

# 2012 Hankook Tire

## 3rd Quarter Result

2012.11.01

**The information in this presentation is based upon management forecasts and reflects prevailing conditions and our views as of this date, all of which are accordingly subject to change. In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources of which was provided by us or which was reviewed by us.**

**The information in this presentation does not take into account the effects of a possible transaction or transactions involving an actual or potential change of control, which may have significant valuation and other effects.**

- 1. Company Overview**
- 2. Hankooktire 2012 3Q Results Update**
- 3. Current Issue**

**Appendix.**

## **1. Company Overview**

## 2. Hankooktire 2012 3Q Results Update

## 3. Current Issue

## Appendix.

# 1. Company Overview – Hankooktire Worldwide

## Overview

- **HKTWW was established in 1941** (2012.09 Spun-off and changed its name)
- **Capital Stock : KRW 14,157,430,000**
- **Share Outstanding : 28,314,860** (par value KRW 500)
- **The number of employees : 146**

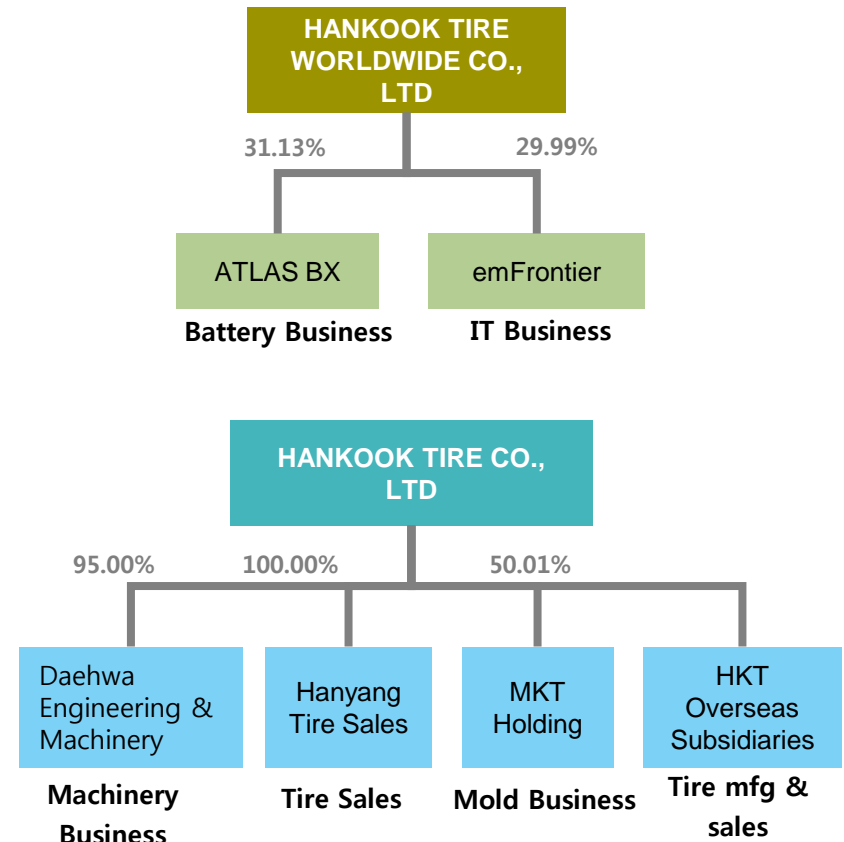
## Business

### Revenue Structure

- Brand royalty from HKT and its overseas subsidiaries
- Fees generated by offering shared service
- Rental Revenues from HQ building and other real-estates
- Others : Group Training Center, IT business and seeking new business area etc.

※ HKTWW : Hankooktire Worldwide, HKT : Hankooktire

## Corporate Governance



1

## Changes in Business Environments

- Create synergies within the company by associating new business opportunities with the existing tire business
- Meet the increasing demand for management transparency due to restriction on cross-affiliate investments

2

## Establishment of Responsible Management

- Establish a responsible management system through the spin-off as it allows independent management and objective evaluation of business achievements

3

## Enhancement of Management Transparency

- Maximize the enterprise value and management transparency through separating the Company's operating business and the investment segments
- Organize a stable corporate governance by separating the business risk and ownership

**Ultimately maximize the enterprise value  
as well as the shareholders' value**

## Strengthen group-wide strategies to achieve long-term goals

- Conduct strategy analysis and performance management on subsidiaries
- Establish mid- to long-term business portfolio plan
- Maximize synergy through full utilization of resources and infrastructure

## Seize M&A opportunities

- Pursue M&A opportunities that are in-line with HKT's core competencies
- Expand product portfolios and pursue new business opportunities (tires, auto components, and rubber processing, etc.)

## Share core business functions

- Maximize synergy by integrating core business functions
- Enhance the level of expertise by utilizing industry experts
- Facilitate prompt decision-making

## Group-level financial stability

- Establish and activate a long-term plan to maximize efficient use of financial resources on a group-level
- Seek optimal investment opportunities
- Improve the level of financial strength by reducing the financial risks of subsidiaries

# 1-3. Changes in BS/IS

Balance Sheet		KRW Bn		
	'11.12.31	'12.09.01	'12.09.30	
<b>Current Assets</b>	<b>4,476</b>	<b>5,533</b>	<b>5,496</b>	
Cash / Cash equivalents	3,508	3,571	3,413	
Account Receivables	272	370	503	
Inventories	-	-	-	
Other	696	1,592	1,580	
<b>Non-current Assets</b>	<b>2,039</b>	<b>1,348</b>	<b>4,254</b>	
Investments in Associates	1,314	625	3,599	
Property, plant and equipment	607	591	591	
Intangibles	57	57	57	
Other	61	75	7	
<b>Total Assets</b>	<b>6,515</b>	<b>6,881</b>	<b>9,750</b>	
<b>Current Liabilities</b>	<b>697</b>	<b>1,127</b>	<b>968</b>	
<b>Non-current Liabilities</b>	<b>77</b>	<b>138</b>	<b>96</b>	
<b>Total Liabilities</b>	<b>774</b>	<b>1,265</b>	<b>1,064</b>	
<b>Total Shareholders' equity</b>	<b>5,741</b>	<b>5,616</b>	<b>8,686</b>	

Income Statement		KRW Mil	
	'12.9.30		
<b>Operating Revenue</b>	<b>7,126</b>	<b>100%</b>	
Brand Royalty	3,458	49%	
Equity Method Income	2,468	35%	
Other Income	1,200	17%	
<b>Operating Expenses</b>	<b>1,994</b>	<b>28%</b>	
<b>Operating Profit</b>	<b>5,132</b>	<b>72%</b>	
<b>Income Before Income Tax</b>	<b>5,902</b>	<b>83%</b>	
<b>Depreciation</b>	<b>203</b>	<b>3%</b>	

\* Spin-off Ratio HKTWW:HKT = 0.8139505: 0.1860495



1. Company Overview
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## ▪ Disclosure of Operating Profit or Loss

- ✓ The Korea Accounting Standards Board (KASB) clarified its requirements for disclosure of operating profit or loss by issuing Amendments to K-IFRS 1001 'Presentation of Financial Statements'.

### 1. Main contents of the amendments

- ✓ Mandatory disclosure of operating profit or loss on the face of the statement of profit or loss and other comprehensive income.
- ✓ Definition of abovementioned operating profit or loss as an amount of sales minus cost of sales and selling and administrative expenses.
- ✓ Voluntary disclosure of entity-specific measure of operating performance (under the name of 'adjusted operating profit or loss' or, if appropriate, another name) in the notes provided the entity specific measure of operating performance calculated based on the entity's own criteria differs from the one presented on the face of the statement of profit or loss and other comprehensive income; in this case, it is also required to disclose (1) a reconciliation between the entity-specific measure of operating performance and operating profit or loss presented on the face of the statement of profit or loss and other comprehensive income, and (2) the fact that the measure of operating performance disclosed in the notes is calculated based on the entity's own criteria.

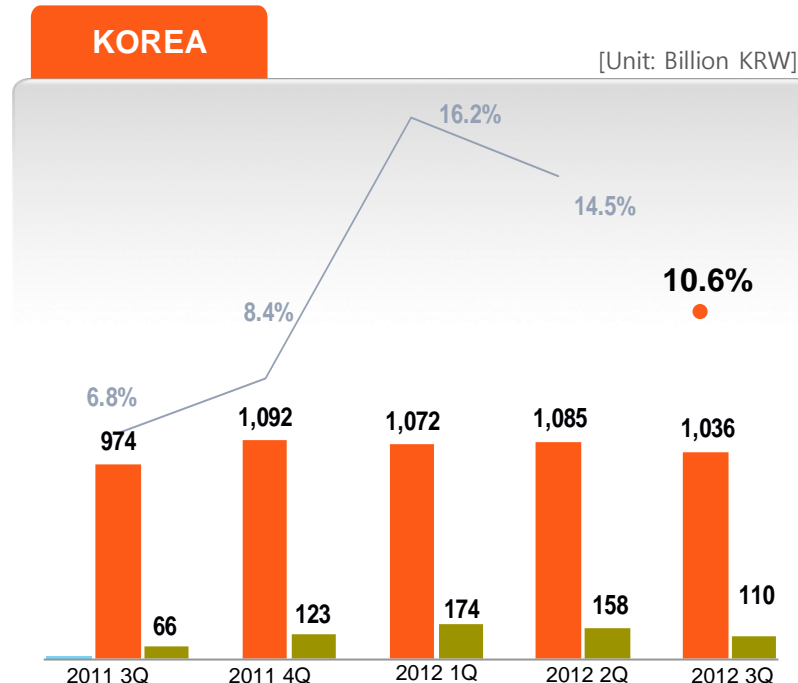
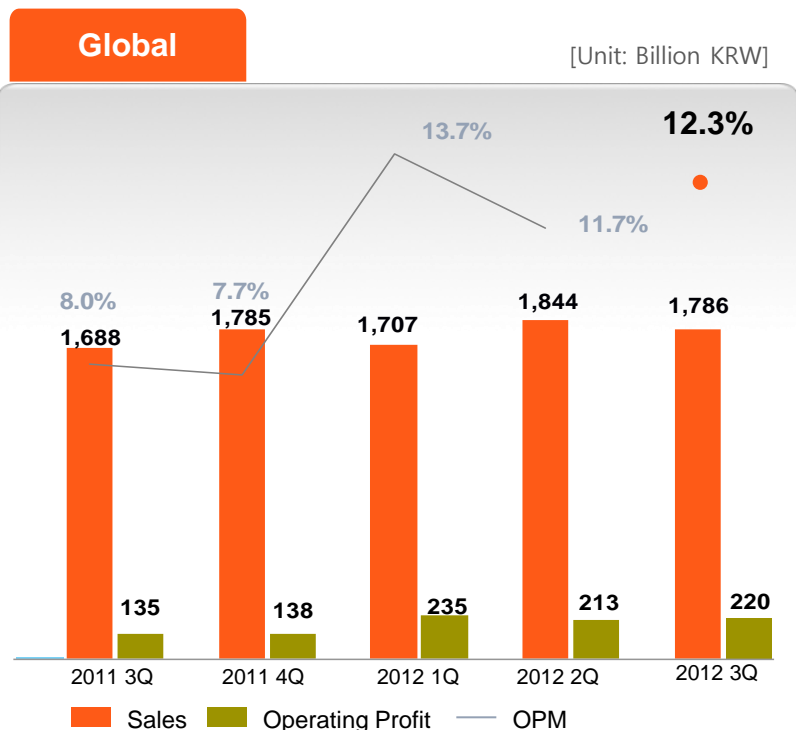
### 2. Effective Date

- ✓ The effective date of the amendments is 31 December 2012 and the amendments are required to be applied for annual periods ending on or after the effective date.

# 2. Hankooktire 2012 3Q Results Update



## (1) Sales and Operating Profit



### Changes in Sales and Operating Profit

[unit : 100 Mil KRW]

		Global		Korea	
		2012 2Q	2012 3Q	2012 2Q	2012 3Q
Before Amendments	Sales	18,444	17,878	10,857	10,360
	OP	2,126	2,340	1,578	1,597
	OPM	11.5%	13.1%	14.5%	15.4%
After Amendments	Sales	18,444	17,858	10,857	10,360
	OP	2,438	2,196	1,343	1,102
	OPM	13.2%	12.3%	12.4%	10.6%

- Operating margin increased
  - Lower raw materials costs and product mix improvements
- RE sales increased, OE sales and overseas sales decreased in Korea.
- SG&A increased due to brand loyalty, SSC fee to HKTWW.

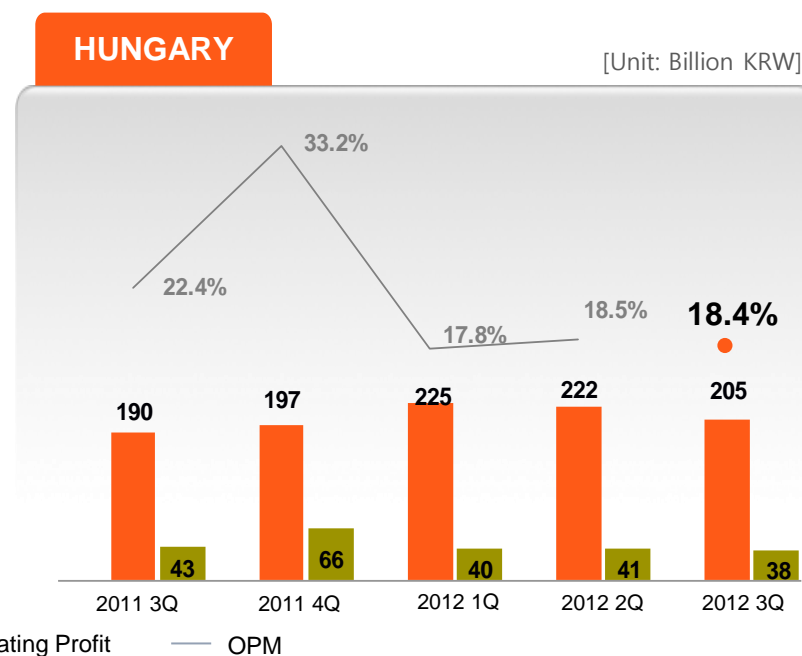
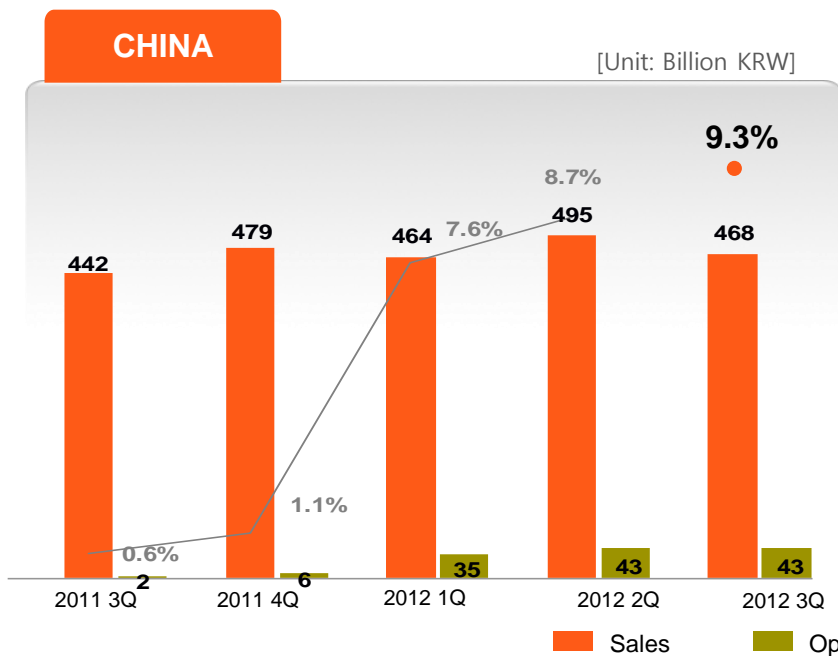
### Quarterly Average FX Rate

	11 1Q	11 2Q	11 3Q	11 4Q	12 1Q	12 2Q	12 3Q
USD/KRW	1,121	1,084	1,082	1,145	1,131	1,152	1,134
EUR/KRW	1,532	1,559	1,532	1,543	1,484	1,479	1,418

※ 2012 3Q After IFRS amendments, 2011.3Q~2012.2Q : Before spin-off  
2012.3Q : After spin-off, HKTWW not included

## 2. Hankooktire 2012 3Q Results Update

### (1) Sales and Operating Profit



- Operating margin maintained at high levels
- Sales declined slightly due to weak demand and elevated competition
- Chongqing Plant's first production is started in August (construction to be completed in June 2013)

#### Quarterly Average FX Rate

	11 1Q	11 2Q	11 3Q	11 4Q	12 1Q	12 2Q	12 3Q
CNY/KRW	170	167	169	180	179	182	178
USD/CNY	6.579	6.502	6.410	6.369	6.310	6.331	6.353

- 3Q sales volume decreased QoQ, due to weak tire market
- Despite the decreased sales volume, improvements in PCR RE tire sales YoY.

#### Quarterly Average FX Rate

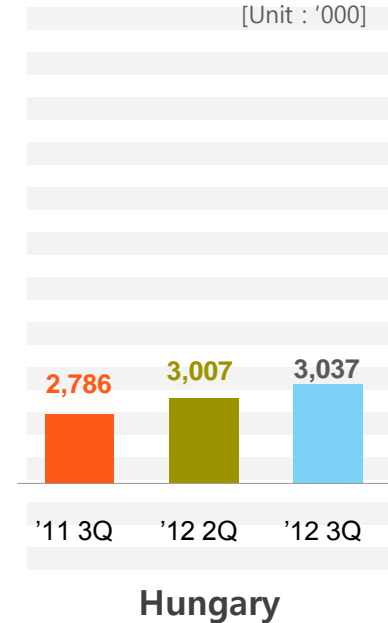
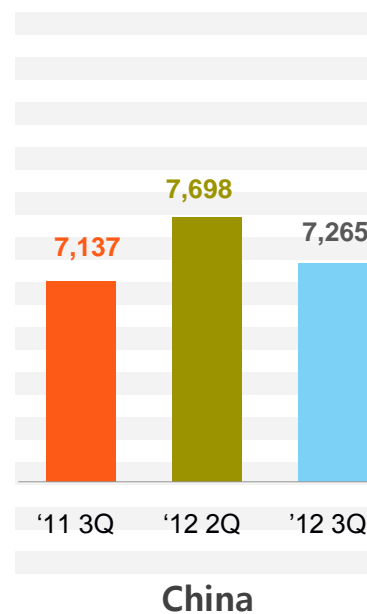
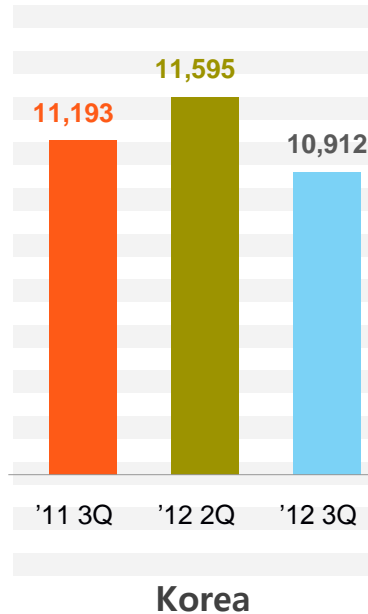
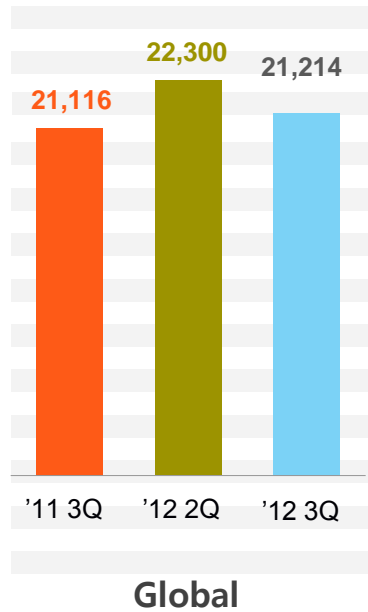
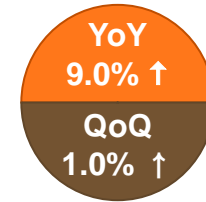
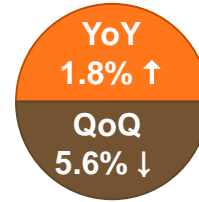
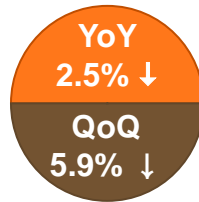
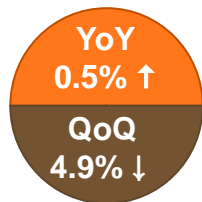
	11 1Q	11 2Q	11 3Q	11 4Q	12 1Q	12 2Q	12 3Q
EUR/HUF	273	266	274	304	297	294	283
HUF/KRW	5.62	5.85	5.60	5.08	5.00	5.03	5.01

## 2. Hankooktire 2012 3Q Results Update

### (3) Global Production

[ Mil units]

	'10 Act	'11Act	'12 Plan
KOR	45.45	46.70	46.28
CHN	28.34	28.98	30.51
HUN	5.91	10.09	12.51
Indonesia			0.03
TOT	79.70	85.77	89.33



## 2. Hankooktire 2012 3Q Results Update

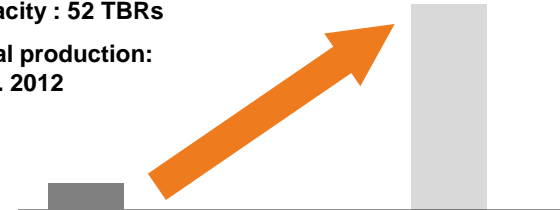
### Production Facilities Under Construction

#### Chongqing Production Facility



- Daily production capacity : 52 TBRs
- Initial production: Aug. 2012

- Daily production capacity : 2,400 TBRs
- Scheduled completion : Jun. 2013

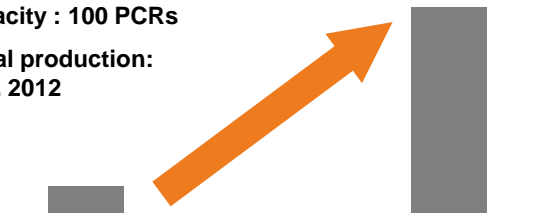


#### Indonesia Production Facility



- Daily production capacity : 100 PCRs
- Initial production: Sep. 2012

- Daily production capacity : 15,000 PCRs
- Scheduled completion: Jul. 2013



#### Chongqing Production Facility

- Expand Chinese domestic TBR market with new facilities
- Increase HKT's brand image in China market, with fine quality products in reasonable prices

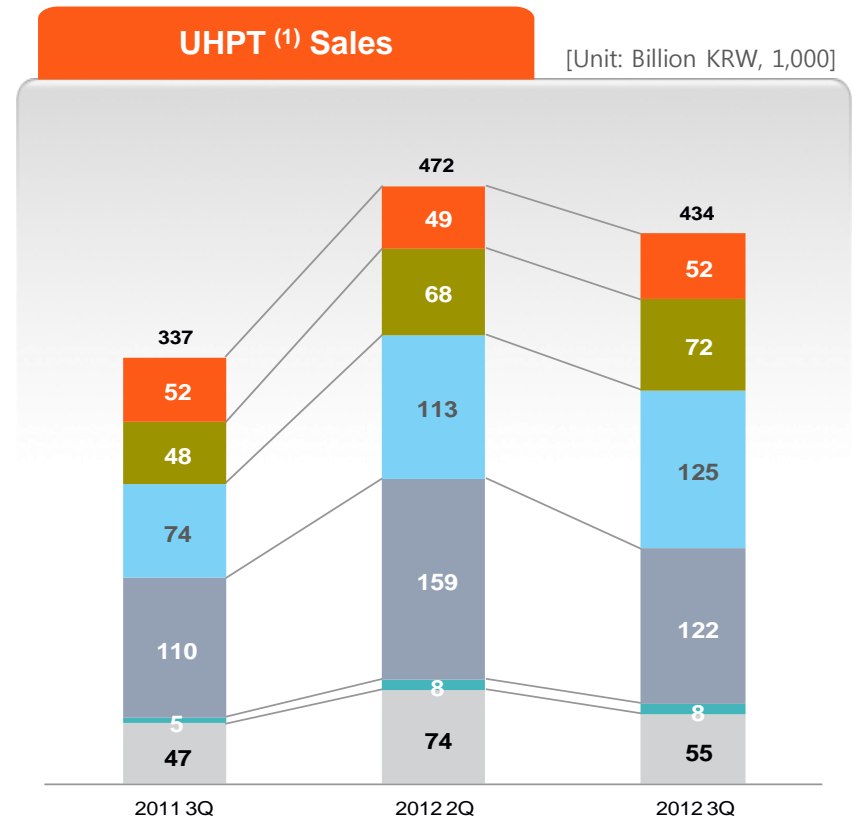
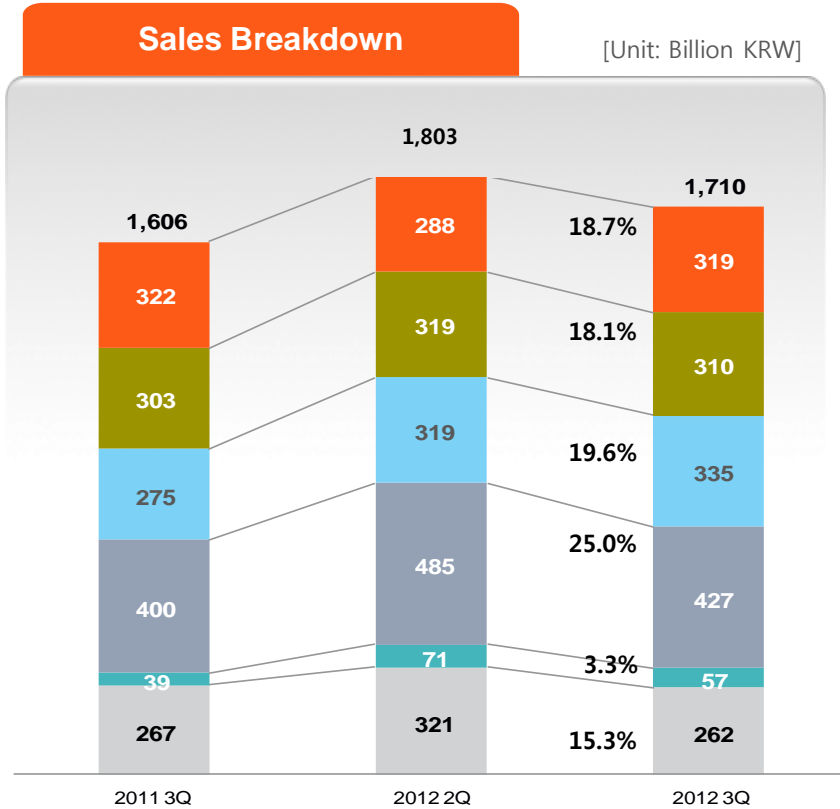
#### Indonesia Production Facility

- Production hub for areas without production facilities such as emerging markets and North America

# 2. Hankooktire 2012 3Q Results Update



## (2) Global Sales Breakdown / UHPT (1) Sales



■ Korea 
 ■ China 
 ■ N. America 
 ■ EUR 
 ■ Russia 
 ■ Others

☞ The sales and units were calculated by aggregating units sold by each production facility

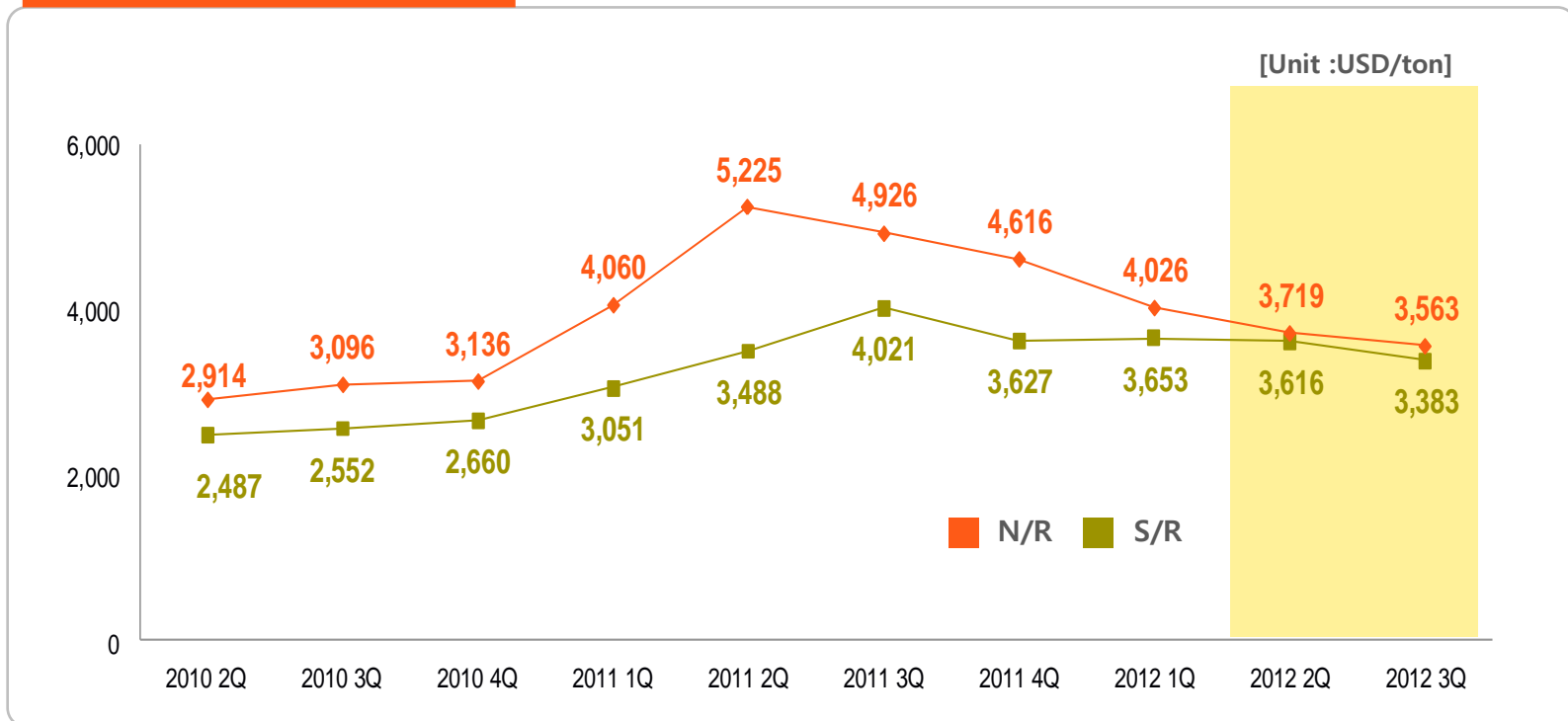
**Notes**  
 1. Ultra High Performance Tire

UHPT Sales/ Total Sales	21.0%	26.2%	25.4%
UHPT ('000 units)	4,524	5,881	5,510

## (4) Raw Material Cost

- Recent Natural Rubber spot prices have been decreased due to weak demand in China and India.
  - Shortfall of ethylene production is expected due to heating oil demand increases.
- Synthetic Rubber production expected to be decrease, needs to continuously monitor the S/R production.

Raw Material Cost Trend

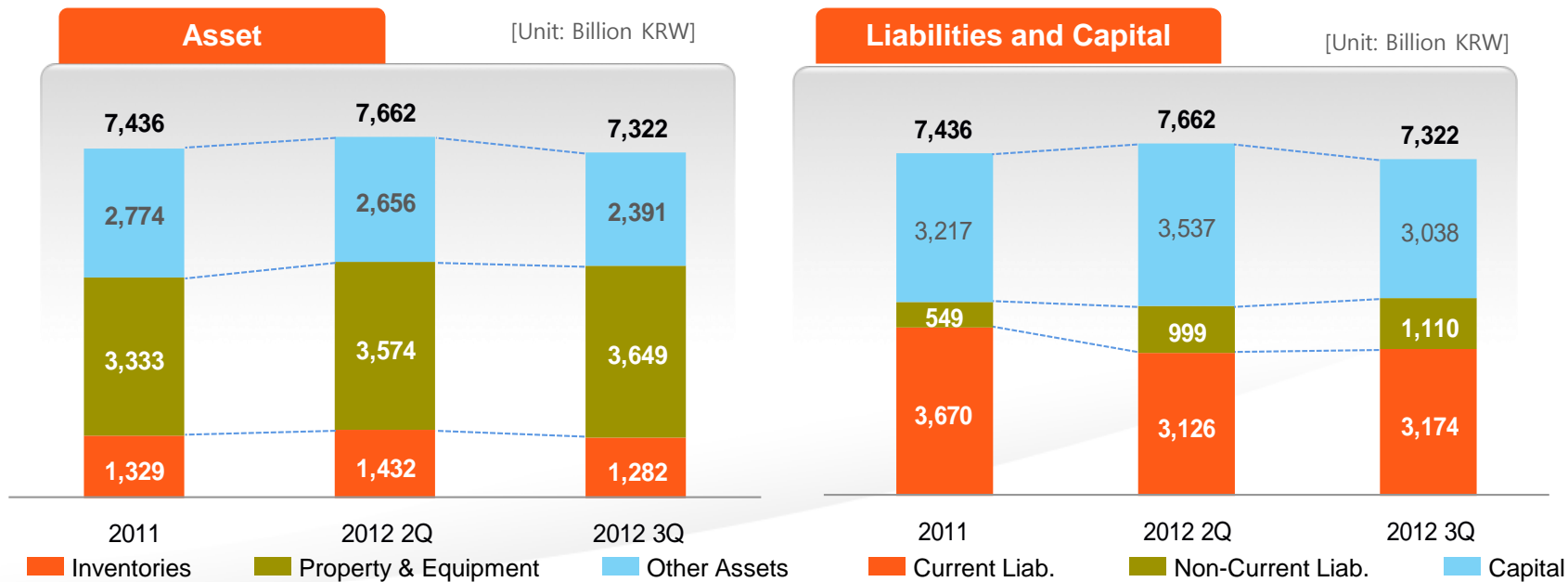




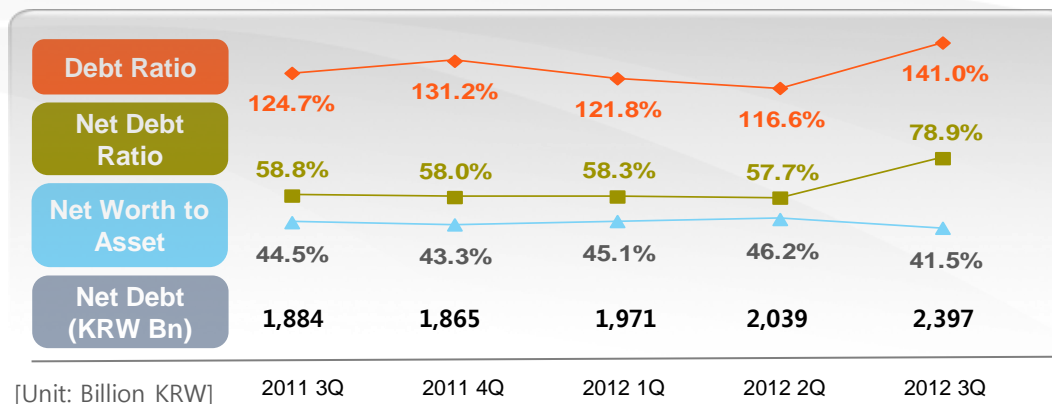
# 2. Hankooktire 2012 3Q Results Update



## (5) Consolidated Balance Sheet



※ 2012.3Q HKTWW not included



[Unit: Billion KRW]

1. Company Overview
2. Hankooktire 2012 3Q Results Update
- 3. Current Issue**

Appendix.

### 3. Current Issue

#### Strategies after expiration of Safeguard measures on Chinese tires

- ✓ The import of Chinese tires to U.S decreased due to impose Safeguard measures since 2009.
- ✓ Increase of Chinese tires in U.S is expected to lead the ease of competition in the China domestic market.
- ✓ The global tire makers which own production facilities in China are expected to have improvements in competitiveness in U.S as well as in China.



#### Opportunities & Strategies after expiration of Safeguard measures

- 1 Increase tire exportation from China to U.S**
  - Achieve premium position in the U.S. against our competitors and obtain diversified product Line-up to compete globally
- 2 Build a globally well-balanced portfolio**
  - Maximize efficiency through responding to changing market environment in a timely and proactive manner, through operating 'Multi-Plants' that meets the market demand
- 3 Focus on flagship products from Korea**
  - Maximize in profitability, HKT will concentrate on strategic product sales and raise price continuously

**End of The Document**

[unit : 100 Mil KRW]

	TOTAL	TIRE
<b>Current Assets</b>	<b>34,875</b>	<b>34,077</b>
Cash and Cash Equivalents	8,477	8,309
<b>Non-Current Assets</b>	<b>38,348</b>	<b>37,142</b>
Tangible Assets	36,487	35,757
<b>Assets</b>	<b>73,223</b>	<b>71,219</b>
<b>Current Liabilities</b>	<b>31,737</b>	<b>31,132</b>
Short-term borrowings	22,453	22,305
<b>Non-current Liabilities</b>	<b>11,103</b>	<b>10,481</b>
Long-term borrowings	9,996	9,420
<b>Liabilities</b>	<b>42,840</b>	<b>41,617</b>
<b>Shareholder's Equity</b>	<b>30,384</b>	<b>29,602</b>
<b>1. Borrowings</b>	<b>32,450</b>	<b>31,725</b>
<b>2. Net Debt</b>	<b>23,973</b>	<b>23,417</b>
<b>3. Debt Ratio</b>	<b>141.00%</b>	<b>140.59%</b>
<b>4. Net worth to assets</b>	<b>41.49%</b>	<b>41.56%</b>

\* Excluding Hankooktire Worldwide

[unit : 100 Mil KRW]

	2011 (A)	2012 3Q(B)	B-A	
<b>Current Assets</b>	<b>22,875</b>	<b>21,922</b>	<b>-953</b>	<b>-4%</b>
Cash and Cash Equivalents	5,508	5,714	206	4%
Accounts Receivable	9,506	9,271	-235	-2%
Other Receivable	533	454	-79	-15%
Inventories	5,068	4,496	-572	-11%
<b>Non-Current Assets</b>	<b>22,674</b>	<b>23,244</b>	<b>570</b>	<b>3%</b>
Tangible Assets	14,307	14,130	-177	-1%
<b>Assets</b>	<b>45,549</b>	<b>45,166</b>	<b>-383</b>	<b>-1%</b>
<b>Current Liabilities</b>	<b>17,162</b>	<b>16,468</b>	<b>-694</b>	<b>-4%</b>
Accounts Payable	3,175	2,740	-435	-14%
Non-trade Payables	2,102	2,223	121	6%
Short-term borrowings	10,212	9,962	-250	-2%
<b>Non-Current Liabilities</b>	<b>712</b>	<b>2,811</b>	<b>2,099</b>	<b>295%</b>
Bonds Payable	0	1,494	1,494	1494%
Long-term borrowings	8	567	559	6988%
projected Benefit obligation	79	270	191	243%
<b>Liabilities</b>	<b>17,874</b>	<b>19,279</b>	<b>1,405</b>	<b>8%</b>
<b>Shareholder's Equity</b>	<b>27,675</b>	<b>25,887</b>	<b>-1,788</b>	<b>-6%</b>
<b>1. Borrowings</b>	<b>10,220</b>	<b>12,023</b>	<b>1,803</b>	<b>18%</b>
<b>2. Net Debt</b>	<b>4,712</b>	<b>6,309</b>	<b>1,597</b>	<b>34%</b>
<b>3. Debt Ratio</b>	<b>64.59%</b>	<b>74.47%</b>	<b>9.89%</b>	<b>15%</b>
<b>4. Net worth to assets</b>	<b>60.76%</b>	<b>57.32%</b>	<b>-3.44%</b>	<b>-6%</b>

[unit : Mil RMB]

	2011 (A)	2012 3Q(B)	B-A	
<b>Current Assets</b>	<b>6,788</b>	<b>7,293</b>	<b>505</b>	7.4%
Cash and Cash Equivalents	797	989	192	24.1%
Accounts Receivable	4,381	4,342	-40	-0.9%
Other Receivable	172	162	-10	-5.8%
Inventories	1,377	1,651	274	19.9%
<b>Non-Current Assets</b>	<b>8,452</b>	<b>9,212</b>	<b>760</b>	9.0%
Tangible Assets	6,814	7,603	789	11.6%
<b>Assets</b>	<b>15,240</b>	<b>16,505</b>	<b>1,265</b>	8.3%
<b>Current Liabilities</b>	<b>8,530</b>	<b>9,388</b>	<b>858</b>	10.1%
Accounts Payable	3,202	2,877	-325	-10.1%
Non-trade Payables	667	110	-556	-83.4%
Short-term borrowings	4,512	5,716	1,203	26.7%
<b>Non-Current Liabilities</b>	<b>1,175</b>	<b>1,271</b>	<b>96</b>	8.1%
Long-term borrowings	1,175	1,271	96	8.1%
<b>Liabilities</b>	<b>9,705</b>	<b>10,658</b>	<b>953</b>	9.8%
<b>Shareholder's Equity</b>	<b>5,535</b>	<b>5,847</b>	<b>311</b>	5.6%
<b>1. Borrowings</b>	<b>5,688</b>	<b>6,987</b>	<b>1,299</b>	22.8%
<b>2. Net Debt</b>	<b>4,891</b>	<b>5,997</b>	<b>1,107</b>	22.6%
<b>3. Debt Ratio</b>	<b>175.33%</b>	<b>182.30%</b>	<b>6.97%</b>	4.0%
<b>4. Net worth to assets</b>	<b>36.32%</b>	<b>35.42%</b>	<b>-0.90%</b>	-2.5%

# Appendix. F/S – Hungary B/S

[unit : Mil HUF]

	2011 (A)	2012 3Q(B)	B-A	
<b>Current Assets</b>	<b>114,529</b>	<b>137,743</b>	<b>23,214</b>	20.3%
Cash and Cash Equivalents	523	374	-149	-28.5%
Accounts Receivable	48,636	61,175	12,539	25.8%
Other Receivable	90	61	-29	-32.1%
Inventories	28,359	30,110	1,751	6.2%
<b>Non-Current Assets</b>	<b>109,962</b>	<b>100,843</b>	<b>-9,119</b>	-8.3%
Tangible Assets	109,923	100,799	-9,124	-8.3%
<b>Assets</b>	<b>224,491</b>	<b>238,586</b>	<b>14,095</b>	6.3%
<b>Current Liabilities</b>	<b>145,900</b>	<b>110,607</b>	<b>-35,293</b>	-24.2%
Accounts Payable	12,416	6,845	-5,570	-44.9%
Non-trade Payables	3,451	2,606	-846	-24.5%
Short-term borrowings	85,943	39,763	-46,181	-53.7%
<b>Non-Current Liabilities</b>	<b>47,707</b>	<b>62,889</b>	<b>15,182</b>	31.8%
Long-term borrowings	47,707	62,889	15,182	31.8%
<b>Liabilities</b>	<b>193,607</b>	<b>173,496</b>	<b>-20,110</b>	-10.4%
<b>Shareholder's Equity</b>	<b>30,884</b>	<b>65,089</b>	<b>34,205</b>	110.8%
<b>1. Borrowings</b>	<b>133,650</b>	<b>102,652</b>	<b>-30,998</b>	-23.2%
<b>2. Net Debt</b>	<b>133,127</b>	<b>102,278</b>	<b>-30,849</b>	-23.2%
<b>3. Debt Ratio</b>	<b>626.87%</b>	<b>266.55%</b>	<b>-360.32%</b>	-57.5%
<b>4. Net worth to assets</b>	<b>13.76%</b>	<b>27.28%</b>	<b>13.52%</b>	98.3%



# Appendix. F/S – Consolidated I/S (IFRS)

[ Unit: 100 Mil KRW ]

	2011 3Q		2012 2Q		2012 3Q		YoY	QoQ
	Amt.	%	Amt.	%	Amt.	%	(%)	(%)
Sales	16,878	100.0%	18,444	100.0%	17,858	100.0%	5.8%	-3.2%
COGS	12,599	74.6%	13,007	70.5%	12,417	69.5%	-1.4%	-4.5%
Gross Profit	4,279	25.4%	5,437	29.5%	5,441	30.5%	27.2%	0.1%
SG&A	2,475	14.7%	2,999	16.3%	3,245	18.2%	31.1%	8.2%
OP (After amendments)	1,804	10.7%	2,438	13.2%	2,196	12.3%	-	-9.9%
Other Revenue	455	2.7%	640	3.5%	613	3.4%	-	-4.3%
Other Expense	913	5.4%	952	5.2%	467	2.6%	-	-
OP (Before amendments)	1,346	8.0%	2,126	11.5%	2,340	13.1%	-	10.0%
Non Operating	-660	-3.9%	-28	-0.1%	-270	-1.5%	-	-
Income Before Income Tax	686	4.1%	2,099	11.4%	2,070	11.6%	-	-1.4%
E B I T D A	2,235	13.2%	3,402	18.4%	3,189	17.9%	42.7%	-6.3%
Depreciation	889	5.3%	964	5.2%	993	5.6%	11.7%	3.1%

# Appendix. F/S – Korea I/S (IFRS)

[ Unit: 100 Mil KRW ]

	2011 3Q		2012 2Q		2012 3Q		YoY	QoQ
	Amt.	%	Amt.	%	Amt.	%	(%)	(%)
Sales	9,740	100.0%	10,857	100.0%	10,360	100.0%	6.4%	-4.6%
COGS	7,600	78.0%	7,741	71.3%	7,393	71.4%	-2.7%	-4.5%
Gross Profit	2,140	22.0%	3,116	28.7%	2,967	28.6%	38.7%	-4.8%
SG&A	1,834	18.8%	1,773	27.6%	1,865	18.0%	1.7%	5.2%
OP (After amendments)	306	3.1%	1,343	12.4%	1,102	10.6%	-	-18.0%
Other Revenue	366	3.8%	804	5.9%	785	7.6%	-	-2.4%
Other Expense	10	0.1%	569	8.8%	290	2.8%	-	-
OP (Before amendments)	662	6.8%	1,578	14.5%	1,597	15.4%	-	1.2%
Non Operating	-138	-1.4%	-33	-0.3%	-101	-1.0%	-	-
Income Before Income Tax	524	5.4%	1,545	14.2%	1,496	14.4%	-	-3.2%
E B I T D A	1,118	11.5%	2,049	18.9%	2,087	20.1%	86.6%	1.8%
Depreciation	456	4.7%	471	4.3%	490	4.7%	7.5%	4.0%

# Appendix. F/S – China I/S (IFRS)

[unit : 100 Mil RMB]

	2011 3Q		2012 2Q		2012 3Q		YoY (%)	QoQ (%)
	Amt.	%	Amt.	%	Amt.	%		
Sales	26.22	100.0%	27.23	100.0%	26.23	100.0%	0.0%	-3.7%
COGS	22.26	84.9%	20.49	75.2%	19.65	74.9%	-11.7%	-4.1%
Gross Profit	3.96	15.1%	6.75	24.8%	6.58	25.1%	66.1%	-2.5%
SG&A	3.81	14.5%	4.02	14.8%	4.15	15.8%	8.9%	3.3%
OP (After amendments)	0.15	0.6%	2.73	10.0%	2.43	9.3%	-	-10.9%
Other Revenue	-0.6	-2.2%	1.24	4.6%	0.48	1.8%	-	-61.3%
Other Expense	0.6	2.4%	1.59	5.8%	0.64	2.4%	6.7%	-59.7%
OP (Before amendments)	0.15	0.6%	2.38	8.7%	2.27	8.7%	-	-4.6%
Non Operating	-0.32	-1.2%	-1.07	-3.9%	-0.83	-3.2%	-	-22.1%
Income Before Income Tax	-0.17	-0.7%	1.66	6.1%	1.44	5.5%	-	-13.6%
E B I T D A	1.52	5.8%	3.79	13.9%	3.71	14.1%	-	-2.1%
Depreciation	1.37	5.2%	1.42	5.2%	1.44	5.5%	5.7%	1.9%

# Appendix. F/S – Hungary I/S (IFRS)

[unit : 100 Mil HUF]

	2011 3Q		2012 2Q		2012 3Q		YoY (%)	QoQ (%)
	Amt.	%	Amt.	%	Amt.	%		
Sales	339.04	100.0%	441.33	100.0%	408.90	100.0%	20.6%	-7.3%
COGS	249.07	73.5%	299.30	67.8%	289.69	70.8%	16.3%	-3.2%
Gross Profit	89.98	26.5%	142.03	32.2%	119.21	29.2%	32.5%	-16.1%
SG&A	34.45	10.2%	45.78	10.4%	44.11	10.8%	28.0%	-3.6%
OP (After amendments)	55.52	16.4%	96.25	21.8%	75.10	18.4%	35.3%	-22.0%
Other Revenue	36.09	10.6%	8.64	2.0%	5.45	1.3%	-	-
Other Expense	15.68	4.6%	23.39	5.3%	10.92	2.7%	-	-
OP (Before amendments)	75.93	22.4%	81.50	18.5%	69.64	17.0%	-8.3%	-14.6%
Non Operating	-88.28	-26.0%	22.27	5.0%	7.51	1.8%	-	-
Income Before Income Tax	-32.75	-9.7%	110.50	25.0%	82.61	20.2%	-	-
E B I T D A	94.80	28.0%	133.20	30.2%	53.59	13.1%	-	-
Depreciation	39.28	11.6%	44.97	10.2%	46.08	11.3%	17.3%	2.5%