,970	16,390,662
Benefit paid	(93,278,472)	(22,761,651)
The change in the scope of consolidation	1,231,909	-
Ending balance	139,551,911	157,909,645

(5) Changes in plan assets for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)	
	2011	2010
Beginning balance	121,665,079	110,934,612
Expected return on plan assets	6,830,760	5,902,160
Actuarial losses	(2,045,449)	(555,157)
Benefits paid	(53,300,217)	(14,616,536)
Company contributions	55,388,454	20,000,000
The change in the scope of consolidation	219,873	-
Ending balance	128,758,501	121,665,079

As of December 31, 2011 and 2010, accumulated actuarial gains or losses (prior to deferred corporate taxes and non-controlling interests effect), recognized in other comprehensive income or loss, are ₩ (38,288,419) thousand and ₩ (16,945,818) thousand, respectively.

18. PROVISIONS:

(1) Details of provisions as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)		
	December 31, 2011	December 31, 2010	January 1, 2010
Provision for products liabilities	9,226,400	9,112,000	11,676,000
Provision for product warranties	52,568,160	40,331,850	36,916,913
Long-term debts for employees	13,158,901	10,337,009	8,473,154
Total	74,953,461	59,780,059	57,066,067

(2) Changes in provisions for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)					
	Year ended December 31, 2011					
						Current classification
					Changes	
	Beginning balance	Increase	Decrease	Foreign currency translation	Ending balance	Current Non-current
Provision for products liabilities	9,111,200	-	-	115,200	9,226,400	- 9,226,400
Provision for product warranties	40,331,850	36,616,927	(26,792,511)	2,411,894	52,568,160	- 52,568,160
Long-term debts for employees	10,337,009	3,596,519	(774,627)	-	13,158,901	- 13,158,901
Total	59,780,059	40,213,446	(27,567,138)	2,527,094	74,953,461	- 74,953,461

	Korean Won (In thousands)					
	Year ended December 31, 2010					
	Current classification					
	Changes		Current		Non-current	
	Beginning balance	Increase	Decrease	Foreign currency translation	Ending balance	
Provision for products liabilities	11,676,000	(2,335,200)	-	(239,600)	9,111,200	- 9,111,200
Provision for product warranties	36,916,913	24,906,071	(20,258,219)	(1,232,915)	40,331,850	- 40,331,850
Long-term debts for employees	8,473,154	2,738,549	(874,694)	-	10,337,009	- 10,337,009
Total	57,066,067	25,309,420	(21,132,913)	(1,462,515)	59,780,059	- 59,780,059

19. OTHER LIABILITIES:

Details of other liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)		
	December 31, 2011	December 31, 2010	January 1, 2010
	Current	Non-current	Current
			Non-current
Advance received	80,617,910	-	61,251,065
Withholdings	228,780,782	-	131,213,581
Accrued expenses	47,070,431	-	40,542,900
Others	1,828,594	-	1,214,934
Total	358,297,717	-	234,222,470
			122,372
			181,275,041

20. CAPITAL STOCK:

Details of capital stock as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows
(Korean Won in thousands except per share amounts):

	December 31, 2011	December 31, 2010	January 1, 2010
Authorized (shares)	250,000,000	250,000,000	250,000,000
Par value	500	500	500
Outstanding (shares): Ordinary share	152,189,929	152,189,929	152,189,929
Capital stock: Common stock	76,094,965	76,094,965	76,094,965

As of December 31, 2011, the Group holds 7 million shares in treasury, to stabilize the market price of its shares of stock, and records treasury stock as other paid-in-capital .

21. OTHER PAID-IN-CAPITAL:

Details of other paid-in capital as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows
(Korean Won in thousands):

	December 31, 2011	December 31, 2010	January 1, 2010
Share premium	115,653,338	115,653,338	115,653,338
Other additional capital	53,924,347	53,931,276	53,931,276
Treasury stocks	(57,318,201)	(57,318,201)	(57,318,201)
Total	112,259,484	112,266,413	112,266,413

22. RETAINED EARNINGS AND DIVIDENDS:

(1) Details of retained earnings as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows
(Korean Won in thousands):

	December 31, 2011	December 31, 2010	January 1, 2010
Legal reserve:			
Earned surplus reserve ⁽¹⁾	39,260,000	39,260,000	39,260,000
Voluntary reserve:			
Reserve for financial structure improvements ⁽²⁾	19,320,000	19,320,000	19,320,000
Reserve for revaluation ⁽³⁾	443,289,239	443,289,239	443,289,239
Reserve for business rationalization ⁽⁴⁾	46,585,000	46,585,000	46,585,000
Reserve for export losses	4,770,000	4,770,000	4,770,000
Reserve for technology development	3,970,000	3,970,000	3,970,000
Reserve for overseas market development	7,369,667	7,369,667	7,369,667
Dividend equalization reserve	460,500,000	360,500,000	285,500,000
Reserve for officer's retirement benefits	83,918,000	73,918,000	63,918,000
Other voluntary reserve	848,600,000	595,600,000	418,600,000
	1,918,321,906	1,555,321,906	1,293,321,906
Unappropriated retained earnings	876,252,739	961,493,925	825,226,765
Total	2,833,834,645	2,556,075,831	2,157,810,671

(*1) The Commercial Code of the Republic of Korea requires the Group 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.

(*2) In accordance with the provisions of the Financial Control Regulations for the companies listed on the Korea Exchange, the Group 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 the Board of Directors or used to offset accumulated deficit, if any, with the ratification of the Group's majority shareholders. However, as the Financial Control Regulations was abolished in prior year, the reserve for financial structure improvements was transferred to voluntary reserves.

(*3) According to the past assets revaluation law, we conducted assets revaluation and appropriated revaluation gains for revaluation reserve.

(*4) We appropriated tax credit for business rationalization reserve until 2002, using the special tax treatment control law. This reserve is only allowed to use for preservation of loss carried forward or Capitalization. However, the special tax treatment control law was amended to delete related clauses so that business rationalization reserve is changed to optional reserve.

(2) The group declared cash dividends amounting to ₩ 50,816,475 thousand (₩ 350 per share) for years ended December 31, 2011 and 2010.

23. OTHER EQUITY:

Details of other capital components as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows
(Korean Won in thousands):

	December 31, 2011	December 31, 2010	January 1, 2010
Losses on valuation of AFS securities, net	(1,035,868)	(1,650,471)	(2,527,309)
Losses on valuation of foreign exchange forward contracts, net	-	(27,788)	305,771
Gains on translation of foreign operations	184,956,904	161,142,253	176,611,748
Capital changes due to investment securities accounted for using the equity method	(220,893)	(45,209)	(49,890)
Total	183,700,143	159,418,765	174,340,280

24. SALES AND COST OF SALES:

Details of sales and cost of sales for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	2011	2010
Korean Won (In thousands)		
Sales:		
Sales of finished goods	6,706,117,722	5,603,306,438
Sales discount	(103,478,383)	(91,235,595)
Export fees	(114,303,328)	(96,033,726)
Sales incentive	(10,457,405)	(10,184,529)
Rental sales	4,433,136	4,738,442
Wage sales	514,032	631,374
Other sales	6,147,479	8,946,425
Total	6,486,973,253	5,420,068,829

	2011	2010
Korean Won (In thousands)		
Cost of sales:		
Cost of finished goods sold	4,824,744,452	3,799,354,695
Customs duties reimbursed	(10,847,064)	(9,599,240)
Loss (reversal of) on valuation of inventories, net	5,990	2,336,324
Total	4,813,903,368	3,792,091,779

25. SELLING AND ADMINISTRATIVE EXPENSES:

(1) Details of selling expenses for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	2011	2010
Korean Won (In thousands)		
Selling expenses:		
Payroll	44,137,939	37,699,746
Provision for severance benefits	4,040,687	2,585,921
Travel and transportation expenses	130,900,175	125,735,394
Ship transportation expenses	162,574,845	177,033,499
Packing charges	11,619,174	11,484,498
Advertisement	168,480,375	137,098,917
Other export expenses	14,448,128	13,526,530
Foreign market development expenses	80,240	83,037
Sales damage expenses	36,616,927	24,906,071
Total	572,898,490	530,153,613

(2) Details of administrative expenses for years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	2011	2010
Korean Won (In thousands)		
Administrative expenses:		
Payroll	107,721,223	94,829,828
Provision for severance benefits	2,411,492	2,059,808
Utility expenses	6,464,274	5,869,047
Depreciation	34,839,625	34,617,503
Repairs expenses	6,282,860	7,152,462
Supplies expenses	4,423,021	4,061,593
Taxes and duties	26,584,130	17,853,383
Rental expenses	18,800,953	16,941,390
Insurance	9,311,110	8,863,482
Employee benefits	25,885,729	26,002,953
Travel expenses	13,439,033	13,405,158
Communication expenses	5,401,763	5,364,559
Service expenses	35,533,106	33,079,205
Service fees	44,290,193	46,546,205
Entertainment expenses	5,720,811	5,670,837
Publication expenses	1,168,411	1,080,043
Training expenses	4,347,490	3,107,708
Vehicles maintenance expenses	4,229,250	3,186,431
Provision for doubtful accounts	2,865,631	-
Amortization of intangible assets	2,804,920	3,651,640
Storage fees	34,061,921	30,953,317
Test expenses	3,623,058	6,005,634
Overseas branch maintenance expenses	6,662,009	6,045,831
Miscellaneous expenses	475,549	1,046,411
Total	407,347,562	377,393,426

26. OTHER GAINS AND LOSSES:

Details of other gains and losses for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	2011	2010
Gain on foreign currency transaction	220,270,180	144,674,196
Loss on foreign currency transaction	(233,951,514)	(149,061,427)
Gain on foreign currency translation	52,328,795	24,542,216
Loss on foreign currency translation	(51,866,043)	(29,345,152)
Reversal of allowance for doubtful accounts	-	391,309
Gain on foreign exchange forward transaction	160,743	5,234,405
Loss on foreign exchange forward transaction	(1,337,671)	(3,075,140)
Loss on valuation of foreign exchange forward contracts	(222,099)	-
Loss on disposal of trade receivable	(3,061,802)	(1,612,922)
Gain on disposal of property, plant and equipment	3,730,011	2,035,380
Loss on disposal of property, plant and equipment	(8,111,241)	(6,116,729)
Gain on disposal of investment in properties	29,100	7,288
Gain on disposal of intangible assets	-	1,000
Loss on disposal of intangible assets	(60,287)	-
Gain on insurance settlements	77,688	93,266
Total	(21,914,140)	(12,232,310)

27. OTHER OPERATING INCOME AND EXPENSES:

(1) Details of other operating income for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	2011	2010
Commission income	410,168	378,573
Dividend income	205,024	49,563
Royalty fee income	1,380,704	588,851
Rental income	3,281,175	2,923,550
Other operating income	21,286,513	20,219,840
Total	26,563,584	24,160,377

(2) Details of other operating expenses for the years ended December 31, 2011 and 2010, are as follows

(Korean Won in thousands):

	2011	2010
Donation	2,669,257	1,593,679
Loss on inventory obsolescence	1,826,191	1,692,279
Depreciation of investment in properties	768,473	251,094
Other operating expense	10,209,602	4,815,280
Total	15,473,523	8,352,332

28. FINANCIAL INCOME:

Details of financial income for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	2011	2010
Interest revenue		
Short-term financial assets	16,030,901	11,100,765
Trade and other accounts receivable	5,559,489	3,571,993
AFS financial assets	955,019	930,021
Subtotal	22,546,409	15,602,779
Gain on disposal of AFS securities	2,576,554	-
Gain on foreign exchange forward transaction	-	2,706,423
Gain on foreign currency transaction	36,602,494	21,384,339
Gain on foreign currency translation	65,300,664	37,373,660
Total	127,026,121	77,067,101

29. FINANCIAL EXPENSES:

Details of financial expenses for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	2011	2010
Interest expense		
Common borrowings	63,925,856	47,944,116
Bonds interest	9,603,728	13,444,559
Qualifying assets	(1,930,032)	(1,696,465)
Subtotal	71,604,532	59,692,220
Loss on disposal and evaluation of dealing securities, net	4,884,364	-
Loss on disposal of AFS securities	15,961	62,519
Impairment loss on disposal of AFS securities	-	23,511
Loss on valuation of foreign exchange forward contracts	5,563,448	255,420
Loss on foreign exchange forward transaction	-	5,364,720
Loss on foreign currency transaction from loans in foreign currency	8,639,625	1,988,409
Loss on foreign currency transaction from borrowings in foreign currency	2,795,071	-
Loss on foreign currency transaction from deposits in foreign currency	18,496,691	9,510,770
Loss on foreign currency translation from loans in foreign currency	114,841,121	23,272,279
Loss on foreign currency translation from deposits in foreign currency	4,097,211	-
Loss on foreign currency translation from borrowings in foreign currency	57,000	7,272,030
Total	231,195,024	107,421,878

(*) 1) The annual interest rates to calculate capitalized borrowing cost for the years ended December 31, 2011 and 2010, are 2.01% and 4.38%, respectively.

30. INCOME TAX EXPENSE AND DEFERRED TAX ASSETS:

(1) Income tax expense for the years ended December 31, 2011 and 2010, is as follows (Korean Won in thousands):

	Korean Won (In thousands)	
	2011	2010
Current income tax of the Parent Company	116,808,579	113,372,773
Changes in deferred income taxes	(15,991,933)	(1,612,952)
Changes in deferred income tax directly adjusted in equity	9,435,270	3,438,836
Income tax expense of the Parent Company	110,251,916	115,198,657
Income tax expense of consolidated subsidiaries and others	27,702,768	24,600,030
Tax effect for adjusting consolidation	(13,683,718)	9,324,905
Income tax expense	124,370,966	149,123,592

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

The changes in accumulated temporary differences for the year ended December 31, 2011, are as follows

(Korean Won in thousands):

	Korean Won (In thousands)	
	2011	2010
The Parent Company		
Beginning balance of accumulated temporary difference, net		(140,395,629)
Changes in the current year, net		82,186,040
Ending balance of accumulated temporary difference, net		(59,199,589)
Exclusion from temporary difference due to uncertainty of realization		(6,433,874)
Subtotal		(64,633,463)
Statutory tax rate		24.20%
Deferred income tax assets of the Parent Company		(15,641,298)
Deferred income tax assets of consolidated subsidiaries and others		10,077,264
Deferred income tax assets of adjusting consolidation		55,772,965
Ending balance of deferred income tax assets in consolidation		50,208,931

(3) Details of deferred tax assets deducted from accumulated other comprehensive income (loss) as of December 31, 2011 and 2010 are as follows (Korean Won in thousands):

	Korean Won (In thousands)		
	Before tax	Tax effect	Non- controlling interests
	December 31, 2011	December 31, 2011	December 31, 2011
Gains on valuation of AFS assets	(1,366,533)	(330,825)	160
Actuarial losses on defined benefit plans	(55,234,238)	(13,345,743)	(26,922)
Cash flow hedging reserve	-	-	-
Losses in translation of foreign operations	183,930,973	(1,108,859)	82,928
Capital changes due to investment securities	(251,301)	(30,407)	-
Retained earnings changes due to investment securities accounted for using the equity method	1,009,596	99,522	-
Retained earnings changes due to investment securities accounted for using the equity method			910,074
Total	128,088,497	(14,716,312)	56,166
			142,748,643

Korean Won (In thousands)

	Before tax	Tax effect	Non- controlling interests	December 31, 2010
				After tax
Gains on valuation of AFS assets	(2,159,821)	(509,351)	-	(1,650,470)
Actuarial losses on defined benefit plans	(16,945,818)	(3,722,227)	(26,604)	(13,196,987)
Cash flow hedging reserve	(36,660)	(8,672)	-	(27,789)
Losses in translation of foreign operations	161,440,003	297,751	-	161,142,252
Capital changes due to investment securities accounted for using the equity method	(50,797)	(5,588)	-	(45,209)
Retained earnings changes due to investment securities accounted for using the equity method	(715,859)	(103,444)	-	(612,445)
Total	141,531,018	(4,051,731)	(26,604)	145,609,353

31. PROFIT FROM CONTINUING OPERATIONS:

Expenses and revenue for calculating continuing operations are as follows (Korean Won in thousands):

	Korean Won (In thousands)	
	2011	2010
Impairment loss and subsequent gain of trade receivable	2,884,727	1,083,873
Impairment loss and subsequent gain of non-trade receivables	(66,325)	(8,051)
Impairment loss and subsequent gain of defaulted note receivables	49,229	(1,447,131)
Depreciation of property, plant and equipment	357,019,611	314,900,242
Amortization of intangible assets	3,694,115	4,412,179
Research and development expenses	116,721,481	100,423,309
Payroll	512,605,675	454,309,043
Provision for severance benefits	30,615,099	25,928,891
Employee benefits	89,079,224	78,169,554
Total	1,112,599,836	977,751,909

32. EXPENSE CLASSIFICATION BY NATURE:

Expenses classified by nature for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)		
	Cost of sales	Selling and administrative expenses	Year ended December 31, 2011 Research and development expenses Total
Changes in inventories			
Finished goods	(225,362,216)		(225,362,216)
Work in process	(10,734,320)		(10,734,320)
Supplies	(1,676,835)		(1,676,835)
Raw materials	3,714,107,512		3,714,107,512
Payroll	387,472,318	184,197,070	50,629,610
Depreciation of property, plant and equipment	308,344,149	34,839,625	13,835,837
Amortization of intangible assets	51,816	2,804,920	837,379
Service fees	18,556,437	44,290,193	3,724,094
Others	613,144,507	714,114,245	47,694,561
	4,813,903,368	880,246,053	116,721,481
			5,910,670,902

	Korean Won (In thousands)		
	Cost of sales	Selling and administrative expenses	Year ended December 31, 2010 Research and development expenses Total
Changes in inventories			
Finished goods	37,609,459		37,609,459
Work in process	(6,949,532)		(6,949,532)
Supplies	(2,285,379)		(2,285,379)
Raw materials	2,669,376,672		2,669,376,672
Payroll	346,833,022	163,178,256	48,396,210
Depreciation of property, plant and equipment	288,532,574	34,617,503	11,750,165
Amortization of intangible assets	96,013	3,651,640	694,526
Service fees	15,222,347	46,545,205	3,496,889
Others	463,656,603	659,554,437	96,115,519
	3,792,091,779	907,547,041	100,423,309
			4,800,062,129

33. EARNINGS PER SHARE:

The Group's net income per share for the years ended December 31, 2011 and 2010, is computed as follows (Korean Won in thousands):

	Korean Won (In thousands)	
	2011	2010
Net income	355,717,356,636	462,891,068,239
Dividends for preferred stock	-	-
Net income available for common shareholders	355,717,356,636	462,891,068,239
Weighted-average number of common shares outstanding	145,189,929 shares	145,189,929 shares
Basic and diluted earnings per share	2,450	3,188

34. SEGMENT INFORMATION:

Sales information by geographical segment for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

Geographical segment	Korean Won (In thousands)			
	Amounts	Ratio	Amounts	Ratio
North America	1,219,884,207	18.80%	1,087,622,651	20.07%
South and Central America	9,856,782	0.15%	134,297	0.00%
Asia, except Korea	1,440,446,629	22.20%	1,198,749,035	22.12%
Europe	1,327,124,309	20.45%	949,753,804	17.52%
Domestic	2,491,661,326	38.40%	2,183,809,042	40.29%
Total	6,488,973,253	100.00%	5,420,066,829	100.00%

35. RELATED-PARTY TRANSACTIONS:

(1) Details of related parties as of December 31, 2011, are as follows:

Type	Name of related parties	Korean Won (In thousands)
Individuals	Yang-Rai Cho, Hyun-Bum Cho, Hyun-Shik Cho	
Domestic	Daehwa Engineering & Machinery Co., Ltd., Hanyang Tire Sales Corp., MKT Holdings Co., Ltd., MK Technology Corp.	
Subsidiaries	Hankook Tire America Corp., Hankook Tire U.K. Ltd., Jangsu Hankook Tire Co., Ltd., Hankook Tire China Co., Ltd., Shanghai Hankook Tire Sales Co., Ltd. ⁽¹⁾ , Hankook Tire Netherlands B.V., Hankook Tire Japan Corp., Hankook Tire Canada Corp., Hankook Reifen Deutschland GmbH, Hankook Tire France SARL, Hankook Tire Italia S.R.L., Hankook Espana S.A., Hankook Tire Australia Pty, Ltd., Hankook Tire Hungary Ltd., Hankook Tire Europe Holdings B.V.	
Overseas subsidiaries	Hankook Tire Europe GmbH, Hankook Tire Budapest Kereskedelmi Kft, Hankook Tire DE Mexico, S.A. DE C.V., Chongqing Hankooktire Co., Ltd., Hankook Tire Rus LLC, PT Hankook Tire Indonesia, MK Mold (Jiaxing) Co., LTD., Hankook Tire Budapest Kereskedelmi Kft., Szabo.o. Polish Branch	
Others ⁽²⁾	Atlas BX Co., Ltd., EnFrontier Inc., Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Daehwa Eng' & Machinery-Jiaxing Co., Ltd., Anothern WTE Co., Ltd., H-2 WTE Co., Ltd., Fria Co., Ltd., Atlas BX Motorsports Co., Ltd., Anothern Gaumsan Co., Ltd.	

(1) Old name: Hankook Tire China Regional Headquarter

(2) Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Anothern WTE Co., Ltd., H-2 WTE Co., Ltd. and Anothern Gaumsan Co., Ltd., are the affiliates of the Group. However, the Group does not hold any shares of those affiliates.

(2) Transactions between the Group and related parties for years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)	
	December 31, 2011	December 31, 2010
Sales transaction and others	37,453	969,265
Purchase transaction and others	103,141,449	81,497,544
Total	108,178,902	82,466,809

(3) Outstanding balances as of December 31, 2011 and 2010, are as follows (Korean Won in thousands):

	Korean Won (In thousands)	
	December 31, 2011	December 31, 2010
Sales transaction and others	5,176	450
Purchase transaction and others	34,136,058	26,654,784
Total	34,141,234	26,655,234

(4) The Group has provided guarantees with respect to financing by its overseas subsidiaries for the years ended December 31, 2011 and 2010. Such guarantees in the agreements with the overseas subsidiaries are as follows (Korean Won in thousands):

	Korean Won (In thousands)	
	December 31, 2011	December 31, 2010
Jangsu Hankook Tire Co., Ltd.	69,198,000	79,723,000
Hankook Tire Hungary Ltd.(*)	880,459,045	755,915,540
Hankook Tire China Co., Ltd.	184,023,500	113,890,000
Other overseas affiliated companies	155,873,020	45,261,682
Total	1,289,553,565	994,790,222

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

	Description
Summary of agreements	To certify that the Group should sincerely carry out the investment plan according to the investment contract; otherwise, the Group 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, 2017

	Korea Exchange Bank (Deutschland) AG		Shinhan Bank (Deutschland) GmbH	Korea Exchange Bank (England) AG
Creditor bank				
Borrowings	EUR 20,000,000	EUR 6,000,000	EUR 9,500,000	GBP 5,000,000
Subsidiaries	Hankook Reifen Deutschland GmbH	Hankook Tire Italia S.R.L.	Hankook Reifen Deutschland GmbH	Hankook Tire U.K. Ltd.
Description	The Group's accounts receivable from Hankook Reifen Deutschland GmbH, Hankook Tire Italia SARL, and Hankook Tyre U.K., Ltd. are subordinated by the borrowings from those banks.			

In connection with borrowings amounting to ₩ 44,950,000 thousand of MKT Holdings Co., Ltd., as of December 31, 2011, the Group's 226,452 shares(carrying value amounting to ₩ 11,322,600 thousand) of MKT Holdings Co., Ltd. is pledged as collateral to Korea Development Bank up to ₩ 58,500,000 thousand. In addition, deposits in Korea Development Bank amounting to USD 10,330,000 and USD 20,670,000 are pledged as collateral for borrowings of Jangsu Hankook Tire Co., Ltd. and Hankook Tire China Co., Ltd., respectively.

36. SUPPLEMENTAL CASH FLOW INFORMATION:

	Korean Won (In thousands)	
	2011	2010
Reclassification of construction in progress and machinery in transit to property, plant, equipment, etc.	565,931,053	132,575,591
Transfer to current portion of long-term liabilities from debentures	150,000,000	50,000,000
Transfer to current portion of long-term liabilities from long-term debts	218,380,480	237,119,538

37. FINANCIAL INSTRUMENTS:

(1) Major accounting policies and methods (including recognition and measurement and revenue and expense recognition) for each category of financial assets, financial liabilities and equity are stated in detail in Note 2.

(2) Categories of financial instruments as of December 31, 2011, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

Financial Assets	Account	December 31, 2011	December 31, 2010	January 1, 2010
Derivative financial assets	Other financial assets	-	22,877	2,944,507
Financial assets AFS	Financial assets AFS	14,176,021	10,151,678	8,508,726
Financial assets HTM	Financial assets HTM	-	12,000,000	12,000,000
Loans and receivables	Cash and cash equivalents	635,195,528	505,387,359	462,356,638
Raw materials	Short-term financial assets	297,355,247	406,828,746	21,280,698
Payroll	Trade receivables	1,075,987,631	770,825,228	679,017,655
Depreciation of property, plant and equipment	Accounts receivable	108,892,759	169,805,901	47,360,339
Amortization of intangible assets	Accrued income	6,527,676	2,513,153	2,275,854
	Short-term loans	9,931,601	2,301,931	1,995,052
	Deposits provided (current)	2,169,419	8,027,306	375,885
	Long-term financial instruments	132,030	15,500	40,293
	Long-term loans	3,851,831	3,556,178	3,592,928
	Deposits provided	6,456,826	5,864,741	5,505,058
Total		2,160,676,569	1,897,100,598	1,247,253,633

Financial Liabilities	Account	December 31, 2011	December 31, 2010	January 1, 2010
Derivative financial liabilities	Other financial liabilities	5,785,547	59,537	283,314
Financial liabilities at amortized cost	Other financial liabilities	-	255,420	-
	Trade payables	488,687,464	483,070,887	404,119,157
	Accounts payable	308,187,479	220,271,274	88,224,515
	Accrued expenses	97,007,992	78,106,399	79,753,232
	Dividends payable	52,725	44,123	34,773
	Short-term borrowings	1,976,429,062	1,357,867,268	1,116,724,821
	Current portion of long-term liabilities	368,326,326	287,108,214	192,856,362
	Long-term borrowings	452,726,161	253,864,501	389,675,717
	Debentures	-	149,703,110	199,382,310
	Rental deposits	10,863,564	11,572,163	14,615,345
Total		3,708,066,320	2,841,922,896	2,485,689,546

(3) Fair value of financial instruments as of December 31, 2011, December 31, 2010 and January 1, 2010, is as follows
(Korean Won in thousands):

Account	Korean Won (In thousands)			
	December 31, 2011	December 31, 2010	January 1, 2010	
Financial Assets	Carrying value	Fair value	Carrying value	Fair value
Derivative financial assets	-	22,877	2,944,507	2,944,507
Financial assets AFS	14,176,021	10,151,678	8,508,726	8,508,726
Financial assets HTM	-	12,000,000	12,000,000	12,000,000
Cash and cash equivalents	635,195,528	505,387,359	462,356,638	462,356,638
Short-term financial assets	297,355,247	406,828,746	21,280,698	21,280,698
Trade receivables	1,075,987,631	770,625,228	679,017,655	679,017,655
Accounts receivable	106,892,759	169,805,901	47,360,339	47,360,339
Accrued income	6,527,676	2,513,153	2,275,854	2,275,854
Short-term loans	9,931,601	2,301,931	1,995,052	1,995,052
Deposits provided (current)	2,169,419	8,027,306	375,885	375,885
Long-term financial instruments	132,030	15,500	40,293	40,293
Long-term loans	3,851,831	3,556,178	3,592,928	3,592,928
Deposits provided	6,456,826	5,864,741	5,505,058	5,505,058
Total	2,160,676,569	1,897,100,598	1,247,253,633	1,247,253,633

Account	Korean Won (In thousands)			
	December 31, 2011	December 31, 2010	January 1, 2010	
Financial Liabilities	Carrying value	Fair value	Carrying value	Fair value
Other financial liabilities	5,785,547	314,957	283,314	283,314
Trade payables	488,687,464	483,070,887	404,119,157	404,119,157
Accounts payable	308,187,479	220,271,274	88,224,515	88,224,515
Accrued expenses	97,007,992	78,106,399	79,753,232	79,753,232
Dividends payable	52,725	44,123	34,773	34,773
Short-term borrowings	1,976,429,062	1,357,867,268	1,116,724,821	1,116,724,821
Current portion of long-term liabilities	368,326,326	287,108,214	192,856,362	192,856,362
Long-term borrowings	452,726,161	253,864,501	389,675,717	389,675,717
Debentures	-	149,703,110	199,382,310	199,382,310
Rental deposits	10,863,564	11,572,163	14,615,345	14,615,345
Total	3,706,066,320	2,841,922,896	2,485,669,546	2,485,669,546

38. RISK MANAGEMENT:

(1) Capital risk management

The Group manages its capital to maintain its ability to continuously provide the return to its shareholders and interest parties.

The overall strategies of the Group have not been changed from previous year.

The Group uses debt ratio as a capital management index and calculates the ratio as total liabilities divided by total equity.

Total liabilities and total equity are based on the amounts stated in the consolidated financial statements.

The Group is not subject to externally enforced capital regulation. Debt ratio as of December 31, 2011, December 31,

2010 and January 1, 2010, is as follows (Korean Won in thousands):

	Korean Won (In thousands)			
	December 31, 2011	December 31, 2010	January 1, 2010	
Debt	4,219,681,476	3,229,421,742	2,822,857,158	
Equity	3,216,698,138	2,903,806,928	2,520,592,975	
Debt ratio	131.18%	111.21%	111.99%	

(2) Financial risks

In the course of its business, the Group is exposed to a number of financial risks: market risk (including foreign currency,

equity price and interest rate), credit risk, liquidity risk and other risks. The purpose of managing financial risk is to identify the

potential risk factors that may affect the Group's financial performance and minimize it to the extent that is acceptable.

Risk management is carried out by relevant departments based on the risk management policies approved by the Board of

Directors, and the risk management department identifies, assesses and hedges financial risks through close cooperation with

other relevant departments.

1) Market risk management

a. Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate

fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign

exchange contracts. The carrying amounts of monetary assets and liabilities denominated in foreign currencies other

than the functional currency as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows

(Korean Won in thousands):

	Korean Won (In thousands)			
	December 31, 2011	December 31, 2010	January 1, 2010	January 1, 2010
	Assets		Liabilities	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
AUD	23,278,942	19,374,409	20,630,295	94,667
MAN	14,280,264	11,156,553	-	-
CAD	25,857,179	1,500,170	1,510,696	23,619,473
CHF	-	-	1,684,742	237,823
EUR	176,583,459	26,927,751	16,485,306	125,387,911
GBP	27,756,335	1,355,912	1,610,546	54,327,821
JPY	31,363,278	1,858,250	25,659,051	24,403,228
NZD	1,304,735	1,334,251	28,755,681	26,084,662
SEK	11,926,828	9,390,855	1,650,864	5,758
NOK	4,733,167	4,423,783	8,387,115	9,195,523
RUB	23,915,431	31,547,460	133,779	34,319
USD	734,529,885	56,657,935	961,933,041	-
			504,999,857	168,844,559

4) Credit risk

Credit risk refers to risk of financial losses to the Group when the counterpart defaults on the obligations of the contract.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Customers' credit is evaluated upon their financial status, sales figures in the past and other factors. The Group regularly monitors customers' credit ratings, checks on the counterparties' credit limit, and readjusts deposit or aggregate amount of transactions. Since the counterparties are banks which are rated "A" grade and above by independent rating agencies, credit risk arising from holding liquidity funds and derivatives is restricted.

Maximum exposure to credit risk as of December 31, 2011, is as follows (Korean Won in thousands):

	December 31, 2011	December 31, 2010	January 1, 2010
Loans and receivables	1,416,373,590	942,944,282	830,614,487
Other financial assets	22,409,677	19,773,033	14,413,430
Total	1,438,783,267	962,717,315	845,027,917

5) Liquidity risk

The Group establishes short- and long-term fund management plans. The Group then analyzes and reviews actual cash outflows and its budget to match the maturity profiles of financial assets and liabilities. Management believes that financial liability may be redeemed by cash flow arising from operating activities and financial assets.

a. Maturity analysis of non-derivative financial liabilities according to their remaining maturity as of December 31, 2011, is as follows (Korean Won in thousands):

	Within a year	1-5 years	After 5 years	Total
Interest-free:				
Trade payables	488,687,464	-	-	488,687,464
Accounts payable	308,187,479	-	-	308,187,479
Accrued expenses	97,007,992	-	-	97,007,992
Dividends payable	52,725	-	-	52,725
Rental deposits	10,863,564	-	-	10,863,564
Floating rate financial instrument:				
Short-term borrowings	1,035,154,092	-	-	1,035,154,092
Long-term borrowings	218,380,479	418,576,821	-	636,957,300
Fixed rate financial instrument:				
Short-term borrowings	941,274,970	-	-	941,274,970
Long-term borrowings	-	-	34,149,341	34,149,341
Debentures	150,000,000	-	-	150,000,000
Total	3,249,608,765	418,576,821	34,149,341	3,702,334,927

b. Maturity analysis of non-derivative financial assets according to their remaining maturity as of December 31, 2011, is as follows (Korean Won in thousands):

	Within a year	1-5 years	After 5 years	Total
Interest-free:				
Trade payables	1,092,430,940	-	-	1,092,430,940
Accounts payable	109,555,204	-	-	109,555,204
Accrued expenses	6,527,676	-	-	6,527,676
Deposits of acceptances and guarantees	2,169,419	-	-	2,169,419
Long-term financial instruments	-	-	132,030	132,030
Long-term trade receivables	-	-	599,233	599,233
Leasehold deposits provided	6,456,826	-	-	6,456,826
Fixed rate financial instrument:				
Cash and cash equivalents	635,195,528	-	-	635,195,528
Short-term financial assets	297,355,247	-	-	297,355,247
Financial assets at FVTPL	5,512,110	-	-	5,512,110
Short-term loans	9,931,601	-	-	9,931,601
Financial assets AFS	2,176,021	12,000,000	-	14,176,021
Long-term loans	-	3,851,831	-	3,851,831
Total	2,167,310,572	15,851,831	731,263	2,183,893,666

c. The table below analyzes the Group's derivative instruments into relevant maturity groupings based on the remaining period at the statements of financial position date to the contractual maturity date. The amount of the derivative instruments is based on undiscounted net cash inflows and outflows in accordance with the terms of the contract. In case the amounts to be received or paid are not settled, an interest rate estimated based on the yield curve at the end of the reporting period is used (Korean Won in thousands):

	Within a month	1-3 months	3-12 months	Total
Net Settlement:				
Currency forward contracts	-	(139,773)	(5,645,774)	(5,785,547)

(3) Estimation of fair value

The fair values of financial instruments (i.e., financial assets held for trading and financial assets AFS) traded on active markets are determined with reference to quoted market prices. The Group uses the closing price as the quoted market price for its financial assets. The fair values of financial instruments not traded on an active market (i.e., over-the-counter derivatives) are determined using a valuation technique. The Group uses various valuation techniques using assumptions based on current market conditions. The fair values of long-term liabilities and financial liabilities available for settlement are determined using prices from observable current market transactions and dealer quotes for similar instruments.

Where such prices are not available, a discounted cash flow analysis or other valuation technique is performed to measure their fair values. The fair values of trade receivable and trade payables are approximated as their carrying value less: impairment loss. The Group estimates the fair values of financial liabilities as the present value of future contractual cash flows discounted based on current market rates applied to similar financial instruments.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3, based on the degree to which the fair value is observable, as described below:

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

1) Financial instruments that are measured subsequent to initial recognition at fair value as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Korean Won in thousands):

Korean Won (In thousands)				
	December 31, 2011			Total
	Level 1	Level 2	Level 3	
Dealing securities:	5,512,110	-	-	5,512,110
Financial assets AFS:				
Marketable equity instruments	669,694	-	-	669,694
Nonmarketable equity instruments	-	-	1,506,327	1,506,327
Nonmarketable debt instruments	-	-	12,000,000	12,000,000
Derivative instruments ^(*) :	-	(5,785,547)	-	(5,785,547)
Total	6,181,804	(5,785,547)	13,506,327	13,902,584

Korean Won (In thousands)				
Financial assets AFS:	December 31, 2010			Total
	Level 1	Level 2	Level 3	
Marketable equity instruments	7,691,780	-	-	7,691,780
Nonmarketable equity instruments	-	-	2,459,898	2,459,898
Nonmarketable debt instruments	-	-	12,000,000	12,000,000
Derivative instruments^(*):	-	(292,080)	-	(292,080)
Total	7,691,780	(292,080)	14,459,898	21,859,598

Korean Won (In thousands)				
Financial assets AFS:	January 1, 2010			Total
	Level 1	Level 2	Level 3	
Marketable equity instruments	5,988,017	-	-	5,988,017
Nonmarketable equity instruments	-	-	2,469,899	2,469,899
Nonmarketable debt instruments	-	-	12,000,000	12,000,000
Derivative instruments^(*):	-	2,661,193	-	2,661,193
Total	5,988,017	2,661,193	14,469,899	23,119,109

(*) Negative amounts mean liabilities.

2) Changes in Level 3 financial assets for the years ended December 31, 2011 and 2010, are as follows (Korean Won in thousands):

Korean Won (In thousands)					
Financial assets	2011			2010	
	Beginning balance	Acquisition	Disposals	Transfer to Level 1	Ending balance
Financial assets AFS:					
Marketable equity instruments	12,000,000	-	-	-	12,000,000
Nonmarketable debt instruments	2,459,898	100,000	(1,059,571)	-	1,506,327
Financial assets					
Korean Won (In thousands)					
Financial assets AFS:	2010			2010	
	Beginning balance	Acquisition	Disposals	Transfer to Level 1	Ending balance
Marketable equity instruments	12,000,000	-	-	-	12,000,000
Nonmarketable debt instruments	2,469,898	-	(10,000)	-	2,459,898

39. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2011, certain portion of the Group and consolidated subsidiaries' land and buildings is pledged as collateral for borrowings as follows (Korean Won and U.S. dollar and CNY in thousands):

Pledged amounts		
Creditor	Pledged assets	Pledged amounts
The Korea Development Bank and others	Land, buildings, machinery and equipment	KRW 265,145,000
		USD 238,200
		CNY 285,917

(2) As of December 31, 2011, inventories and property, plant and equipment are insured against fire and other casualty losses up to approximately ₩ 8,903,146,263 thousand.

The Group 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 pledged as collateral for the Group's borrowings (The Korea Development Bank: ₩ 122,000,000 thousand and USD 110,000 thousand, Woori Bank: ₩ 143,145,000 thousand and USD 43,200 thousand). In addition, vehicles are insured against a general and liability insurance policy.

(3) Outstanding credit facilities agreement

Description	Financial institutions	Currencies	Credit amount of agreements (In thousands)
Purchase card agreements	Woori Bank and others	KRW	112,043,249
Bank overdraft agreements	Woori Bank and others	KRW	54,100,000
		EUR	185,000
		CNY	36,460
		HUF	10,000
		USD	10,000
Agreements to discount notes	Woori Bank and others	KRW	112,500,000
Agreements to discount trade receivable in foreign currencies ⁽²⁾	Woori Bank and others	USD	936,000
		CNY	331,893
		KRW	30,000,000
		EUR	60,000
Agreements on general purpose loan	Korea Exchange Bank and others	KRW	100,250,000
		EUR	273,350
		CNY	3,227,049
Agreements on short-term borrowings in foreign trade	Woori Bank and others	KRW	220,000,000
		CNY	1,356,084
Guarantees for the payment of imported goods	Woori Bank and others	USD	470,000
		CNY	815,945
Agreements to forward exchange contracts	Standard Chartered	EUR	65,336
	Bank Korea and others	USD	20,000
Total ⁽¹⁾		KRW	628,893,249
		USD	1,436,000
		EUR	583,686
		CNY	5,787,381
		HUF	10,000

⁽¹⁾ The Group's total outstanding line of credit from Korea Exchange Bank cannot exceed the credit limit amounting to ₩180,000 million.

⁽²⁾ As of December 31, 2011, the Group is provided guarantees by Korea Trade Insurance Corporation in regard to agreements to discount trade receivable in foreign currencies which was entered into with Deutsche Bank (USD 50,000 thousand), ING (USD 30,000 thousand) and RBS (EUR 35,000 thousand).

(4) As of December 31, 2011, the Group has purchase agreements on raw rubber materials with several suppliers, which are usually renewed annually. In addition, as of December 31, 2011, the Group has a long-term contract with EnFrontier Inc., one of its affiliated companies, to be provided with maintenance service for the Group's information system.

(5) The Group is named as a defendant in various legal actions arising from normal business matters, including product liability. As of December 31, 2011, the outcome of these matters is uncertain. The estimated loss of ₩ 9,226,400 thousand (USD 8,000 thousand) expected with respect to the litigations was provided as product liability allowance.

The Group 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.Ş. 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 was held on April 6, 2009. On July 2, 2009, the Istanbul 9th Commercial Court of First Instance judged that Turkey has no jurisdiction over the stated trial and the dispute should be resolved through the commercial arbitration of The Korean Commercial Arbitration Board in accordance with the contract signed between the Group and the plaintiff in 1991; the Court ruled the decision rejecting the plaintiff's claims. In response to this decision, BMC Sanayi ve Ticaret A.Ş. submitted an appeal, and on October 15, 2010, Turkey Civil Supreme Court has rejected the plaintiff's appeal and decided as original trial; the case in Turkey has come to a conclusion. As of December 31, 2011, the Group was involved as a defendant in the ₩ 6,180 million law suit filed at Seoul Central District Court with compensation for employee's invention by the formal researcher. In addition to this case, the Group has been charged with two cases which amount to ₩ 59 million and has filed two lawsuits which amount to ₩ 1,464 million. Meanwhile, the results of these matters are unpredictable.

(6) The bankruptcy of a subsidiary

On April 3, 2008, ASA Co., Ltd., which was a subsidiary of the Group, 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 decided on ASA Co., Ltd.'s bankruptcy. Accordingly, the Group could not exercise significant influence for ASA Co., Ltd. and the Group reclassified investment securities accounted for using the equity method to AFS securities. In 2009, ASA Co., Ltd. has completed the sale of its assets.

40. BUSINESS COMBINATION:

(1) Details of business combination for the year ended December 31, 2011, are as follows (Korean Won in thousands):

MK Technology Corp.	Primary business	Acquisition Ownership ratio	The consideration transferred
	Manufacture and sales of tires	50.01%	61,950,000

Korean Won (In thousands)

(2) Details of the goodwill for the year ended December 31, 2011, are as follows (Korean Won in thousands):

Korean Won (In thousands)	
MK Technology Corp.	
The consideration transferred	61,950,000
(-) The identifiable net assets at fair value Good will ⁽¹⁾	(83,470,126)
	28,479,872

⁽¹⁾ Since recognizing and measuring of assets and liabilities acquired are incomplete by the end of the reporting period, the goodwill is provisionally measured.

(3) Details of net cash outflows arising from business combination for the year ended December 31, 2011, are as follows
(Korean Won in thousands):

Korean Won (in thousands)	
	Cash flow
Transferring cash and cash equivalents	61,950,000
(-) Cash and cash equivalents acquired	(3,172,733)
Net cash outflows	58,777,267

41. TRANSITION TO K-IFRS:

(1) K-IFRS 1101, *First-time of adoption of IFRS – Optional exemptions*

K-IFRS 1101 provides for a number of optional exemptions from the general principle of full retrospective applications. The optional exemptions for first-time adoption of IFRSs of the Group are as follows:

- a. Business combination: Business combinations prior to the date of transition have not been restated.
- b. Deemed cost: The Group measured the fair value of land at the date of transition and used it as a deemed cost. Fair value assessment was performed by an independent assessor based on recent market transactions.
- c. Borrowing costs: Borrowing costs relating to all qualifying assets are capitalized when the commencement date for capitalization is on or after the date of transition.
- d. Financial assets, which are previously recognized are designated on initial recognition as AFS or a financial instruments (provided it meets certain criteria), are designated as financial assets or financial liabilities at FVTPL.

(2) Change in the scope of consolidation

Major differences between the accounting policies under the K-IFRS adopted by the Group and those under the previous GAAP are as follows:

1) Changes in consolidated subsidiaries as a result of the adoption of K-IFRS as of the date of transition are as follows:

	Detail	Company
Increase	In accordance with the previous Act on External Audit of Stock Companies, the respective subsidiaries were excluded from consolidation since their assets did not exceed ₩10,000 million. However, under K-IFRS, they are included in consolidation.	Hanyang Tire Sales Corp., Hankook Tire Europe GmbH
Decrease	In accordance with the previous Act on External Audit of Stock Companies, the largest shareholder that holds voting stocks exceed 30% (under 50%) includes owned companies in consolidation. However, under K-IFRS, they are not included in consolidation.	Atlas BX Co., Ltd., EnFrontier Inc.

2) Change in depreciation method

Depreciation method of some tangible assets is changed from diminishing method to straight-line method.

3) Employee benefits

Under the previous GAAP, the Group recognized accrued severance indemnities in the amount payable assuming all employees with more than one year service were to resign. Under K-IFRS, the Group recognizes defined benefit obligation based on actuarial methods of calculation.

4) Goodwill acquired in a business combination or a gain from a bargain purchase
Under the previous GAAP, the Group amortized or reversed goodwill acquired in a business combination or a gain from a bargain purchase on a straight-line basis over 20 years from the year of occurrence. Under K-IFRS, however, the Group neither amortizes nor reverses goodwill or a gain from a bargain purchase; the Group performs an impairment test for goodwill at least once a year and recognizes a gain from a bargain purchase in profit or loss at the date of acquisition. Negative goodwill under the previous GAAP is equal to a gain from a bargain purchase under K-IFRS, and the existing negative goodwill at the date of transition is adjusted to retained earnings.

5) Income tax

Under Korean GAAP, deferred tax assets and liabilities were classified as either current or non-current based on the classification of their underlying assets and liabilities. If there are no corresponding assets or liabilities, deferred tax assets and liabilities were classified based on the periods the temporary differences were expected to reverse. Under K-IFRS, deferred tax assets and liabilities are all classified as non-current on the statements of financial position.

6) Other reclassifications

a. Memberships and guarantee deposits
Under Korean GAAP, memberships and guarantee deposits were classified as other non-current assets. Under KIFRS, facility-use memberships are recognized as intangible assets with an indefinite useful life, and guarantee deposits that satisfy the definition of financial assets are classified as loans and receivables at amortized costs.

b. Investment property and intangible assets

Under Korean GAAP, properties acquired to earn rental income and/or for capital appreciation (including property under construction for such purposes) were classified as property, plant and equipment. Under K-IFRS, such properties are reclassified separately as investment properties and for property under construction with intangible asset-type items classified separately within the intangible assets.

(3) Transition effects on the Group's consolidated financial position, financial performance and cash flows

1) The Group's financial position effects of K-IFRS adoption at January 1, 2010, are as follows (Korean Won in thousands):

		Korean Won (In thousands)	
ASSET		K-GAAP	K-IFRS
CURRENT ASSET :			
Cash and Cash equivalents (Note 11)		516,663,210	462,556,638
Short-term investment assets (Note 11)		41,099,989	21,280,698
Trade and other accounts receivable (Notes 1, 11)		771,712,038	830,614,487
Inventories (Note 11)		895,305,351	863,306,020
Other financial assets (Note 11)		2,944,507	5,315,444
Deferred tax assets (Note 2)		10,448,470	-
Other current assets (Notes 1, 11)		129,987,605	28,703,028
		2,368,151,170	2,211,578,315
NON-CURRENT ASSET :			
Long-term financial assets (Note 11)		51,292	40,293
AFS financial assets (Note 11)		11,032,786	9,475,940
HTM financial assets (Notes 5, 11)		18,000,000	(18,000,000)
Trade and other accounts receivable (Note 11)		18,273,521	(18,273,521)
Investment securities accounted for using the equity method (Note 4)		3,474,410	(3,474,410)
Investments in associates (Note 4)		-	53,857,746
Property, plant and equipment (Notes 6, 7 and 11)		2,426,193,331	503,667,194
Investment property (Note 7)		-	66,588,248
Intangible assets (Notes 3, 11)		23,858,100	4,730,867
Other financial assets		-	9,097,986
Other non-current assets (Notes 3, 11)		650,018	407,201
Deferred tax assets (Notes 2, 11)		133,245,831	(110,973,823)
		2,634,779,389	497,092,429
TOTAL ASSETS		5,002,930,559	5,343,450,133
LIABILITIES		K-GAAP	K-IFRS
CURRENT LIABILITIES:			
Trade and other accounts payable (Note 11)		656,060,991	(83,929,314)
Current tax liabilities (Note 11)		83,492,351	(6,160,818)
Other financial liabilities		283,314	-
Short-term borrowings and current portions of long-term financial liabilities (Notes 1, 11)		1,259,827,984	49,753,199
Other current liabilities (Note 11)		186,442,648	(5,167,507)
		2,186,107,188	(45,504,440)
NON-CURRENT LIABILITIES:			
Long-term borrowings and corporate bond (Note 11)		588,515,487	542,540
Defined benefit obligation (Notes 8, 11)		50,986,188	(29,471,217)
Other financial liabilities		14,615,345	-
Other provisions (Notes 9, 11)		49,199,115	7,866,952
		703,316,135	(21,061,725)
TOTAL LIABILITIES		2,889,423,323	2,822,857,158

		Korean Won (In thousands)	
SHAREHOLDERS' EQUITY		K-GAAP	K-IFRS
Capital stock		76,094,965	-
Other paid-in capital (Note 10)		513,664,324	(407,397,911)
Other equity (Note 11)		170,444,760	3,895,521
Retained earnings (Notes 10, 11 and 12)		1,239,637,210	918,173,460
Non-controlling interest (Note 11)		113,665,977	(113,585,331)
TOTAL SHAREHOLDERS' EQUITY		2,113,507,236	407,085,739
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		K-GAAP	K-IFRS
		5,002,930,559	5,343,450,133

Notes:

- (*)1 Adjustment of transactions that do not satisfy derecognition criteria for financial assets.
 (*)2 Reclassification and adjustment of deferred tax caused by IFRS Conversion.
 (*)3 Reclassification of memberships and guarantee deposits to intangible assets.
 (*)4 Reclassification of investment securities accounted for using the equity method to investments in subsidiary or investments in associates.
 (*)5 Reclassification of HTM financial assets which have no active market to AFS financial assets.
 (*)6 Change of depreciation method of some tangible assets from diminishing method to straight-line method.
 (*)7 Reclassification of properties used for rental to investment properties.
 (*)8 Recognition of defined benefit obligation based on actuarial assumptions.
 (*)9 Recognition of long-term debts for employees based on actuarial assumptions.
 (*)10 Use of deemed cost for property, plant and equipment.
 (*)11 Change of assessment method of investments in subsidiary and investments in associates from equity method to cost method.
 (*)12 Details of adjustment of retained earnings caused by transition to K-IFRS are as follows (Korean Won in thousands):

		Korean Won (In thousands)	
		K-GAAP	K-IFRS
Reclassification of gain from other paid-in capital to retained earnings of the Parent Company			(3,214,906)
Effect of actuarial valuation of employee benefits of the Parent Company			20,208,041
Deferred tax effect of gain from property revaluation of the Parent Company			(13,183,985)
Reclassification of gain from property revaluation to retained earnings of the Parent Company			456,473,224
Recognition of discounting trade receivables transaction as collateral borrowing transaction of the Parent Company			1,781,936
Long-term employee benefits of the Parent Company			(6,609,060)
Change of depreciation method of the Parent Company			166,453,264
Conversion effect of retained earnings of the associates			(328,576)
Conversion effect of retained earnings of the subsidiaries			360,400
Change of depreciation method of the subsidiaries			265,646,086
Change in the scope of consolidation			(140,454)
Change in equity of the subsidiaries			9,793,593
Adjustment of deferred income tax in consolidation			21,933,897
Total			918,173,460

2) The Group's financial position effects of K-IFRS adoption at December 31, 2010, are as follows (Korean Won in thousands):

Korean Won (In thousands)			
ASSETS	K-GAAP	Adjustment	K-IFRS
CURRENT ASSETS:			
Cash and Cash equivalents (Note 11)	603,280,137	(97,902,778)	505,387,359
Short-term investment assets (Note 11)	422,446,954	(15,618,108)	406,828,746
Trade and other accounts receivable (Notes 1, 11)	841,444,409	101,499,874	942,944,283
Deferred tax assets (Note 2)	8,316,693	(8,316,693)	-
Other financial assets (Note 11)	22,877	10,329,237	10,352,114
Other current assets (Notes 1, 11)	139,167,931	(101,263,106)	37,904,825
Inventories (Note 11)	978,303,701	(39,525,101)	938,780,600
	2,992,992,602	(150,794,675)	2,842,197,927
NON-CURRENT ASSETS:			
Long-term financial assets (Note 11)	49,216	(33,716)	15,500
AFS financial assets (Note 11)	12,746,422	9,405,256	22,151,678
HTM financial assets (Notes 5, 11)	18,000,000	(18,000,000)	-
Trade and other accounts receivable (Note 11)	18,011,560	(18,011,560)	-
Investment securities accounted for using the equity method (Note 4)	4,619,314	(4,619,314)	-
Investments in associates (Note 4)	-	70,406,711	70,406,711
Property, plant and equipment (Notes 6, 7 and 11)	2,555,096,289	511,151,418	3,066,247,707
Investment property (Note 7)	-	66,298,873	66,298,873
Intangible assets (Notes 3, 11)	33,241,816	4,738,126	37,979,942
Deferred tax assets (Notes 2, 11)	122,827,784	(105,407,682)	17,420,102
Other financial assets	-	9,420,919	9,420,919
Other non-current assets (Notes 3, 11)	650,018	439,293	1,089,311
	2,765,242,419	525,788,324	3,291,030,743
TOTAL ASSETS	5,758,235,021	374,993,649	6,133,228,670
Korean Won (In thousands)			
LIABILITIES	K-GAAP	Adjustment	K-IFRS
CURRENT LIABILITIES:			
Trade and other accounts payable (Note 11)	839,235,884	(57,743,201)	781,492,683
Current tax liabilities (Note 11)	69,805,719	(12,676,341)	57,129,378
Other financial liabilities	314,957	-	314,957
Short-term borrowings and current portions of long-term financial liabilities (Notes 1, 11)	1,582,627,976	62,347,506	1,644,975,482
Other current liabilities (Note 11)	217,860,405	16,362,065	234,222,470
	2,709,844,941	8,290,029	2,718,134,970
NON-CURRENT LIABILITIES:			
Long-term borrowings and corporate bond (Note 11)	403,546,811	20,801	403,567,612
Defined benefit obligation (Notes 8, 11)	52,573,433	(16,328,867)	36,244,566
Other financial liabilities	11,711,871	(139,708)	11,572,163
Other provisions (Notes 9, 11)	50,058,943	9,721,116	59,780,059
Other non-current liabilities (Note 11)	-	122,372	122,372
	517,891,058	(6,604,286)	511,286,772
TOTAL LIABILITIES	3,227,735,999	1,885,743	3,229,421,742

Korean Won (In thousands)			
SHAREHOLDERS' EQUITY	K-GAAP	Adjustment	K-IFRS
Capital stock	76,094,965	-	76,094,965
Other paid-in capital (Note 10)	514,619,682	(402,353,269)	112,266,413
Other equity (Note 11)	153,512,865	5,905,920	159,418,785
Retained earnings (Notes 10, 11 and 12)	1,636,127,750	919,948,061	2,556,075,831
Non-controlling interest (Note 11)	150,143,760	(150,192,826)	(49,066)
TOTAL SHAREHOLDERS' EQUITY	2,530,499,022	373,307,906	2,903,806,928
Korean Won (In thousands)			
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	K-GAAP	Adjustment	K-IFRS
	5,758,235,021	374,993,649	6,133,228,670
Notes:			
(*1) Adjustment of transactions that do not satisfy derecognition criteria for financial assets.			
(*2) Reclassification and adjustment of deferred tax caused by IFRS Conversion.			
(*3) Reclassification of memberships and guarantee deposits to intangible assets.			
(*4) Reclassification of investment securities accounted for using the equity method to investments in subsidiary or investments in associates.			
(*5) Reclassification of HTM financial assets which have no active market to available-for-sale financial assets.			
(*6) Change of depreciation method of some tangible assets from diminishing method to straight-line method.			
(*7) Reclassification of properties used for rental to investment properties.			
(*8) Recognition of defined benefit obligation based on actuarial assumptions.			
(*9) Recognition of long-term debts for employees based on actuarial assumptions.			
(*10) Use of deemed cost for property, plant and equipment.			
(*11) Change of assessment method of investments in subsidiary and investments in associates from equity method to cost method.			
(*12) Details of adjustment of retained earning caused by transition to K-IFRS are as follows (Korean won in thousands):			
Korean Won (In thousands)			
			K-IFRS
Reclassification of gain from other paid-in capital to retained earnings of the Parent Company			(3,214,906)
Effect of actuarial valuation of employee benefits of the Parent Company			8,887,854
Deferred tax effect of gain from property revaluation of the Parent Company			(13,183,985)
Reclassification of gain from property revaluation to retained earnings of the Parent Company			456,473,224
Recognition of discounting trade receivables transaction as collateral borrowing transaction of the Parent Company			1,787,794
Long-term employee benefits of the Parent Company			(7,587,144)
Adjustment of effect of capitalized borrowing costs of the Parent Company			(343,072)
Change of depreciation method of the Parent Company			166,792,703
Conversion effect of retained earnings of the associates			(875,370)
Conversion effect of retained earnings of the subsidiaries			342,812
Change of depreciation method of the subsidiaries			276,726,955
Change in the scope of consolidation			935,572
Adjustment of deferred income tax of consolidation			29,205,644
Total			919,948,081

3) The Group's comprehensive income effects on K-IFRS adoption for the year ended December 31, 2010, are as follows
(Korean won in thousands):

	Korean Won (In thousands)		
	K-GAAP	Adjustment	K-IFRS
Sales (Note 6)	5,813,381,648	(383,312,719)	5,420,068,929
Cost of sales (Notes 1, 2 and 6)	(4,104,077,158)	311,985,379	(3,792,091,779)
Gross profit	1,709,304,490	(81,327,340)	1,627,977,050
Selling expenses (Note 6)	(502,369,679)	(27,783,934)	(530,153,613)
Administrative expenses (Notes 1, 2 and 6)	(435,713,790)	58,320,362	(377,393,428)
Research and development expenses (Note 6)	(100,975,008)	551,699	(100,423,309)
Other gains and losses (Notes 3, 6)	-	(12,232,310)	(12,232,310)
Other operating income (Notes 3, 6)	-	24,160,377	24,160,377
Other operating expense (Notes 3, 6)	-	(8,352,332)	(8,352,332)
Operating income	670,245,913	(46,663,478)	623,582,435
Non-operating income (Notes 3, 4)	251,352,857	(251,352,857)	-
Non-operating expenses (Notes 3, 4)	(274,616,969)	274,616,969	-
Financial income	-	77,067,101	77,067,101
Financial expense	-	(107,421,878)	(107,421,878)
Gains on sale of investments in associates	-	18,683,894	18,683,894
Income before income tax	646,981,801	(35,070,249)	611,911,552
Income tax expense (Notes 5, 6)	(169,501,567)	20,377,975	(149,123,592)
Net income	477,480,234	(14,692,274)	462,787,960
Other comprehensive income (loss)	(6,521,319)	(22,236,214)	(28,757,533)
COMPREHENSIVE INCOME	470,958,915	(36,928,488)	434,030,427

Notes:

- (1) Recognition of defined benefit obligation and long-term employee benefits based on actuarial assumptions
- (2) Change of depreciation method of some tangible assets from diminishing method to straight-line method
- (3) Reclassification of operating income and expenses
- (4) Cancellation of effect of equity method
- (5) Reclassification and adjustment of deferred tax caused by IFRS Conversion
- (6) Adjustments from changes in consolidated subsidiaries as a result of the adoption of K-IFRS

4) Cash flow adjustment for 2010
In accordance with K-IFRS, in order to separately present interest received, interest paid, dividend income and income tax paid, which were not separately presented under the previous GAAP, in the statements of cash flows, the cash flows from relevant income (expense) and relevant assets (liabilities) have been adjusted. There are no other significant differences between the statements of cash flows under K-IFRS and that under the previous GAAP.

42. SUBSEQUENT EVENTS:

(1) The Group has provided guarantees with respect to financing for its overseas subsidiary by the resolution of the board of directors and the resolution of the management committee. Details are as follows (Euro and US dollar in thousands):

	Banks	Borrowing	Guarantees	Period of guarantee
Hankook Tire Hungary Ltd.	Unicredit Bank Hungary Zrt. ING Bank N.V., Seoul Branch	EUR 50,000 EUR 60,000	EUR 50,000 EUR 60,000	2012.01.11~2013.12.15 Until 3 years from date of withdrawal
PT. Hankook Tire Indonesia	Mizuho Corporate Bank, Ltd. Seoul Branch	USD 80,000	USD 80,000	Until 60 months from date of contract
Jiangsu Hankook Tire Co., Ltd.	Korea Exchange Bank Shanghai Branch	USD 10,000	USD 10,000	Until date of full repayment
Hankook Tire China Co., Ltd.	Standard Chartered Bank (China) Limited	USD 20,000	USD 20,000	2012.02.01~2013.01.31
Hankook Tire Europe GmbH	Deutsche Bank AG Frankfurt Branch	EUR 15,000	EUR 15,000	2012.02.14~2013.02.14

(2) The Group made an investment for capital increase of Indonesian branch by the resolution of the management on January 13, 2012. Details are as follows (US dollar in thousands):

Destination	Capital increase amount	Shareholder's equity after capital increase	Ownership ratio
PT. Hankook Tire Indonesia	USD 35,000	USD 105,000	99.99%

(3) The Group issued the 8th unsecured debentures by the resolution of the management on February 3, 2012. Details are as follows (Korean Won in thousands):

Destination	Face value	Issue price	Annual interest rates	Maturity dates
The 811th-1 debenture payable	80,000,000	80,000,000	3-years Korean treasury bond yield+0.37%	2015.02.21
The 811th-2 debenture payable	70,000,000	70,000,000	5-years Korean treasury bond yield+0.46%	2017.02.21
Total	150,000,000	150,000,000		

Korean Won (In thousands)

Corporate Governance

1. ISSUES REGARDING THE HANKOOK TIRE BOD. OTHER INTERNAL ORGANIZATIONS AND SUBSIDIARIES

1. A Matter to Board of Directors

| 1 | Board of Directors

A. Composition

The Board of Directors is comprised of 6 directors including 3 regular directors and 3 NEDs. The Board of Directors operates 3 committees: Audit, NED Recommendation and Management. Outside Director Chang, Sun Kon passed away on April 10, 2011, leaving a vacancy on the Board. A new outside director was selected at the next General Shareholders' Meeting in accordance with Article 542, Paragraph 8-3 of the Commercial Act.

B. Key activities of the Board of Directors

No.	Date	Agenda	Result	Note
11-The 1st regular BOD meeting	Jan. 14, 2011	FY2010 year-end non-consolidated financial reporting	Approved	-
		FY2010 year-end financial statement reporting (consolidated)	Approved	-
		Reporting on HR & organization in 2011	Approved	-
		Report on mid-to long-term companywide extension	Approved	-
11-The 1st ad-hoc BOD meeting	Jan. 28, 2011	Guarantee for US\$ 50,000,000 loan by Hankook Tire China Co., Ltd.	Approved	-
		Approval of financial statements and operation report for 57th term	Approved	-
11-The 2nd ad-hoc BOD meeting	Feb. 25, 2011	Approval of financial statements for 57th term	Approved	-
		Revision of executive management regulations	Approved	-
		Approval of transactions among affiliated persons	Approved	-
		FY2010 H2 internal accounting management system operation	Approved	-
		Convocation of 57th annual shareholder's meeting	Approved	-
		Recommendation of candidates for Audit Committee	Approved	-
11-The 3rd ad-hoc BOD meeting	Mar. 9, 2011	Payment guarantee for loan by Hankook Tire Hungary Ltd.	Approved	-
11-The 4th ad-hoc BOD meeting	Mar. 17, 2011	Relocation of Main R&D Center	Approved	-
11-The 2nd regular BOD meeting	Apr. 20, 2011	Revision of BOD operation regulations	Approved	-
		Revision of NED Recommendation Committee regulations	Approved	-
		FY2011 Q1 financial reporting (non-consolidated)	Approved	-
		FY2011 Q1 financial statement reporting (consolidated)	Approved	-
11-The 5th ad-hoc BOD meeting	Apr. 22, 2011	Payment guarantee for loan by Hankook Tire Hungary Ltd.	Approved	-
11-The 6th ad-hoc BOD meeting	May 20, 2011	Guarantee for EUR 70,000,000 loan by Hankook Tire Hungary Ltd.	Approved	-
11-The 7th ad-hoc BOD meeting	Jun. 30, 2011	Payment guarantee for loan by Hankook Tire Hungary Ltd.	Approved	-
11-The 8th ad-hoc BOD meeting	Jul. 26, 2011	Commissioning an executive advisor	Approved	-
11-The 3rd regular BOD meeting	Jul. 26, 2011	FY2011 H1 financial reporting (non-consolidated)	Approved	-
		FY2011 H1 financial statement reporting (consolidated)	Approved	-
		FY2011 Q2 business audit reporting	Approved	-
11-The 9th ad-hoc BOD meeting	Aug. 29, 2011	Payment guarantee for loan by Hankook Tire Hungary Ltd.	Approved	-
11-The 4th regular BOD meeting	Oct. 17, 2011	FY2011 Q3 financial reporting (non-consolidated)	Approved	-
		FY2011 Q3 financial statement reporting (consolidated)	Approved	-
		FY2011 Q3 business audit reporting	Approved	-
11-The 10th ad-hoc BOD meeting	Dec. 5, 2011	Payment guarantee for loan by Hankook Tire Hungary Ltd.	Approved	-

(Continued)

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

No.	Date	No. of NEDs attending the meeting	Note
11-The 1st regular BOD meeting	Jan. 14, 2011	3 (4)	-
11-The 1st ad-hoc BOD meeting	Jan. 28, 2011	3 (4)	-
11-The 2nd ad-hoc BOD meeting	Feb. 25, 2011	4 (4)	-
11-The 3rd ad-hoc BOD meeting	Mar. 9, 2011	3 (4)	-
11-The 4th ad-hoc BOD meeting	Mar. 17, 2011	4 (4)	-
11-The 2nd regular BOD meeting	Apr. 20, 2011	2 (3)	-
11-The 5th ad-hoc BOD meeting	Apr. 22, 2011	2 (3)	-
11-The 6th ad-hoc BOD meeting	May 20, 2011	2 (3)	-
11-The 7th ad-hoc BOD meeting	Jun. 30, 2011	2 (3)	-
11-The 8th ad-hoc BOD meeting	Jul. 26, 2011	3 (3)	-
11-The 3rd regular BOD meeting	Jul. 26, 2011	3 (3)	-
11-The 8th ad-hoc BOD meeting	Aug. 29, 2011	2 (3)	-
11-The 4th regular BOD meeting	Oct. 17, 2011	3 (3)	-
11-The 10th ad-hoc BOD meeting	Dec. 5, 2011	2 (3)	-
11-The 11th ad-hoc BOD meeting	Dec. 28, 2011	3 (3)	-
12-The 1st ad-hoc BOD meeting	Jan. 11, 2012	2 (3)	-
12-The 1st regular BOD meeting	Jan. 13, 2012	2 (3)	-
12-The 2nd ad-hoc BOD meeting	Jan. 31, 2012	2 (3)	-
12-The 3rd ad-hoc BOD meeting	Feb. 3, 2012	2 (3)	-
12-The 4th ad-hoc BOD meeting	Feb. 14, 2012	3 (3)	-
12-The 5th ad-hoc BOD meeting	Mar. 2, 2012	3 (3)	-

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

12 | Committees under the Board of Directors

A. Composition of committees under the Board of Directors (Dec. 31, 2011)

The Board of Directors operates 3 committees: Audit, NED Recommendation and Management.

1) Audit committee: please refer to "2. Matters related to the audit system" below:

2) NED Recommendation committee

Committee Name	Members	Name	Objective and authority	Note
NED Recommendation	Currently the Executive Director of Hankook Tire	Suh, Seung Hwa Cho, Hyun Shick	Recommend candidates of NEDs	-
	Currently an NED of Hankook Tire	Hwang, Won Oh Min, Hae Yung Lee, Yong Sung		

3) Management Committee

Committee Name	Members	Name	Objective and authority	Note
Management	Registered director of Hankook Tire	Suh, Seung Hwa Cho, Hyun Shick Cho, Yang Pal	Deliberation and resolutions on general management Deliberation and resolutions on finance, etc.	-

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

B. Activities of Committees under the Board of Directors

1) Audit Committee: Please refer to "2. Matters related to the audit system" below.

2) NED Recommendation committee

Committee Name	Date of meeting	Agenda	Approved	Name of NEDs
NED Recommendation	Feb. 25, 2011	NED candidate recommended	Yes	Min, Hae Yung (Attendance Rate 100%) Agreed or disagreed
				Lee, Yong Sung (Attendance Rate 0%) Agreed

Note) Lee, Yong Sung and Hwang, Won Oh were not recorded as having attended the meeting of the NED Recommendation Committee on February 25, 2011,

as the agenda was to nominate these two persons to serve as outside directors.

Note) This represents the 56th fiscal year (Jan. 1, 2011 – Dec. 31, 2011).

3) Management committee

Committee Name	Date of meeting	Agenda	Result	Note
Management	Jan. 14, 2011	Loan guarantee for daycare center at R&D center	Approved	-
		Increase of credit limit	Approved	-
	Jan. 18, 2011	Financing for establishment of Indonesia plant	Approved	-
		Establishment of directly run T'Station outlets	Approved	-
	Jan. 24, 2011	Payment guarantee for Jiaxing plant's borrowings	Approved	-

(Continued)

Committee Name	Date of meeting	Agenda	Result	Note
	Jan. 27, 2011	Increase of credit limit	Approved	-
		Payment guarantee for Hankook Tire Hungary Ltd. by head office	Approved	-
	Feb. 14, 2011	Payment guarantee for Hankook Tire Europe GmbH by head office	Approved	-
	Feb. 16, 2011	Increase of credit limit	Approved	-
	Mar. 11, 2011	Increase of credit limit	Approved	-
		Extension of head office-branch financing contract for short-term export insurance from Korea Trade Insurance	Approved	-
		Increase of credit limit	Approved	-
	Mar. 18, 2011	Decision to dispose of some equity in emFrontier Inc.	Approved	-
	Mar. 25, 2011	Open direct-run outlets of the Tire Shop	Approved	-
		Payment guarantee for Jiaxing plant's borrowings	Approved	-
	Apr. 20, 2011	Extension of credit limits at Hana Bank	Approved	-
	Apr. 29, 2011	Extension of credit limits at RBS Bank	Approved	-
		Extension of credit limits at Shinhan Bank	Approved	-
		Revision of items in the credit agreement with KB Kookmin Bank	Approved	-
	May 13, 2011	Relocation of Gunsan Branch	Approved	-
		Extension of credit limits at Nonghyup	Approved	-
	May 20, 2011	Capital increase for Indonesia plant	Approved	-
		Payment guarantee for Jiaxing plant's borrowings	Approved	-
	May 31, 2011	Extension of credit limits at Standard Chartered Bank	Approved	-
	Jun. 7, 2011	Extension of credit limits at Woori Bank	Approved	-
	Jun. 24, 2011	Payment guarantee for Jiaxing plant's borrowings	Approved	-
		Capital increase for production subsidiary	Approved	-
		Capital increase for Indonesia plant	Approved	-
	Jun. 30, 2011	Extension of credit limits at Deutsche Bank	Approved	-
	Jul. 8, 2011	Provision of a locally-financed loan to Jiaxing plant	Approved	-
		Provision of a locally-financed loan to Jiaxing plant	Approved	-
	Jul. 14, 2011	Establishment of a new RB subsidiary to acquire MK Technology	Approved	-
	Jul. 26, 2011	Extension of credit limits at Korea Exchange Bank	Approved	-
	Jul. 28, 2011	Approval and execution of obligations regarding contract finalization for project to acquire issued stock of MK Technology	Approved	-
	Aug. 1, 2011	Recording of new borrowings from Shinhan Bank	Approved	-
		Change of credit limit at Korea Exchange Bank	Approved	-
	Aug. 4, 2011	Change of credit limit at Woori Bank	Approved	-
	Aug. 16, 2011	Approval of Subordination Agreement related to Hankook tire Italia S.R.L.'s borrowings	Approved	-
		Approval of Subordination Agreement related to Hankook tire U.K Ltd.'s borrowings	Approved	-
	Sept. 2, 2011	Capital increase for Chongqing plant	Approved	-
		Capital increase for Indonesia plant	Approved	-
		Relocat Ulsan branch	Approved	-
	Sept. 14, 2011	Revision of loan conditions from Hana Bank	Approved	-
	Sept. 21, 2011	Payment guarantee for Jiaxing plant's borrowings	Approved	-
	Sept. 26, 2011	Reestablishment of T'Station Junggu Branch in Daejeon as directly-run store	Approved	-
	Oct. 17, 2011	Extension of credit limits	Approved	-
	Oct. 24, 2011	Capital increase for Chongqing plant	Approved	-
	Oct. 25, 2011	Establishment of payment guarantee for PT. Hankook Tire Indonesia's borrowings	Approved	-
		Payment guarantee for Jiaxing plant's borrowings	Approved	-
	Nov. 7, 2011	Payment guarantees for Jiaxing and Jiaxing plants' Borrowings	Approved	-

Committee Name	Date of meeting	Agenda	Result	Note
	Nov. 8, 2011	Capital increase for Chongqing plant	Approved	-
	Nov. 22, 2011	Payment guarantee for Jiaxing plant's borrowings	Approved	-
		Capital increase for Chongqing plant	Approved	-
	Nov. 29, 2011	Payment guarantee for Hankook Tire Italia S.R.L. by head office	Approved	-
	Dec. 1, 2011	Establish directly-run T-Station outlets	Approved	-
		Establishment of payment guarantee for US\$ 50,000,000 loan to Chongqing Hankook Tire Co., Ltd.	Approved	-
	Dec. 28, 2011	Extension of credit limits	Approved	-
		Relocat Seoul branch and Ky ngin district branch	Approved	-
	Jan. 11, 2012	Payment guarantee for Jiaxing plant's borrowings	Approved	-
	Jan. 13, 2012	Capital increase for Indonesia plant	Approved	-
	Jan. 30, 2012	Payment guarantee for Jiaxing plant's borrowings	Approved	-
	Feb. 13, 2012	Establishment of payment guarantee for borrowings by Europe HQ CMS	Approved	-
	Feb. 21, 2012	New credit deal	Approved	-
	Feb. 27, 2012	Establish directly-run T-Station outlets	Approved	-

| 3 | Independence of Board Directors

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

1) On February 25, 2011, 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
Hwang, Won Oh	Jan. 11, 1939	Yes	None	NED Recommendation Committee
Lee, Yong Sung	Jan. 10, 1938	Yes	None	NED Recommendation Committee
Total (2) person				

Name of candidate	Major occupation (Current)	Profile	Transactions with Hankook Tire for the past three years
Hwang, Won Oh	NED of Hankook Tire	1960 Graduated from Seoul National University in Economics 1990 Head of the National Tax Tribunal under the Ministry of Finance 1992 President of Korea Mining and Security Printing Corp. (KOMSCO) Currently NED of Hankook Tire	None
Lee, Yong Sung	NED of Hankook Tire	1960 Graduated from Seoul National University in Economics 1991 President of IBK 1993 Bank superintendent Currently NED of Hankook Tire	None

2) On March 2, 2012, 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
Min, Hae Yung	Oct. 29, 1937	Yes	None	NED Recommendation Committee
Cho, Gaun Ho	Jun. 2, 1944	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	Transactions with Hankook Tire for the past three years
Min, Hae Yung	NED of Hankook Tire	1960 Graduated from Seoul National University in Economics 1980 Chief of Customs Bureau, Ministry of Finance 1988 Chairman of the Credit Finance Association Currently NED of Hankook Tire	None
Cho, Gaun Ho	NED of Hankook Tire	1966 Bachelor's degree in Law from Seoul National University 1997 Head of the Prime Minister's Secretariat 1999 Vice Minister of Science and Technology Currently the Federation of the Korean Industries Advisor	None

B. NED Candidate Recommendation Committee

As of the end of the fiscal year, the NED Candidate Recommendation Committee is composed of three outside directors is three, for a majority.

Name	NED	Note
Suh, Seung Hwa	No	Chair
Cho, Hyun Shick	No	-
Min, Hae Yung	Yes	-
Lee, Yong Sung	Yes	-
Hwang, Won Oh	Yes	-

C. Profile of Executive Directors

Name	Profile	Relationship with major shareholder	Recommended by	Transaction with Hankook Tire	Note
Cho, Yang Rai	1956 Graduated from Gyeonggi High school	Major shareholder	BOD	None	Hankook Tire Chairman
	1962 Graduated from Univ. of Alabama				
	1969 Executive Director of Hankook Tire				
	1979 President & CEO of Hankook Tire				
Suh, Seung Hwa	1980 Chairman of Hankook Tire	None	BOD	None	Hankook Tire Vice Chairman & CEO
	1967 Graduated from Bosing High school				
	1971 Graduated from Department of Political Science & Diplomacy of HUIFS				
	2006 Executive vice president of Europe RHQ				
Cho, Hyun Shick	1995 Graduated from Syracuse Univ. in Economics	Related to the major shareholder	BOD	None	Hankook Tire President
	1997 Joined Hankook Tire				
	2002 Promoted to Managing Dir.				
	2004 Promoted to Vice President				

2. MATTERS RELATED TO THE AUDIT SYSTEM

1 Audit Committee

A. Composition of Audit Committee

Hankook Tire establishes separately Audit Committee. Audit Committee is comprised of three directors, all NEDs.

B. 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

a. Audit Committee members shall be appointed by the resolution of a general shareholders' meeting.

b. The Committee shall be comprised of at least three members of the Board.

c. 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.

d. 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

a. Audit Committee shall carry out audits on accounting and business operation of the Company.

b. 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.

c. 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

a. 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

a. 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.

b. The Chairperson generally manages operation of the Audit Committee and may divide duties among members for efficient operation of the Committee.

c. 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

a. Meetings of the Committee shall be comprised of ordinary and extraordinary meetings.

b. 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.

c. An extraordinary meeting may be held from time to time when necessary.

6) Convocation authority

- a. Audit Committee meeting shall be convened by the Chairperson.
- b. 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

- a. Audit Committee meeting schedule shall be notified to each member at least a week before the meeting.
- b. 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:

- a. Matters related to general shareholders' meetings
- b. Matters related to directors and the Board of Directors
- c. Matters related to auditors

9) Minutes

- a. The Audit Committee shall keep meeting minutes regarding decisions made by the Committee.
- b. 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.

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	Relationship with Major shareholder	Recommended by	Note
Hwang, Won Oh	1960 Graduated from Department of Economics of Seoul National University 1981 Completed tax courses in the Southern California Graduate School of in 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 Mining 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	None	NED	Recommendation Committee
Min, Hae Yung	1960 Graduated from Department of Economics of Seoul National University 1985-1988 Vice-minister of Political Affairs 1 1989-1995 Chief director of Korea Technology Credit Guarantee Fund 1998-2000 Chairman of the Credit Finance Association	None	NED	Recommendation Committee
Lee, Yung Sung	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 NEW of Hyundai Research Institute	None	NED	Recommendation Committee

D. Key activities of the Audit Committee (Auditors)

Meeting	Date	Agenda	Result	Name of NEDs	Attendance rate (%)	Attendance rate (%)
11-1st regular meeting	Jan. 14, 2011	· FY2010 year-end non-consolidated financial reporting · FY2010 year-end financial reporting (consolidated) · FY2010 Q4 audit report reporting · FY2010 Q4 audit report reporting	Approved	Min, Hae Yung Lee, Yung Sung Hwang, Won Oh	Attendance rate 100%	Attendance rate 80%
11-1st ad-hoc meeting	Feb. 25, 2011	· Approval of financial statements for 57th term	Approved	Yes	Yes	Yes
11-2nd ad-hoc meeting	Mar. 25, 2011	· Selection of Audit Committee chairman	Approved	Yes	Yes	Yes
11-2nd regular meeting	Apr. 20, 2011	· FY2011 Q1 non-consolidated financial reporting · FY2011 Q1 financial reporting (consolidated) · FY2011 Q1 audit report	Approved	Yes	Yes	-
11-3rd regular meeting	Jul. 26, 2011	· FY2011 H1 non-consolidated financial reporting · FY2011 H1 financial reporting (consolidated) · FY2011 Q2 audit report	Approved	Yes	Yes	Yes
11-4th regular meeting	Oct. 17, 2011	· FY2011 Q3 non-consolidated financial reporting · FY2011 Q3 financial reporting (consolidated)	Approved	Yes	Yes	Yes

Meeting	Date	Agenda	Result	Name of NEDs (Attendance rate 100%)	Name of NEDs (Attendance rate 100%)
11-4th regular meeting	Oct. 17, 2011	- FY2011 Q3 audit report	Approved	Min, Hae Yung	Hwang, Won Oh
12-1st regular meeting	Jan. 12, 2012	- FY2011 year-end financial reporting (consolidated)	Approved	Yes	Yes
		- FY2011 year-end non-consolidated financial reporting	Approved	Yes	Yes
12-1st ad-hoc meeting	Mar. 2, 2012	- FY2011 Q4 audit report	Approved	Yes	Yes
		- Approval of financial statements for 59th term	Approved	Yes	Yes

3. MATTERS RELATED TO SHAREHOLDERS' EXERCISING VOTING RIGHTS

A. Accumulative voting

Not adopted

B. 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.

C. Key activities of the Audit Committee (auditors)

N/A

4. MATTERS RELATED TO AFFILIATED COMPANIES

A. Affiliated Companies of the Hankook Tire Group

Company name	Affiliated company	Ownership (%)	Note
Hankook Tire Co., Ltd.	ATLASBX CO., LTD.	31.13	-
	Daehwa Engineering&Machinery Co., Ltd.	95.00	-
	emFrontier Inc.	29.99	-
	Hanyang Tire Sales Corp.	100.00	-
	Hankook Tire America Corp.	100.00	-
	Hankook Tire Canada Corp.	100.00	-
	Hankook Tire U.K. Ltd.	100.00	-
	Hankook Tire Japan Corp.	100.00	-
	Hankook Tire Europe Holdings B.V.	100.00	-
	Hankook Reifen Deutschland GmbH	100.00	-
	Hankook Tire France S.A.R.L.	100.00	-
	Hankook Tire Netherlands B.V.	100.00	-
	Hankook Espana S. A.	100.00	-
	Hankook Tyre Australia Pty., Ltd.	100.00	-
	Hankook Tire China Co., Ltd.	96.15	-
	Jiangsu Hankook Tire Co., Ltd.	34.67	-
	Chongqing Hankook Tire Co., Ltd.	100.00	-
	Hankook Tire DE Mexico, S.A. DE C.V.	99.99	-
	PT. Hankook Tire Indonesia	99.00	-
	MKT Holdings Co., Ltd.	50.01	-
ATLASBX CO., LTD.	FRIVA Co., Ltd.	100.00	-
	ATLASBX Motor Sports Co., Ltd.	100.00	-
Daehwa Engineering & Machinery Co., Ltd.	Daehwa Engineering & Machinery Jaxing Co., Ltd.	15.00	-
Shinyang Corp.	Daehwa Engineering & Machinery Jaxing Co., Ltd.	85.00	-
Hankook Tire America Corp.	Hankook Tire China Co., Ltd.	3.85	-
	Jiangsu Hankook Tire Co., Ltd.	0.47	-
	Hankook Tire DE Mexico, S.A. DE C.V.	0.01	-
Hankook Tire China Co., Ltd.	Jiangsu Hankook Tire Co., Ltd.	64.87	-
	Shanghai Hankook Tire Sales Co., Ltd.	66.00	-
	(formerly, Hankook Tire China Regional Headquarters)		
Jiangsu Hankook Tire Co., Ltd.	Shanghai Hankook Tire Sales Co., Ltd.	34.00	-
	(formerly, Hankook Tire China Regional Headquarters)		
Hankook Tire Europe Holdings B.V.	Hankook Tire Italia S.R.L.	100.00	-
	Hankook Tire Hungary Ltd.	100.00	-
	Hankook Tire Europe GmbH	100.00	-
	Hankook Tire Budapest Kereskedelmi Kft	100.00	-
	Hankook Tire Rus LLC	100.00	-
Hankook Tire Budapest Kereskedelmi Kft	Hankook Tire Budapest Kereskedelmi Kft., Sp.zo.o. Polish Branch	100.00	-
MKT Holdings Co., Ltd.	MKT Mold (Jaxing) Co., Ltd.	100.00	-
	MKT Technology Co., Ltd.	99.99	-

Note 1) As of December 31, 2011.

Note 2) Shinyang Corp., FWS Asset Management Co., Ltd., Another WTE Co., Ltd., H2 WTE Co., Ltd., Another Geunsum Co., Ltd. are "the affiliated companies related to Monopoly Regulation and Fair Trade Act" and Hankook Tire does not own any shares.

5. MATTERS RELATED TO DIRECTORS AND EMPLOYEES

1. Directors' Compensation

1 | Amount approved at general shareholders' meetings

Classification	The number of people	Korean Won (in millions)	
		Amount approved at general shareholder's meetings	Note
Standing directors/ Registered directors	6 (3/3)	5,700	-

Note 1) The combined compensation limit for registered directors and non-executive directors is approved at the general shareholders' meeting, but the amounts for individual directors. The maximum payout has been set at KRW 5.7 billion.
Note 2) The ceiling on total directors' compensation was raised to KRW 7 billion by a resolution passed at the general shareholders' meeting held on March 23, 2012.

2 | Payment

Classification	The number of people	Total amount paid	Average payment per person	Korean Won (in millions)	
				Stock option	Note
Standing directors	3	2,500	833	0	-
Registered directors	0	0	0	0	-
Audit Committee members and Auditor	3	118	39	0	-
Total	6	2,618	436	0	-

Proposed Resolution

1. REQUIRED ITEMS FOR PROTECTING THE OTHER INVESTORS

1 | Public Disclosures, Revisions and General Shareholders' Meeting

A. The public disclosures and revisions are as follows.

Subject	Details	Progress
Decision to invest in the establishment of Hankook Tire's 3rd China plant (a new subsidiary)	The investment decision has been made. (Investment period: Dec. 2010-Dec. 2015; Amount: USD 954M)	Subsidiary established; investment ongoing. Groundbreaking on May 18
Decision to invest in the establishment of Hankook Tire plant in Indonesia (a new subsidiary)	The investment decision has been made. (Investment period: Jan. 2011-Sept. 2014; Amount: USD 353,237,000)	Subsidiary established; investment ongoing. Groundbreaking on June 9
Relocation & rebuilding of Main R&D Center	The decision was made to relocate and rebuild the Main R&D Center to secure more research space. (Investment period: Mar. 2011-Jun. 2013; Amount: KRW 147,199,390,000)	Investment period extended to the end of 2014. Investment amount: about KRW 205.8 trillion (not including land purchase expense)

B. The Minutes for the 56th, 57th, and 58th shareholders' meetings are summarized below:

Date	Item	Resolution	Note
The 58th annual shareholders' meeting (Mar. 23, 2012)	1. Approval of balance sheet, income statement, and statement of appropriations of retained earnings (draft)	- Approved-Cash dividend of KRW 400 (0.9% of market price)	-
	2. Amendment of Articles of Incorporation	- Addition of business purposes; revision of Articles of Incorporation in step with changes in the Commercial Act	-
	3. Appointment of directors	- Reappointment of Min. Hae Yung as NED.	-
	4. Appointment of Audit Committee member	- Appointment of Cho, Geun Ho as NED	-
	5. Approval of directors' compensation limit	- Min. Hae Yung reappointed as Audit Committee member (NED)	-
The 57th annual shareholders' meeting (Mar. 25, 2011)	1. Approval of balance sheet, income statement, and statement of appropriations of retained earnings (draft)	- Directors' compensation limit for 2012 shall be KRW 7.0 billion; specifics shall be delegated to Board of Directors.	-
	2. Amendment of Articles of Incorporation	- Approved-Cash dividend of KRW 350 (1.1% of market price)	-
	3. Appointment of NED to serve as Audit Committee member	- Articles amended to establish the new position of "Executive Director"	-
	4. Approval of directors' compensation limit	- Hwang, Won Oh NED (Audit Committee) reappointed, Lee, Yong Sung NED (Audit Committee) reappointed	-
	5. Change in regulation on executives' retirement pay	- Directors' compensation limit for 2011 shall be KRW 5.7 billion; specifics shall be delegated to Board of Directors.	-
The 56th annual shareholders' meeting (Mar. 26, 2010)	1. Approval of balance sheet, income statement, and statement of appropriations of retained earnings (draft)	- Amend the Articles of Incorporation to allow the position of "Executive Director"	-
	2. Amendment of Articles of Incorporation	- Approved-Cash dividend of KRW 350 (1.4% of market price)	-
		- This public announcement has been posted on the company website (http://www.hankooktire.com)	-
		- When an outside auditor is appointed, the fact is either reported at the regular general shareholders' meeting covering the fiscal year during which the appointment was made; or shareholders are notified of the fact in writing, by regular mail or email, on the closing date of the shareholder register, or the fact is posted on the company webpage.	-

(Continued)

Date	Item	Resolution	Note
		· Amend the Articles of Incorporation to change the CEO position holder from President to Vice Chairman.	-
3.	Appointment of directors	· Reappointment of Cho, Yang Rai as Exec. Dir.; Suh, Seung Hwa as Exec. Dir.; and Chang, Sun Kon as NED · Appointment of Cho, Hyun Shick as Exec. Dir.	-
4.	Approval of directors' compensation limit	· Directors' compensation limit for 2010 shall be KRW 5.7 billion; specifics shall be delegated to Board of Directors.	-

2. RESOLUTION OF BOARD OF DIRECTORS

Please refer to "Key activities of the Board of Directors" in Corporate Governance.

3. DIVIDENDS AND OTHER MATTERS

1. Dividend Information for the Past Three Fiscal Years

Item	FY2011	FY2010	FY2009
Face value per share (KRW)	500	500	500
Current net income (Million won)	267,189	358,902	350,887
Earning per share (KRW)	1,840	2,472	2,417
Total cash dividend (Million won)	55,075	50,816	50,816
Total stock dividend (Million won)	-	-	-
Cash dividend rate (%)	21.74	14.16	14.48
Cash dividend yield (%)	0.90	1.07	1.43
Stock dividend yield (%)	-	-	-
Cash dividend per share (KRW)	400	350	350
Stock dividend per share (Number of stocks)	-	-	-
	-	-	-

Note 1) These figures are based on non-consolidated financial statements.

Note 2) Net profit and EPS figures for FY2009 have been calculated according to K-GAAP whereas the figures for FY2010 and 2011 follow the Korean International Financial Reporting Standard (K-IFRS).

Note 3) The FY2010 (57th fiscal year) dividend figures used for comparison purposes reflect changes made with the adoption of the K-IFRS. Therefore, these figures differ from those found in the FY2009 financial statements, which are based on a different set of standards.

Summary of Financial 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, 2011 to December 31, and reports the results as following:

1. 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.

2. 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.

3. 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.

4. Operating Report

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

March 2, 2012
Hwang, Won Oh



Chairman of Hankook Tire Audit Committee

INDEPENDENT AUDITORS' REPORT

English Translation of a Report Originally issued in Korean



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Hankook Tire Co., Ltd. and subsidiaries (collectively, the "Group"). The consolidated financial statements consist of the consolidated statement of financial position as of December 31, 2011, and the related consolidated statement of income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows, all expressed in Korean won, for the year ended December 31, 2011. The Group's management is responsible for the preparation and fair presentation of the consolidated financial statements and our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of other subsidiaries whose financial statements represent 50.4% of the Group's consolidated total assets as of December 31, 2011. Those subsidiaries represent 61.8% of the Group's consolidated total sales for the year ended December 31, 2011.

In addition, the financial statements of the Group as of and for the year ended December 31, 2010, were audited by us. As per our report dated March 22, 2011, we expressed an unqualified opinion on those statements. Such financial statements do not reflect the transition effects to Korean International Financial Reporting Standards ("K-IFRS") as described in Note 41 to the accompanying financial statements. However, the financial statements of the Group as of and for the year ended December 31, 2010, presented for comparative purposes, in the accompanying financial statements, reflect such transition effects to K-IFRS.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and the results of its operations and its cash flows for the years ended December 31, 2011 in conformity with Korean International Financial Reporting Standards.

March 15, 2012

Deloitte Anjin LLC

Notice to Readers

This report is effective as of March 15, 2012, 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 financial statements and may result in modifications to the auditors' report.

AUDITOR'S OPINION ON INTERNAL CONTROL MECHANISM

1. 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

- a. Domestic subsidiaries' business performance management: Corporate Management Team 2
- b. Due diligence on domestic sales offices: KOR Marketing Team
- c. Overseas sales company & offices' performance management: Global Sales Operations Team
- d. Regular inventory check: Production Management Team
- e. Internal quality assurance: Quality Management Team
- f. Internal environment assessment: Environment & Safety Team of each plant
- g. Operation of internal accounting management system: Accounting Team

2 | The board consists of six directors including three NEDs.

3 | Appointment of the standing auditor and guaranteeing the employment status of Audit Team staff

- a. 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).
- b. 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.

2. Operation of Internal Control Mechanism

1 | Operation cycle

- a. Regular & ad-hoc audit: 14 times a year
- b. Domestic subsidiaries' business diagnosis: 1 time a year
- c. Domestic subsidiaries' performance management: 1 time a month
- d. Due diligence on domestic sales offices: 7 sales offices a year
- e. Overseas sales company's performance management: 1 time a month
- f. Overseas sales office's performance management: 1 time a month
- g. Regular inventory check: 1 time a year
- h. Internal quality assurance: 1 time a year
- i. Internal environment assessment: twice a year
- j. 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.

3. 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, 2011.

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

Audit committee member Hwang, Won Oh
Audit committee member Min, Hae Yung
Audit committee member Lee, Yong Sung

Other Information

1. MAJOR MANAGEMENT AND OTHER CONTRACTS

1. Purchasing Contracts for Raw Materials

- a. Counterparties: Kumho Petrochemical Co., Ltd. and others
- b. Contract times and periods: regular contract (price adjusted according to market conditions)
- c. Purpose and details: Procurement of synthetic rubber
- d. Terms of payment: Letters of credit
- e. Other important matters: No relevant data

2. Discretionary Assets Management Contract

- a. Counterparty: FWS Investment Advisory Corporation
- b. Contract times and periods: July 19, 2007 – July 18, 2012 (To be renewed annually)
- c. Purpose and details: Profit taking through asset management
- d. Terms of payment: Commissions
- e. Other important matters: Contract can be adjusted or terminated by written notice one month before expiry date
- f. Risk management: After the end of trading every day, check the breakdown of trading and use, if important changes of profit, ask explanation from FWS Co., Ltd.

2. R&D ACTIVITIES

(Tires)

1. An overview of R&D activities is below:

| 1 | R&D organization



| 2 | R&D expenses

Source	Korean Won (in thousands)			
	58th	57th	56th	Note
Raw materials				-
Personnel	44,629,304	41,659,103	33,854,122	-
Depreciation	14,751,526	11,642,624	12,052,920	-
Consignment service fee	0	0	0	-
Other	57,340,651	47,121,582	55,688,764	-
Total R&D expenses	116,721,481	100,423,309	101,595,806	-
Account settlements	116,721,481	100,423,309	101,595,806	-
Selling and administrative expenses				
Manufacturing expenses				
Development expenses (Intangible assets)				
R&D expenses/ Sales ratio (Total R&D expenses ÷ Sales × 100)	1.80%	1.85%	2.15%	-

Figures for FY2010 and FY2011 are based on K-IFRS, while those for FY2009 are calculated according to K-GAAP.

2. R&D performance results are below.

[Research for Outsiders]

R&D Project	Period	Results & Expected Effect
Original technologies for carbon compounds used in polymer fuel cells	Jul. 2004-Jul. 2007	Develop a separator plate with flow channels, and gas diffusion materials
Localized technologies for separator plates used in polymer fuel cells	Dec. 2004-Nov. 2007	Carbon compounds for optimizing separator plate flow channels in 1KW, 5KW and 80KW fuel cells
Systems on a chip (SoC) for LCD control and tire pressure monitoring systems	Sept. 2005-Aug. 2008	Developed items to be used in tire testing
High-performance polyesters (SHMLS tire cord)	Jun. 2007-Dec. 2010	Develop fiber that can help lower tire rolling resistance
Light, thin separator plate for use in military drones	Apr. 2009-Dec. 2014	Lay the technological groundwork for supplying parts for military-use fuel cells
"Intelligent" tire system	Jun. 2009-May 2012	Develop methods for assessing "Intelligent" tire performance.
Technology to commercialize separators for fuel cells used in buildings, advancing the concept of eco-friendlier residences	Dec. 2009-Nov. 2012	Build a technology base for commercializing fuel cell parts.
Eco-friendly tire production technology using urethane "uni-material"	Jun. 2010-Mar. 2015	Develop non-pneumatic tires with safety and eco-friendly benefits
Premium keytone-based fiber and resin, for carbon reduction	Sept. 2010-Mar. 2019	Improve tire performance by applying poly-keytones, assess threopropeties of new materials
Technology for aspect of separator plates for fuel cells used in buildings	Dec. 2009-Nov. 2012	Technology for aspect of separator plates for fuel cells used in buildings
Composite materials of poly-keytone fiber	Aug. 2010-Feb. 2019	Composite materials of poly-keytone fiber
Wide-molding separate plate for 20KW fuel cell	Dec. 2011-Nov. 2014	Wide-molding separate plate for 20KW fuel cell
Y-rated fuel-saving run-flat tire for passenger cars	Dec. 2011-Nov. 2015	Y-rated fuel-saving run-flat tire for passenger cars

[Outsourced Research]

R&D Project	Period	Results & Expected Effect
Optimized methods for analyzing and preventing creep groan (Phase 2)	Apr. 2006-Mar. 2007	Deduce which materials generate noise in order to develop nonferrous friction materials (for brakes), optimize mixture proportions
Applied organic polymer/ surface-modified silica compounds and nano-rubber composites	Mar. 2006-Jun. 2007	Produce superior rubber using silica in nano-composite form, improve the physical properties
Optimal designs for better tire durability	Sept. 2006-Aug. 2008	Examine the mechanisms regarding early accidents stemming from TBR tread
Improved tire NVH performance	Sept. 2006-Aug. 2007	Study the effects of the footprint characteristics on road noise in the cabin, examine the structural design elements of tires to reduce road noise generated by the vehicle
System for responding to IT destruction and strengthening research center security	Apr. 2008-Jul. 2008	Devise strategies for responding to fires and other accidents that threaten IT systems, safeguard against IT leaks
Driver models for vehicle lateral dynamics	Oct. 2007-Sept. 2008	Develop driver models for virtual driving tests that can mimic the vehicle lateral dynamics of drivers in real-life situations
System for analyzing tire temperature, stress and crack growth	Jun. 2008-May 2009	Build a system for determining tire durability by integrating the processes for predicting temperature, stress and crack growth
Additional design tools for tire tread extrusion and database of viscoelastic properties	Jan. 2004-Aug. 2009	Develop CFD analysis tools for predicting the final die profiles for the extrusion
Training program for cultivating tire noise experts	Sept. 2008-Nov. 2010	Run in-house training to improve the ability to subjectively analyze tire noise.
Analysis methods and tire specimen tests for predicting dynamic loads on TBFRs	Jan. 2010-Dec. 2010	Create methodologies for analyzing the dynamic behavior of trucks in order to develop ways to predict the dynamic load on truck and bus tires
Ride tire models	Jan. 2008-Sept. 2011	Develop tire models for virtual ride testing enabling the prediction of tire vibration characteristics under various driving conditions
GT shaping in the vulcanization process and 3D analysis of vulcanization (including tire flow)	Mar. 2006-Jan. 2012	Develop simulation tools that can predict improvements in GT and bladder during the vulcanization process
Tools for predicting air vent holes in tire molds	Feb. 2011-Jan. 2012	Tools for predicting air vent holes in tire molds
Analysis methods and tire specimen tests for predicting dynamic loads put on TBFRs	Mar. 2011-Feb. 2012	Analysis methods and tire specimen tests for predicting dynamic loads put on TBFRs
Improvement of groove crack resistance	Apr. 2010-Jun. 2012	Research on key material factors for making tires more resistant to groove cracking
Improvement of writer performance	Jan. 2012-Dec. 2012	Make quantitative predictions on tire performance in snow and ice by changing elements in the tire's makeup
Technology for analyzing tires at their peak performance with thermal, viscoelastic properties while running at high speed	Jan. 2012-Dec. 2012	Technology for analyzing tires at their peak performance with thermal, viscoelastic properties while running at high speed
MD simulation to determine molecular behavior and physical properties of compounds	Mar. 2012-Feb. 2013	Identify the factors and effects of the molecular structure on deviations in the compounds physical properties
Software gage down and improvement of air inflow incongruence through flow analysis in the vulcanization process	Mar. 2012-Feb. 2013	Determine the deformation of rubber's physical properties during vulcanization to examine the mechanisms behind air inflow incongruence
Upgrade tools for designing extrudate through tread analysis	Mar. 2012-Feb. 2013	Improve tire quality by using tools for analyzing production processes

[R&D Center]

R&D Project	Period	Results & Expected Effect
Self-supporting run-flat tires	Oct. 2004-Jun. 2007	Develop run-flat tires and acquire basic technologies
PLM project	Jan. 2005-Dec. 2007	Develop and disseminate the R&D Center PLM System
Objective safety performance	Mar. 2007-Jul. 2008	Comparative research for assessing tire performance objectively
More durable belts for long haul TBRS	Jan. 2007-Dec. 2008	Extend the longevity of belts in tires designed for trucks that routinely travel long distances on highways
Technology for developing HEV tires and improving their performance	Mar. 2005-Aug. 2012	Develop tires exclusively for hybrid electric vehicles and research tires with ultra-low rolling resistance
Platform technology for UHP tires	Feb. 2008-Dec. 2008	Develop tires that can run safely and perform well at very high speeds
TBRs for China	Apr. 2002-Dec. 2009	Develop truck and bus radials for the Chinese market with excellent durability
Theory and application of ways to eliminate sub-threads	Jul. 2006-Dec. 2009	Acquire technology for maintaining tread compound properties and performance
Reasons for inconsistent TBR durability	Jun. 2008-Dec. 2009	Study why the service lifetimes of truck and bus radials vary
Responds to Bridgestone's patent infringement case (Nordic 3000)	Apr. 2009-Dec. 2009	Prevail in the patent dispute with Bridgestone over winter tire technology
Elevate UHP tire durability	Dec. 2007-May 2010	Bring the durability of Hankook Tire's ultra-high-performance tires to the same level as Michelin products
Hydroplaning	May 2009-May 2010	Improve tire performance by examining hydroplaning characteristics
Wet handling improvement	Jul. 2008-Dec. 2010	Engage in a project to make Hankook Tire products perform better on wet roads
Critical values of belt topping gauge for NT-10 Project	Jun. 2009-Dec. 2010	Identify mechanisms behind tire belt durability, co-relationships with belt topping gauge
Durability of lighter beads for OE tires	Aug. 2009-Dec. 2010	Study causes of tire bead separation, improve durability
Ultra-super single TBR	Jul. 2004-Dec. 2010	Research technology on the ultra-super-single truck & bus radial concept and develop the product line
More durable TBRS for emerging markets	Jul. 2008-Dec. 2010	Achieve durability of bead in tubeless truck & bus radials to be sold in markets with extreme operating conditions
Production technology for UHP tire sidewalls, ga. down	Aug. 2008-Apr. 2011	Analyze the mechanisms for producing gauged-down ultra-high-performance tires, and develop the related technologies
Conicity of tires with asymmetrical tread patterns	Mar. 2011-Nov. 2011	Quantify design and production factors to reduce the incidence of conicity
Causes of inconsistent TRB durability (Phase 2)	Feb. 2010-Dec. 2011	Identify ways to reduce variations in the service lifetime of TBR bead in China
Causes of impact bursts	Apr. 2010-Dec. 2011	Identify the mechanism behind impact burst in the Chinese TBR market and improve the safety margin of the tread
Durability of 1200R20 bead in China	Jul. 2010-Dec. 2011	Reduce the variation in service life for belts and beads on truck and bus radials sold in China
Categorization of technology	Jun. 2011-Dec. 2011	Improve technology competitiveness going forward, forecast human resources needed over the mid-/long term for each technology type
Maximum speed tires	May 2009-Jun. 2012	Develop tires that can perform well at extremely high speeds, acquire technological expertise in UHP tire sector
Electric vehicle tires	Jul. 2011-Aug. 2012	Stay in step with changing automotive trends by developing tires specifically for electric vehicles and securing the related technologies
Better wear performance for tire magazine tests	Oct. 2011-Jun. 2013	Develop the technologies to improve how tires wear

[Non-tires: General Machinery]

2. R&D ACTIVITIES

1. A summary of R&D activities is below:

1 | R&D organization

A dedicated R&D facility has been established, consisting of two teams (Equipment Development Teams 1 & 2), to carrying out various research and development projects, to include those that are government directed.



2 | R&D expenses

Korean Won (in thousands)				
Source	58th	57th	56th	Note
Personnel	810,320	883,353	659,985	-
Depreciation	67,264	31,677	48,379	-
Other	227,038	194,479	193,416	-
Total R&D expenses	1,104,622	1,109,509	901,780	-
Account settlements	1,104,622	1,109,509	901,780	-
Selling and administrative expenses	-	-	-	-
Manufacturing expenses	-	-	-	-
Development expenses (Intangible assets)	-	-	-	-
R&D expenses/ Sales ratio (Total R&D expenses ÷ Sales × 100)	0.8%	0.9%	2.0%	-

Figures for FY2010 and FY2011 are based on K-IFRS, while those for FY2009 are calculated according to K-GAAP.

2. The R&D performance record is detailed below:

(Research for Outsiders)

R&D Project	Period	Results & Expected Effect
Tools and robot arms for working on the outer walls of tall structures	Aug. 2010-Jun. 2015	Automate the maintenance and repair of outer walls on tall buildings

(R&D Center)

R&D Project	Period	Results & Expected Effect
Single rolling resistance tester	Jan. 2008-Dec. 2008	Develop a machine to test the frictional force of the tire's contact patch
6-position driving tester	Jan. 2009-Jan. 2010	Develop a machine that can simultaneously test the driving performance of six tlers on each drum
Plunge and bead breaker	Jan. 2010-Sept. 2010	Develop a machine that tests the load when the tier bead is unseated as well as assesses the condition of the tread
Device for measuring electrical conductivity	Jan. 2010-Sept. 2010	Develop a tester that measure the amount of electrical resistance generated by the tier
Guillotine cutter	Jan. 2010-Dec. 2010	Switch over from rotary cutters to guillotine cutters, improving material quality and increased output volume (from 11 to 14 cutters)
Uniformity (CT.23)	Mar. 2010-Jan. 2011	Increase tier inspection volume by reducing cycle time (from 30 sec. to 23.5 sec.)
USS tire building machine for TBRs	May 2010-Sept. 2011	Develop a machine that can build single tires that can perform the same job as truck tires on dual wheels.

2. R&D ACTIVITIES

(Non-tires: Tool & Die Making)

1. A summary of R&D activities is below:

1 | R&D organization

A dedicated R&D facility has been established, consisting of four teams (Equipment Development Teams 1 & 2) that perform diverse research and development projects.



2 | R&D expenses

Source	56th	57th	58th	Note
Personnel	825,967	799,000	133,071	-
Depreciation				-
Other	102,930	115,289	764,256	-
Total R&D expenses				-
Account settlements				-
Selling and administrative expenses				-
Manufacturing expenses	928,897	914,289	897,327	-
Development expenses (intangible assets)				-
R&D expenses/ Sales ratio (Total R&D expenses ÷ Sales x100)	2.63%	2.98%	1.12%	-

Figures for FY2010 and FY2011 are based on K-IFRS, while those for FY2009 are calculated according to K-GAAP.

2. The R&D performance record is detailed below:

(R&D Center)

Patent Registration Date	Research Results and Expected Effects
April 21, 2008	Tire vulcanization container
May 30, 2008	Puzzle mold and semi-segmented tread mold
May 30, 2008	Tire vulcanization container (Improved T groove)
November 11, 2008	Tire vulcanization container (Improved heat transfer)
December 7, 2010	Multipurpose hub mold (using stud pins)
June 2, 2011	Tire vulcanization container with multipurpose side mold

3. MATTERS RELATED TO OTHER INVESTMENT DECISIONS

1. A Legal Risk

Legal risk is on the rise, both qualitatively and quantitatively. In 2009, 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.

2. Integrated EHS Control System

Hankook Tire is working to establish an integrated Environment, Health, and Safety (EHS) management system. The new system will increase the efficiency of data monitoring and management by setting standards in each of the three areas.

EHS computerized system will systematically manage previously scattered EHS information and data. The major advancements made in building the system are as follows:
First, to improve environment-friendly work environment during production process;
Second, to minimize potential risk factors;
Third, to analyze data on employees' regular physical examination results and work capabilities to detect possible health problems;
Fourth, to manage systematically chemical materials; Last, to reduce environmental load and assess the air quality of neighboring community.

First of all, the integrated EHS management system makes the company's environment-friendly management strategy more effectively bolster the competitiveness and the company will continue to upgrade advanced Environment, Health and Safety system.

4. CREDIT RATINGS

Data	Rating target: securities, etc.	Credit rating	Credit agency	Credit rating categories	Rating classification
Jun. 4, 2008	Corporate bonds	AA-	Korea Ratings	(AAA-D)	Regular rating
Jun. 4, 2008	Corporate credit rating	AA-	Korea Ratings	(AAA-D)	Main rating
Feb. 12, 2009	Corporate bonds	AA-	Korea Ratings	(AAA-D)	Main rating
Feb. 27, 2009	Corporate bonds	AA-	Korea Ratings	(AAA-D)	Main rating
Jul. 1, 2009	Corporate bonds	AA-	Korea Ratings	(AAA-D)	Regular rating
May 28, 2010	Corporate bonds	AA	Korea Ratings	(AAA-D)	Regular rating
Jun. 20, 2011	Corporate bonds	AA	Korea Ratings	(AAA-D)	Regular rating
Feb. 7, 2012	Corporate bonds	AA	Korea Ratings	(AAA-D)	Main rating
Jun. 4, 2008	Corporate bonds	AA-	Korea Investors Service	(AAA-D)	Regular rating
Jun. 4, 2008	Corporate credit rating	AA-	Korea Investors Service	(AAA-D)	Main rating
Dec. 26, 2008	Corporate credit rating	AA-	Korea Investors Service	(AAA-D)	Regular rating
Feb. 13, 2009	Corporate bonds	AA-	Korea Investors Service	(AAA-D)	Main rating
Feb. 27, 2009	Corporate bonds	AA-	Korea Investors Service	(AAA-D)	Main rating
Jul. 31, 2009	Corporate bonds	AA-	Korea Investors Service	(AAA-D)	Main rating
May 31, 2010	Corporate bonds	AA	Korea Investors Service	(AAA-D)	Regular rating
Jun. 30, 2011	Corporate bonds	AA	Korea Investors Service	(AAA-D)	Regular rating
Feb. 9, 2012	Corporate bonds	AA	Korea Investors Service	(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.	
		C	An obligor rated "C" is speculative to a high degree.	
		D	An obligor rated "D" is in default.	
	Bonds/ Corporate credit ratings	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 (-) sign
(Continued)				

Rating agency	Rating target: Securities	Credit rating	Rating definition	Note
Korea Ratings		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.	according to their relative status within each generic rating 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 this 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 circumstance changes are likely to impair its capacity to pay interest.	
		CCC	An obligor rated "CCC" is highly speculative in meeting its financial commitments.	
		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.	
		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.
Korea Investors Service	Commercial paper	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.	

(Continued)

Rating agency	Rating target: Securities	Credit rating	Rating definition	Note
		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.	
		AAA	Capacity for timely payments is extremely strong. AA Capacity for timely payments is very strong, but somewhat less than "AAA."	The ratings from 'AA' to 'B' may be modified by the addition of a plus (+) or minus (-) sign to show relative standings within the major categories.
		A	Capacity for timely payments is strong, but what 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.	

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 Pusat, Bekasi, Jawa Barat, Indonesia
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MILESTONES

- 2011
 - Hankook Tire selected as exclusive tire supplier for Deutsche Tourenwagen Masters (DTM), German Touring Car Masters
 - Ground broken for third Chinese plant, at Chongqing
 - Supply of OEM tires begun for the BMW Mini-New 1 Series
 - Ground broken for a new plant in Indonesia
- 2010
 - Announced plans to build the company's 6th plant in Chongqing, China and 7th plant in Bekasi, Indonesia
 - Winter tire receives top score in a test by Germany's "ADAC" magazine; Audi selects Hankook Tire as an official OE tire supplier
 - Audi selects Hankook Tire as an official OE tire supplier
- 2008
 - Geumsan Plant's 2nd phase expansion completed
 - Globally announced "Kontrol Technology"
- 2007
 - Hungary Plant begins production
- 2006
 - Only tire manufacturer to receive FAW-Volkswagen 10 Best Suppliers award
 - Entered into Technical Agreement with premium car maker Audi
 - Ranked World's 7th-largest tire manufacturer in terms of sales
 - Started construction of the Hungary Plant in July
- 2005
 - Roll-out of T'Station one-stop auto service concept
 - Selected as strategic partner of Ford
 - Completion of Geumsan Test Track (G'Trac)
 - Unveiled new Corporate Identity
- 2004
 - Established strategic alliance with Michelin
- 2003
 - Opened Europe Distribution Center (EDC) in the Netherlands
- 2001
 - Introduced ERP System
- 2000
 - Completed Jiangsu and Jiaxing Plant (China)
 - Established China Technical Center (CTC)
 - Completed Geumsan Plant (Korea)
 - Established Europe Technical Center (ETC)
 - Established Beijing branch in China
 - Established Akron Technical Center (ATC)
 - Established the Main R&D Center in Daejeon
 - Established the Technology Center (Korea) in Daejeon
- 1982
 - Established Hankook Tire America Corporation
- 1981
 - Built Daejeon Plant (Korea)
- 1979
 - Founded

CORPORATE DATA

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*Investor Reports and Public Disclosures are available at the IR Center of our web site.

2012
IR Schedule

January	Announcement of 2011 earnings results and 2012 earnings target
February	Conference (Hong Kong)
March	Public announcement of schedule for 58th general shareholders' meeting
April	Announcement of 1Q 2012 earnings results
May	Overseas NDR (Singapore, Hong Kong)
June	Overseas NDR (New York, Boston, London, Singapore, Hong Kong) UBS conference (Seoul)
July	Extraordinary shareholders' meeting
August	Announcement of 2Q 2012 earnings results
October	Announcement of 3Q 2012 earnings results

*IR Schedule may change according to circumstances of the corporation.

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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.