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# *driving emotion*

From desert heat to the Siberian cold, Hankook Tire is forging a reputation for quality and innovation in 170 countries around the world. No longer content with being No.1 in Korea, we are racing towards our goal of becoming a leading global company with vision and insight.



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2007 Target for  
Global Sales **3,261.0** KRW  
billion

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2007 Target for  
Operating Income **316.6** KRW  
billion

Based on tire sales (production from Korea, China, Hungary plants)

## MESSAGE TO OUR SHAREHOLDERS

2006 was a challenging year due to the economic slowdown in Korea and uncertainties surrounding the global economy. Despite the unfavorable business climate, Hankook Tire turned in a solid performance, **growing to rank seventh among the world's top tire makers**. I believe Hankook Tire's unrelenting passion for innovation made this possible. Moving forward, we will continue to deliver greater value to our customers and shareholders on the **strength of world-recognized technology and management innovation**.

## MESSAGE TO OUR SHAREHOLDERS

### What is the current status of the global tire market and corresponding plans of Hankook Tire?

The global tire market is experiencing difficult times due to the surge in raw material prices. Many predict an industry shakeup with some manufacturers unable to survive the next two to three years. Already, some major makers are pursuing sales of company equity while others are shutting down less profitable production facilities. With the exception of China, the global tire industry is experiencing a significant slow-down in market growth. Amid this challenging environment, Hankook Tire is concentrating its capabilities to go beyond its position as Korea's top manufacturer and emerge as a leading global company. Increased R&D spending is driving the development of innovative products, and we are aggressively targeting the advanced auto markets of the United States and Europe. We also plan to enter Russia, India, South America and other markets with exciting growth potential. In addition, Hankook Tire is expanding the supply of tires to international automakers and broadening its distribution network through 'T'Station' and 'Hankook Masters'.

### How will you maintain your No.1 position in the Chinese tire market?

Hankook Tire is engaged in fierce competition with the world's top ten tire manufacturers operating in China, such as Bridgestone, Michelin and Goodyear. However, we are determined to maintain our No.1 position through increased local production, enhanced brand value and an expanded distribution network. Currently, Hankook Tire is ramping up its Jiaxing plant, its main production base in China. We are enhancing our brand value by actively taking part in various motorsports events and auto-related exhibitions. We also have plans to gradually increase the number of 'T'Station' stores, our premium tire-service franchise. Our goal for the Chinese market this year is to record sales of KRW 876 billion.

### What is the purpose of building a plant in Europe?

Hankook Tire is the first Korean tire maker to develop a production facility and infrastructure in Europe. When our new Hungarian plant starts operations, we will be able to deliver our products to all destinations within Europe in less than five days. That is a vast improvement over the minimum month-long shipping time from our production bases in China and Korea. The Hungary plant is an investment to raise our brand value and will provide key momentum as we leap forward to become a leading global tire manufacturer. After initial operations begin in 2007, the first phase of the plant will be completed in 2008 with annual production capacity reaching 5 million tires. The plant will be ramped up to its full capacity of 10 million tires by 2010. Tires produced in Hungary will be mostly supplied to automakers and distribution markets in Europe.

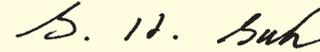
“ Hankook Tire is gearing up to make 2007 the year in which we make the leap to become a leading global company. We will aggressively target the advanced auto markets of the United States and Europe, as well as the emerging markets of Russia, India and South America. Hankook Tire will not be content to rest as Korea's No. 1 tire manufacturer but strives to set global trends and lead the market through bold marketing activities. ”

### What is Hankook Tire's business strategy for 2007?

With our regional headquarters in Korea, America, Europe, China and L.A.A.M (Latin America, Asia-Pacific, Africa and the Middle-East), 2007 will be remembered as the year Hankook Tire became a leading global company. To that end, we will concentrate key resources in implementing a global management system through innovation in corporate structure, strategy and competitiveness across all of our business processes. In particular, we plan to push deep into the European market. To achieve success in the region, I believe we not only have to supply quality tires but be equipped with a process to respond swiftly to customer needs. Hankook Tire will concentrate on improving our entire work process from production to customer service in 2007 through 'Supply Chain Management', a crucial element in our internal process innovation, and 'Product Lifecycle Management', which will accelerate the reflection of customer demand in product development.

### What are Hankook Tire's vision and goals?

Our mid- to long-term vision is to grow into a leading global company. We will attain this vision by 'Enhancing Brand Value' and 'Strengthening Our Global Structural Capabilities'. Our goal extends beyond increasing sales. Our aim is to achieve 'Profitable Growth' based on sustainable growth and profitability. Sales are estimated to double within the next five years. We will continue to be a 'Market Driven Company', meaning that our production and sales systems will be led by customer needs.



Seung Hwa Suh, President & CEO



# VISION

“ Since its establishment, Hankook Tire has been setting industry milestones with its unrelenting passion for innovation and remarkable growth. We are committed to delivering greater value to our customers and shareholders as a leading global company. ”

## GRAND VISION

Hankook Tire's vision is to earn the trust of and create value for our stakeholders by providing high-quality products and services. To realize this vision, all of us at Hankook Tire are striving for greater creativity and professionalism.

# VISION

## TARGET VISION

We will provide value to customers through high-quality products, instill pride in our employees through fair treatment and compensation, return profits and enhanced share value to shareholders, build trust with and support our partner firms, and continue to be a responsible corporate citizen in the communities in which we operate.

## CORE VALUES

Hankook Tire employees display the highest standards of creativity and professionalism to attain our vision. They are goal-driven and responsible in their job duties.

# STRATEGY

## Enhance Brand Value

Hankook Tire participates in high-profile motorsports events, such as Japan's Super GT series, Germany's Nurburgring 24 Hour Race and other auto-related exhibitions to enhance brand value. This year, we plan to raise our global profile by expanding supply to premium automakers, taking part in comparison tests by prestigious automotive publications and pioneering new markets.

## Raise Pricing Position

Raising our pricing position in the tire market, particularly the high-end overseas automobile market, is a strategic goal to attain top-tier brand equity. Launching new products, establishing an effective operations system centered on sell-out prices and boosting other global marketing activities will help us secure a pricing position suitable for a leading global company.

## Improve Distribution System

Major tire makers around the world are expanding their market leadership by strengthening their downstream distribution. Hankook Tire plans to secure an independent distribution channel and expand retail distribution in order to respond effectively to this global trend and build a stable demand base.

## Increase Ratio of High Value-added Products

One of our top priorities this year is to secure an optimal sales structure by focusing on expanding sales of new and high value-added products. We will also adopt a policy of selection and concentration to strengthen our core business segments, thereby reducing costs and boosting profitability.

## Expand OE (Original Equipment) Business

Hankook Tire has made great strides in forging partnerships with the world's leading automakers, including Ford, GM, Volkswagen, Volvo, and Audi. We will continue our efforts to expand sales of OE tires and value-added products to premium manufacturers.

## Implement Global Management System

Throughout the year, Hankook Tire will concentrate its core resources on implementing an across-the-board global management system from manufacturing to quality management, our corporate structure, human resources and marketing. Our key focus will be on improving our organizational, process and personnel capabilities to meet global standards.

## Establish Global SCM (Supply Chain Management)

Based on demand forecasting for the worldwide market and individual customers, Hankook Tire will implement a rigorous global 'Supply Chain Management' system to respond more quickly to customer needs.

“ In 2007, Hankook Tire plans to achieve top-tier brand equity by stepping up our global marketing efforts. Faced with dramatic changes and challenges, we will continue to increase brand and corporate value through innovative management strategies to become a leading industry player. ”

# EXECUTIVE OFFICERS

“ Our continued efforts in management innovation and bold leadership have driven Hankook Tire to the success it is today. We are now dedicated to steering the future of the company as one of the top industry players in the world ”



## Yang Rai Cho

1962 B.B.A., University of Alabama  
1988 ~ Chairman, Hankook Tire

## Choong Hwan Cho

1964 B.L., Seoul National University  
1983 Joined Hankook Tire  
2007 ~ Vice Chairman, Hankook Tire

## Seung Hwa Suh

1971 B.A., Hankyuk University of Foreign Studies  
1996 Joined Hankook Tire  
2007 ~ President & CEO, Hankook Tire

## Hwi Joong Kim

1971 B.S., Seoul National University  
1970 Joined Hankook Tire  
2007 ~ CTO & CPO, Hankook Tire

## Ki Youl Huh

1978 B.E., Yonsei University  
2007 Joined Hankook Tire  
2007 ~ President, Hankook Tire  
COO / Korea Headquarters

## Jin Wook Choi

1972 B.B.A., Sungkyunkwan University  
1986 Joined Hankook Tire  
2004 ~ Executive Vice President, Hankook Tire  
COO / China Headquarters

## Seung Do Jin

1977 B.B.A., Yonsei University  
1989 Joined Hankook Tire  
2004 ~ Executive Vice President, Hankook Tire  
COO / Europe Headquarters

EXECUTIVE OFFICERS



**Hyun Shick Cho**

1995 B.A., Syracuse University  
 1997 Joined Hankook Tire  
 2004 - Executive Vice President, Hankook Tire  
 CMO

**Hyun Bum Cho**

1996 B.A., Boston College  
 1998 Joined Hankook Tire  
 2006 - Executive Vice President, Hankook Tire  
 CSO & CFO

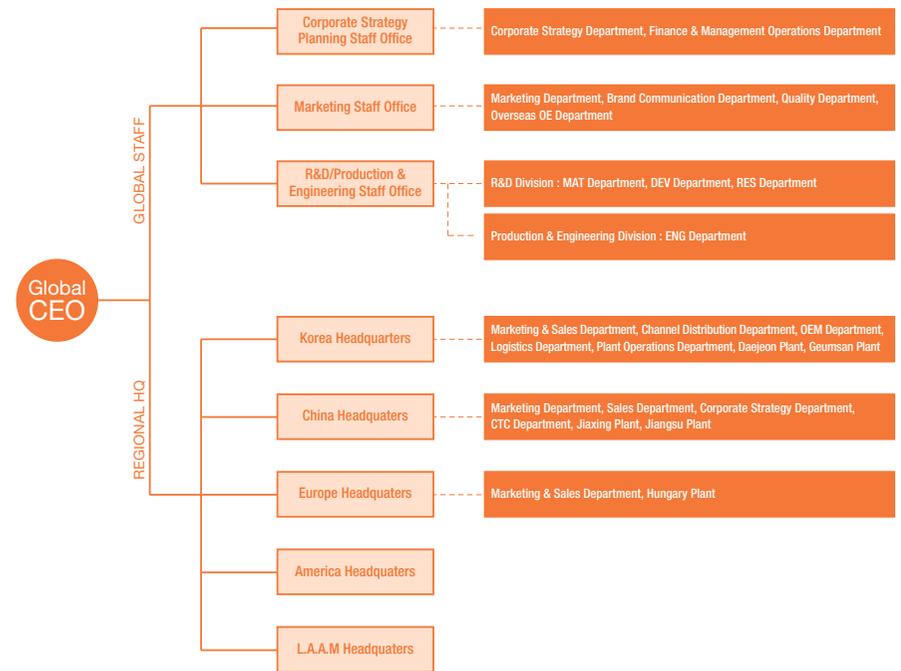
**Young Soo Woo**

1987 B.S., Seoul National University  
 1994 Ph.D. in Economics, Cornell University  
 2003 - Vice President, Hankook Tire  
 COO / L.A.A.M Headquarters

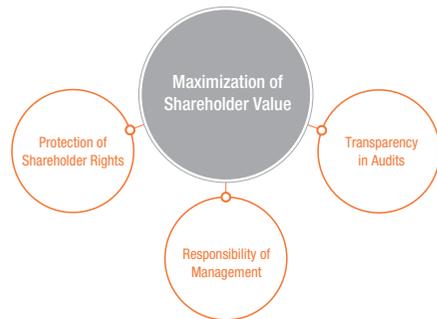
**Ho Youl Pae**

1982 B.A., Seoul National University  
 1986 Joined Hankook Tire  
 2005 - Vice President, Hankook Tire  
 COO / America Headquarters

ORGANIZATION



# CORPORATE GOVERNANCE



## BOD Activities

Meeting	Date	Agenda	3 Outside Directors
Regular meeting 2006-1	2006.01.18	Approval of 52nd financial statements and Financial Report	Approved
		Report on evaluation results of 2005 4Q internal accounting control system	Approved
Regular meeting 2006-2	2006.04.19	2006 1Q statement of accounts	Approved
		2005 consolidated statement of accounts	Approved
		Extension and increase of credit line (Hana Bank)	Approved
		Extension of credit line (Industrial and Commercial Bank of China)	Approved
		Extension of credit line agreement (Deutsche Bank)	Approved
Opening of directly operated T'Station shop(s)	Approved		
Regular meeting 2006-3	2006.07.20	2006 1H profit/loss reporting	Approved
		Local financing payment guarantee for Hankook Tire Japan Corp.	Approved
		Extension of credit line agreement (Kookmin Bank)	Approved
		Extension of credit line agreement (Korea Exchange Bank)	Approved
		Directors' and Officers Liability (D&O) coverage	Approved
Regular meeting 2006-4	2006.10.24	2006 3Q profit/loss reporting	Approved
		2006 1H consolidated statement of accounts	Approved
		Report on 2006 1H internal accounting control system operations	Approved
		Payment guarantee for loan of Hankook Tire Hungary (Korea Eximbank)	Approved
		Borrowings related to investment of capital in Hankook Tire Hungary	Approved
		Opening of directly operated T'Station shop(s)	Approved

“ Hankook Tire has an advanced corporate governance system to protect shareholder rights, ensure a responsible board of directors and maintain transparent auditing. We plan to reinforce our internal controls further promote strong governance. ”

## Shareholder Rights

Hankook Tire adopted a 'code of ethics' to pursue stable and long-term profitability for our shareholders through transparent and ethical management. We actively conduct investor relations activities to keep our shareholders informed and also provide updated corporate data to institutional, foreign and retail investors. We are also working to share the benefits of our success with shareholders through an attractive dividend policy.

## Responsible Board of Directors

Hankook Tire adopted the 'Hankook Tire Board of Director Guidelines' to provide the framework for an active, informed, independent and involved board of directors. Since 2005, we have had three outside directors who are actively engaged in board activities and had an average attendance rate of more than 95% in 2006. Our board members take part in various educational courses designed to enhance their expertise and specialization and continue to practice ethical and responsible management.

## Transparent Auditing

Hankook Tire has a dedicated investor relations personnel to facilitate open communication with our shareholders. We maintain an active investor relations program that includes IR conferences and overseas road shows. Our corporate information is also disclosed on our website. Within the board of directors is our audit committee, which is comprised solely of outside directors. Committee members have the authority to appoint and dismiss internal auditors, ensuring independence in our auditing activities.

We employ an Enterprise Resource Planning (ERP) system to ensure the rapid and accurate settlement of accounts. Our efforts also include reducing the gap between disclosed earnings projections and final figures. By implementing an internal control system, Hankook Tire has been able to provide more transparent and accurate accounting information in a timely manner to interested parties and the market.

Hankook Tire is committed to further improving our corporate governance by realigning our organization, studying global best practices and utilizing an outsourcing system. In the future, our company's competitiveness is expected to be linked directly to its advanced corporate governance as well as transparent and accountable management. Hankook Tire also plans to pursue improvements in this area to raise corporate value and return greater value to our shareholders.



Edelman

# *DRIVEN BY PASSION*

Hankook Tire is a great story waiting to be told. It is an incredibly competitive company with strong business fundamentals and high-quality product lines, and is one of the new breed of leading global companies. Until recently, overseas markets were less familiar with this story, however. Incorporating a focus on corporate brand-building into the global business strategy was an important step towards telling this Hankook Tire story to the world and building an even stronger global brand and reputation. Edelman could not decline such a great opportunity to partner with Hankook Tire and help communicate this exciting international business story.

Steve Bowen / Director / Edelman



# FINANCIAL HIGHLIGHTS

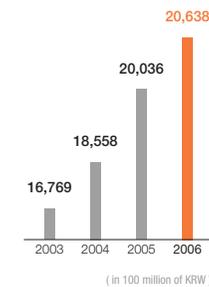
Despite the demanding business environment in 2006, Hankook Tire delivered strong performance boosted by an increase in prices of export products and expanded OE(Original Equipment) volumes to overseas automakers. Our revenues rose 3.0% from the previous year to **KRW 2,063.8 billion**. We posted operating income of **KRW 174.5 billion**, ordinary income of **KRW 229.5 billion** and net income of **KRW 170.2 billion**. In particular, we made significant progress in growing sales of high value-added tires, with Ultra High Performance (UHP) tires accounting for 13.2% of total revenue.

Based on revenues from Hankook Tire's domestic plants (Daejeon, Geumsan)

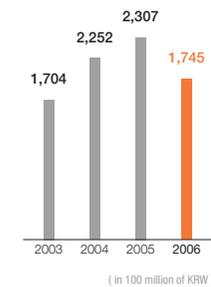
## 2006 Financial Highlights

( in 100 million of KRW )	2006	2005	2004	2003	2002
Sales	20,638	20,036	18,558	16,769	15,785
Operating income	1,745	2,307	2,252	1,704	1,033
Ordinary income	2,295	2,827	2,430	1,436	742
Net income	1,702	2,138	1,660	1,015	695
Total assets	21,659	19,535	18,896	18,617	18,573
Total liabilities	6,431	5,749	6,970	7,761	8,563
Total shareholders' equity	15,228	13,787	11,926	10,857	10,010
Earning per share (KRW)	1,522	1,462	1,136	694	476
Net asset per share (KRW)	14,231	13,007	12,581	7,229	6,665
Debt-to-equity ratio	42.2%	41.7%	58.4%	71.5%	85.5%
ROE	11.2%	15.5%	14.6%	9.7%	7.0%

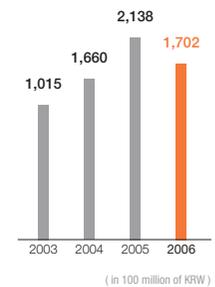
Sales



Operating Income



Net Income



# ACHIEVEMENTS

## Ranked Seventh-largest Tire Maker in the World

Despite the difficult business environment, Hankook Tire has increased its global market share steadily by entering new overseas markets through aggressive marketing activities and expanding OE supply to premium automakers. Our efforts have paid off. The U.S. tire publication 'Modern Tire Dealer' ranked Hankook Tire seventh on its list of 2006 global tire manufacturers, up from eighth place in 2005.

## First Korean Tire Maker to Build a Production Plant in Europe

Groundbreaking for our new factory in Dunaújváros, Hungary took place on July 14, 2006. When construction is completed, Hankook Tire will become the first Korean tire maker with a production capabilities in Europe. The plant will help to further the Hankook Tire brand in the European market. A total of EUR 500 million will be invested in the Hungarian plant, which is Hankook's fifth production facility. Our aim is to begin production in 2007 and secure annual capacity of 5 million tires by 2008. Capacity will be increased to 10 million by 2010. The factory in Hungary will enable delivery to any destination in Europe within five days.

## Positive Reviews from Leading Automotive Publications in Germany

Hankook Tire's Ultra High Performance(UHP) tires are gaining wider recognition in Europe. 'Ventus Prime' (our leading UHP product) and 'Optimo K415' (an export product for the European market) received a 'Very Good' rating from 'Gute Fahrt', Volkswagen's dealer magazine. Both tires also garnered the highest rating from Germany's premier motoring magazine, 'Auto Zeitung', and the 'Recommendable' rating from 'Allgemeiner Deutscher Automobil Club(ADAC)', the German automobile association. Additionally, the 'Ventus S1 evo' was rated as 'Recommendable' by 'Sport Auto' magazine.

“ Undeterred by unfavorable foreign exchange rates and other challenges, Hankook Tire further strengthened its position in the global market by enhancing brand value over the past year. We now stand as the world's seventh-ranked tire company. We will continue to race ahead with our multifaceted marketing strategy to reinforce our international presence and reap greater achievements in 2007. ”

## Supply Contract with Audi

Hankook Tire concluded a 'Technical Agreement' with Audi in December 2006 to supply tires to the global automaker. The agreement is for the Ultra High Performance(UHP) tire, 'Ventus S1 evo', which comes in 16-inch and 17-inch models. The tires will be supplied for the Audi A6L, the long wheel-base A6 luxury sedan, and the A4 which are manufactured at Audi's plant in China. Shipments will start in the latter half of 2007. This marks the beginning of Hankook Tire's foray into high-end automobiles and should help us make greater inroads into the premium car market.

## Gold Award at the 2005 Ford World Excellence Awards

Hankook Tire received the 'Gold Award' at the '2005 World Excellence Awards' presented by Ford. Every year, Ford evaluates its approximately 150 suppliers in 17 countries based on product quality, delivery, service and price. Awards are given to the year's most outstanding suppliers. We were the only tire supplier among the year's awardees. The honor attests to our superior quality, reliable supply and competitive prices, and demonstrates the prominent role we play as Ford's global partner.

## Supplier for Volkswagen Golf

Since February 2006, Hankook Tire has been supplying 400,000 UHP tires and 100,000 regular tires a year for Volkswagen's 'Golf' and 'Bora' models. We believe the agreement not only serves as an opportunity for greater cooperation with the Volkswagen Group, but will also contribute to expanding our market share in the region.

WORLD LEADERS IN NEW TIRE SALES*		
	2006	2005
Bridgestone Corp.	\$19.7	\$17.4
Goodyear	\$16.0	\$15.1
Continental AG	\$11.8	\$12.3
Michelin	\$11.5	\$7.1
Pirelli & Co. SpA	\$8.0	\$4.0
Sumitomo Rubber Industries	\$3.5	\$3.5
Polyester Rubber Co.	\$3.0	\$2.8
Hankook Tire Co.	\$2.3	\$2.5
Chengde Tire & Rubber Co.	\$2.4	\$2.2
Sumitomo Tire Co. Inc.	\$1.8	\$1.3

Ranked Seventh-largest Tire Maker in the World



Start of Construction on Hungary Plant



Positive Reviews from Leading Automotive Publications in Germany



Tire Supply for Audi Luxury Sedan



Tire Supply for Germany's Volkswagen



Gold Award at the 2005 Ford World Excellence Awards

# NEW PRODUCTS

“ Based on our forward-looking approach, we conduct rapid new product launches to meet diverse customer needs and proactively respond to the ever-changing global marketplace. ”

## 2006 Overseas Markets

### ICE BEAR W300 (RUNFLAT)

Hankook Tire introduced the 'Ice Bear W300' in response to the fast-growing demand for 'Runflat' tires. The product was developed using our proprietary technology, the 'HRS(Hankook Runflat System)', and launched in Europe during the latter half of 2006. Vehicles equipped with 'Ice Bear W300' can continue to run at 80 km/h for up to 80 km even after a puncture and loss of air pressure.

### WINTER I\*PIKE

The follow-up to 'Zovac HP W401' and 'Winter Radial W404', 'Winter I-Pike' is a strategic product designed to brave the winters of northern Europe. Featuring an eco-friendly compound and sophisticated design, 'Winter I-Pike' has received rave reviews in northern Europe and North America. Optimized for winter performance, the product provides enhanced stability with its six-row stud pin arrangement, wide tread width and broad profile.

### WINTER RW06

'Winter RW06' was designed to cater to the European market. The successor to the 'Winter Radial W400' for vans, the product was launched in the first half of 2006. A silica compound was used to deliver optimal performance in rain and snow, while the new 'Tie-bar' allows for enhanced handling on dry surfaces and stability on snowy and icy roads. Hankook Tire also plans to introduce the 'Winter RW06' in Japan in the winter of 2007.

### VENTUS V2 LS

'Ventus V2 LS' is an Ultra High Performance(UHP) tire developed specially for the Middle Eastern market. Launched in the first half of 2006, the product is made of a 'HRC(Heat Resistant Rubber Compound)', taking into account the region's climatic conditions. Thanks to its steel belt and reinforced structure, 'Ventus V2 LS' can withstand rough roads and boasts added durability.

## 2006 Korean Market

### VENTUS AS

'Ventus AS' for SUVs was unveiled in Korea in September 2006, three months after its debut in North America. It is the first tire in Korea to feature six circumferential grooves that effectively channel away water. The tread design allows for optimal handling and a quiet, comfortable ride.

### NORDIK IS

A winter tire for SUVs, 'NORDIK IS' provides a reliable ride in snow, ice or rain. Launched in October 2006, the tire features interconnected tread blocks for enhanced control and braking on icy roads.

## TBR(TRUCK & BUS RADIAL)

### Overseas - AL07

The 'AL07' is designed for all-wheel drive vehicles and is the follow-up model to the 'AL01', sold in the U.S. market. Built for high-speed and long-haul traveling, the 'AL07' made its debut in January 2006. Even distribution of ground contact pressure leads to even wear, resulting in longer tire life.

### Korea - AH22

A premium tire for tractors and large trucks, the 'AH22' was launched in February 2006. Suited for a wide range of sizes, from five-ton trucks to super-large dump trucks, the product boasts an optimal profile for long-haul applications to deliver a smooth ride and superb handling. The 'AH22' provides exceptional wear resistance thanks to its new tread rubber and wide tread.





# *DRIVEN BY CONFIDENCE*

Tires are high-technology, high value-added products. I believe Hankook Tire's quality is on par with that of Michelin or Bridgestone. Hankook should not be shy about their technological achievements. I have maintained ties with Hankook Tire for 5 years. That would have been impossible without trust. I hope to sustain our relationship and be together with Hankook Tire.

Martin Helbach / President / Team Boxenstop



# GLOBAL OPERATION

“ With an extensive network spanning five regional headquarters in Korea, Europe, America, China and L.A.A.M, Hankook Tire is expanding its business with prominent global auto companies as we aggressively explore tire markets worldwide. ”

View of Hungary Plant



Located near Frankfurt, Germany, Hankook Tire Europe Headquarters comprises seven subsidiary offices (in Germany, the United Kingdom, France, the Netherlands, Italy, Spain and Europe Distribution Center) and three sales offices (in Hungary, Turkey and Russia). Europe is our largest market, accounting for 35% of total company exports. To better serve our European customers, we started building a plant in Dunaujvaros, Hungary in July 2006. Representing the first European production base of a Korean tire maker, the facility is scheduled to start operations in 2007. We are aiming to secure annual capacity of 10 million tires at the Dunaujvaros plant by 2010.

We proceeded with targeted marketing in 2006 by setting a goal of enhancing brand value and establishing Hankook Tire as a premium brand. The marketing mix included advertising, sponsorships, exhibitions, dealer events, promotions and expansion of the 'Hankook Masters' program (a Hankook loyalty retail network featuring approximately 1,500 dealers in Europe). We expanded awareness with our 'Tame the Beast-' European advertising campaign. Hankook Tire products were showcased at major exhibitions, such as 'Autosport International', 'Tuning World Bodensee' and 'Essen Motor Show'. In addition to being the official sponsor of the German safety tuning campaign '-Tune it! Safe!'- Hankook also sponsored prominent motorsports competitions, including the 'British Rally Championship', the 'RECARO Formula 3 Cup' in Germany and the 'Spanish Tarmac Rally'.

## 2007 Outlook

We aim to make 2007 the turning point in our drive towards becoming a leading global company. Through active marketing communications, we will work to transform the brand image of Hankook from quality for money to premium. We will promote our innovative products and services through important trade shows and motorsports sponsorships. We will also continue with our 'Tame the Beast-' ad campaign and extensive marketing communications activities, including extending our technology partnership contract with Hamann. Our OE supply agreements for high-end automobiles are also expected to produce synergies. Additionally, we will build up a PR network connecting Germany, Hungary, the United Kingdom and France to further promote the Hankook Tire brand among European consumers.



View of Hankook Tire EU HQ



'Tune it! Safe!' Campaign





# AMERICA HEADQUARTERS



# CHINA HEADQUARTERS



View of Hankook Tire America HQ



MLB



The America Headquarters, based in New Jersey, oversees sales and distribution in the United States, Canada and Puerto Rico. The regional network encompasses five offices and seven distribution centers. A wide range of products - including radial and UHP tires for passenger cars, tires for light trucks, 4 x 4 trucks, large trucks and buses - are supplied to approximately 3,000 retailers through some 500 wholesalers. We provide OE tires to renowned automakers based in North America, including Ford, GM, and Hyundai Motor, in addition to supplying 120,000 truck tires per annum to ITEC (International Truck & Engine Corporation), the region's leading seller of trucks and buses. Effective marketing for new product launches, motorsports sponsorships and regional trade shows are reinforcing the Hankook Tire brand in North America. Also having a strong impact are a magazine ad campaign and promotional events for consumers. Notably, the Hankook Tire name appeared behind home plate at 14 Major League Baseball (MLB) team stadiums in 2006. Broadcast coverage of MLB games and our signage resulted in significant media exposure in the United States and around the world.

### 2007 Outlook

Efforts to establish a strong brand image will continue in 2007, including the regional 'Tame the Road' ad campaign for online, radio and magazine media exposure. We will set up a PR network and continue to hold our 'Ride & Drive' event for dealers and the media to promote the excellent performance of Hankook Tire products. We also will implement 'Mobile Marketing' to establish a two-way communication channel with consumers. A specially designed trailer will appear at various events sponsored by the North American Regional Headquarters, such as 'Formula D', 'Time Attack', 'MLB' games and the 'SEMA (Specialty Equipment Market Association) Show' to make Hankook Tire a more familiar name with local consumers. Our plans include conducting product quality tests to publicize the high technological standards of Hankook Tire and increase brand credibility.

Hankook Tire commands the largest market share for passenger-car tires in China. Our foray into China began with the construction of factories in Jiaxing and Jiangsu in 1996. Then in 1998, we established the China Technical Center to develop products that best meet the requirements of the China market. Extensions to the center followed in 2006 in the vicinity of the Jiaxing plant. Along with local production, the China Headquarters has maintained a keen interest in the OE (Original Equipment) market. Tires produced at our Chinese factories are shipped to the auto plants of Ford and GM in Europe and the United States. In particular, Hankook Tire received the coveted 'Q1 Award' given by Ford to outstanding suppliers. Leveraging our leading position in China's passenger-car tire market, we continued to expand local facilities, starting production of truck and bus tires in 2003. These efforts have resulted in growing sales in China as well as exports.

### 2007 Outlook

In 2007, we plan to continue to expand our share of the tire market in China. To that end, we will expand plant capacity while stepping up R&D investments and marketing endeavors. We will set up our one-stop premium auto and tire service franchise, 'T Station', in major cities across the country, starting with the first store in Shanghai, while boosting tire supplies for high-end automobiles. In December 2006, Hankook Tire signed a technical agreement with Audi which also should cultivate our image as a premium brand. We will increase ad exposure through China Central Television, the state-run television network, radio and major magazines and continue with our marketing communications activities such as actively participating in international auto exhibitions and motorsports events held in the country. Our aim is not only to be the market leader, but to grow into the tire brand most preferred by Chinese consumers.



View of Hankook Tire China HQ



Jiangsu plants



Jiaxing plants





# L.A.A.M HEADQUARTERS



# KOREA HEADQUARTERS

The L.A.A.M (Latin America, Asia-Pacific, Africa and the Middle-East) Headquarters was created following a reorganization of our global operations in 2006. Working under the L.A.A.M Headquarters are three support teams at the Seoul head office (Latin America & Asia-Pacific Team, Middle East & Africa Team and the Marketing Planning Team), seven branch offices (in Mexico City, Sao Paulo, Panama, Jeddah, Dubai, Bangkok and Santiago), and two overseas subsidiaries (in Japan and Australia).

A wide range of marketing activities marked the first year of operations at L.A.A.M Headquarters. Eleven VIP (Very, Very Important Person) global customers were invited to a special event on Jeju Island, Korea. Regional dealer meetings were held in Cuba, Thailand, Malaysia and South Africa to communicate the Hankook Tire vision and speak about our products. We also participated in the '2006 Tokyo Auto Salon', organized test drives and advanced our distribution channel to expand sales of high value-added products and reinforce our brand image.



VIP Invitational Event in Jeju-do



Test-drive Event in Japan

### 2007 Outlook

As part of our concentrated marketing efforts, we will pay special attention to sub-dealers in the L.A.A.M market and carry out more activities targeting retail outlets and consumers. Along with ongoing efforts to strengthen the position of Hankook Tire in the L.A.A.M region, a TFT(Task Force Team) will be set up to pursue our goal of becoming a 'Top-tier' tire maker.

※ L.A.A.M (Latin America, Asia-Pacific, Africa, Middle-East)



The Korea Headquarters is where Hankook Tire's history began. Korea is also home to the company's main production base, responsible for more than 60% of total output. The Daejeon plant brings together state-of-the-art facilities and accumulated know-how, while the Geumsan plant boasts advanced automated production systems under the concept of a 'Green Factory'. The domestic sales, logistics, purchasing and marketing functions are also under the umbrella of the Domestic Sales Division. Having seized 45% of local tire demand, Hankook Tire's marketing focus in the Korean market is to defend its leadership position against the increasing numbers of imported brands.

Hankook Tire started investing in domestic motorsports in the early 1980s, just as competitive racing was getting off the ground. Having taken an early lead, our full-fledged motorsports marketing began in the 1990s. Last year, we started sponsoring the 'Hankook Performance Challenge' to promote amateur racing. At the professional level, we sponsored the 'Kxx Racing Team', which grabbed the winner's cup in both 2005 and 2006 at the 'Korea Grand Touring Car Championship(KGTC)', the most prominent racing competition in the country.

Hankook Tire has a keen interest in promoting driver safety and convenience. As part of our safe-driving campaign, we provide free tire checks to the public. In 2006, we provided this service on six occasions to coincide with major national holidays such as the Lunar New Year and Chuseok(Korean Thanksgiving) as well as the summer holiday season.

There has been a shift in consumers' perception of tires; consumer preference now plays a bigger role. In response, we are putting greater emphasis on enhancing brand value and domestic distribution. This approach is behind the expansion of the 'T'Station' network. One-stop tire and auto service centers, 'T'Station' is our flagship retail distribution channel. It presents a new standard in vehicle maintenance by providing uniform prices and quality customer service in a sophisticated retail environment.

### 2007 Outlook

Cultivating a premium brand image for Hankook Tire remains an important task for 2007. To that end, we will extend the 'T'Station' network. Efforts will continue to provide excellent quality and total service at all customer contact points. Moreover, we plan to leverage the know-how learned in Korea to lend systematic support to optimize operations at our new plant in Hungary and expand our distribution points within China.



View of Korea HQ



Daejeon plants



Geumsan plants





# DRIVEN BY INSPIRATION

In 2007, we predict Hankook Tire will see a marked improvement in its brand image through the commencement of the supply of high value-added UHP tires to Germany's Audi. In particular, with its new plant in Hungary slated to start operations in the second half of the year, Hankook Tire will be able to take advantage of its excellent quality- versus- price ratio to expand its share of the European market and secure a sales network to realize higher product prices. We look forward to seeing Hankook Tire leading the global tire market by furthering strengthening its corporate competitiveness.

Hak Joo Kim / Head of Research / Samsung Securities

# ORIGINAL EQUIPMENT BUSINESS



“ Hankook Tire products are being fitted in premium automobiles just five years after the full-fledged launch of our OE (Original Equipment) business. Our growing OE volume demonstrates the credibility of the Hankook Tire brand and should lead to higher prices and enhanced marketing advantages. ”



## OE Tires for Trucks and Buses

We added ITEC (International Truck & Engine Corporation) to our customer list in April 2006 with an agreement to supply 120,000 tires a year. ITEC is the second-ranked truck and bus maker in North America. In dollar terms, the deal is worth USD 16 million per annum. The contract marks our successful entry into the OE market for Truck and Bus Radial (TBR) tires, where technological support is a vital factor.

## Annual Supply of 3.5 Million Tires to Ford

In 1999, Hankook Tire became the first Asian tire supplier to U.S.- based Ford. The following year, Ford gave us the 'Q1-AWARD', a mark of recognition for excellence in product quality. Our supply volume to Ford grew from 50,000 spare tires in 2003 to 170,000 UHP products in 2004. In 2006, our total shipments to the U.S. auto giant amounted to 3.5 million units.

## Annual Supply of 540,000 Tires to Volkswagen

In 2006, Hankook Tire began its annual supply of 400,000 UHP tires and 140,000 general tires for Volkswagen's new 'Golf' and 100,000 UHP tires for the 'Bora'. First launched in 1974, the Golf remains the best-selling model in Western Europe, with regional sales reaching 450,000 units a year.

## Annual Supply of 2 Million Tires to GM

Hankook Tire's supply to GM started in 2005 with shipments for the 'Saturn ION' and 'Buick LeSabre' models. Supplies for 'Chevrolet' and 'Cobalt' were added from June 2006. At present, our UHP products are also being supplied for the 2007 'Pontiac G6' and 'Saturn Aura'. Our growing business with GM is giving us greater exposure in the United States. 'Pontiac G6', 'Saturn ION' and 'Saturn Aura' fitted with Hankook Tire products drew a warm response from the crowds at the 'North American International Auto Show' held in Detroit in January 2006. The 'Saturn Aura' was even selected as the 'Car of the Show'. Our growing OE volume to GM is a testament to our world-class technology.

## Tire Supply for Audi Luxury Sedans Produced in China

Audi 'A6L' and 'A4' luxury sedans manufactured in China will feature Hankook Tire products starting in June 2007. The two models will be fitted with the Ultra High Performance(UHP) tire 'Ventus S1 evo', which comes in 16-inch and 17-inch sizes. The deal with Audi is meaningful in that it is the first time that our products will be featured in high-end automobiles. Under the agreement with Audi, we will provide an annual volume of 90,000 units for the two models.

## Tire Supply for Hyundai and Kia Overseas Plants

In line with the growth of the domestic auto industry, Hankook Tire has been enjoying increasing recognition for quality products and technology through its global OE business activities. In 2006, we supplied approximately 9.23 million tires to major Korean automakers including Hyundai Motor, Kia Motors, GM Daewoo and Renault Samsung Motors. In 2005, Hankook Tire began supplying tires to Hyundai Motor's plant in India. We recently signed a contract to supply 90,000 UHP tires per year for Sonatas produced at the leading Korean automaker's Alabama plant from 2007. Additionally, starting in 2007, we plan to supply 120,000 SUV tires annually to Kia Motors' plant in Slovakia.

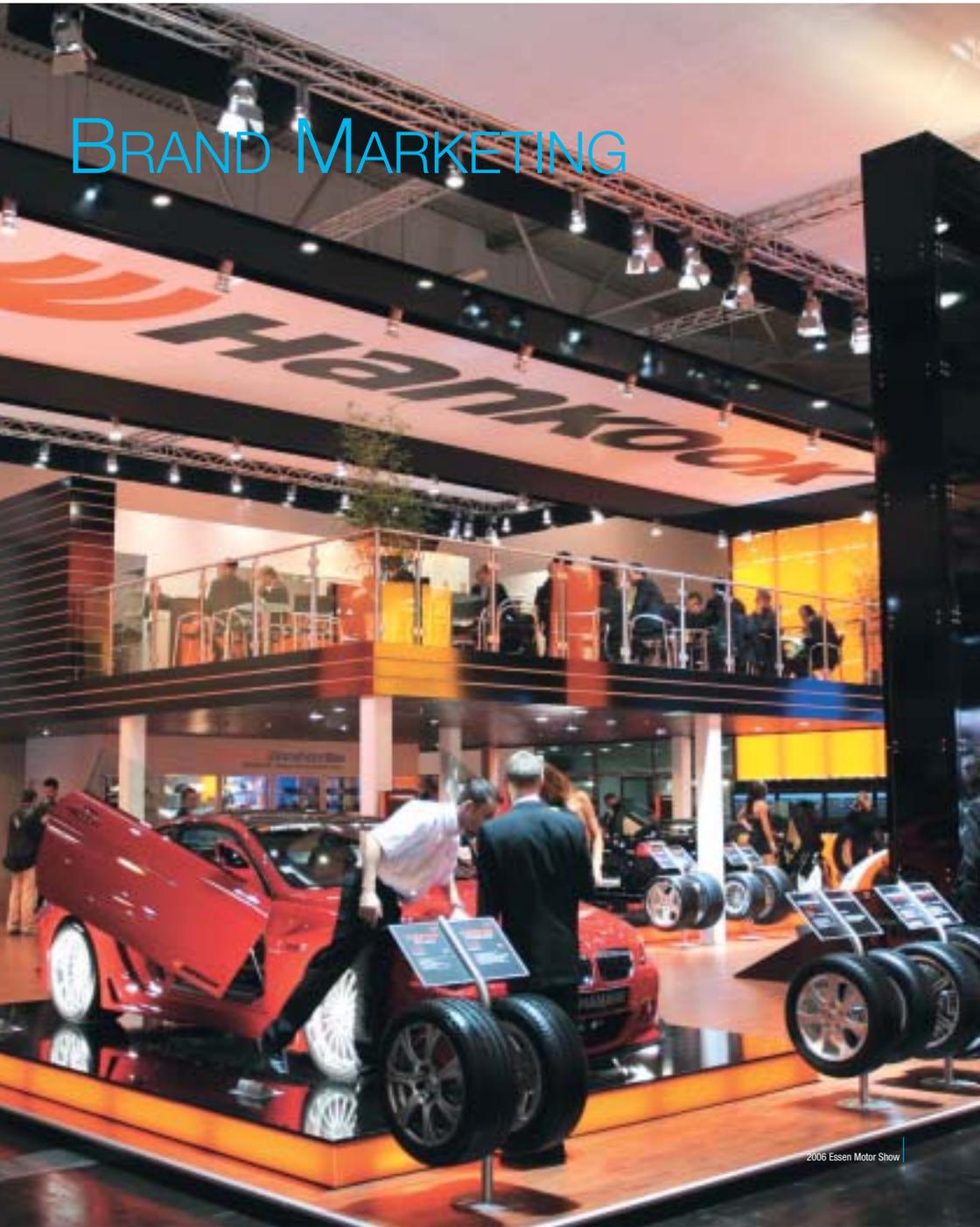


Pontiac G6



Saturn Aura

# BRAND MARKETING



2006 Essen Motor Show



Through our global marketing activities that include participating in international exhibitions, domestic and overseas motorsports events and sports marketing campaigns, Hankook Tire is well on its way to strengthening its premium image and enhancing corporate value. ”

## Exhibitions

### 2006 Essen Motor Show \_ Germany

Hankook Tire showcased an impressive booth at the '2006 Essen Motor Show' in Germany. The sophisticated booth design and product arrangement drew the attention of dealers, participants and the media. The company also attracted the spotlight with its Brabus Rocket Police Car, the world's fastest sedan from Mercedes, as part of its collaboration with the German government in the 'Tunt it! Safe!' campaign for safe tuning.

### 2006 SEMA Show \_ USA

Hankook Tire displayed 30 products at the '2006 SEMA Show' held at the Las Vegas Convention Center. The lineup included 'DynaPro AT-M', our latest offering for Sports Utility Vehicles (SUVs), in addition to tires for sports sedans, SUVs and trucks. The unveiling of the first drift-spec Porsche was another major crowd-pleaser.

### 2006 Tokyo Auto Salon \_ Japan

Hankook Tire presented a diverse array of products including its newest UHP lineup at the '2006 Tokyo Auto Salon', held at the Makuhari Messe at the Nippon Convention Center.

### 2006 Guangzhou International Automobile Exhibition \_ China

By participating in the '2006 Guangzhou International Automobile Exhibition', one of China's three leading exhibitions, Hankook Tire confirmed its status as the No.1 brand for passenger-car tires in China. The company introduced its runflat tires and environmentally friendly products and featured its racing girls in a special show.

## Sports Marketing

### Korea

#### CJ KGTC (Korea Grand Touring Car Championship)

'KGTC' is Korea's leading motorsports event featuring professional drivers. The Hankook Tire-sponsored 'Kixx Racing Team' grabbed the championship title in 2006, coming in first for the second year in a row.

#### Hankook Performance Challenge

Hankook Tire has been sponsoring the 'Hankook Performance Challenge' since 2006 to promote amateur racing. Ordinary drivers and auto enthusiasts compete in a variety of events including the 'Gymkhana', 'Drag Race', 'Drift', 'Time Attack' and 'GT Race'.

### Europe

#### British Rally Championship\_the United Kingdom

The Hankook Tire-sponsored 'SJR Hankook (Stuart Jones Hankook)' team managed podium finishes in rounds one (third place) and four (first place) of the prestigious 'British Rally Championship'.

#### RECARO Formula 3 Cup\_Germany

Hankook Tire was the official tire of the 2005 and 2006 'RECARO Formula 3 Cup' in Germany, often called the birthplace of formula racing.



2006 SEMA Show



2006 Tokyo Auto Salon



CJ KGTC



RECARO Formel 3 Cup

第  
BRAND MARKETING



**Asia**

**Super GT\_Japan**

Hankook Tire finished third at the 'Super GT', one of the world's three major GT championships along with Europe's FIA GT and Germany's DTM. The podium finish, in what was Hankook's inaugural race at the championship, was a first for a foreign tire maker.

**China Circuit Championship\_China**

Our Hankook-sponsored 'Weihaio Racing Team' clocked in at second and third place in round 3 of the 'China Circuit Championship(CCC)' in 2006. Hankook plans to continue its sponsorship activities in 2007 to raise its profile as the No.1 tire brand in the Chinese market.

**United States**

**Time Attack**

'Hankook JIC USA' took overall first place among 47 teams at the 'Redline Time Attack' in the United States, enhancing Hankook Tire's brand recognition.

**Sponsorship**

**MLB / NBA / Bundesliga**

To enhance brand awareness, we conduct sports marketing activities through Major League Baseball(MLB) and National Basketball Association(NBA) signage in addition to sponsoring a football team in the German Bundesliga. In 2006, the Hankook name and logo appeared prominently in home-plate ads for 14 MLB. We also sponsor 6 NBA teams and the Kaiserslautern football club of Germany's Bundesliga.

**Distribution Channel Marketing**

**100th T'Station**

In July 2004, Hankook Tire opened the first store in our tire distribution franchise, 'T'Station'. Two and a half years later, we celebrated the launch of its 100th shop. 'T'Station' is Hankook Tire's one-stop tire and auto service center, providing uniform prices and quality customer service in a sophisticated retail environment. We introduced the first 'T'Station' in Shanghai, China in April 2007 and boldly expand our presence in the Chinese market to raise our brand value.

**Hankook Masters**

In order to secure a competitive edge and satisfy the diverse demands of our customers, Hankook Tire is providing a differentiated sales environment that is tailored to customer needs by building a retail distribution brand in Korea and China. In Europe, we are expanding our loyalty retail network of tire dealers called 'Hankook Masters' to establish a systematic distribution network and provide better services to our customers.



Super GT



Time Attack



Sponsor of Bundesliga Football Team



100th T'Station Open

# RESEARCH & DEVELOPMENT



“ Continued process innovation allows us to develop quality products in a timely manner and ensure competitiveness. Hankook Tire’s cutting-edge technology and global R&D network are ushering in a better tomorrow. ”

## New Product Development

In 2006, Hankook Tire developed a total of 18 new products, including the environmentally friendly ix-Optimo which vastly improved fuel efficiency by lowering rolling resistance, and 'AH22', a premium TBR tire with enhanced riding comfort and durability. For 2007, work is in progress to introduce 30 new items, including more energy efficient 'Green' tires; max performance tires that boast top-of-the-line performance; high end tuning tires; SUV/Sports Truck Tires; long-distance TBR tires; and next-generation premium UHP runflat tires.

## New Technology Development

In 2006, Hankook Tire developed and enhanced the foundation of many tire technologies not limited to : optimal profile- design technology to develop ultralightweight, ultra- fuel efficient and environmentally friendly tires; tire movement-prediction technology using tire patterns; and material technology. Additionally, we created a 'Virtual Engineering System' to design and evaluate tires. In 2007, Hankook Tire will conduct even more advanced R&D activities, including improving simulation-prediction technologies and key design technologies to secure its position as a major supplier to global automakers and respond to its diversified OE(Original Equipment) business with Ford and Volkswagen. We also plan to continue research into the best pattern design to deliver safe and comfortable driving under special road conditions, such as wet or rough roads, and technology to predict performance changes in different driving conditions.

## Global Product Development

As part of measures to boost our ability to develop high-tech products and reinforce our global R&D network in response to the rapidly changing global tire market, Hankook Tire established the 'PLM (Product Lifecycle Management) system' at ATC and at our Hungary plant in 2006. In 2007, we plan to build the environment to conduct prior performance-prediction simulations, product design and results analysis within the PLM system and also implement the system at ETC.

## Hankook Tire R&D Centers

### Main R&D Center

Located within Daeduk Science Town in Korea, the Main R&D Center is equipped with the latest research equipment and boasts the top talents within the industry. The Center acts as our hub for tire research and is leading our R&D activities in globally competitive technologies.



Main R&D Center

### Akron Technical Center (ATC)

Our first overseas R&D center is located in Ohio, the mecca of the U.S. tire industry. With the latest research equipment and testing facilities, ATC plays a key role in Hankook Tire's efforts to develop technologies of international standards.



Akron Technical Center (ATC)

### Europe Technical Center (ETC)

Established in Hannover, Germany in 1997, ETC conducts research activities tailored to the unique climatic and driving conditions of Europe. ETC is our base for developing products for export to Europe.



Europe Technical Center (ETC)

### China Technical Center (CTC)

Located in Jiaxing in Zhejiang Province, CTC was set up in 1998 to oversee development of tires suited for Chinese and Asian climatic and road characteristics. CTC is also focused on improving the quality of our tires produced in China.



China Technical Center (CTC)

### Japan Technical Liaison Center (JTC)

JTC began operations in March 2002 in Osaka to collect technology data on the Japanese market and spearhead product development.



Japan Technical Liaison Center (JTC)

Hankook Tire's R&D activities take place at our Main R&D Center inside Daeduk Science Town in Korea, and at the Akron Technical Center (ATC) in the United States, the Europe Technical Center (ETC) in Germany, the China Technical Center (CTC) and the Japan Technical Liaison Center (JTC). We currently invest approximately 5.3% of annual revenues into R&D and retain 730 R&D personnel, including 380 staff who hold doctoral and masters' degrees. Having R&D centers in five different countries gives us a key advantage in developing specialized products for each region. With consumers in the United States, Europe and Asia having distinctly different preferences when it comes to tires, we are in the midst of expanding our personnel at overseas R&D centers to better anticipate market trends and demands.

# SOCIAL RESPONSIBILITY



“ We are paving the road to a hope-filled future with our spirit of sharing. Since its inception in 1990, the Hankook Tire Welfare Foundation has been growing by KRW 1 billion every year and now manages funds worth KRW 20 billion. The foundation helps us to realize our commitment of growing alongside our community by engaging in a broad array of voluntary and social charity works. ”

### Hankook Tire Welfare Foundation - The True Spirit of Sharing

Hankook Tire set up a welfare foundation in 1990 to mark the 50th anniversary of 'its founding by giving back to society'. Set up with an initial investment of KRW 3 billion, the foundation has steadily grown over the years to be worth KRW 20 billion in 2006. The funds are directed toward various programs designed to promote the well-being of our communities. The foundation supports numerous causes, including providing meals for underprivileged children, donations to social welfare facilities for children, scholarships for children of low-income families and financial aid for medical treatment at four hospitals(Holy Family Hospital, Sacred Heart Hospital, St. Joseph's Hospital and St. Vincent's Hospital). It also provides monthly financial support for 100 children who head their households or have been orphaned by traffic accidents.

### Emergency Financial Aid

The foundation provides emergency financial assistance to families experiencing economic hardships due to unemployment or illness. It also extended a helping hand to the victims of floods and typhoons in 2006.

### Home-care Visits

The foundation's 'Circular Laundromat' project is based on the principle of taking our services to where they are needed. Volunteers visit senior citizens who live alone and take care of their laundry needs to ensure they always have a fresh change of clothes.

### Reaching Out to Citizens in Remote Areas

The foundation takes special care to extend support to people living on remote islands and other isolated regions. These hard-to-reach places are often beyond the scope of government support or charity groups due to geographical constraints.

### Shaping a Clean Future with a 'Green Factory'

In response to growing environmental awareness, we have adopted the concept of a 'Green Factory', which pursues the dual objective of productivity improvement and environmental preservation. We took our initiative one step further in 2003 by creating an Environment & Safety Team and enhancing our system for safety, health and environmental management. In addition, we are helping to instill the importance of our natural surroundings among the young people of today, who will grow up to be our future customers. Since 1998, we have been conducting environmental classes for more than 5,500 young people to teach them about the value of preserving our natural habitat.



Support for Laundry Room Installation



Briquet-sharing Activities



Walkathon for the Disabled



Kimchi-making Event



Rice of Love Event



Blood Drive at R&D Center



# FINANCIAL SECTION

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# MANAGEMENT'S DISCUSSION & ANALYSIS

## . Overview of 2006

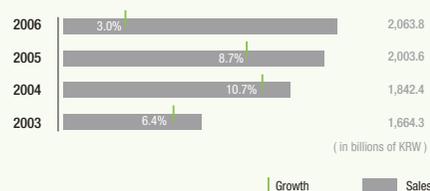
The global GDP growth rate came in at 3.8% in 2006 as the solid performance of the Japanese and European economies coupled with rapid growth in China offset the slowdown in the US. The Korean economy experienced a moderate slowdown, with activity losing slack in both the manufacturing and service sectors. The KRW/USD exchange rate declined to 958.0 from 1025.0 in 2005, while crude oil prices, which influence the movement of raw material prices, sustained their rising trend that began in 2004.

Domestic Market Share			
	2006	2005	2004
RE	44.7	43.7	45.3
OE	45.1	43.9	43.0

Refer to in-house survey

Hankook Tire posted sales of KRW 2,063.8 billion in 2006, up by 3% relative to 2005. Sales growth decelerated compared to the previous three years largely due to appreciation of the Korean currency. Ultra High Performance (UHP) tire sales declined slightly from 2005 and accounted for 13.2% of total sales. Because of their high export ratio, UHP tires display high sensitivity to changes in the foreign exchange rates. Other reasons for the slower sales growth were an increase in the sales contribution of overseas OE sales, which carry lower prices, and fiercer competition.

## Sales Trend



## . Results of Operations

### Summary of Income Statement

	2006	2005	Change(%)
<b>Sales</b>	2,063.8	2,003.6	3.0
Cost of goods sold	1,498.2	1,385.9	8.1
<b>Gross profit</b>	565.6	617.7	-9.4
Selling & administrative expenses	391.0	387.0	1.0
<b>Operating income</b>	174.5	230.7	-24.4
<b>Non-operating income</b>	120.8	122.6	-1.5
Gains on equity method	30.3	48.8	-37.9
Gains on foreign currency	34.6	39.8	-13.1
Others	55.9	34.0	63.5
<b>Non-operating expenses</b>	65.8	70.6	-6.8
Interest expenses	6.7	4.5	48.9
Loss on foreign currency	24.2	35.2	-31.3
Loss on equity method	8.2	6.9	18.8
Others	26.7	24.0	11.3
<b>Ordinary income</b>	229.5	282.7	-18.8
<b>Net income</b>	170.2	213.8	-20.4

based on domestic production

The operating environment took a further downturn in 2006, with raw material prices climbing more than 10% (year-average basis) and the won/USD rate falling 7.9%. Recognizing the sense of urgency, Hankook Tire made consistent efforts to curtail costs and raised product prices. Overall, sales grew 3% year-on-year to KRW 2,063.8 billion but operating income decreased 24.4% to KRW 174.5 billion.

### Exports and Domestic Sales

	2006	2005	2004
Export sales	1,403.4	1,393.1	1,281.4
Domestic sales	660.4	610.5	561.0
<b>Total</b>	<b>2,063.8</b>	<b>2,003.6</b>	<b>1,842.4</b>

Based on revenues from Hankook Tire's domestic plants (Daejeon, Geumsan)

## MANAGEMENT'S DISCUSSION & ANALYSIS

While we incurred additional costs from our new plant in Europe, royalty and commission income from our China operations increased. On the whole, equity method gains retreated to KRW 22.1 billion from KRW 19.8 billion in 2005. Consequently, ordinary income slid 18.8%. Non-operating income edged down 1.5% to KRW 120.8 billion while non-operating expenses dropped 6.8% to KRW 65.8 billion.

### Sales by Region

	(in billions of KRW)		
	2006	2005	2004
North America	356.1	382.5	349.5
Central/South America	109.9	85.3	57.0
Asia	258.7	277.7	249.2
Europe	490.1	425.4	435.5
Others	-	61.2	52.4
Local sales	188.7	166.1	140.0
Domestic sales	660.4	610.5	561.0
<b>Total</b>	<b>2,063.8</b>	<b>2,003.6</b>	<b>1,842.4</b>

From 2006, sales generated from China are included in others

### Financial Conditions

As of the end of December 2006, total assets expanded by 10.9%. Total liabilities went up to KRW 643.1 billion from KRW 574.9 billion recorded a year earlier. Additional investment in China and outlays for the new plant in Europe drove up long-term liabilities to KRW 146.3 billion, up 30.5% from a year ago. Inventories rose by 19.6% to KRW 255.2 billion.

### Summary of Balance Sheet

	(in billions of KRW)		
	2006	2005	Change(%)
<b>Total assets</b>	<b>2,165.9</b>	<b>1,953.5</b>	<b>10.9</b>
Current assets	586.0	413.7	41.6
Quick assets	330.8	200.4	65.1
Inventories	255.2	213.3	19.6
Non-current assets	1,579.9	1,539.8	2.6
Investments	417.1	356.2	17.1
Property, plant & equipment	1,155.5	1,174.8	-1.6
Intangible assets	7.3	8.8	-17.0
<b>Total liabilities</b>	<b>643.1</b>	<b>574.9</b>	<b>11.9</b>
Current liabilities	496.8	462.8	7.3
Long-term liabilities	146.3	112.1	30.5
<b>Total shareholders' equity</b>	<b>1,522.8</b>	<b>1,378.7</b>	<b>10.5</b>
<b>Total liabilities &amp; total shareholders' equity</b>	<b>2,165.9</b>	<b>1,889.6</b>	<b>14.6</b>

### Key Financial Ratios

	(%)		
	2006	2005	Change(%)
Current ratio	117.9	89.4	28.5
Debt-to-asset ratio	10.4	9.9	0.9
ROA	7.9	10.9	-3.0
ROE	11.2	15.5	-4.3
Debt-to-equity ratio	42.2	41.7	0.5

Short-term borrowings including the current portion of long-term liabilities stood at KRW 145.6 billion, down by KRW 9.3 billion from KRW 154.9 billion posted a year earlier. Long-term liabilities went up to KRW 146.3 billion from KRW 112.1 billion. With total liabilities and total shareholders' equity rising by KRW 69.2 billion and KRW 144.1 billion, respectively, the debt-to-equity ratio inched up to 42.2% from the previous year's 41.7%.

Hankook Tire stepped up investments in 2006 to expand its scale of operations, while appreciation of the Korean won and raw material price hikes posed a burden. These factors combined to pull down the key financial ratios. However, the prevailing market view is that the setbacks were within an acceptable range, considering the nature of the manufacturing business. We will continue with efforts to bolster sales and enhance profitability to maintain stable growth going forward.

### Borrowings

	(in billions of KRW)		
	2006	2005	Change(%)
Short-term borrowings	145.6	154.9	-0.6
Long-term borrowings	81.3	38.6	110.6
<b>Total</b>	<b>226.9</b>	<b>193.5</b>	<b>17.3</b>

### Outlook for 2007

Global GDP growth is expected to decelerate in 2007 amid a slowdown in the major economies such as the US and China. Over in the US, consumer sentiment is likely to cool due to high oil prices and high interest rates. Growth is also projected to slow in China in view of concerns over excessive investment and weaker exports prompted by revaluation of the yuan. Turning to the Korean economy, the GDP growth rate is forecasted to reach 4.7%, with consumption expenditure losing pace and facility investment growth remaining weak for the time being.

Hankook Tire is maintaining a conservative outlook with respect to the prices of crude oil and raw materials. While the rate of increase may moderate, we anticipate prices to remain firm in 2007. To expand production capacity, we plan to push ahead with facility expansion both at home and abroad. That, in turn, could lead to an increase in borrowings.

Given the outlook for a challenging business climate in 2007, our goal of joining the 'Top-tier' tire makers may become further from our reach if we miss the right timing. As such, facility investment is an important task facing Hankook Tire at this crucial juncture. In addition to raising domestic and overseas product prices, we will continue to enhance our product mix and marketing activities. We will also keep up efforts to boost productivity and realize cost savings to achieve stable growth and earnings in the year ahead.

Operating result figures in 2005 and 2006 were affected by a change in accounting policy (sales incentives were previously treated as an administrative & selling expense, but are now deducted from sales). Disclosure made on January 19, 2007.

# FINANCIAL REPORT

## Hankook Tire Co., Ltd. Non-Consolidated Balance Sheets December 31, 2006 and 2005

( in thousands of Korean won )		
Assets	2006	2005
<b>Current assets</b>		
Cash and cash equivalents (Notes 3 and 33)	15,997,085	6,739,013
Short-term financial instruments (Notes 3)	5,000,000	-
Trade accounts and notes receivable, net (Notes 4 and 5)	234,673,051	144,285,933
Short-term loans receivable (Notes 6 and 30)	123,601	90,778
Inventories, net (Notes 7 and 10)	255,197,634	213,327,854
Other receivables, net (Note 4)	19,880,437	17,288,042
Accrued income	44,427,998	21,694,822
Current deferred income tax assets (Note 24)	2,390,150	2,314,504
Other current assets	8,321,450	8,005,546
<b>Total current assets</b>	<b>586,011,406</b>	<b>413,746,492</b>
Property, plant and equipment, net (Notes 9 and 10)	1,155,451,661	1,174,845,799
Long-term financial instruments (Note 3)	18,500	21,500
Available-for-sale securities (Note 8)	15,887,815	15,495,693
Held-to-maturity securities (Note 8)	1,499,850	1,499,171
Investments in equity method investees (Note 8)	372,464,255	305,471,784
Long-term loans receivable (Notes 6 and 30)	2,148,997	1,658,172
Long-term other receivables, net (Note 4)	-	3,055
Non-current guarantee deposits	19,140,144	19,273,081
Non-current deferred income tax assets, net (Note 24)	5,898,850	12,745,691
Intangible assets, net (Note 11)	7,341,549	8,781,228
	<b>2,165,863,027</b>	<b>1,953,541,666</b>

## Hankook Tire Co., Ltd. Non-Consolidated Balance Sheets December 31, 2006 and 2005

( in thousands of Korean won )		
Liabilities and Shareholders' Equity	2006	2005
<b>Current liabilities</b>		
Short-term borrowings (Notes 5 and 12)	124,751,200	123,701,345
Current maturities of long-term debt, net (Notes 5 and 12)	20,889,120	31,235,552
Trade accounts and notes payable (Note 5)	167,305,468	130,948,735
Other accounts payable	118,977,255	99,436,512
Advances received	1,957,272	1,509,399
Dividends payable	26,574	23,985
Accrued expenses	17,112,337	16,138,830
Income taxes payable (Note 24)	34,835,858	45,675,952
Other current liabilities	10,985,549	14,147,721
<b>Total current liabilities</b>	<b>496,840,633</b>	<b>462,818,031</b>
Debentures, net of current maturities and discounts on debentures, net (Note 13)	29,915,089	29,865,496
Long-term borrowings, net of current maturities (Notes 5 and 13)	51,417,360	8,750,000
Long-term guarantee deposits payable	17,589,457	17,742,299
Long-term other payables (Note 16)	23,846,282	32,431,108
Accrued severance benefits, net (Note 15)	23,454,382	23,278,048
<b>Total liabilities</b>	<b>643,063,203</b>	<b>574,884,982</b>
Commitments and contingencies (Note 17)		
Shareholders' equity		
Common stock (Note 1)	76,094,965	75,094,965
Capital surplus		
Paid in capital in excess of par value	115,653,338	91,659,752
Revaluation reserve (Note 18)	456,473,224	456,473,224
Other capital reserves	51,877,387	51,877,387
Retained earnings (Note 19)	860,674,938	727,049,203
Capital adjustments (Note 21)	(37,974,028)	(23,497,847)
<b>Total shareholders' equity</b>	<b>1,522,799,824</b>	<b>1,378,656,684</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,165,863,027</b>	<b>1,953,541,666</b>

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

**Hankook Tire Co., Ltd.**  
**Non-Consolidated Statements of Income**  
**Years Ended December 31, 2006 and 2005**

	(in thousands of Korean won, except for share amounts)	
	2006	2005
Sales(Notes 22, 31 and 32)	2,063,766,333	2,003,599,974
Cost of sales(Notes 22 and 32)	1,498,206,978	1,385,898,555
Gross profit	565,559,355	617,701,419
Selling and administrative expenses(Notes 23 and 28)	391,024,443	386,998,926
Operating income	174,534,912	230,702,493
<b>Non-operating income</b>		
Interest income	5,676,902	4,607,458
Dividend income	252,696	413,220
Commission income	12,420,079	1,897,563
Gain on disposal of securities	43,761	-
Gain from equity method investments (Note 8)	30,274,255	48,836,801
Foreign exchange gains	32,747,640	24,825,012
Gain on foreign currency translation	949,749	12,323,812
Gain on disposal of property, plant and equipment	409,046	183,215
Royalty fee income	32,015,874	18,087,279
Rental income	2,315,432	2,334,599
Reversal of allowance for doubtful accounts	-	629,783
Recovery of impairment losses on property, plant, and equipment	-	1,454,515
Gain on disposition of trading securities	-	57,423
Gain on prior period adjustment	-	2,042,060
Currency forward transaction gains (Note 17)	1,015,175	2,685,875
Income tax refunds	197,051	-
Others	2,463,883	2,255,031
	120,781,543	122,633,646
<b>Non-operating expenses</b>		
Interest expense	6,727,741	4,549,984
Foreign exchange losses	21,090,351	25,918,094
Loss on foreign currency translation	2,346,109	8,615,895
Loss on disposal of available-for-sale securities	40,557	46,081
Loss on disposal of investments in equity method investees	342	-
Loss on disposal of property, plant and equipment	1,326,626	2,428,206
Loss on sale of accounts receivable	20,966,265	17,535,931
Impairment loss on available-for-sale securities (Note 8)	809,580	56,957
Donations (Note 30)	422,000	268,300
Loss from equity method investments (Note 8)	8,240,678	6,931,706
Loss on disposal of inventories	1,575,773	1,296,618
Currency forward transaction losses (Note 17)	760,750	726,375
Others	1,474,941	2,280,716
	65,781,713	70,654,863
Income before income taxes	229,534,742	282,681,276
Income tax expense (Note 24)	59,361,524	68,906,372
Net income	170,173,218	213,774,904
<b>Earnings per share (in Korean won) (Note 25)</b>		
Basic ordinary income per share	1,152	1,462
Basic earnings per share	1,152	1,462
Diluted ordinary income per share	1,152	1,462
Diluted earnings per share	1,152	1,462

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

**Hankook Tire Co., Ltd.**  
**Non-Consolidated Statements of Appropriations of Retained Earnings**  
**Years Ended December 31, 2006 and 2005**  
**(Date of Appropriations: March 16, 2007 and March 17, 2006**  
**for the years ended December 31, 2006 and 2005, respectively)**

	(in thousands of Korean won)	
	2006	2005
<b>Retained earnings before appropriations</b>		
Unappropriated retained earnings carried over from prior year	58,409,054	40,739,169
Cumulative effects of adoption of revised accounting standard	-	442,463
Net income	170,173,218	213,774,904
	228,582,272	254,956,536
<b>Appropriations of retained earnings (Note 19)</b>		
Reserve for dividend equalization	50,000,000	60,000,000
Reserve for the retirement benefits of directors	10,000,000	15,000,000
Voluntary reserves	70,000,000	85,000,000
Cash dividends (Note 20)	37,047,482	36,547,482
	167,047,482	196,547,482
<b>Unappropriated retained earnings carried forward to subsequent year</b>	61,534,790	58,409,054

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

**Hankook Tire Co., Ltd.**  
**Non-Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2006 and 2005**

	(in thousands of Korean won)	
	2006	2005
<b>Cash flows from operating activities</b>	170,173,218	213,774,904
Net income		
Adjustments to reconcile net income to net cash provided by operating activities		
Bad debts expense	584,925	446,806
Depreciation (Notes 9 and 28)	174,136,642	162,186,314
Amortization of intangible assets (Notes 11 and 28)	1,775,985	1,786,087
Provision for severance benefits (Notes 15 and 28)	19,122,631	24,644,196
Loss on valuation of inventories (Note 7)	2,319,306	1,513,834
Loss on disposal of inventories	1,575,773	1,296,618
Loss on sale of accounts receivable	20,966,265	17,535,931
Loss from equity method investments (Note 8)	8,240,678	6,931,706
Amortization of discounts on debentures, net	(11,267)	267,545
Interest income	(828,901)	-
Reversal of allowance for doubtful accounts	-	(629,783)
Currency forward transaction gains, net	(254,425)	(1,959,500)
Gain on disposition of trading securities	-	(57,423)
Gain from equity method investments (Note 8)	(30,274,255)	(48,836,801)
Gain on disposal of available-for-sale securities, net	(3,204)	46,081
Loss on disposal of investments in equity method investees	342	-
Impairment loss on available-for-sale securities (Note 8)	809,580	56,957
Loss on disposal of property, plant and equipment, net	917,580	2,244,991
Recovery of impairment losses on property, plant, and equipment	-	(1,454,515)
Loss on foreign currency translation, net	1,396,360	(3,707,917)
Others, net	-	(69,467)
<b>Changes in operating assets and liabilities</b>		
(Increase) decrease in trade accounts and notes receivable, net	(112,275,397)	31,735,247
Increase in inventories	(45,802,503)	(27,615,757)
(Increase) decrease in other accounts receivable, net	(1,293,958)	8,808,628
Increase in accrued income	(22,733,176)	(1,590,239)
Decrease in long-term accounts receivable	93,494	3,055
(Increase) decrease in other current assets	(604,725)	833,788
Decrease in dishonored notes	88,155	12,440
Decrease in deferred income tax assets (Note 24)	6,048,669	922,008
Increase (decrease) in trade accounts and notes payable	36,831,521	(5,847,364)
Increase (decrease) in other accounts payable	19,540,742	(68,690,451)
Increase (decrease) in accrued expenses	973,507	(1,244,073)
Decrease in income taxes payable	(10,840,094)	(5,731,361)
Increase (decrease) in advances received	447,873	(3,582,448)
Decrease in long-term guarantee deposits payable	(152,842)	(2,147,148)
(Decrease) increase in other current liabilities	(3,281,386)	2,697,982
Payment of severance benefits	(15,433,199)	(10,542,167)
Increase in severance insurance deposits, net (Note 15)	(3,779,127)	(2,120,937)
Decrease in contributions to the National Pension Fund	266,029	257,571
Decrease in long-term other payables	-	(1,043,999)
<b>Net cash provided by operating activities</b>	<b>218,740,816</b>	<b>291,131,339</b>

**Hankook Tire Co., Ltd.**  
**Non-Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2006 and 2005**

	(in thousands of Korean won)	
	2006	2005
<b>Cash flows from investing activities</b>		
Increase in short-term financial instruments, net	(5,000,000)	-
Proceeds from short-term loans, net	90,778	212,392
Disposal of securities	2,027,114	3,255,860
Disposal of long-term financial instruments	3,000	4,800,000
Increase in long term loans, net	(614,426)	(462,981)
Decrease (increase) in non-current guarantee deposits, net	110,196	(1,216,299)
Decrease in currency forward assets, net	254,425	1,959,500
Proceeds from disposal of property, plant and equipment	1,447,071	1,076,293
Acquisition of securities	(70,334,689)	(40,357,007)
Acquisition of property, plant and equipment	(157,995,902)	(184,181,550)
Acquisition of intangible assets	-	(727,310)
Decrease (increase) in other investments, net	17,641	(2,016,200)
<b>Net cash used in investing activities</b>	<b>(229,994,792)</b>	<b>(217,657,302)</b>
<b>Cash flows from financing activities</b>		
Issuance of common stocks, net	24,993,586	-
Issuance of debentures	-	29,846,710
Proceeds from long-term debts	62,263,500	40,358,000
Increase in short-term borrowings, net	1,049,855	33,720,519
Payment of dividends	(36,544,893)	(36,540,304)
Repayment of current maturities of long-term debts	(31,250,000)	(145,669,960)
Net cash provided by (used in) financing activities	20,512,048	(78,285,035)
<b>Net decrease in cash and cash equivalents</b>	<b>9,258,072</b>	<b>(4,810,998)</b>
<b>Cash and cash equivalents (Note 33)</b>		
Beginning of year	6,739,013	11,550,011
End of year	15,997,085	6,739,013

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

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**1) The Company**

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

The authorized number of the Company's common shares is 250 million with a par value of ₩500 per share. As of December 31, 2006, the number of issued and outstanding common shares of the Company is 152,189,929 shares.

The Company's shareholders as of December 31, 2006 and 2005, are as follows :

	2006		2005	
	Number of Shares Owned	Percentage of Ownership (%)	Number of Shares Owned	Percentage of Ownership (%)
Yang Rae Cho	23,808,097	15.6	23,808,097	15.9
Hyun Bum Cho	10,798,251	7.1	10,798,251	7.2
Compagnie Financiere Michelin	9,494,477	6.2	3,730,980	2.5
Yang Rae Cho's relatives	9,446,094	6.2	9,446,094	6.3
Hyun Sik Cho	8,817,786	5.8	8,817,786	5.9
Others <sup>1</sup>	89,825,224	59.0	93,588,721	62.2
	152,189,929	100.0	150,189,929	100.0

<sup>1</sup> Including 4 million shares in treasury (Note 21).

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**2) Summary of Significant Accounting Policies**

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below.

**Basis of Financial Statement Presentation**

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

**Accounting Estimates**

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

**Application of the Statements of Korean Financial Accounting Standards**

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. As SKFAS Nos.15 through 17 became applicable to the Company on January 1, 2005, the Company adopted these Standards in its financial statements covering periods beginning January 1, 2005.

And as SKFAS Nos.18 through 20 became effective for the Company on January 1, 2006, the Company adopted these Standards in its financial statements for the year ended December 31, 2006.

The accompanying financial statements as of and for the year ended December 31, 2005, presented herein for comparative purposes, have not been restated in accordance with the transition rule of SKFAS.

**Revenue Recognition**

Sales of manufactured products and goods are recognized upon delivery when the significant risks and rewards of ownership of the goods are transferred to the buyer.

**Cash and Cash Equivalents**

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

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**Securities**

The Company accounts for equity and debt securities under the provision of SKFAS No. 8, Investments in Securities. This statement requires investments in equity and debt securities to be classified into three categories: trading, available-for-sale and held-to-maturity.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the weighted-average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable equity securities, classified as available-for-sale securities, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at a reasonable interest rate determined considering the credit ratings by the independent credit rating agencies.

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are recorded as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses are recognized in the statement of income when the recoverable amounts are less than the acquisition cost of securities or adjusted cost of debt securities after the amortization of discounts or premiums.

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

Accounting policies on the equity method are summarized as follows :

- Differences between the purchase costs and the net book value at the time of acquisition are amortized over ten years using the straight-line method.
- The Company's proportionate unrealized profit arising from sales by the Company to equity method investee, sales by the equity method investees to the Company or sales between equity method investees are eliminated to the extent of the Company's ownership. Only unrealized profit arising from sales by the Company to subsidiaries is fully eliminated.
- Significant differences in accounting policies for similar transactions or accounting events among the Company and equity method investees are adjusted using the equity method of accounting.
- Foreign currency financial statements of equity method investees are translated into Korean won using the exchange rates in effect as of the balance sheet date for assets and liabilities, and annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustments account, a component of shareholders' equity.

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

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

However, the estimated contingent losses arising from the guaranteed obligations of the investee or commitments to provide further financial support for the investee are recorded as an allowance for contingent liabilities.

**Allowance for Doubtful Accounts**

The Company provides an allowance for doubtful accounts against trade account receivable, notes and other receivables based on the historical collection experience and estimated net realized value of the receivables.

**Inventories**

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

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

If the net realizable value of inventory is less than its cost, a contra inventory account representing the valuation loss, is presented to reduce the inventory to its net realizable value. The said valuation loss is recorded as cost of sales. If, however, the circumstances which caused the valuation loss ceased to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

**Present Value Discount**

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

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

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost, net of accumulated depreciation, except for upward revaluation in accordance with the Asset Revaluation Law of Korea. Depreciation is computed using the declining-balance method (except for straight-line method for buildings and structures purchased after 1995) over the estimated useful lives as follows :

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

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

The Company assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. The carrying value of the asset is reduced to its estimated realizable value by crediting an impairment loss charged to current operations and presenting it as a reduction from the said carrying value. However, any recovery of the impaired asset is recorded in current operations and should not exceed the carrying amount of the asset before impairment.

Upon the application of SKFAS No. 7, Capitalization of Borrowing Costs, interest costs incurred in connection with the purchase or construction of investment assets and property, plant and equipment are capitalized as part of the cost of such assets. Due to this application, the capitalized financing costs amount to ₩2,342,976 thousand for the year ended December 31, 2006.

Recalculated items in the non-consolidated balance sheet as of December 31, 2006, after reflecting the effects of the adoption of SKFAS No. 7 are as follows :

	(in thousands of Korean won)		
	Capitalized	Expensed	Difference
Property, plant and equipment			
Acquisition cost	2,261,461,667	2,259,118,691	2,342,976
Carrying book value	1,155,451,661	1,153,108,685	2,342,976
Shareholders' equity <sup>1</sup>	1,522,799,824	1,521,062,781	1,731,043

<sup>1</sup> Calculated by using the effective tax rate.

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

Recalculated items in the non-consolidated statement of income for the year ended December 31, 2006, after reflecting the effects of the adoption of SKFAS No. 7 are as follows :

	(in thousands of Korean won)		
	Capitalized	Expensed	Difference
Interest expense	6,727,741	8,714,913	(1,987,172)
Loss on foreign currency translation	2,346,109	2,701,913	(355,804)
Net income <sup>2</sup>	170,173,218	168,436,175	(1,737,043)

<sup>2</sup> Calculated by using the effective tax rate.

For the year ended December 31, 2006, loss on foreign currency translation amounting to ₩355,804 thousand are considered as adjustments of interest expenses.

**Lease Transactions**

The Company accounts for lease transactions as either operating leases or capital leases, depending on the terms of the underlying lease agreement. Machinery and equipment acquired under capital lease agreements are recorded as property, plant and equipment at cost and depreciated using the declining-balance method over their estimated useful lives. In addition, the aggregate lease payments are recorded as obligations under capital leases, net of accrued interest, as determined by the total lease payments in excess of the cost of the leased machinery and equipment. Accrued interest is amortized over the lease period using the effective interest rate method.

Machinery and equipment acquired under operating lease agreements are not included in property, plant and equipment. The related lease rentals are charged to expense when incurred.

**Intangible Assets**

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

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

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

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**Derivative Financial Instruments**

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

**Discount on Debentures**

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

**Foreign Currency Translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the exchange rates in effect at the balance sheet date (₩929.6 : US\$1 as of December 31, 2006 and ₩1,013.0 : US\$1 as of 2005), and resulting translation gains and losses are recognized in current operations.

**Accrued Severance Benefits**

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

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

Accrued severance benefits are funded at approximately 74.9% (2005 : 73.8%) as of December 31, 2006, through a group severance insurance plan, and are presented as a deduction from accrued severance benefits (Note 15).

**Warranty and Other Reserve**

The Company accrued warranty reserves for the estimated costs of future repairs and recalls, based on the experience and the expectation of future repairs. Estimated costs of product warranties amounting to ₩7,895,019 thousand (2005 : ₩7,895,019 thousand) for the year ended December 31, 2006, were charged to current operations. In case the difference between the nominal value and the present value of the assets is important, the warranty reserves are recorded as a present value of expected future cash flows. The warranty reserve was recorded as part of long-term liabilities since the actual warranty expense is to be incurred over several years, the incurrence period of which cannot be readily and reasonably determined (Note 16).

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

The Company is insured against future claims that may be asserted under the Product Liability Act in Korea, which was effective July 1, 2002, and which imposes the responsibility on a manufacturer or seller when a product is defective and causes injury or damage to a person or property. In addition, the Company provided a product liability allowance amounting to ₩11,544,792 thousand (2005 : ₩11,544,792 thousand) as of December 31, 2006, with respect to contingencies arising from product liability-related litigation (Notes 10 and 16).

**Income Taxes**

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. Deferred income tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred income tax assets are recognized when it is more likely that such deferred tax assets will be realized. Income tax effect of temporary differences is reflected as income tax expenses in the period incurred, and income tax effect of temporary differences in relation to items in shareholders' equity is directly reflected in the related shareholders' equity account. The total income tax provision includes the current income tax expense under applicable tax regulations and the change in the balance of deferred income tax assets and liabilities during the year.

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

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

Deferred income tax assets and liabilities are classified into current and non-current portions, and are presented in their net amounts. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity account.

**Sale or Discounting of Accounts Receivable**

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

Hankook Tire Co., Ltd.  
Notes to Non-Consolidated Financial Statements  
December 31, 2006 and 2005

3) Cash and Cash Equivalents, Financial Instruments

Cash and cash equivalents, and short-term and long-term financial instruments as of December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)				
	Annual Interest Rates (%)	Dec. 31, 2006	2006	2005
<b>Cash and cash equivalents</b>				
Passbook accounts	0.00 ~ 0.10		15,852,144	3,739,013
Checking accounts	-		144,941	-
Money market deposit account	-		-	3,000,000
			15,997,085	6,739,013
<b>Short-term financial instruments</b>				
Time deposits in Korean won	3.30		5,000,000	-
<b>Long-term financial instruments</b>				
Key money deposit for checking accounts	-		18,500	21,500
			21,015,585	6,760,513

As of December 31, 2006 and 2005, key money deposit for maintaining checking accounts amounting to ₩18.5 million (2005 : ₩21.5 million) are restricted as to its withdrawal.

4) Receivables

Receivables as of December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)						
	2006			2005		
	Receivable	Allowance for Doubtful Accounts	Net Balance	Receivable	Allowance for Doubtful Accounts	Net Balance
<b>Trade receivables</b>						
Accounts receivable	180,032,660	2,713,001	177,319,659	132,695,936	2,600,061	130,095,875
Notes receivable	58,079,333	725,941	57,353,392	14,336,990	146,932	14,190,058
	238,111,993	3,438,942	234,673,051	147,032,926	2,746,993	144,285,933
<b>Other receivables</b>						
Dishonored notes	20,242,600	362,163	19,880,437	17,708,729	420,687	17,288,042
Long-term other receivables	546,821	546,821	-	671,025	671,025	-
	-	-	-	101,537	98,482	3,055
	258,901,414	4,347,926	254,553,488	165,514,217	3,937,187	161,577,030

Hankook Tire Co., Ltd.  
Notes to Non-Consolidated Financial Statements  
December 31, 2006 and 2005

5) Monetary Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)					
	2006		2005		
<b>Assets</b>					
Trade accounts receivable	US\$ 47,902	US\$ 17,453	44,529,488	17,679,716	
Other investment assets	US\$ 10,892	US\$ 10,000	10,124,901	10,130,000	
			54,654,389	27,809,716	
<b>Liabilities</b>					
Trade accounts payable	US\$ 116,393	US\$ 83,308	108,198,967	84,390,611	
	EUR 2,036	EUR 1,173	2,488,913	1,406,570	
	GBP 124	GBP 18	226,008	30,807	
	AUD 81	AUD 81	59,465	60,071	
	NZD 7	NZD 7	4,302	4,531	
			110,977,655	85,892,590	
<b>Short-term borrowings</b>					
	US\$ -	US\$ 118,354	-	119,892,400	
	EUR -	EUR 2,812	-	3,372,907	
	JPY -	JPY 50,708	-	436,038	
			-	123,701,345	
<b>Current maturities of long-term debt</b>					
Long-term borrowings	EUR 13,000	EUR -	15,889,120	-	
	EUR 39,000	EUR -	47,667,360	-	
			174,534,135	209,593,935	

6) Short-Term and Long-Term Loans Receivable

Short-term and long-term loans receivable as of December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)				
	Annual Interest Rates (%)	Dec. 31, 2006	2006	2005
<b>Short-term loans</b>				
Housing loans to employees	0.00 ~ 0.30		123,601	90,778
<b>Long-term loans</b>				
Housing loans to employees	0.00 ~ 0.40		2,148,997	1,658,172

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**7) Inventories**

Inventories as of December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)	
	2006	2005
Materials in transit	122,593,521	93,896,173
Finished goods	84,391,632	78,777,674
Supplies	16,168,090	13,220,421
Merchandise	10,828,165	10,774,478
Raw materials	10,451,032	10,052,412
Work-in-process	13,084,500	8,120,530
	257,516,940	214,841,688
Less : Allowance for valuation loss on inventories	(2,319,306)	(1,513,834)
	255,197,634	213,327,854

For the year ended December 31, 2006, the Company recognized loss on valuation of inventories amounting to ₩2,319,306 thousand on inventories whose manufacturing costs are in excess of recoverable amounts as cost of sales.

**8) Securities**

Securities classified as non-current assets as of December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)	
	2006	2005
Investments in equity method investees	372,464,255	305,471,784
Available-for-sale securities	15,887,815	15,495,693
Held-to-maturity securities	1,499,850	1,499,171
	389,851,920	322,466,648

**Hankook Tire Co., Ltd.**  
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Details of available-for-sale securities classified as non-current assets as of December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)									
	Shares Owned by the Company		Percentage of Ownership (%)		Acquisition Cost		Market or Net Asset Value <sup>1</sup>		Carrying Book Value	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
<b>Investments in marketable equity securities</b>										
KT Freetel Co., LTD.	231,752	231,752	0.12	0.12	1,791,536	1,791,536	6,894,622	5,712,687	6,894,622	5,712,687
SK Telecom Co., Ltd.	9,984	9,984	0.01	0.01	876,258	876,258	2,221,440	1,807,104	2,221,440	1,807,104
SangHwa Micro Technology INC.	13,997	-	0.24	-	99,479	-	69,145	-	69,145	-
					2,767,273	2,667,794	9,185,207	7,519,791	9,185,207	7,519,791
<b>Investment in non-marketable equity securities <sup>2</sup></b>										
The Korea Economic Daily	27,575	27,575	0.15	0.15	297,135	297,135	149,608	51,915	145,066	145,066
Wireless Data Communication <sup>4</sup>	2,500	2,500	0.23	0.23	800,000	800,000	-	21,296	1	21,579
Car123-Jasper Corp. (Formerly Jasperauto Corp.)	106,255	106,255	3.16	3.16	200,000	200,000	55,476	51,499	51,560	51,560
K-Zone International Co., Ltd.	6,000	6,000	2.44	2.44	200,000	200,000	10,300	10,300	1	1
Power Comm	100,000	100,000	0.07	0.07	3,500,000	3,500,000	621,140	636,519	533,747	533,746
Wasol Co., Ltd.	10,000	10,000	4.17	4.17	200,000	200,000	4,352	6,487	5,560	5,560
MK2000-2 Tube Information and Telecommunication Partners I, L.P. <sup>2</sup>	10	10	6.67	6.67	313,000	1,000,000	336,181	1,071,625	313,000	1,000,000
RUBBERNETWORK.COM <sup>4</sup>	-	-	5.57	5.57	3,837,411	3,837,411	-	-	1	1
Korea Digital Satellite Broadcasting <sup>2</sup>	300,000	300,000	0.35	0.40	1,650,000	1,650,000	206,580	185,081	206,580	335,415
Valuemeeet Investment Co., Ltd. <sup>3</sup>	23	23	13.95	13.95	2,250,000	2,250,000	1,590,833	2,250,000	1,590,833	2,250,000
Cash Office <sup>4</sup>	-	-	-	-	17,891	17,891	17,891	17,891	17,891	17,891
Daewoo Motors <sup>4,5</sup>	-	-	-	-	272,692	274,083	272,692	274,083	272,692	274,083
Others <sup>1,7</sup>	-	-	-	-	434,000	453,000	439,000	453,000	434,000	453,000
					13,972,129	14,679,520	3,705,444	5,029,696	3,570,932	5,087,902
<b>Investment in debt securities</b>										
YNK KOREA Inc-bonds with subscription warrant	-	-	-	-	1,953,000	2,790,000	2,005,159	2,790,000	2,005,159	2,790,000
Volvik Inc-bonds with subscription warrant	-	-	-	-	980,611	-	983,842	-	983,842	-
Government and public bonds	-	-	-	-	142,675	-	142,675	-	142,675	-
YNK KOREA Inc-subscription right	-	-	-	-	-	98,000	-	98,000	-	98,000
					3,057,047	2,888,000	3,131,676	2,888,000	3,131,676	2,888,000
					19,815,688	20,235,314	16,022,327	15,437,487	15,887,815	15,495,693

<sup>1</sup> The net asset value is calculated based on the investees' most recent financial information available, some of which have not been audited or reviewed.

<sup>2</sup> Non-marketable equity securities without an objective market value were based on acquisition costs.

**Hankook Tire Co., Ltd.**  
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<sup>3</sup> The number of shares is equivalent to the number of accounts.

<sup>4</sup> Physical certificates of those shares have not been issued in accordance with the local laws or regulations.

<sup>5</sup> As of December 31, 2006, 9,000 shares of Korea Digital Satellite Broadcasting have been provided to Korea Digital Satellite Broadcasting as collateral related to the Company's agency contracts.

<sup>6</sup> On September 30, 2002, the restructuring plan for the troubled receivables from Daewoo Motors, a customer who filed for a court receivership under the Corporate Reorganization Act of Korea, was modified with the court's approval and agreement of concerned groups, including its creditors.

In accordance with the modified restructuring plan, the Company acquired equity securities and beneficiary certificates, whose fair values amounted to ₩272,692 thousand (2005 : ₩272,692 thousand and ₩1,391 thousand).

<sup>7</sup> Certain investments in non-marketable equity securities in which the Company holds 20% or more interest in the investees have been recorded at cost if the total assets amount of each investee is less than ₩7 billion, and differences between investments using the equity and cost accounting methods are not significant.

Details of held-to-maturity securities classified as non-current assets as of December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)				
	December 31, 2006		December 31, 2005	
	Acquisition Cost	Carrying Book Values	Acquisition Cost	Carrying Book Values
Subordinated bank debentures	1,496,680	1,499,850	1,496,680	1,499,171

For the year ended December 31, 2006, interest income related to the above securities amounted to ₩476,228 thousand (2005 : ₩119,366 thousand).

The annual maturities in aggregate of available-for-sale securities and held-to-maturity securities outstanding as of December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)				
	Available-For-Sale Securities		Held-to-Maturity Securities	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
More than 1year ~ 5years	3,131,676	2,888,000	1,499,850	1,499,171

**Hankook Tire Co., Ltd.**  
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Unrealized gains and losses, which were charged as capital adjustments, arising from the valuation of available-for-sale securities during the years ended December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)						
	January 1, 2006	Increase (Decrease)	Realized Gain (Loss)	December 31, 2006	Income Tax Effect	Book Value
KT Freetel Co., Ltd.	3,921,151	1,181,935	-	5,103,086	(1,403,349)	3,699,737
SK Telecom Co., Ltd.	930,846	414,336	-	1,345,182	(369,924)	975,258
SangHwa Micro Technology INC.	-	(30,334)	-	(30,334)	8,342	(21,992)
<b>Total</b>	<b>4,851,997</b>	<b>1,565,937</b>	<b>-</b>	<b>6,417,934</b>	<b>(1,764,931)</b>	<b>4,653,003</b>

(in thousands of Korean won)						
	January 1, 2005	Increase (Decrease)	Realized Gain (Loss)	December 31, 2005	Income Tax Effect	Book Value
KT Freetel Co., Ltd.	3,932,739	(11,588)	-	3,921,151	(1,078,316)	2,842,835
SK Telecom Co., Ltd.	1,090,590	(159,744)	-	930,846	(255,983)	674,863
<b>Total</b>	<b>5,023,329</b>	<b>171,332</b>	<b>-</b>	<b>4,851,997</b>	<b>(1,334,299)</b>	<b>3,517,698</b>

**Hankook Tire Co., Ltd.**  
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Details of investments in equity method investees as of December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)									
	Shares Owned by the Company		Percentage of Ownership (%)		Acquisition Cost		Market or Net Asset Value		Carrying Book Value	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Atlas BX Co., Ltd.(Formerly Korea Storage Battery, Ltd.) <sup>2</sup>	2,848,685	2,848,685	31.13	31.13	12,229,979	12,229,979	15,825,132	14,819,427	15,172,970	14,001,331
Daehwa Eng'g & Machinery Co., Ltd.	380,000	380,000	95.00	95.00	1,900,000	1,900,000	18,959,458	18,101,951	4,870,895	4,476,230
ASA Co., Ltd. <sup>3</sup>	2,200,000	2,200,000	73.33	73.33	11,000,000	11,000,000	-	1,492,047	-	1,613,406
EmFrontier Inc.	2,000,000	2,000,000	50.00	50.00	1,000,000	1,000,000	3,277,204	2,891,319	2,951,015	2,539,821
Hankook Tire America Corp.	1,600	1,600	100.00	100.00	8,737,823	8,737,823	39,603,574	35,329,246	24,194,970	10,787,876
Hankook Tyre U.K. Ltd. <sup>3</sup>	25,000	25,000	100.00	100.00	30,649	30,649	2,549,200	1,952,694	-	-
Jiangsu Hankook Tire Co., Ltd.	<sup>5</sup>	<sup>5</sup>	36.60	34.63	71,170,379	64,702,379	58,558,834	57,367,145	60,525,402	57,522,077
Hankook Tire China Co., Ltd.	<sup>5</sup>	<sup>5</sup>	95.63	95.63	170,015,618	170,015,618	215,865,562	229,185,896	195,675,671	203,576,495
Hankook Tire Netherlands B.V. <sup>3</sup>	<sup>5</sup>	<sup>5</sup>	100.00	100.00	1,738,031	1,738,031	3,079,980	1,971,322	-	-
Hankook Tire Japan Corp.	400	400	100.00	100.00	165,464	165,464	2,533,803	2,458,496	1,840,248	1,629,851
Hankook Tire Canada Corp.	500,000	500,000	100.00	100.00	30,950	30,950	2,006,520	1,318,848	648,272	14,234
Hankook Reifen Deutschland GmbH <sup>3</sup>	<sup>5</sup>	<sup>5</sup>	100.00	100.00	126,995	126,995	2,956,494	2,386,862	-	-
Hankook France SARL <sup>3</sup>	<sup>5</sup>	<sup>5</sup>	100.00	100.00	1,601,630	1,601,630	1,877,449	848,309	164,888	-
Hankook Tire Italia SARL	<sup>4/5</sup>	<sup>4/5</sup>	100.00	100.00	20,556	20,556	20,556	20,556	20,556	20,556
Hankook Espana S.A.	<sup>4/5</sup>	<sup>4/5</sup>	100.00	100.00	76,873	76,873	76,873	76,873	76,873	76,873
Hankook Tyre Australia Pty., LTD.	<sup>4/5</sup>	<sup>4/5</sup>	100.00	100.00	68,649	68,649	68,649	68,649	68,649	68,649
Hankook Tire Netherlands Sales B.V.	<sup>4/5</sup>	<sup>4/5</sup>	100.00	100.00	24,966	24,966	24,966	24,966	24,966	24,966
Ocean Capital Investment (L) Limited	<sup>5</sup>	<sup>5</sup>	100.00	100.00	-	-	9,262,102	9,016,276	9,262,102	9,016,276
Hanyang Tire Sales Corp. <sup>4/5</sup>	15,030	15,030	50.10	50.10	75,150	75,150	75,150	75,150	75,150	75,150
Hankook Tire Hungary, LTD.	<sup>5</sup>	<sup>4/5</sup>	100.00	100.00	15,410,611	15,751	9,104,014	15,751	9,047,532	15,751
Hankook Tire Europe Holdings B.V.	390,250	-	100.00	100.00	46,898,684	-	47,844,096	-	47,844,096	-
Hankook Tire Slovakia, s.r.o <sup>7</sup>	-	<sup>4/5</sup>	-	100.00	-	12,241	-	12,241	-	12,241
					342,323,007	273,573,704	433,589,616	379,380,024	372,464,255	305,471,783

In 2006, the Company participated in the issuance of new shares of Hankook Tire Hungary, Ltd. so that the acquisition cost of investments increased by ₩15,394,860 thousand. The Company also participated in the issuance of new shares of Jiangsu Hankook Tire Co., Ltd. so that the acquisition cost of investments increased by ₩6,468,000 thousand and the Company's percentage of ownership has risen up to 36.60%. And in 2006, the Company incorporated Hankook Tire Europe Holdings B. V. so that acquisition cost of investments increased by ₩46,898,684 thousand. The above investee companies are related parties of the Company.

<sup>1</sup> The equity method of accounting is applied based on the affiliates' most recent financial statements, some of which have not been audited or reviewed.  
<sup>2</sup> Market value of equity-method investment in marketable equity security as of December 31, 2006, is ₩9,614,312 thousand.

**Hankook Tire Co., Ltd.**  
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<sup>1</sup> Due to the investees' accumulated losses, the investments in these investees were fully written off, and additional estimated losses were recorded as contingent loss reserve due to the Company's receivables or guaranteed obligations (Note 16).

<sup>2</sup> Certain investments in non-marketable equity securities in which the Company interest is 20% or more have been recorded at cost if the total assets of each investee is less than ₩7 billion, and differences between investments using the equity and cost accounting methods are not significant.

<sup>3</sup> Physical certificates of those shares have not been issued in accordance with the local laws or regulations.

<sup>4</sup> The Company was under dispute with nominal shareholders because of the cancellation of the nominal trust as of December 31, 2004. For the year ended December 31, 2005, due to this dispute, the Company recognized investment in Hanyang Tire Sales Corporation as an equity-method investment.

<sup>7</sup> The investee company has finished the liquidation process as of July 15, 2006.

Details of the amortization of the differences between the purchase costs and net book value of investments for the years ended December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)			
	January 1, 2006 – December 31, 2006			
	January 1, 2006	Increase (Decrease)	Amortization	December 31, 2006
Atlas BX Co., Ltd. (Formerly Korea Storage Battery, Ltd.)	(84,436)	-	(28,812)	(57,624)
Daehwa Eng'g. & Machinery Co., Ltd.	(20,333)	-	(10,166)	(10,167)
ASA Co., Ltd.	151,212	-	75,605	75,607
Jiangsu Hankook Tire Co., Ltd.	224,558	-	78,556	146,002
<b>Total</b>	<b>269,001</b>	<b>-</b>	<b>115,183</b>	<b>153,818</b>

	(in thousands of Korean won)			
	January 1, 2005 – December 31, 2005			
	January 1, 2005	Increase (Decrease)	Amortization	December 31, 2005
Atlas BX Co., Ltd. (Formerly Korea Storage Battery, Ltd.)	(115,248)	-	(28,812)	(86,436)
Daehwa Eng'g. & Machinery Co., Ltd.	(30,499)	-	(10,166)	(20,333)
ASA Co., Ltd.	226,817	-	75,605	151,212
Jiangsu Hankook Tire Co., Ltd.	290,775	-	66,217	224,558
<b>Total</b>	<b>371,845</b>	<b>-</b>	<b>102,844</b>	<b>269,001</b>

**Hankook Tire Co., Ltd.**  
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Details of the elimination of unrealized profits arising from intercompany transactions which have been reflected on the net income for the years ended December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)			
2006			
	Current Assets	Fixed Assets	Total
Atlas BX Co., Ltd. (Formerly Korea Storage Battery, Ltd.)	62,302	-	62,302
Daehwa Eng'g. & Machinery Co., Ltd.	(202,783)	29,911	(172,872)
EmFrontier Inc.	-	25,308	25,308
Hankook Tire America Corp.	6,574,675	-	6,574,675
Hankook Tyre U.K. Ltd.	1,525,539	-	1,525,539
Jiangsu Hankook Tire Co., Ltd.	2,656,262	437,746	3,094,008
Hankook Tire China Co., Ltd.	4,454,365	-	4,454,365
Hankook Tire Netherlands B.V.	1,545,240	-	1,545,240
Hankook Tire Canada Corp.	(126,801)	-	(126,801)
Hankook Tire Japan Corp.	(271,650)	-	(271,650)
Hankook Reifen Deutschland GmbH	1,678,899	-	1,678,899
Hankook France SARL	363,119	-	363,119
<b>Total</b>	<b>18,259,167</b>	<b>492,965</b>	<b>18,757,132</b>

(in thousands of Korean won)			
2005			
	Current Assets	Fixed Assets	Total
Atlas BX Co., Ltd. (Formerly Korea Storage Battery, Ltd.)	95,456	-	95,456
Daehwa Eng'g. & Machinery Co., Ltd.	-	(887,134)	(887,134)
ASA Co., Ltd.	76,507	-	76,507
EmFrontier Inc.	-	102,917	102,917
Hankook Tire America Corp.	3,986,250	-	3,986,250
Hankook Tyre U.K. Ltd.	(302,860)	-	(302,860)
Jiangsu Hankook Tire Co., Ltd.	(767,064)	263,033	(504,031)
Hankook Tire China Co., Ltd.	(11,440,904)	-	(11,440,904)
Hankook Tire Netherlands B.V.	641,313	-	641,313
Hankook Tire Canada Corp.	512,820	-	512,820
Hankook Tire Japan Corp.	(599,229)	-	(599,229)
Hankook Reifen Deutschland GmbH	(3,605,414)	-	(3,605,414)
Hankook France SARL	1,125,175	-	1,125,175
<b>Total</b>	<b>(10,277,950)</b>	<b>(521,184)</b>	<b>(10,799,134)</b>

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
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Details of the changes in investments in equity method investees for the years ended December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)					
January 1, 2006 ~ December 31, 2006					
	January 1, 2006	Acquisition	Gains(Losses) on Valuation	Others <sup>1</sup>	December 31, 2006
Atlas BX Co., Ltd. (Formerly Korea Storage Battery, Ltd.) <sup>2</sup>	14,001,332	-	1,080,164	90,476	15,172,971
Daehwa Eng'g. & Machinery Co., Ltd. <sup>2</sup>	4,476,230	-	394,665	-	4,870,895
ASA Co., Ltd. <sup>2</sup>	1,613,406	-	(1,613,406)	-	-
EmFrontier Inc. <sup>2</sup>	2,539,821	-	411,194	-	2,951,015
Hankook Tire America Corp. <sup>2</sup>	10,787,876	-	14,355,612	(948,519)	24,194,969
Hankook Tyre U.K. Ltd. <sup>2,3</sup>	-	-	2,710,622	(2,710,622)	-
Jiangsu Hankook Tire Co., Ltd. <sup>2</sup>	57,522,077	6,468,000	(290,057)	(3,174,618)	60,525,402
Hankook Tire China Co., Ltd. <sup>2</sup>	203,576,495	-	3,831,348	(11,732,171)	195,675,672
Hankook Tire Netherlands B.V. <sup>2,3</sup>	-	-	2,347,760	(2,347,760)	-
Hankook Tire Japan Corp. <sup>2</sup>	1,629,852	-	381,261	(170,865)	1,840,248
Hankook Tire Canada Corp. <sup>2</sup>	14,234	-	711,443	(77,405)	648,272
Hankook Reifen Deutschland GmbH <sup>2,3</sup>	-	-	2,333,585	(2,333,585)	-
Hankook France SARL <sup>2</sup>	-	-	1,326,338	(1,161,450)	164,888
Hankook Tire Italia SARL <sup>4</sup>	20,556	-	-	-	20,556
Hankook Espana S.A. <sup>4</sup>	76,873	-	-	-	76,873
Hankook Tyre Australia Pty., LTD. <sup>4</sup>	68,649	-	-	-	68,649
Hankook Tire Netherlands Sales B.V. <sup>4</sup>	24,966	-	-	-	24,966
Ocean Capital Investment(L) Limited <sup>2</sup>	9,016,276	-	245,825	-	9,262,101
Hanyang Tire Sales Corp. <sup>4</sup>	75,150	-	-	-	75,150
Hankook Tire Slovakia, s.r.o <sup>4</sup>	12,241	(12,241)	-	-	-
Hankook Tire Hungary, LTD.	15,751	15,394,860	(6,337,215)	(25,864)	9,047,532
Hankook Tire Europe Holdings B.V.	-	46,898,684	143,438	801,974	47,844,096
<b>Total</b>	<b>305,471,784</b>	<b>68,749,303</b>	<b>22,033,577</b>	<b>(23,790,409)</b>	<b>372,464,255</b>

**Hankook Tire Co., Ltd.**  
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(in thousands of Korean won)

	January 1, 2005 ~ December 31, 2006				
	January 1, 2005	Acquisition	Gains(Losses) on Valuation	Others <sup>1</sup>	December 31, 2005
Atlas BX Co., Ltd. (Formerly Korea Storage Battery, Ltd.) <sup>2</sup>	12,838,762	-	1,160,461	2,108	14,001,331
Daehwa Eng'g. & Machinery Co., Ltd. <sup>2</sup>	3,666,412	-	808,451	1,367	4,476,230
ASA Co., Ltd. <sup>2</sup>	5,328,952	-	(3,720,822)	5,276	1,613,406
EmFrontier Inc. <sup>2</sup>	2,035,437	-	504,384	-	2,539,821
Hankook Tire America Corp. <sup>2</sup>	-	-	12,701,238	(1,913,362)	10,787,876
Hankook Tyre U.K. Ltd. <sup>2,3</sup>	-	-	(236,356)	236,356	-
Jiangsu Hankook Tire Co., Ltd. <sup>2</sup>	43,260,345	11,615,835	2,206,407	439,490	57,522,077
Hankook Tire China Co., Ltd. <sup>2</sup>	141,965,995	25,313,500	25,998,625	10,298,375	203,576,495
Hankook Tire Netherlands B.V. <sup>2,3</sup>	-	-	1,858,601	(1,858,601)	-
Hankook Tire Japan Corp. <sup>2</sup>	543,221	-	1,388,222	(301,591)	1,629,851
Hankook Tire Canada Corp. <sup>2</sup>	29,129	-	20,383	(35,278)	14,234
Hankook Reifen Deutschland GmbH <sup>2,3</sup>	-	-	(2,974,528)	2,974,528	-
Hankook France SARL <sup>2</sup>	-	-	2,059,842	(2,059,842)	-
Hankook Tire Italia SARL <sup>4</sup>	20,556	-	-	-	20,556
Hankook Espana S.A. <sup>4</sup>	76,873	-	-	-	76,873
Hankook Tyre Australia Pty., LTD. <sup>4</sup>	68,649	-	-	-	68,649
Hankook Tire Netherlands Sales B.V. <sup>4</sup>	24,966	-	-	-	24,966
Ocean Capital Investment(L) Limited <sup>2</sup>	8,886,089	-	130,187	-	9,016,276
Hanyang Tire Sales Corp. <sup>4</sup>	-	75,150	-	-	75,150
Hankook Tire Slovakia, s.r.o. <sup>4</sup>	-	12,241	-	-	12,241
Hankook Tire Hungary, LTD. <sup>4</sup>	-	15,751	-	-	15,751
<b>Total</b>	<b>218,745,386</b>	<b>37,032,477</b>	<b>41,905,095</b>	<b>7,788,826</b>	<b>305,471,784</b>

<sup>1</sup> Represents the changes in investment securities caused by changes in equity arising on application of the equity method and changes in retained earnings of the investees.

<sup>2</sup> The equity method of accounting is applied based on the affiliates' most recent available financial statements, which have not been audited or reviewed.

<sup>3</sup> Due to the investees' accumulated losses, the investments in these investees were fully written off, and additional estimated losses were recorded as contingent loss reserve due to the Company's receivables or guaranteed obligations (Note 16).

<sup>4</sup> Certain investments in non-marketable equity securities in which the Company holds 20% or more interest in the investees have been recorded at cost if the total assets of each investee is less than ₩7 billion, and differences between investments using the equity and cost accounting methods are not significant.

<sup>5</sup> The investee company has finished the liquidation process as of July 15, 2006.

**Hankook Tire Co., Ltd.**  
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Unrealized gains and losses arising from the valuation of investments in equity method investees during the years ended December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)

	January 1, 2006 ~ December 31, 2006				
	January 1, 2006	Increase (Decrease)	December 31, 2006	Tax Effect	Book Value
Atlas BX Co., Ltd. (Formerly Korea Storage Battery, Ltd.)	847,327	90,476	937,803	(257,896)	679,907
Daehwa Eng'g. & Machinery Co., Ltd.	(6,698)	-	(6,698)	-	(6,698)
ASA Co., Ltd.	(25,850)	-	(25,850)	-	(25,850)
Hankook Tire America Corp.	106,857	(948,519)	(841,662)	(148,227)	(989,889)
Jiangsu Hankook Tire Co., Ltd.	(3,740,688)	(3,174,618)	(6,915,306)	(8,520)	(6,923,826)
Hankook Tire China Co., Ltd.	(13,017,404)	(11,732,171)	(24,749,575)	(27,290)	(24,776,865)
Hankook Tire Japan Corp.	(535,109)	(170,865)	(705,974)	(16,032)	(722,006)
Hankook Tire Canada Corp.	59,037	(77,405)	(18,368)	(18,756)	(37,124)
Hankook France SARL	-	31,410	31,410	(8,638)	22,772
Hankook Tire Hungary, LTD.	-	(25,864)	(25,864)	-	(25,864)
Hankook Tire Europe Holdings B.V.	-	801,975	801,975	(220,543)	581,432
<b>Total</b>	<b>(16,312,528)</b>	<b>(15,205,581)</b>	<b>(31,518,109)</b>	<b>(705,902)</b>	<b>(32,224,011)</b>

(in thousands of Korean won)

	January 1, 2005 ~ December 31, 2005				
	January 1, 2005	Increase (Decrease)	December 31, 2005	Tax Effect	Book Value
Atlas BX Co., Ltd. (Formerly Korea Storage Battery, Ltd.)	845,220	2,107	847,327	(233,015)	614,312
Daehwa Eng'g. & Machinery Co., Ltd.	(8,065)	1,367	(6,698)	-	(6,698)
ASA Co., Ltd.	(31,126)	5,276	(25,850)	(1,979)	(27,829)
Hankook Tire America Corp.	-	106,857	165,857	(29,385)	77,472
Jiangsu Hankook Tire Co., Ltd.	(4,180,178)	439,490	(3,740,688)	(26,738)	(3,767,426)
Hankook Tire China Co., Ltd.	(23,315,779)	10,298,375	(13,017,404)	(75,303)	(13,092,707)
Hankook Tire Japan Corp.	(233,518)	(301,591)	(535,109)	-	(535,109)
Hankook Tire Canada Corp.	94,315	(35,278)	59,037	(16,235)	42,802
<b>Total</b>	<b>(26,829,131)</b>	<b>10,516,603</b>	<b>(16,312,528)</b>	<b>(382,655)</b>	<b>(16,695,183)</b>

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

Details of the Company's contingency loss reserve recognized for the years ended December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)					
	2006		2005			
	Excessive Losses <sup>1</sup>	Contingency Loss Reserve	Unrecognized Losses	Excessive Losses <sup>1</sup>	Contingency Loss Reserve	Unrecognized Losses
ASA Co., Ltd.	(5,585,575)	-	(5,585,575)	-	-	-
Hankook Tyre U.K. Ltd.	(1,171,598)	132,741	(1,038,857)	(2,843,362)	2,843,362	-
Hankook Tire Netherlands B.V	(457,316)	457,316	-	(2,805,076)	2,805,076	-
Hankook Reifen Deutschland GmbH	(3,738,946)	3,045,189	(693,757)	(5,378,774)	5,378,774	-
Hankook France SARL	-	-	-	(1,192,860)	1,192,860	-
<b>Total</b>	<b>(10,953,435)</b>	<b>3,635,246</b>	<b>(7,318,189)</b>	<b>(12,220,072)</b>	<b>12,220,072</b>	<b>-</b>

<sup>1</sup> The amounts represent additional losses due to the accumulated losses of investees and unrealized profit arising from intercompany transactions.

Details of the Company's adjustments of investees' net asset due to the differences of accounting principles and other reasons for the year ended December 31, 2006, are as follows :

	(in thousands of Korean won)			
	Net Asset Value before Adjustments	Adjustments	Net Asset Value after Adjustments	Reason for Adjustments
Jiangsu Hankook Tire Co., Ltd.	82,509,165	(23,950,331)	58,558,834	Depreciation method and etc.
Hankook Tire China Co., Ltd.	273,697,491	(57,831,929)	215,865,562	
<b>Total</b>	<b>359,548,625</b>	<b>(85,124,229)</b>	<b>274,424,396</b>	

Investments in non-marketable equity securities of non-controlled investees are reported at cost, except for declines in the Company's proportionate ownership in the underlying book value of the investee which are deemed permanent, and are recorded as valuation losses. These valuation losses amount to ₩809,580 thousand (2005 : ₩56,957 thousand) for the year ended December 31, 2006.

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

A summary of financial information of equity-method investees as of and for the year ended December 31, 2006, follows :

	(in thousands of Korean won)			
	Assets	Liabilities	Sales	Net Income
Hankook Tire China Co., Ltd.	514,792,512	289,067,687	345,518,909	(1,155,469)
Jiangsu Hankook Tire Co., Ltd.	448,131,441	288,132,697	425,877,964	(5,426,482)
Hankook Tire Hungary, LTD.	247,224,048	238,120,034	-	(5,580,392)
Hankook Tire America Corp.	195,059,373	155,455,799	559,111,825	5,570,780
Hankook Reifen Deutschland GmbH	120,249,006	117,292,511	167,760,129	742,493
Atlas BX Co., Ltd. (Formerly Korea Storage Battery, Ltd.)	102,162,245	51,331,790	212,445,911	2,022,619
Others	461,493,993	372,381,202	917,200,783	4,518,920
<b>Total</b>	<b>2,089,112,618</b>	<b>1,511,781,720</b>	<b>2,627,915,521</b>	<b>692,469</b>

The above summarized balance sheets and income statements are based on the amount before eliminating internal transactions, and significant differences in accounting policies among the Company and equity method investees are adjusted. Some financial information has not been audited or reviewed.

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**9) Property, Plant and Equipment**

Changes in property, plant and equipment as of December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)

	January 1, 2006	Increase	Decrease	December 31, 2006	Depreciation Expense	Accumulated Depreciation	Book Value
Land	270,150,690	26,104,337	19,547	296,235,480	-	-	296,235,480
Buildings	442,570,709	66,101,565	65,660	508,606,614	15,752,593	97,681,304	410,925,310
Structures	18,539,011	9,750,925	-	28,289,936	1,473,020	8,021,444	20,268,492
Machinery and equipment	848,894,957	120,905,465	5,865,554	963,934,868	112,676,552	721,764,943	242,169,925
Vehicles	13,040,875	4,681,028	1,002,745	16,719,158	2,859,596	11,859,517	4,859,641
Tools, furniture and fixtures	319,930,342	50,160,916	8,533,598	361,557,660	41,374,881	266,682,798	94,874,862
Machinery in transit	27,138,272	13,223,989	28,398,966	11,963,295	-	-	11,963,295
Construction in progress	179,566,554	93,637,370	199,049,268	74,154,656	-	-	74,154,656
	2,119,831,410	384,565,595	242,935,268	2,261,461,667	174,136,642	1,106,010,006	1,155,451,661

(in thousands of Korean won)

	January 1, 2005	Increase	Decrease	December 31, 2005	Depreciation Expense	Accumulated Depreciation	Book Value
Land	270,176,999	-	26,309	270,150,690	-	-	270,150,690
Buildings	438,505,197	4,792,631	727,119	442,570,709	14,338,229	81,940,962	360,629,747
Structures	18,023,611	852,534	337,134	18,539,011	1,015,921	6,548,424	11,990,587
Machinery and equipment	815,826,378	46,094,350	13,025,771	848,894,957	108,581,054	614,141,407	234,753,550
Vehicles	12,599,755	1,204,703	763,583	13,040,875	1,850,437	9,930,949	3,109,926
Tools, furniture and fixtures	287,923,394	41,776,577	9,769,629	319,930,342	36,400,673	232,423,869	87,506,473
Machinery in transit	19,645,927	12,618,743	5,126,398	27,138,272	-	-	27,138,272
Construction in progress	97,103,120	114,991,267	32,527,833	179,566,554	-	-	179,566,554
	1,959,804,381	222,330,805	62,303,776	2,119,831,410	162,186,314	944,985,611	1,174,845,799

As of December 31, 2006, the appraised tax basis of land, as determined by the local government of Korea for property tax assessment purposes, amounted to approximately ₩388,255 million (2005 : ₩323,549 million).

As of December 31, 2006, a certain portion of the Company's land and buildings pledged as collateral for long-term and short-term debt obligations (Notes 12 and 13) are summarized as follows :

(in thousands)

Creditor	Pledged Assets	Pledged Amount
The Korea Development Bank and others	Land, buildings and machinery and equipments	₩ 266,845,000 US\$ 153,200

As of December 31, 2006, a certain portion of the Company's property, plant and equipment is pledged as leasehold deposits.

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**10) Insured Assets**

As of December 31, 2006, inventories and property, plant and equipment are insured against fire and other casualty losses up to approximately ₩2,781,806 million.

The Company is insured against future claims that may be asserted under the Product Liability Act in Korea, which was effective July 1, 2002, and which imposes the responsibility on a manufacturer or seller when a product is defective and causes injury or damage to a person or property. With respect to the product liability insurance contracts, ₩10,124,901 thousand was deposited and classified as other investments as of December 31, 2006.

In addition, vehicles are insured by a general and liability insurance policy, and the Company has directors' and officers' liability insurance up to ₩10 billion.

**11) Intangible Assets**

Change in intangible assets for the years ended December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)

January 1, 2006 – December 31, 2006							
	January 1, 2006	Increase	Decrease	December 31, 2006	Amortization Expense	Accumulated Amortization	Book Value
Patent rights	473,729	260,501	-	734,230	122,355	263,051	471,179
Intellectual property rights	586,667	25,602	-	612,269	52,958	591,441	20,828
Trademark rights	1,474,308	45,069	-	1,519,377	188,516	1,128,533	390,844
Others	14,095,892	5,136	-	14,101,028	1,412,156	7,642,330	6,458,698
	16,630,596	336,308	-	16,966,904	1,775,985	9,625,355	7,341,549

(in thousands of Korean won)

January 1, 2005 – December 31, 2005							
	January 1, 2005	Increase	Decrease	December 31, 2005	Amortization Expense	Accumulated Amortization	Book Value
Patent rights	154,275	319,454	-	473,729	71,871	140,694	333,035
Intellectual property rights	581,536	5,131	-	586,667	117,334	538,481	48,186
Trademark rights	1,095,473	378,835	-	1,474,308	183,737	940,017	534,291
Others	14,072,002	23,890	-	14,095,892	1,413,145	6,230,176	7,865,716
	15,903,286	727,310	-	16,630,596	1,786,087	7,849,368	8,781,228

Details of amortization expense for the years ended December 31, 2006 and 2005, are as follow :

(in thousands of Korean won)

	2006	2005
Selling and administrative expenses	1,774,461	1,781,657
Manufacturing costs	1,524	4,430
	1,775,985	1,786,087

**Hankook Tire Co., Ltd.**  
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Details of the most significant intangible asset as of December 31, 2006, are as follows :

		(in thousands of Korean won)	
		Book Value	Remaining Useful Lives
Software costs	Enterprise Resource Planning installation costs	6,434,926	5 years

**12) Short-term Borrowings and Current Maturities of Long-term Debt**

Short-term borrowings as of December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)				
Lender		Annual Interest Rate (%) Dec. 31, 2006	2006	2005
Won currency loans	Woori Bank and others	5.19~5.46	124,751,200	-
Usance	Woori Bank and others	-	-	123,701,345
			124,751,200	123,701,345

Current maturities of long-term debt as of December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)		
	2006	2005
Debentures	-	30,000,000
Long-term borrowings	20,899,120	1,250,000
	20,899,120	31,250,000
Less: Discounts on debentures	-	(14,448)
	20,899,120	31,235,552

As of December 31, 2006, a certain portion of the Company's property, plant and equipment is pledged as collateral for the repayment of the above short-term debt (Note 9).

**Hankook Tire Co., Ltd.**  
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**13) Long-Term Debts**

Long-term debts as of December 31, 2006 and 2005, consist of the following :

**A. Debentures (Non-guaranteed)**

(in thousands of Korean won)				
	Maturity Date	Annual Interest Rates (%) Dec. 31, 2006	2006	2005
The 77 <sup>th</sup> debenture payable	Feb. 21, 2006	-	-	30,000,000
The 78 <sup>th</sup> debenture payable	Aug. 9, 2008	4.63	30,000,000	30,000,000
Less : Current maturities			30,000,000	60,000,000
Discounts on debentures			-	(30,000,000)
			(84,911)	(134,504)
			29,915,089	29,865,496

**B. Long-Term Borrowings**

(in thousands of Korean won)				
Lender	Purpose	Annual Interest Rates (%) Dec. 31, 2006	2006	2005
Won currency loans	General facility loans and others	5.46	8,750,000	10,000,000
The Korea Development Bank	Less: Current maturities		(5,000,000)	(1,250,000)
			3,750,000	8,750,000
Foreign currency loans	Foreign facility loans	4.22	63,556,480	-
Woori Bank	Less: Current maturities		(15,889,120)	-
			47,667,360	-
			51,417,360	8,750,000

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
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The aggregate annual maturities of long-term debts outstanding as of December 31, 2006, are as follows :

(in thousands of Korean won)				
For the Year Ending December 31,	Debentures	Won Currency Loans	Foreign Currency Loans	Total
2007	-	5,000,000	15,889,120	20,889,120
2008	30,000,000	3,750,000	-	33,750,000
2009	-	-	47,667,360	47,667,360
Total	30,000,000	8,750,000	63,556,480	102,306,480

As of December 31, 2006, a certain portion of the Company's property, plant and equipment is pledged as collateral for the above long-term debts (Note 9).

**14) Leases**

As of December 31, 2006 and 2005, the Company has lease agreements with several leasing companies, which are recognized as capital leases.

Details are as follows :

(in thousands of Korean won)				
Accounts	Acquisition Cost		Depreciation Expense	
	2006	2005	2006	2005
Machinery and equipment	10,075,072	10,075,072	270,983	123,474

**15) Accrued Severance Benefits**

Changes in accrued severance benefits for the years ended December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)		
	2006	2005
Balance at the beginning of the year	96,362,013	82,259,984
Actual payments	(15,433,199)	(10,542,167)
Provision for severance benefits	19,122,631	24,644,196
	100,051,445	96,362,013
Less : Cumulative deposits to the National Pension Fund	(1,689,667)	(1,955,697)
Severance insurance deposits	(74,907,396)	(71,128,268)
Balance at the end of the year	23,454,382	23,278,048

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
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**16) Long-Term Other Payables**

Details of long-term other payables as of December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)		
	2006	2005
Product liability reserve	11,544,792	11,544,792
Warranty reserve	7,895,019	7,895,019
Contingency loss reserve	3,635,246	12,220,072
Others	771,225	771,225
	23,846,282	32,431,108

Details of changes in warranty reserve for the year ended December 31, 2006, are as follows :

(in thousands of Korean won)				
	January 1, 2006	Increase	Decrease	December 31, 2006
Warranty reserve	7,895,019	5,665,890	5,665,890	7,895,019

The expected period of using warranty reserve is as follows,

(in thousands of Korean won)	
Year	Warranty Reserve
2007. 1. 1 ~ 2007.12.31	3,589,240
2008. 1. 1 ~ 2008.12.31	2,708,405
2009. 1. 1 ~ 2009.12.31	1,531,513
2010. 1. 1 ~ 2010.12.31	647,106
2011. 1. 1 ~ 2011.12.31	171,569
	8,647,833

**Hankook Tire Co., Ltd.**  
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**December 31, 2006 and 2005**

**17) Commitments and Contingencies**

As of December 31, 2006, the Company has provided guarantees amounting to ₩333,368 million (equivalent to US\$ 358,615 thousand) (2005 : ₩151,143 million, equivalent to US\$ 149,204 thousand), with respect to financing by its overseas subsidiaries. Such guarantees are as follows :

(in thousands of Korean won)	
Subsidiaries	
Hankook Tire Hungary Ltd.¹	272,283
Hankook Reifen Deutschland GmbH	24,445
Hankook Tire China Co., Ltd.	18,592
Hankook Tire Netherlands B.V.	9,151
Others	8,897
<b>2006 Total</b>	<b>333,368</b>
<b>2005 Total</b>	<b>151,143</b>

¹ The above guarantee amount includes direct suretyship provided to the Hungarian government as follows :

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

The company has entered into a Subordination agreement in relation to the borrowings of Hankook Reifen Deutschland GmbH as of Dec. 31, 2006, as follows :

Description		
Creditor bank	Korea Exchange Bank(Deutschland) AG	Shinhan Bank(Deutschland)GmbH
Borrowings	EUR 15,000,000	EUR 15,000,000
Description	The Company's account receivables from Hankook Reifen Deutschland GmbH are subordinated by the borrowings from those banks.	

Additionally, the company has entered into a Subordination agreement in relation to the borrowings of Hankook Tire France SARL as of Dec. 31, 2006, as follows :

Description	
Creditor bank	Shinhan Bank (London)
Borrowings	EUR 4,000,000
Description	The Company's account receivables from Hankook Tire France SARL are subordinated by the borrowings from those banks.

**Hankook Tire Co., Ltd.**  
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The Company is contingently liable for outstanding balance of trade accounts receivable discounted or assigned to financial institutions amounting to ₩387,341,600 thousand, (equivalent to US\$ 416,676 thousand), (2005 : ₩378,888,639 thousand, equivalent to US\$ 374,026 thousand), as of December 31, 2006. There were no outstanding notes receivables discounted or assigned outstanding as of December 31, 2006. As of December 31, 2005, the Company has notes receivable discounted amounting to ₩51,755,652 thousand and no assigned notes receivable outstanding.

As of December 31, 2006, the Company has purchase card agreements with two banks, including Woori Bank, up to an aggregate amount of ₩100,000 million.

The Company had bank overdraft agreements with five banks, including Woori Bank, amounting to ₩67,100 million as of December 31, 2006. In addition, the Company had agreements with five banks, including Woori Bank, to discount notes up to ₩77,500 million in aggregate, and the Company had agreements with 15 banks, including Woori Bank, to discount trade accounts receivable denominated in foreign currency up to an aggregate amount of ₩112,178 million and US\$ 847,000 thousand.

As of December 31, 2006, the Company had agreements on general purpose loan with seven financial institutions, including Citibank Korea, up to an aggregate amount of ₩130,000 million, US\$ 43,000 thousand and EUR 52,000 thousand.

As of December 31, 2006, the Company had agreements on short-term borrowings in foreign trade with three financial institutions, including Woori Bank, up to an aggregate amount of ₩220,000 million and guarantee agreements with seven financial institutions, including the Woori Bank, to provide guarantees for the payment of imported goods up to ₩100,000 million and US\$ 420,000 thousand.

The Company's total outstanding credit amount from Citibank Korea and Korea Exchange Bank cannot exceed the credit limit amounting to ₩42,108 million and ₩180,000 million, respectively.

As of December 31, 2006, the Company had purchase agreements on raw rubber materials with several suppliers, which are usually renewed annually. In addition, as of December 31, 2006, the Company had a long-term contract with EmFrontier Inc., one of its affiliated companies, to provide maintenance service for the Company's information system.

As of December 31, 2006, the Company had technical assistance agreements with Jiangsu Hankook Tire Co., Ltd. and Hankook Tire China Co., Ltd., both affiliated companies. In accordance with the agreements, the Company receives a royalty at a fixed rate.

**Hankook Tire Co., Ltd.**  
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As of December 31, 2006, the Company had forward contracts to exchange different currencies on specified dates at a specified price, up to US\$ 95 million in aggregate.

A summary of forward contracts outstanding as of December 31, 2006, is as follows :

(in thousands of Korean won)					
Counterparty	Bought	Sold	Settlement Rate	Settlement Date	Capital Adjustment
Citibank Korea	3,005,750	EUR 2,500	1,202.30	2007-01-16	(51,538)
Citibank Korea	3,007,500	EUR 2,500	1,203.00	2007-02-16	(52,155)
Citibank Korea	3,061,650	EUR 2,500	1,224.66	2007-01-31	3,144
Citibank Korea	3,062,550	EUR 2,500	1,225.02	2007-02-28	2,059
Bank of America	3,053,825	EUR 2,500	1,221.53	2007-03-16	(7,609)
Bank of America	3,055,325	EUR 2,500	1,222.13	2007-04-18	(7,912)
					(114,011)

For the year ended December 31, 2006, the Company recorded realized gains and losses amounting to ₩1,015,175 thousand and ₩760,750 thousand, respectively, and also recorded unrealized gains and losses amounting to ₩5,203 thousand and ₩119,214 thousand, respectively, on derivatives for cash flow hedging that is effective as capital adjustments as of December 31, 2006.

The Company is named as a defendant in various legal actions arising from normal business matters, including product liability. The Company believes that the outcome of these matters is uncertain. The Company provided a product liability allowance with respect to the litigation as of December 31, 2006.

The Company was named as a defendant in legal actions filed at Tarrant County Court, Texas in the United States of America, with regard to an agreement executed by Ocean Capital (L) Limited, its subsidiary, relating to a US\$ 28,000 thousand zero-coupon note entered into in December 1998.

The lawsuit was dismissed for lack of personal jurisdiction and motion for rehearing was denied by an order of Tarrant County, Texas, USA. Plaintiffs filed a final and last appeal and once again lost by an order in Texas. The plaintiffs filed a new lawsuit in the Court for the Northern District of Ohio, Eastern Division, but the lawsuit was dismissed for lack of person jurisdiction by an order. Plaintiff's subsequent motion to reconsider was denied.

**18) Revaluation Reserve**

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

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
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**19) Retained Earnings**

Retained earnings as of December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)		
	2006	2005
Legal reserve	39,260,000	39,260,000
Reserve for improvement of financial structure	19,320,000	19,320,000
Voluntary reserve	573,512,667	413,512,667
Unappropriated retained earnings	228,582,272	254,956,536
<b>860,674,938</b>		<b>727,049,203</b>

**Legal Reserve**

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

**Reserve for Improvement of Financial Structure**

In accordance with the provisions of the Financial Control Regulations for the companies listed on the Korea Stock Exchange, the Company is required to appropriate, as a reserve for 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 Company's Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders. However, the Company is not required to appropriate the reserve since the shareholders' equity of the Company is more than 30% of total assets as of December 31, 2006.

**Voluntary Reserve**

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

**Hankook Tire Co., Ltd.**  
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**20) Dividend Information**

Dividends for the years ended December 31, 2006 and 2005, are calculated as follows :

**Number of common shares outstanding during the year**

2006 : 148,189,929 common shares  
 2005 : 146,189,929 common shares

The four million shares in treasury are excluded from the calculation of the number of common shares outstanding during the years ended December 31, 2006 and 2005.

**Dividend Amounts**

Dividends for the years ended December 31, 2006 and 2005, are in the form of cash dividends.

The dividends are calculated as follows :

		Formula		Total Dividends
2006	Cash dividends	Common stock	$148,189,929 \times \text{₩} 500 \times 50\% \times 365/365$	37,047,482,250
2005	Cash dividends	Common stock	$146,189,929 \times \text{₩} 500 \times 50\% \times 365/365$	36,547,482,250

**Dividend Payout Ratio**

	2006	2005
Total cash dividends	37,047,482,250	36,547,482,250
Net income for the year	170,173,218,463	213,774,904,068
Dividend payout ratio	21.77%	17.10%

**Dividend Yield Ratio**

	2006	2005
Dividends per share	250	250
Market price as of December 31, 2006 and 2005	15,800	14,250
Dividend yield ratio	1.58%	1.75%

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**21) Capital Adjustments**

Capital adjustments as of December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)	
	2006 <sup>1</sup>	2005 <sup>1</sup>
Treasury stock	(10,320,362)	(10,320,362)
Unrealized gain on available-for-sale securities	4,653,003	3,517,698
Capital changes under equity method	1,284,111	734,586
Negative capital changes under equity method	(33,508,122)	(17,429,769)
Unrealized gain on derivatives	3,772	-
Unrealized loss on derivatives	(86,430)	-
	<b>(37,974,028)</b>	<b>(23,497,847)</b>

<sup>1</sup> Capital adjustments as of December 31, 2006, reflected the effect of tax adjustment.

As of December 31, 2006, the Company holds four million shares in treasury to stabilize the market price of its shares of stock, and records treasury stock as a capital adjustment.

**22) Sales and Cost of Sales**

Details of sales and cost of sales for the years ended December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)	
	2006	2005
<b>Sales</b>		
Sales of finished goods	1,905,115,230	1,855,610,879
Sales of merchandise	184,523,971	174,500,226
Other sales	4,391,449	3,350,413
Sales discount	(17,436,063)	(16,257,444)
Sales incentive	(12,828,254)	(13,604,099)
	<b>2,063,766,333</b>	<b>2,003,599,974</b>
<b>Cost of sales</b>		
Cost of finished goods sold	1,347,910,511	1,235,546,785
Cost of merchandise sold	155,683,403	152,328,692
Valuation loss on inventory, net	805,471	345,296
Customs duties reimbursed	(6,192,407)	(2,322,218)
	<b>1,498,206,978</b>	<b>1,385,898,555</b>

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23) Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)	
	2006	2005
Research and development expenses	74,284,642	72,082,621
Shipping expenses	71,531,358	83,434,004
Salaries expenses	40,490,452	42,013,432
Advertising expenses	40,077,377	34,702,237
Freight expenses	30,608,827	29,121,317
Revenues-Services by contract	25,804,815	24,304,664
Service fees	20,742,449	19,256,811
Depreciation expenses	18,691,104	12,273,341
Other sorts of expenses on export	8,756,728	9,186,505
Employee benefits	7,313,389	6,638,246
Overseas maintenance expenses	5,809,541	5,296,339
Product warranty expenses	5,665,890	4,849,750
Travel expenses	4,654,205	4,960,278
Repairs expenses	4,184,782	4,028,505
Supplies expenses	3,950,084	3,730,232
Packaging expenses	3,945,185	3,879,326
Tax and dues	3,524,957	2,659,203
Insurance expenses	3,291,136	4,180,811
Entertainment expenses	3,209,700	3,199,332
Severance benefits	2,401,742	4,614,935
Communication expenses	2,179,025	2,043,347
Utility expenses	1,709,230	1,600,637
Amortization expenses on intangible assets	1,588,511	1,583,731
Expenses on experiment and analysis	1,393,794	964,443
Training expenses	1,365,095	3,049,239
Vehicle maintenance expenses	1,266,873	1,230,116
Bad debt expenses	584,925	446,806
Publication expenses	367,334	387,247
Rental expenses	305,520	289,141
Overseas marketing expenses	224,958	288,423
Others	1,100,815	703,907
	391,024,443	386,998,926

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24) Income Taxes

Income tax expense for the years ended December 31, 2006 and 2005, consists of :

	(in thousands of Korean won)	
	2006	2005
Current income taxes	53,312,855	64,550,455
Deferred income taxes	6,771,195	2,638,963
Items directly charged to shareholders' equity	(722,526)	1,716,954
	59,361,524	68,906,372

The components of the differences between taxable income and net income before income tax for the years ended December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)			
	2006		2005	
	Temporary Difference	Permanent Difference	Temporary Difference	Permanent Difference
Loss from equity method investments	(6,951,780)	(14,822,926)	(31,447,530)	(10,457,565)
Provision for reserve for tax purposes	1,652,844	-	2,437,680	-
Provision for bad debts	(526,142)	-	(2,771,602)	-
Depreciation	2,991,495	-	6,516,392	-
Accrued revenue	(154,603)	-	167,224	-
Capitalized interest costs	1,537,941	-	(772,290)	-
Gain on trading of forward contracts	82,658	(82,658)	240,387	(240,387)
Entertainment expenses	-	4,904,537	-	5,171,252
Gain on valuation of available-for-sale securities	(1,135,305)	1,135,305	171,332	(171,332)
Impairment loss on available-for-sale securities	809,580	-	56,957	-
Other reserves	-	-	(1,486,462)	-
Others	768,306	2,817,971	654,981	3,506,381
	(925,006)	(6,047,771)	(26,232,931)	(2,191,651)

During the year ended December 31, 2006, the Company recognized tax credits amounting to ₩7,041,428 thousand. The details of the tax credits are as follows :

	(in thousands of Korean won)	
Foreign tax credits	3,201,587	3,201,587
Equipment investment tax credits	1,911,690	1,911,690
Research and development expenditures tax credits	1,748,553	1,748,553
Other tax credits	179,598	179,598
Total	7,041,428	7,041,428

**Hankook Tire Co., Ltd.**  
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The components of deferred income taxes as of December 31, 2006 and 2005, are as follows :

(in thousands of Korean won)					
	January 1, 2005	Increase (Decrease)	December 31, 2005	Increase (Decrease)	December 31, 2006
Loss from equity method investments	5,655,689	(41,964,133)	(36,308,444)	(21,715,668)	(58,024,112)
Allowance for doubtful accounts	5,007,023	(2,771,565)	2,235,458	(526,226)	1,709,232
Depreciations	54,151,026	4,842,809	58,993,835	2,116,415	61,110,250
Loss on valuation of investment securities	13,805,948	56,956	13,862,904	(7,498,462)	6,364,442
Rescheduling of troubled receivables	1,805,837	(462,988)	1,342,849	(90,438)	1,252,411
Operating income from offshore financial institutions	12,459,325	3,620,051	16,079,376	-	16,079,376
Other reserves	21,697,498	(1,486,462)	20,211,036	-	20,211,036
Others, net	(8,266,874)	18,768,114	10,501,240	28,502,058	39,003,298
	106,315,472	(19,397,218)	86,918,254	787,679	87,705,933
Income taxes	29,236,755	(5,334,235)	23,902,520	216,612	24,119,132
Less : allowance for differed assets	(11,537,597)	2,695,272	(8,842,325)	(6,987,807)	(15,830,132)
Deferred income tax assets	17,699,158	(2,638,963)	15,060,195	(6,771,195)	8,289,000

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

Components of directly charged to shareholders' equity as of December 31, 2006, are as follows :

(in thousands of Korean won)		
	2006	
	Temporary Difference	Tax Effect in Temporary Difference
Capital changes under equity method, net	(31,518,108)	(705,902)
Gain on valuation of available-for-sale securities	6,417,935	(1,764,932)
Gain on trading of forward contracts	(114,011)	31,353
	(25,214,184)	(2,439,481)

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The components of deferred income taxes in aggregate before offset as of December 31, 2006, are as follows :

(in thousands of Korean won)			
	December 31, 2006		Deferred Income Tax
	Temporary Difference	Current	Non-current
Depreciation	61,985,327	-	17,045,964
Provisions for severance benefits	58,341,200	-	16,043,830
Other reserves	20,211,036	-	5,558,035
Operating income from offshore financial institutions	16,079,376	-	4,421,828
Impairment loss on available-for-sale securities	11,017,445	-	3,029,797
Bad debts expense	4,817,519	1,324,818	-
Loss on valuation of inventories	2,319,306	637,809	-
Provision for bad debts	1,709,232	470,039	-
Rescheduling of troubled receivables	1,252,411	-	344,413
Gain from equity method investments	(74,952,394)	-	(20,611,908)
Severance insurance fee	(58,341,200)	-	(16,043,830)
Gain on valuation of available-for-sale securities	(6,417,935)	-	(1,764,932)
Provision for reserve for tax purposes	(5,343,583)	-	(1,469,485)
Capital changes under equity method	(2,566,916)	-	(705,902)
Others, net	30,995	(42,516)	51,040
<b>Total</b>	<b>30,141,819</b>	<b>2,390,150</b>	<b>5,898,850</b>
<b>Income tax rate</b>	<b>27.5%</b>		

The statutory income tax rate applicable to the Company, including resident tax surcharges, was approximately 27.5% in 2006. The Company's effective income tax rate for the year ended December 31, 2006, is 25.9%.

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**25) Earnings Per Share**

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

The weighted-average number of common shares outstanding for the year ended December 31, 2006, is calculated as follows :

	Number of Shares	Number of Days Outstanding	Weighted Number of Shares Outstanding
January 1, 2006	150,189,929	365	54,819,324,085
Issuance of common stocks	2,000,000	282	564,000,000
Treasury stock	(4,000,000)	365	(1,460,000,000)
			<b>53,923,324,085</b>

Weighted-average number of common shares outstanding :

$$53,923,324,085 \text{ shares} / 365 = 147,735,134 \text{ shares}$$

Basic earnings and ordinary income per share for the year ended December 31, 2006, is calculated as follows :

	(in thousands of Korean won)
	2006
Net income	170,173,218,463
Interest for convertible bonds	-
Net income for common shares	170,173,218,463
Weighted-average number of common shares outstanding	147,735,134
Basic earnings per share	1,152

Basic ordinary income per share is identical to basic earnings per share since there is no extraordinary gain and loss.

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Basic earnings and ordinary income per share interim periods of 2006 and 2005, and for the years ended December 31, 2005 and 2004, are as follows :

(in thousands of Korean won)					
Period	Weighted-Average Number of Common Shares Outstanding	Ordinary Income for Common Shares	Net Income for Common Shares	Basic Ordinary Income Per Share	Basic Earnings Per Share
Jan. 1, 2006 ~ Sept. 30, 2006	147,581,870	144,877,769,787	144,877,769,787	982	982
Jan. 1, 2006 ~ June 30, 2006	147,272,802	100,475,276,826	100,475,276,826	682	682
Jan. 1, 2006 ~ March 31, 2006	146,345,485	56,529,365,615	56,529,365,615	386	386
Jan. 1, 2005 ~ Dec. 31, 2005	146,189,929	213,774,904,068	213,774,904,068	1,462	1,462
Jan. 1, 2005 ~ Sept. 30, 2005	146,189,929	167,378,586,477	167,378,586,477	1,145	1,145
Jan. 1, 2005 ~ June 30, 2005	146,189,929	114,434,711,664	114,434,711,664	783	783
Jan. 1, 2005 ~ March 31, 2005	146,189,929	56,664,617,013	56,664,617,013	388	388
Jan. 1, 2004 ~ Dec. 31 2004	146,189,929	166,028,389,824	166,028,389,824	1,136	1,136

Diluted earnings per share for 2006 and 2005 are identical to the basic earnings per share, since there is no dilutive effect of stock appreciation rights for both years.

**26) Research and Development Costs**

Research and development costs incurred during the year ended December 31, 2006, amounted to ₩74,284,642 thousand (2005 : ₩72,082,621 thousand) were charged to current operations.

**27) Related Party Transactions**

Subsidiaries of the Company for the years ended December 31, 2006 are as follows :

(including those whose asset amounts as of December 31, 2005 are below 7 billion Korean won)

Subsidiaries	Company name
	Atlas BX Co., Ltd. (Formerly Korea Storage Battery, Ltd.), Daehwa Engineering & Machinery Co., Ltd., ASA Co., Ltd., FRIXA CO.,LTD., Hankook Tire America Corp., Hankook Tyre U.K. Ltd.,Jiangsu Hankook Tire Co., Ltd., Hankook Tire China Co., Ltd., Hankook Tire China Headquarters, Hankook Tire Netherland 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 Netherlands Sales B.V., OCEAN CAPITAL INVESTMENT (L) LIMITED, Hanyang Tire Sales Corp., Hankook Tire Hungary, LTD., Hankook Tire Europe Holdings B.V.

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Significant transactions, which occurred in the ordinary course of business with related companies for the year ended December 31, 2006 and 2005, and the related account balances as of December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)			
	Sales	Purchases	Accounts Receivable	Accounts Payable
<b>Subsidiaries</b>				
Atlas BX Co., Ltd. (Formerly Korea Storage Battery, Ltd.)	1,507,085	27,704,471	-	10,809,614
Daehwa Eng'g & Machinery Co., Ltd.	468,132	13,146,607	-	7,997,343
ASA Co., Ltd.	408,075	2,624,724	231,862	837,007
Frixa Co., Ltd. (Formerly Hanta M&B Co., Ltd.)	24,193	7,376,451	-	615,021
Hankook Tire America Corp.	317,801,236	2,565,949	10,852,695	9,567
Hankook Tire Canada Corp.	14,728,338	1,796,047	496,217	150,123
Hankook Tyre U.K. Ltd.	49,946,173	818,552	1,450,447	85,782
Hankook Tire Japan Corp.	33,478,739	-	495,947	-
Hankook Reifen Deutschland GmbH	140,841,965	1,048,989	7,047,702	10,202
Hankook Tire Netherlands B.V.	68,107,962	1,539,276	4,318,451	34,463
Hankook France SARL	20,703,524	649,576	627,696	3,186
Hankook Tire China Co., Ltd.	20,768,315	24,768,897	19,102,507	2,252,179
Jiangsu Hankook Tire Co., Ltd.	23,318,734	61,272,606	23,318,002	2,911,489
Hankook Tire Italia S.R.L.	14,711	1,161,345	-	-
Hankook Espana S.A.	3,853,460	1,761,236	148,901	-
Hankook Tire China Headquarters	-	-	-	12,706
Hankook Tire Australia Pty., Ltd.	-	2,062,933	-	106,073
<b>Equity-method investees<sup>1</sup></b>				
Emfrontier Inc.	-	19,947,547	-	6,024,162
<b>Other related parties</b>				
	-	1,473,633	264,017	135,983
<b>the key management personnel of the entity</b>	10,683	3,144,362	242,304	-
<b>2006 Total</b>	<b>696,981,325</b>	<b>174,863,199</b>	<b>68,596,746</b>	<b>31,994,899</b>
<b>2005 Total</b>	<b>681,042,075</b>	<b>173,579,669</b>	<b>27,180,824</b>	<b>32,254,602</b>

<sup>1</sup> Details of number of shares owned, percentage of ownership, acquisition cost and net book values are disclosed in Note 8, Investment in Equity Method Investee.

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

Key management personnel compensation for the year ended December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)	
	2006	2005
Short-term benefits	3,037,633	7,745,638
Provision for severance benefits	106,729	259,202
	<b>3,144,362</b>	<b>8,004,840</b>

The above Key management consists of executive officers who have the authority and responsibility in the planning, directing and control of the Company's operations.

**28) Value Added Information**

Details of accounts included in the computation of value added for the years ended December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)		
	2006		
	Selling and Administrative Expenses	Manufacturing Costs	Total
Salaries	63,591,768	148,019,399	211,611,167
Depreciation	30,822,121	143,314,521	174,136,642
Welfare expenses	10,453,879	23,327,748	33,781,627
Severance benefits	3,981,458	15,141,173	19,122,631
Taxes and dues	3,785,154	1,694,599	5,479,753
Amortization of intangible assets	1,774,461	1,524	1,775,985
Rental charges	305,520	74,291	379,811
	<b>114,714,361</b>	<b>331,573,255</b>	<b>446,287,616</b>

	(in thousands of Korean won)		
	2005		
	Selling and Administrative Expenses <sup>1</sup>	Manufacturing Costs	Total
Salaries	63,626,506	146,202,268	209,828,774
Depreciation	22,376,099	139,810,215	162,186,314
Welfare expenses	9,487,100	22,150,317	31,637,417
Severance benefits	7,280,890	17,363,306	24,644,196
Taxes and dues	2,887,484	1,529,994	4,417,478
Amortization of intangible assets	1,781,657	4,430	1,786,087
Rental charges	289,141	44,028	333,169
	<b>107,728,877</b>	<b>327,104,558</b>	<b>434,833,435</b>

<sup>1</sup> Including ordinary research and development costs.

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**29) Environmental Investment**

Environmental investment of the Company for the years ended December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)	
	2006	2005
Smell protection facilities	752,500	165,350
Dust collection facilities	335,800	263,600
Incinerator	267,345	1,150,200
<b>Total</b>	<b>1,355,645</b>	<b>1,579,150</b>

**30) Social Contributions**

The Company's social contributions, including contributions to Hankook Tire Welfare Foundation, for the year ended December 31, 2006, amounts to ₩422,000 thousand (2005 : ₩268,300 thousand).

As of December 31, 2006, the Company provided housing loans to employees amounting to ₩2,272,598 thousand (2005 : ₩1,748,950 thousand) (Note 6).

**31) Segment Information**

**Geographical Segment Information**

	(in thousands of Korean won)	
Market	2006	2005
Domestic	660,408,423	610,509,325
Europe	490,104,181	425,442,704
North America	356,063,299	379,504,542
Asia, except Korea	258,651,231	275,513,490
Local export	188,685,390	166,136,868
South and Central America	109,853,809	85,266,350
Other	-	61,226,695
<b>Total</b>	<b>2,063,766,333</b>	<b>2,003,599,974</b>

**Hankook Tire Co., Ltd.**  
**Notes to Non-Consolidated Financial Statements**  
**December 31, 2006 and 2005**

**32) Operating Results for the Final Interim Period**

Significant operating results for the three-month periods ended December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won, except per share amounts)	
	2006	2005
Sales	538,272,490	526,799,662
Operating income	36,654,998	35,971,118
Ordinary income	33,087,166	66,837,761
Net income	25,295,449	46,396,318
Basic earnings per share (in Korean won)	171	317
Diluted earnings per share (in Korean won)	171	317

**33) Supplemental Cash Flow Information**

Significant transactions not affecting cash flows for the years ended December 31, 2006 and 2005, are as follows :

	(in thousands of Korean won)	
	2006	2005
Reclassification to specific property, plant and equipment accounts from construction-in-progress	197,697,864	32,427,750
Reclassification to specific property, plant and equipment accounts from machinery-in-transit	28,398,966	5,126,398
Unrealized valuation gain on investment securities	22,224,470	10,345,271
Current maturities of long-term debt	20,394,860	61,608,000

**34) Approval of Financial Statements**

The non-consolidated December 31, 2006 financial statements will be approved by the Company's Board of Directors on February 23, 2007.

**35) Reclassification of Prior Year Financial Statement Presentation**

Certain accounts in the financial statements as of and for the year ended December 31, 2005, have been reclassified to conform to the December 31, 2006 financial statement presentation. These reclassifications have no effect on previously reported net income or shareholders' equity.

## Report of Independent Accountants' Review of Internal Accounting Control System

**To the President of  
Hankook Tire Co.,Ltd.**

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ('IACS') of Hankook Tire Co., Ltd. (the 'Company') as of December 31, 2006. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that 'based on its assessment of the operations of the IACS as of December 31, 2006, the Company's IACS has been designed and is operating effectively as of December 31, 2006, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association.'

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2006, and we did not review management's assessment of its IACS subsequent to December 31, 2006. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil Pricewaterhouse Coopers  
February 23, 2007

## Report on the Operations of the Internal Accounting Control System

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

I, as the Internal Accounting Control Officer ('IACO') of Hankook Tire Co., Ltd. (the Company), assessed the status of the design and operations of the Company's internal accounting control system ('IACS') for the year ended December 31, 2006.

The Company's management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS standards.

February 23, 2007

Jae Pyo Lee, Internal Accounting Control System Officer

Choong Hwan Cho, Chief Executive Officer or President

# GLOBAL NETWORK

## HANKOOK TIRE GLOBAL HEADQUARTERS

**Hankook Tire Co.,LTD.**  
#647-15 Yeoksam-dong, Gangnam-gu,  
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Fax : 82-2-2222-1100

## HANKOOK TIRE KOREA HEADQUARTERS

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## Hankook Reifen Deutschland GmbH

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Fax : 44-(0)1327-304-110

## Hankook France S.A.R.L.

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## Hankook Tire Netherlands Sales B.V.

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Fax : 31-20-3161720

## Hankook Tire Europe Distribution Center

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Fax : 31-(0)181-353-013

## Hankook Tire Co., Ltd. Budapest Office

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## Hankook Tire Co., Ltd. Moscow Office

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Fax : 7-495-780-8768

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## Hankook Tyre Australia Pty., Ltd.

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## Hankook Tire Co., Ltd. Bangkok Office

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## Hankook Tire Co., Ltd. Dubai Office

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## Hankook Tire Co., Ltd. Santiago Office

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Fax : (56)2-596-8463

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Fax : 966-2-680-6468

## Hankook Tire Co., Ltd. Mexico Office

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Fax : 52-55-5596-6245

## Hankook Tire Co., Ltd. Panama Office

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## Hankook Tire do Brasil Ltda

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## HANKOOK TIRE AMERICA HEADQUARTERS

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Fax : 1-909-481-8536

## Hankook Tire America Corp.

-Southeast Regional Office  
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## Hankook Tire America Corp.

-Midwest Regional Office  
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Tel : 1-847-310-0189  
Fax : 1-847-310-0492

## Hankook Tire America Corp.

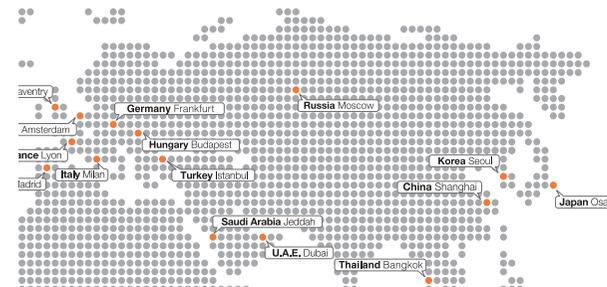
- Southcentral Regional Office  
2000 East Lamar Blvd. Suite #270, Arlington,  
TX 76006  
Tel : 1-817-460-6400  
Fax : 1-817-460-3090

## Hankook Tire Canada Corp.

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## HANKOOK TIRE CHINA HEADQUARTERS

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# HISTORY

- 
- 2000 Received Q1 Award from Ford Motor Company
  - 2001 Launched ERP system
  - 2003 Forged partnership with Michelin
  - 2004 Revealed new CI
  - 2005 Became first Korean tiremaker to initiate supply to General Motors
  - 2006 Held ground-breaking ceremony for new plant in Hungary  
Became first Korean tiremaker to sign technical agreement with Audi
  - 1990 Established Akron Technical Center (USA)
  - 1999 Held ceremonies to mark completion of plants in Jiangsu and Jiaxing, China
  - 1980 Became first Korean tiremaker to reach US\$100 million mark in exports
  - 1981 Established sales affiliate in the US
  - 1982 Established Main R&D Center within Daeduk Science Town
  - 1979 Completed construction of Daejeon Plant
  - 1968 Changed company name to Hankook Tire Manufacturing
  - 1941 Chosun Tire Industrial Co., Ltd. established

# CORPORATE DATA

## Head Office

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## IR

Hankook Tire Co., Ltd.  
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Homepage : [www.hankooktire.com](http://www.hankooktire.com)  
IR information and public disclosures are available on the IR page of our website.

## 2007 IR calendar

Jan. 19	Announcement of 4Q 2006 earnings results and 2007 earnings target
Feb. 23	Public announcement of schedule for 53rd general shareholders ' meeting
Mar. 12	Publication of Financial Report
Mar. 16	General shareholders ' meeting
Mar. 31	Publication of 53rd Annual Report
Apr. 04	Dividend payment
May 09	Announcement of 1Q 2007 earnings results
May 11	Participation in global conference hosted by Samsung Securities
Aug. 10	Announcement of 2Q 2007 earnings results
Oct.	Participation in overseas roadshow hosted by securities firm(s)
Nov. 09	Announcement of 3Q 2007 earnings results

• Other : participation in other small-scale IR conferences and roadshows

Calendar as of March, 2007. Schedule may be subject to change.

