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KUMHO TIRES 

NOTHING CAN STOP US. Kumho Tires Annual Report 2009

NOTHING CAN STOP US.

Kumho Tires
Annual Report 2009

KUMHO TIRES

KUMHO TIRES 


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Kumho Tires Annual Report 2009





In 2009, the global financial crisis dealt a major blow to the real economy. Uncertainty dragged down the global market.

Fortunately, aggressive economic stimulus packages implemented by governments around the world have led to some signs of recovery. Nevertheless, there remain concerns in the capital and real estate markets due to risk factors such as unstable oil and raw material prices.

The year 2009 was tough for Kumho Tires as well. Our financial position weakened as our capacity utilization declined, our business environment deteriorated, and our inventory hit a record high due to the contraction of the auto industry in the first half of the year.

Although the challenges we faced were daunting, we did not falter. We all came together to overcome the crisis and pave the way for a brighter tomorrow. Through strict inventory control, we succeeded in bringing down our inventory to an optimal level. Our capacity utilization rebounded and reached almost 100% as our overseas sales normalized. We are now seeing some remarkable signs of improvement in our business performance.

**WE ARE GOING THROUGH
THE MOST DRAMATIC TRANSFORMATION SINCE OUR FOUNDING.**

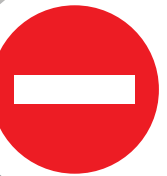


When **heavy snow**

locks us in...

When there is heavy snow,
should we wait
for the snow to melt and the roads to dry?

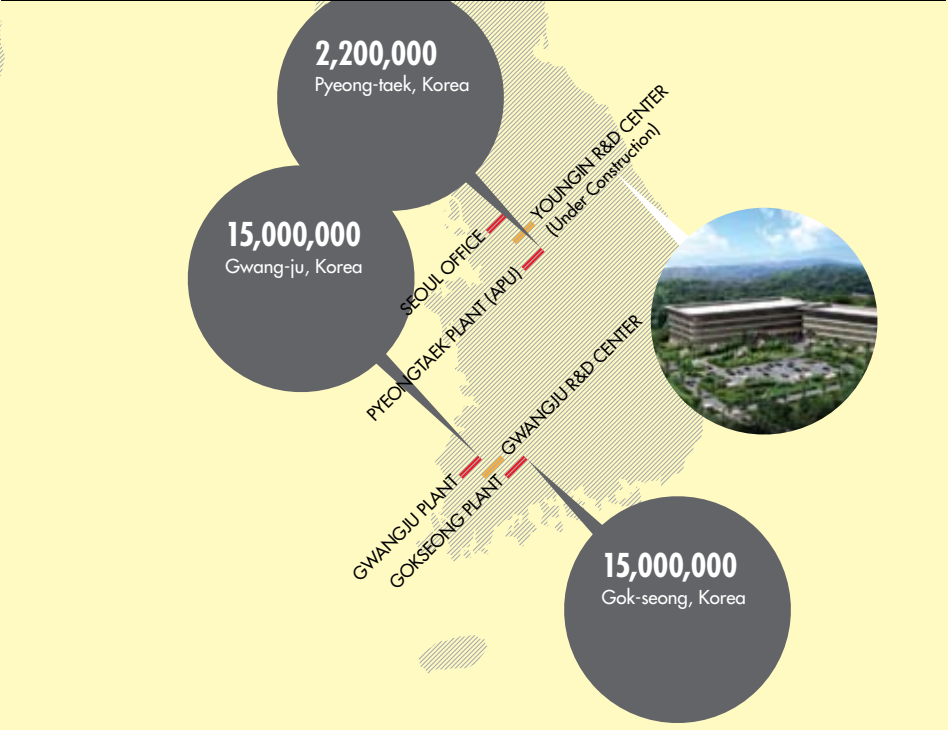
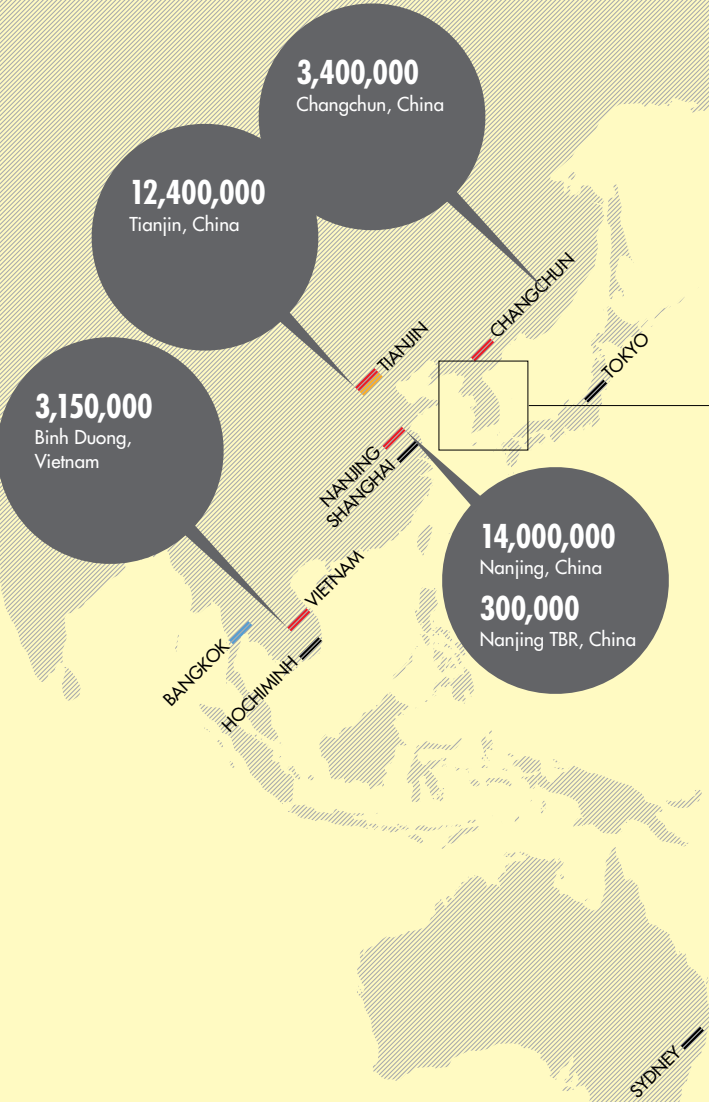
A business cannot stop moving forward.
When it does, its engine and wheels for growth freeze up.



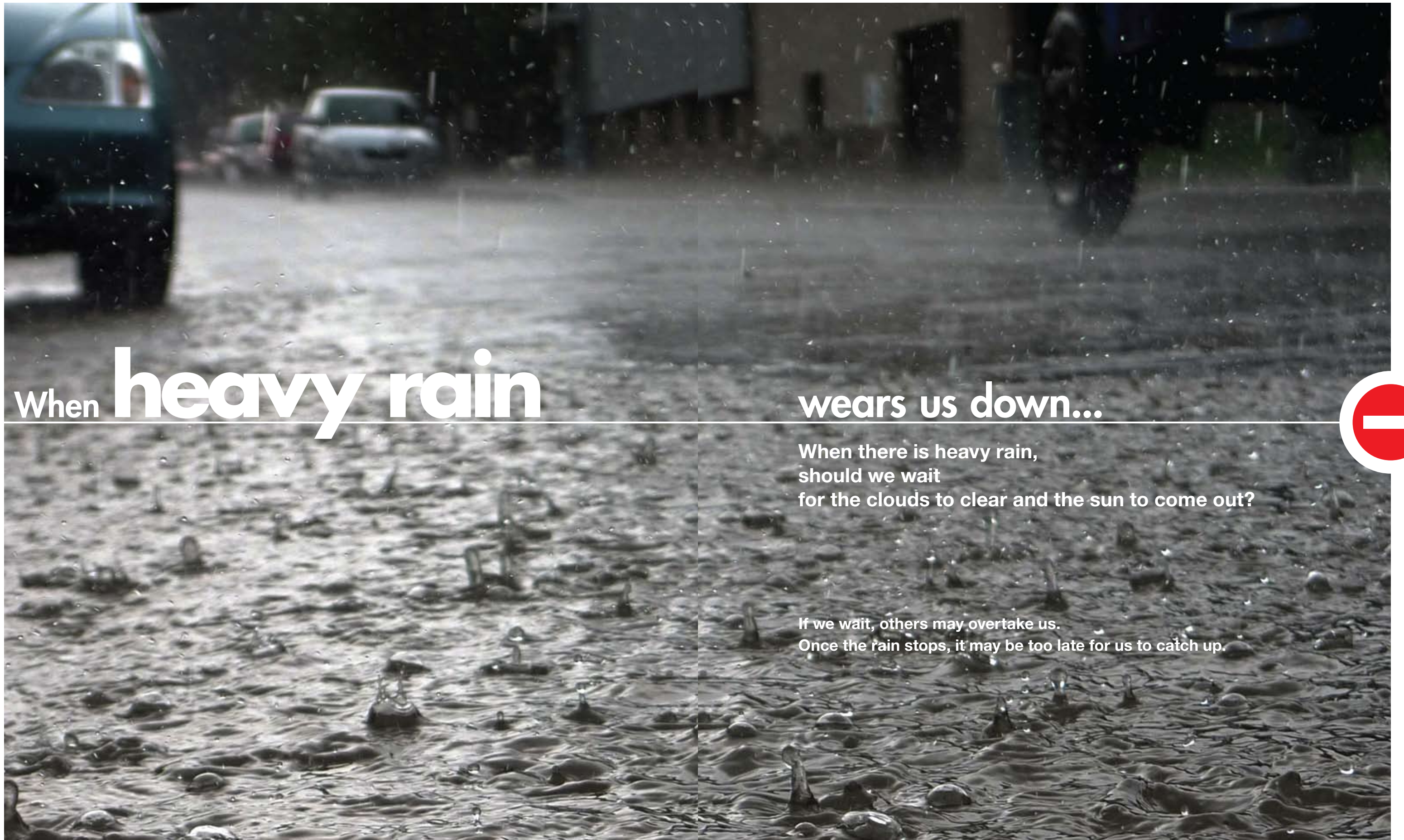


Over the past few years, Kumho Tires has built a foundation for global competitiveness by expanding our production capacity through aggressive and continuous investments. We now plan to focus on strengthening and stabilizing our global network and maximizing the efficiency of our global business operations.

As of 2009, Kumho Tires' global network comprises 7 plants, including 3 plants in China, the world's fast growing tire market; 9 sales offices; 4 R&D centers; and 17 branches and offices.



- PLANTS
- R&D CENTERS
- OVERSEAS SALES CORPORATIONS
- OVERSEAS BRANCHES & OFFICES

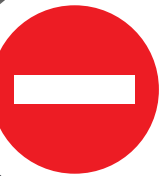


When **heavy rain**

wears us down...

When there is heavy rain,
should we wait
for the clouds to clear and the sun to come out?

If we wait, others may overtake us.
Once the rain stops, it may be too late for us to catch up.





MERCEDES – BENZ



VOLKSWAGEN



HYUNDAI



KIA



Kumho Tires' competitive edge comes from our world-class technology and product quality. Our technological competency and exceptional quality were top-rated by some of the most renowned and authoritative auto magazines in Europe and the United States in 2009. Kumho Tires is many global automakers' OE tire supplier of choice. We are now focusing on providing premium OE tires to top-selling luxury carmakers.

KUMHO TIRES OE TIRE PARTNERS

- HYUNDAI
- KIA
- DAIMLER(MERCEDES–BENZ)
- VOLKSWAGEN
- CHRYSLER
- FORD
- GM

OVERSEAS HONORS AND PRIZES

- 2nd place, German magazine Autozeitung's tire test
- "2009 Tire of the Year", German 4x4 magazine Off Road
- "Best Product", Germany's ADAC comprehensive test; highest rating
- iF product design award, "Advanced Study" category
- 1st place, low-noise category of German magazine Autobild's tire test
- 1st place, Russian magazine Za Rulem's performance test



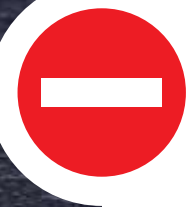


When the **tough road**

stalls us...

When we face obstacles,
should we wait
for the obstacles to be removed and the road to be cleared?

While our steering wheel sits idle,
our friends may forget we are coming.





Kumho Tires has been raising our brand value through the sponsorship of motorsports and football. At the roaring stadiums where Park Ji-sung's powerful athleticism shines, and on the racing tracks upon which the world's fastest compete, we advance the Kumho Tires brand.

Based on our steadfast research and innovative thinking to meet customer demands, in 2010, Kumho Tires established our new brand value as the enhancement of our customers' automotive lifestyle.

Platinum sponsor, Manchester United of the British Premier League
Business partner, ADO Den Haag of the Dutch Eerste Divisie League
Official tire supplier, Masters of Formula 3
Official tire supplier, Formula 3 Euro Series

Kumho Tires leaves an indelible impression on football fans and motorsport enthusiasts around the world.





When the **fuel gauge**

hits empty...

When we run out of fuel,
should we wait
for someone to come our aid?

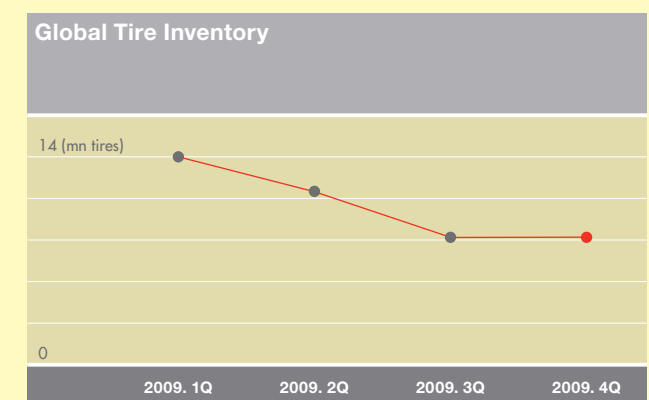
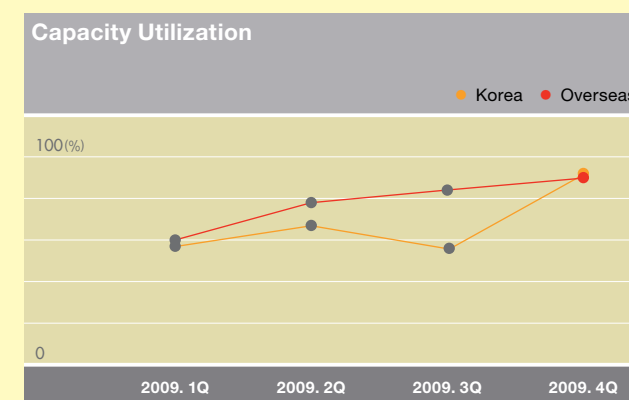
Waiting is futile.
It is our responsibility to get ourselves to the next fueling station.





Pit stops are essential in long-distance races. During a pit stop, parts are replaced and the vehicle is refueled for another fast and powerful run. For Kumho Tires, 2009 was our pit stop.

We succeeded in stabilizing our global tire inventory through systematic production planning and control. By reaching an agreement on the “no-work, no-pay” principle, we have improved our labor-management relations and we will be able to save around 40 billion won annually. Moreover, by building an efficient production-management system, we are now poised to respond quickly to fast-changing market conditions.



CEO MESSAGE



We will
become
your lifelong
partner,

in tune with
your needs

and
in sync with
your stride.

Since our founding in 1960, Kumho Tires has pursued steadfast business innovation and technological advances despite changing market conditions. As a result, we have been able to build a foundation for sustained growth as an industry leader. We went through many changes and achieved many advances over the course of our 50-year history, and we now stand as one of the world's top 10 tire companies.

In 2010, the 50th anniversary of our founding, we will strengthen our core competencies for strategic business management. We will equip ourselves with first-rate R&D capabilities and undertake global marketing activities. In so doing, we aim to solidify our position as a global leader by enhancing our corporate value and securing our distinctive competitive edge.

We recognize that we have the responsibility to uphold the value of life and protect the environment. We will remain committed to fulfilling this responsibility. We will become a global leader in eco-friendly practices, minimizing the environmental impact of our business activities, products, and services and contributing to the preservation of the environment and our way of life.

There have been concerns over Kumho Tires' debt workout. However, I would like to stress that the workout program is an effective means by which we can more quickly overcome our liquidity difficulties with our creditors' support. Since my appointment in April 2009, Kumho Tires has done away with the existing production-oriented policy and adopted a customer-oriented approach to our operations. We have taken aggressive measures to bring down our excessively high inventory levels, and we have laid the foundation for win-win labor-management relations based on the "no-work, no-pay" principle. We have, therefore, diligently prepared for a major turnaround in 2010. Kumho Tires will successfully complete the debt workout program and once again soar to new heights.

Thank you for your continued interest in and support for Kumho Tires. We will always be open to your opinions and feedback and strive to bring you superior value and unwavering trust.

I wish you, our shareholders and customers, happiness and good health.

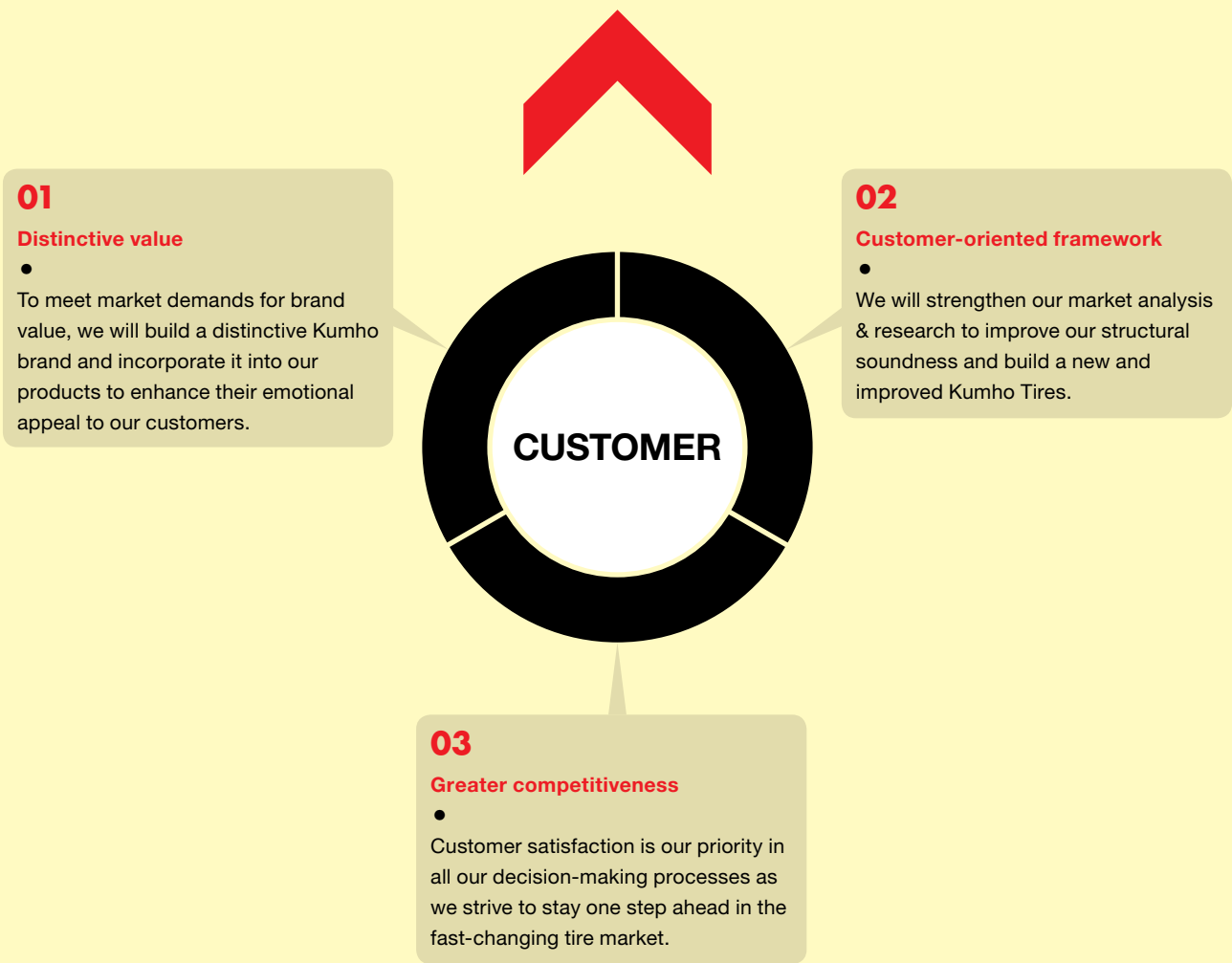
Thank you.

Kim, Jong-ho
President & CEO
Kumho Tire Co., Inc.

VISION & STRATEGY

Vision

CUSTOMER VALUE MAXIMIZER



Strategy

- 01**
Improved financial structure

 - We will remain committed to improving our financial structure and become a competitive tire company.
- 02**
Customer-oriented management

 - We will do our utmost to develop and provide products that will satisfy and impress our customers.
- 03**
Enhanced brand value

 - We will raise brand recognition and identity by developing a more customer-focused brand strategy.



//

Kumho Tires has defined

our corporate vision

to be the creation and satisfaction

of our customers' needs.

We now start anew as a

“Customer Value Maximizer.”

//

2009 HIGHLIGHTS

January⁰¹

Global Identity | Tire Pro Pangyo branch opened its doors. It is our first Korean flagship retail shop incorporating our global BI scheme. The global BI scheme was first applied to our Shanghai branch in China in April 2008. Our global BI scheme, consisting of not only professional tire care services but also product displays, consultation rooms, and cafés, aims to provide our customers with services that are uniquely Kumho.

Korean Net Promoter Score | Kumho Tires came in 1st place in the passenger tire category in the Korean Management Association Consulting (KMAC) “Businesses Customers Recommend” survey. Enterprises show great interest in this survey as it reflects sector-by-sector customer loyalty for specific products and services. As our corporate motto “Clean Service” suggests, Kumho Tires always endeavors to put our customers first. The survey result is indicative of the effectiveness of our customer-oriented brand management in raising brand loyalty.

February⁰²

Yellow Cap | Kumho Tires became a supplier to New York City’s iconic fleet of yellow cabs. We join other world-class brands as a yellow cab supplier.

F3 Euro Series 2009–2011 | Kumho Tires was selected, once again, as the official tire of F3 Euro Series (2009-2011), the largest F3 race. We have been able to enhance our brand recognition as the official tire brand of the Euro Series since the 2003 season.

Autozeitung, 2nd | Kumho Tires came in 2nd place in a comprehensive tire test carried out by the German automotive magazine, Autozeitung. The industry’s top 9 brands were tested. Kumho’s tires upped their competition in terms of control and maneuverability and received especially high marks in the wet test.

March⁰³

No. 1 & Top Class | Kumho Tires came in 1st place and won top class, respectively, in Russia’s Za Rulem magazine and Europe’s ADAC Motorwelt magazine tire tests. Solus KH17, our leading product, was lauded for its high performance and low fuel consumption in all weather conditions and on all road surfaces. Kumho Tires was, thus, recognized for our outstanding quality, even among premium global tire brands.

Ho Chi Minh | Kumho Tires opened Tire Pro in Ho Chi Minh City, the largest city in the emerging market of Vietnam. Tire Pro is a leading tire retail shop in Korea. Its foray into Vietnam is playing a major role in solidifying Tire Pro’s standing in the ASEAN market as a global brand.

May⁰⁵

Low-noise | Kumho Tires became the first Korean company to come in 1st place in the low-noise category in the tire test conducted by the leading German automotive magazine Autobild. Our products already meet the 2012 EU low-noise standards. The performance and fuel-efficiency of our tires have also received favorable reviews. In short, Kumho Tires is recognized worldwide as a cutting-edge tire manufacturer.

Masters of F3 | The F3 Euro Series, sponsored by Kumho Tires, opened in Hockenheim, Germany on May 15. Kumho Tires has been the official tire supplier to the Masters of F3 for 7 consecutive years since 2009. It reaffirms Kumho’s technological competency and enhances our brand value.

June⁰⁶

u-FEMS | Kumho Tires’ u-FEMS (Factory Energy Management System) was selected as one of 6 key programs of the u-IT Project led by the Ministry of Knowledge and Economy. u-FEMS is expected to make significant contributions to cutting unnecessary energy consumption at factories as well as to energy management at small and medium enterprises.

North America | Kumho Tires opened a Tires 4 U in Buena Park in northern California (USA) in order to strengthen our sales network in North America, the world’s largest automotive market. Tires 4 U is a specialized retail outlet where customers can get tires for passenger cars, racing vehicles, light trucks, and SUVs.

July⁰⁷

Man U, Korea Tour | The Kumho Tires Cup 2009 Manchester United Korean Tour was held at the Seoul World Cup Stadium. The event was hosted by Kumho Tires, an official sponsor of Manchester United. Most Man U players participated in the friendly match against FC Seoul’s, Korea’s leading professional soccer team. The event played a major role in reigniting soccer fever in Korea and expanding the base of support for the sport.

August⁰⁸

Concept Car ‘Fortis’ | Kumho Tires became the first Korean parts manufacturer to develop an eco-friendly concept car. Fortis is a green SUV. Most of its body panels are made of recycled tire. It is a four-wheel drive electric vehicle that is powered by an electric motor and lithium-ion batteries.

September⁰⁹

Eco Tire | Kumho Tires showcased our new eco-friendly, fuel-efficient tire as well as a high-performance tire for sports sedans at the 2009 Frankfurt Motor Show. There was great interest in our eco tire, which has low toxic chemical content and minimal rolling resistance for improved fuel economy.

Customer Satisfaction | Kumho Tires came in 1st place in a customer satisfaction survey, maintaining its number 1 position five years running (six first place wins). Customers found that Kumho’s tires provided smoother driving, better braking performance, greater stability at high speeds, and superior design elements compared to competing products.

November¹¹

Top Quality | All Kumho Tires production facilities in Korea were selected for the 2009 Business with Superior Quality Competitiveness honors overseen by the Korean Agency for Technology and Standard (Ministry of Knowledge and Economy) and the Korean Standards Association. The Gwangju Plant has been honored 10 consecutive years, while our Gokseong Plant and Pyeongtaek Plant have been honored 11 and 3 years running, respectively. The Gwangju Plant also received the Businesses with Superior Quality Competitiveness Special Prize, a ministerial honor from the Ministry of Knowledge and Economy, at the 35th National Quality Management Award.

Benz Truck | Kumho Tires became the OE tire supplier for Mercedes-Benz trucks and tractors sold in Korea. Kumho Tires became the first Korean OE tire supplier to Mercedes-Benz A-class passenger cars in 2007.

December¹²

iF Design Award | Kumho Tires won an iF product design award in the “Advanced Study” category. We were the first in the industry to design a unique tread pattern based on the company logo using our innovative laser etching technology.

It may appear as though the crisis will last forever, but it won't.
It is always possible to withstand
the severest of storms and the heaviest of snow.

It is not so much about rising up again.
It is because we cannot fall back that we
keep moving forward.

If we come together as one and head toward
our goal with confidence and determination,
today's crisis will become tomorrow's
opportunities to lay a new path for success.

WE WILL TRAVEL DOWN THAT PATH, STRONGER THAN EVER BEFORE.

Financial Statements

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Report of Independent Auditors

To the Shareholders and Board of Directors of
KUMHO TIRE CO., INC.

We have audited the accompanying non-consolidated statements of financial position of KUMHO TIRE CO., INC. (the "Company") as of December 31, 2009 and 2008, and the related nonconsolidated statements of operations, disposition of accumulated deficit, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of KUMHO TIRE CO., INC. as of December 31, 2009 and 2008, and the results of its operations, the changes in its accumulated deficit, the changes in its shareholders' equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw your attention to the following matters. As discussed in Note 31 to the non-consolidated financial statements, the Company incurred a net loss amounting to ₩776,168 million during the year ended December 31, 2009, and as of that date, the Company's current liabilities exceeded its current assets by ₩1,420,158 million. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

As discussed in Note 32 to the non-consolidated financial statements, on December 30, 2009, the Company filed for business rehabilitation and since January 6, 2010, has been under the joint management control by its creditor financial institutions to implement its business rehabilitation plans.

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

Seoul, Korea
March 22, 2010

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This report is effective as of March 22, 2010, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Non-Consolidated Statements of Financial Position

December 31, 2009 and 2008

(in millions of Korea won)				
	2009		2008	
Assets				
Current assets				
Cash and cash equivalents	₩	12,395	₩	11,655
Short-term investments (Note 3)		557		505
Trade accounts and notes receivable, net (Notes 4, 13, 21 and 22)		292,968		507,853
Other accounts receivable (Notes 4, 21 and 22)		79,418		47,271
Derivative assets (Note 27)		-		31,642
Short-term loans receivable (Notes 21 and 22)		175,051		10,910
Inventories, net (Note 5)		181,513		360,449
Deferred income tax assets (Note 19)		10,340		41,061
Others (Notes 21 and 22)		27,701		41,006
Total current assets	₩	779,943	₩	1,052,352
Long-term trade accounts receivable (Note 4)		1,024		-
Long-term investments (Notes 4 and 6)		2,048		742
Equity-method investments (Note 7)		430,726		766,303
Deferred income tax assets (Note 19)		70,262		2,421
Property, plant and equipment, net (Notes 8, 10 and 11)		1,062,780		1,134,245
Intangible assets, net (Note 9)		39,558		121,295
Other non-current assets		22,690		26,837
Total assets	₩	2,409,031	₩	3,104,195

Non-Consolidated Statements of Financial Position

December 31, 2009 and 2008

(in millions of Korean won)				
		2009		2008
Liabilities and Shareholders' Equity				
Current liabilities				
Trade accounts payable (Notes 21 and 22)	₩	335,824	₩	351,391
Short-term borrowings (Note 10)		796,557		423,865
Current maturities of debentures, net (Note 11)		159,542		174,776
Current maturities of warrant bonds, net (Note 11)		79,729		-
Current maturities of long-term debts, net (Note 11)		541,579		226,301
Other accounts payable (Notes 21 and 22)		231,042		255,478
Accrued expenses (Note 22)		37,219		40,624
Derivative liabilities (Note 27)		1,669		26,502
Others		16,941		28,435
Total current liabilities		2,200,102		1,527,372
Debentures, net (Note 11)		-		109,657
Long-term debts, net (Note 11)		-		399,304
Accrued severance benefits, net (Note 12)		118,048		133,395
Provision for warranty expense		26,399		24,368
Derivative liabilities (Note 27)		-		2,231
Total liabilities		2,344,549		2,196,327
Commitments and contingencies (Note 13)				
Shareholders' equity				
Capital stock				
Common stock (Notes 1 and 14)		350,042		350,000
Capital surplus				
Paid-in capital in excess of par value		316,470		427,707
Capital adjustments				
Others		(16,602)		(17,458)
Accumulated other comprehensive income				
Accumulated comprehensive income of equity-method investees (Note 7)		109,037		172,381
Accumulated comprehensive expense of equity-method investees (Note 7)		(139)		(139)
Gain on revaluation of Land		86,619		86,619
Accumulated deficit (Note 15)				
Legal reserve		-		12,686
Discretionary reserve		-		83,000
Undisposed accumulated deficit		(780,945)		(206,928)
Total shareholders' equity		64,482		907,868
Total liabilities and shareholders' equity	₩	2,409,031	₩	3,104,195

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

Non-Consolidated Statements of Operations

Years Ended December 31, 2009 and 2008

(in millions of Korean won, except per share amounts)			
	2009	2008	
Sales (Notes 16, 22 and 26)	₩ 1,894,700	₩ 2,398,560	
Cost of sales (Notes 17 and 22)	1,789,686	1,980,564	
Gross income	105,014	417,996	
Selling and administrative expenses (Notes 18 and 23)	318,593	381,737	
Operating income(loss)	(213,579)	36,259	
Non-operating income			
Interest income	12,492	9,002	
Gain on valuation of equity-method investments (Note 7)	6,697	2,233	
Gain on foreign currency transactions	92,856	68,699	
Gain on foreign currency translation	13,030	52,569	
Gain on disposal of property, plant and equipment	1,698	819	
Gain on derivatives transactions	417	-	
Gain on valuation of derivatives (Note 27)	561	32,818	
Others	2,752	2,717	
	130,503	168,857	
Non-operating expenses			
Interest expenses	118,521	76,378	
Loss on valuation of equity-method investments (Note 7)	193,979	71,927	
Impairment loss on equity-method investments (Note 7)	120,746	-	
Impairment loss on long-term investments (Note 6)	742	-	
Impairment loss on intangible assets (Note 9)	90,797	-	
Loss on foreign currency transactions	93,673	144,271	
Loss on foreign currency translation	24,767	73,612	
Loss on disposal of short-term investment securities	-	3	
Loss on disposal of property, plant and equipment	1,371	1,479	
Impairment loss on property, plant and equipment (Note 8)	8,879	-	
Loss on disposal of accounts receivables	26,457	26,874	
Other bad debts expenses	7,594	-	
Donations	646	2,187	
Loss on disposal of inventories	27,188	1,122	
Loss on derivatives transactions	4,723	27,732	
Loss on valuation of derivatives (Note 27)	-	26,196	
Others	4,005	7,656	
	724,088	459,437	
Loss before income tax benefit	(807,164)	(254,321)	
Income tax benefit (Note 19)	(30,996)	(53,965)	
Net loss	₩ (776,168)	₩ (200,356)	
Basic and diluted loss per share (Note 20)	₩ (11,088)	₩ (2,862)	

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

Non-Consolidated Statements of Disposition of Accumulated Deficit

Years ended December 31, 2009 and 2008

(Dates of disposition: March 30, 2010 and March 27, 2009 for the years ended December 31, 2009 and 2008, respectively)

(in millions of Korean won)			
	2009	2008	
Accumulated deficit before disposition			
Unappropriated retained earnings carried over from prior year	₩ -	₩ 4,686	
Cumulative effect of accounting change	-	1,489	
Changes in equity-method retained earnings (Note 7)	(4,777)	(12,747)	
Net loss	(776,168)	(200,356)	
	(780,945)	(206,928)	
Transfer from discretionary reserve	-	-	
	(780,945)	(206,928)	
Dispositions of accumulated deficit			
Discretionary reserve	-	83,000	
Legal reserve	-	12,686	
Capital surplus	316,471	111,242	
	316,471	206,928	
Undisposed accumulated deficit carried forward to subsequent year	₩ (464,474)	₩ -	

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

Non-Consolidated Statements of Changes in Shareholders’ Equity

Years Ended December 31, 2009 and 2008

(in millions of Korea won)						
	Capital stock	Capital surplus	Capital adjustment	Accumulated other comprehensive income(loss)	Retained earnings (Accumulated deficit)	Total
Balance as of January 1, 2008	₩ 350,000	₩ 427,707	₩ (15,943)	₩ (2,212)	₩ 111,733	₩ 871,285
Cumulative effect of accounting change	-	-	-	-	1,489	1,489
Adjusted retained earnings					113,222	872,774
Cash dividends	-	-	-	-	(11,361)	(11,361)
Retained earnings after appropriation					101,861	861,413
Net loss	-	-	-	-	(200,356)	(200,356)
Paid in capital of subsidiaries	-	-	(1,515)	-	-	(1,515)
Changes in retained earnings from equity-method investments (Note 7)	-	-	-	-	(12,747)	(12,747)
Changes in accumulated comprehensive income from equity-method investments	-	-	-	174,454	-	174,454
Gain on revaluation of land	-	-	-	86,619	-	86,619
Balance as of December 31, 2008	₩ 350,000	₩ 427,707	₩ (17,458)	₩ 258,861	₩ (111,242)	₩ 907,868
Balance as of January 1, 2009	₩ 350,000	₩ 427,707	₩ (17,458)	₩ 258,861	₩ (111,242)	₩ 907,868
Disposition of accumulated deficit	-	(111,242)	-	-	111,242	-
Accumulated deficit after disposition					-	907,868
Exercise of stock warrants (Notes 11 and 14)	42	5	-	-	-	47
Net loss	-	-	-	-	(776,168)	(776,168)
Paid in capital of subsidiaries	-	-	856	-	-	856
Changes in retained earnings from equity-method investments (Note 7)	-	-	-	-	(4,777)	(4,777)
Changes in accumulated comprehensive income from equity-method investments	-	-	-	(63,344)	-	(63,344)
Balance as of December 31, 2009	₩ 350,042	₩ 316,470	₩ (16,602)	₩ 195,517	₩ (780,945)	₩ 64,482

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

Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2009 and 2008

(in millions of Korea won)		
	2009	2008
Cash flows from operating activities		
Net loss	₩ (776,168)	(200,356)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	97,345	139,717
Provision for severance benefits	28,731	51,844
Amortization of intangible assets	11,739	11,533
Loss on disposal of property, plant and equipment	1,371	1,479
Impairment loss on property, plant and equipment	8,879	-
Impairment loss on long-term investments	742	-
Loss on foreign currency translation	24,767	73,612
Loss on disposal of inventories	27,188	1,122
Interest expense (discounted present value)	6,046	789
Loss on disposal of short-term investments	-	3
Loss on valuation of equity-method investments	193,979	71,928
Impairment loss on equity-method investments	120,746	-
Impairment loss on intangible assets	90,797	-
Loss on valuation of derivatives	-	26,196
Other bad debts expense	7,594	-
Bad debts expenses	4,629	3,900
Provision for warranty expense	2,031	1,100
Gain on foreign currency translation	(13,030)	(52,569)
Gain on valuation of equity method investments	(6,697)	(2,233)
Gain on disposal of property, plant and equipment	(1,698)	(819)
Gain on valuation of derivatives	(561)	(32,818)
Others	-	(9)
	604,598	294,775
Changes in operating assets and liabilities		
Decrease(Increase) in trade accounts and notes receivable	196,051	(117,472)
Decrease(Increase) in other accounts receivable	(35,190)	8,801
Decrease(Increase) in prepaid expenses	(3,758)	55
Decrease(Increase) in inventories	151,748	(144,474)
Decrease in derivative instruments assets	31,642	2,737
Increase in deferred income tax assets	(37,998)	(48,402)
Decrease(Increase) in other assets	17,314	(30,610)
Increase(Decrease) in trade accounts payable	(14,226)	202,449
Increase(Decrease) in other accounts payable	(23,341)	169,197
Increase(Decrease) in accrued expenses	(3,406)	18,019
Decrease in income tax payable	-	(6,969)
Decrease in derivative instruments liabilities	(26,502)	(16,449)
Increase(Decrease) in other liabilities	(11,492)	10,341
Payment of severance benefits	(38,663)	(29,149)
Transfer of accrual of severance benefits	600	-
Deposits for severance benefit insurance	(6,306)	(9,390)
Decrease in contribution to National Pension Fund	291	255
	196,764	8,939
Net cash provided by operating activities	₩ 25,194	₩ 103,358

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

Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2009 and 2008			
(in millions of Korea won)			
	2009	2008	
Cash flows from investing activities			
Collection of short-term loans receivable	₩ -	₩ 12,001	
Dividends received from equity method investments	4,569	9,139	
Proceeds from disposal of other non-current assets	3,643	8,918	
Proceeds from disposal of property, plant and equipment	7,049	15,567	
Proceeds from disposal of other investment assets	23	26	
Acquisition of short-term investment assets	(51)	(5)	
Acquisition of equity-method investments	(43,406)	(55,880)	
Acquisition of property, plant and equipment	(62,029)	(201,393)	
Acquisition of intangible assets	(252)	(969)	
Short-term loans granted	(178,872)	(20,567)	
Acquisition of other non-current assets	(9)	(8,431)	
Acquisition of other investment assets	(1,500)	(30)	
Net cash used in investing activities	(270,835)	(241,624)	
Cash flows from financing activities			
Proceeds from short-term borrowings	380,422	199,434	
Proceeds from long-term borrowings	194,158	20,000	
Issuance of debentures	49,540	109,562	
Issuance of bond with warrants	77,800	-	
Exercise of stock warrants	16	-	
Payment of current maturities of long-term debts	(226,468)	(84,901)	
Payment of current maturities of debentures	(175,000)	(110,000)	
Payment of short-term borrowings	(54,087)	-	
Payment of dividends	-	(11,361)	
Net cash provided by financing activities	246,381	122,734	
Net increase(decrease) in cash and cash equivalents	740	(15,533)	
Cash and cash equivalents			
Beginning of the year	11,655	27,188	
End of the year	₩ 12,395	₩ 11,655	

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

Notes to Non-Consolidated Financial Statements

December 31, 2009 and 2008
1. The Company
KUMHO TIRE CO., INC. (the “Company”) was incorporated on June 30, 2003, under the laws of the Republic of Korea to engage in manufacturing and selling tires. Kumho Industrial Co., Ltd. contributed and transferred its tire business to the Company on June 30, 2003.
The Company has its headquarters at Gwangju, operates manufacturing plants in various locations, including Gwangju and Kok-Sung, and has several overseas associates and research centers.
The Company issued and listed 6.8 million shares of common stock (issue amount: ₩99,620 million) on February 17, 2005, on the Korea Exchange. The Company also issued and listed 22.4 million shares of Global Depository Shares, representing 11.2 million shares of common stock (issue amount: US\$160 million), on the London Stock Exchange on February 16, 2005. Further, the Company also issued additional four million shares of Global Depository Shares, representing two million shares of common stock, (issue amount: US\$29 million) on March 2, 2005, through the execution of stock purchase option granted to J.P. Morgan Securities Ltd.
The Company is authorized to issue 200 million shares with a par value of ₩5,000 per share. As of December 31, 2009, the Company has an outstanding capital stock amounting to ₩350,042 million.
2. Summary of Significant Accounting Policies
Basis of Presentation
The Company maintains its accounting records in Korean won and prepares statutory financial statements in Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements.
The following is a summary of significant accounting policies followed by the Company in the preparation of its financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.
Change in accounting estimate
In 2009, the Company changed the estimated useful lives of certain machinery and equipment from 8 years to 4~19 years. The accounting change in estimate is for the fair presentation of the economic substance in the financial statements and for proper matching of income and expense. As a result of the change, depreciation expense was lower by ₩50,817 million as compared to the amount computed under the previous estimate.
Revenue Recognition
Revenue is the gross inflow of economic benefits arising in the ordinary course of the Company's activities and is measured as the fair value of the consideration received or receivable for the sale of goods and services in the said ordinary course of the Company's activities. Revenue is shown as net of value-added tax, sales discounts and sales returns. The Company recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow into the Company.
Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of goods are transferred to the buyer. Revenue from the rendering of services is recognized under the percentage-of-completion method, under which revenue is generally recognized based on the costs incurred to date as a percentage of the total estimated costs to be incurred.
Interest income is recognized using the effective interest method. Dividend income is recognized when the rights to receive such dividends and amounts thereof are determined. Royalty income is recognized on an accrual basis in accordance with the substance of relevant contracts.
Cash and Cash Equivalents
Cash and cash equivalents include cash on hand and in banks, and financial instruments with maturity of three months or less at the time of purchase. These financial instruments are readily convertible into cash without significant transaction costs and bear low risks from changes in value due to interest rate fluctuations.
Allowance for Doubtful Accounts
The Company provides an allowance for doubtful accounts and notes receivable. Allowances are calculated based on the estimates made through a reasonable and objective method.

Sale or Discount of Accounts Receivable

The Company sells or discounts certain accounts or notes receivable to financial institutions, and accounts for the transactions as sales of the receivables if the control over the receivables is substantially transferred to the buyers. The losses from the sale of the receivables are charged to current operations as incurred.

Inventories

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of inventories are determined using the moving average method except for finished goods and materials-in-transit which are determined using the monthly weighted-average method and the specific identification method, respectively. Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense. Replacement cost is used for the estimate of net realizable value of raw materials. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed up to the original carrying amount before valuation. The said reversal is deducted from cost of sales.

Investments in Securities

Costs of securities are determined using the moving average method. Investments in equity securities or debt securities are classified into trading securities, available-for-sale securities and held-to-maturity securities, depending on the acquisition and holding purpose. Investments in equity securities of companies, over which the Company exercises a significant control or influence, are recorded using the equity-method of accounting. Trading securities are classified as current assets while available-for-sale securities and held-to-maturity securities are classified as long-term investments, excluding those securities that mature or are certain to be disposed of within one year, which are then classified as current assets.

Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable.

Gains and losses related to trading securities are recognized in the income statement, while unrealized gains and losses of available-for-sale securities are recognized under other comprehensive income and expense. Realized gains and losses of available-for-sale securities are recognized in the income statement.

Equity-method Investments

Investees over which the Company can exercise significant influence should reflect any changes in equity after the initial purchase date. Under the equity method, the Company records changes in its proportionate ownership in 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. All other changes in equity should be accounted for under other comprehensive income and expense.

In case the investee is also a subsidiary of the Company, the net income and net assets of the investee in its non-consolidated financial statements should be equal to the corresponding share of the Company presented in the consolidated financial statements, unless the equity method of accounting has been discontinued on the said investee.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Land is stated at fair value determined by an independent appraiser regularly, at least every three years. All other property, plant and equipment are stated net of accumulated depreciation.

Increases in the carrying amount arising on revaluation of land are credited to accumulated other comprehensive income and expense in the shareholders' equity. Decreases that offset previous increases of the same asset are charged directly against accumulated other comprehensive income and expense and all other decreases are charged against income.

All other property, plant and equipment are stated net of accumulated depreciation calculated based on the following depreciation methods and estimated useful lives:

	Estimated Useful Lives	Depreciation Method
Buildings	30-40 years	Straight-line method
Structures	15-20 years	Straight-line method
Machinery and equipment	4~19 years ¹	Straight-line method
Vehicles	4 years	Straight-line method
Tools	4 years	Straight-line method
Furniture and fixtures	4 years	Straight-line method

¹ In 2009, the Company changed the estimated useful lives of its machinery and equipment from 8 years to 4~19 years.

Expenditures incurred after the acquisition or completion of assets is capitalized if they enhance the value of the related assets over their recently appraised value or extend the useful life of the related assets. Routine maintenance and repairs are charged to expense as incurred.

Intangible Assets

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are stated net of accumulated amortization calculated based on using the following depreciation methods and estimated useful lives:

	Estimated Useful Lives	Depreciation Method
Goodwill	20 years	Straight-line method
Industrial property rights	5 years	Straight-line method
Others	10 years	Straight-line method

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition.

Impairment of Assets

When the book value of an asset is significantly greater than its recoverable value due to obsolescence, physical damage or an abrupt decline in the market value of the asset, the said decline in value is deducted from the book value to agree with recoverable amount and is recognized as an asset impairment loss for the period. When the recoverable value subsequently exceeds the book value, the impairment amount is recognized as gain for the period to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment. Reversal of impairment of goodwill is not allowed.

Derivatives

All derivative instruments are accounted for at their fair value according to the rights and obligations associated with the derivative contracts. The resulting changes in fair value of derivative instruments are recognized either under the income statement or shareholders' equity, depending on whether the derivative instruments qualify as a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument purchased with the purpose of hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment that is attributable to a particular risk. The resulting changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized under the shareholders' equity under accumulated other comprehensive income and expense.

Income Tax and Deferred Income Tax

Income tax expense includes the current income tax under the relevant income tax law and the changes in deferred tax assets or liabilities. Deferred tax assets and liabilities represent temporary differences between financial reporting and the tax bases of assets and liabilities. Deferred tax assets are recognized for temporary differences which will decrease future taxable income or operating loss to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax effects applicable to items in the shareholders' equity are directly reflected in the shareholders' equity.

Discounts on Debentures

Discounts on debentures are amortized over the term of the debentures using the effective interest rate method. Amortization of the discount is recorded as part of interest expense.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with the Company 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 and directors were to terminate their employment as of the statement of financial position.

The Company deposits a certain portion of severance benefits to National Pension Service according to National Pension Law. The deposit amount is recorded as a deduction from accrued severance benefits.

Provisions and Contingent Liabilities

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

Translation of Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates of exchange in effect at the date of the statement of financial position (2009:USD1: ₩1,167.6, 2008:USD1: ₩1,257.5), and the resulting translation gains and losses are recognized in current operations.

Valuation of Assets and Liabilities at Present Value

Receivables and payables resulting from long-term installment payment transactions, long-term cash loans or other similar borrowings, are valued at their present values, discounted at an appropriate discount rate when the difference between the nominal value and present value is material. The present value discounts are amortized or recovered using the effective interest rate method and are recognized as interest income or expense over the term of the contract.

Approval of Financial Statements

The December 31, 2009 financial statements of the Company will be approved by the Shareholders on March 30, 2010.

3. Short-term Investments

(in millions of Korean won)		2009		2008
Time deposits ¹	₩	527	₩	505
Ordinary deposits ¹		30		-
	₩	557	₩	505

¹ Time deposits and ordinary deposits are restricted as they serve as collaterals for the leasehold deposits.

4. Trade Accounts and Notes Receivable, net and Others

(in millions of Korean won)				2009
		Gross amount	Allowance for doubtful accounts	Carrying value
Trade accounts and notes receivable	₩	318,759	₩ (25,791)	₩ 292,968
Long-term trade accounts receivable ¹		1,894	(870)	1,024
Other accounts receivable		80,489	(1,071)	79,418

(in millions of Korean won)				2008
		Gross amount	Allowance for doubtful accounts	Carrying value
Trade accounts and notes receivable	₩	532,366	₩ (24,513)	₩ 507,853
Other accounts receivable		47,271	-	47,271

¹ As Ssangyong Motor Co., Ltd. was under rehabilitation plan in accordance with ‘Debtor Rehabilitation and Bankruptcy Act’, the Company agreed on principal reduction, the debt-to-equity swap and the debt rescheduling amounting to ₩65 million, ₩1,307 million and ₩1,894 million, respectively and recognized ₩1,695 million of bad debt expense (Note 6).

5. Inventories

(in millions of Korean won)		2009		2008
Finished goods	₩	111,578	₩	245,725
Merchandise		5,319		6,022
Work in process		8,680		13,824
Raw materials		31,916		36,814
Supplies		963		1,098
Merchandise-in-transit		31,266		59,966
		189,722		363,449
Less: Valuation allowance ¹		(8,209)		(3,000)
	₩	181,513	₩	360,449

¹ Inventory valuation allowance includes loss on valuation of finished goods and merchandise amounting to ₩8,209 million (2008: ₩3,000 million).

The inventories are pledged as collateral for the short-term borrowings (Note 10).

6. Long-term Investment

Available-for-sale Securities

(in millions of Korean won)	Percentage of Ownership (%)	Acquisition Cost		Book Value		Net Asset Value ¹	
	2009.12.31	2009	2008	2009	2008	2009	2008
RUBBERNETWORK.COM ²	5.28	₩ 742	₩ 742	₩ -	₩ 742	₩ 36	₩ 318
Ssangyong Motor Co., Ltd. ³	0.08	548	-	548	-	240	-
		₩ 1,290	₩ 742	₩ 548	₩ 742	₩ 276	₩ 318

¹ Net asset value is stated at the net asset value of the investee based on the most recent financial statements made available to investors.

² As of December 31, 2009, the Company recognized the impairment loss of ₩742 million as the book value is significantly greater than the recoverable value.

³ These securities are issued by the debt-to-equity swap under a rehabilitation plan and expected to be listed after second capital reduction on January 17, 2010 (Note 4).

Held-to-maturity

(in millions of Korean won)	Maturity	Acquisition Cost		Book Value ¹	
		2009	2008	2009	2008
Shinbo Chae-An Fund 1st Securitization Specialty Subordinated bond ¹	2012.4.29	₩ 1,200	₩ -	₩ 1,200	₩ -
Shinbo Chae-An Fund 2nd Securitization Specialty Subordinated bond ¹	2012.3.4	300	-	300	-
		₩ 1,500	₩ -	₩ 1,500	₩ -

¹ The subordinated bonds are pledged as collateral for the long-term borrowings (Note 11).

7. Equity-Method Investments

(in millions of Korean won)	Percentage of ownership(%)	Acquisition cost		Book value		Net asset value	
Investee	2009.12.31.	2009	2008	2009	2008	2009	2008
Kumho Tire U.S.A.	100.00	₩ 13,001	₩ 8,225	₩ -	₩ -	₩ (30,068)	₩ (35,719)
Kumho Tyre U.K.	100.00	-	-	-	-	(7,897)	(7,570)
Kumho Tire Europe	100.00	-	-	-	-	(15,083)	(16,337)
Kumho Tire Japan	100.00	1,293	1,293	-	691	746	820
Kumho Tire Canada	100.00	-	-	2,633	2,581	2,828	2,255
Kumho Tyre Australia	100.00	4,522	4,522	-	-	7,587	5,055
Kumho Tire France	100.00	873	873	628	1,275	1,281	1,209
Kumho Tire H.K.	100.00	294,975	256,345	40,550	238,899	62,172	261,530
Kumho Asiana Main Tower Co., Inc. ¹	80.00	15,200	15,200	57,928	52,342	57,928	52,342
Daewoo Engineering & Construction ²	5.61	472,564	472,564	328,987	470,515	171,392	184,151
		₩ 802,428	₩ 759,022	₩ 430,726	₩ 766,303	₩ 250,886	₩ 447,736

¹ The equity-method investments in Kumho Asiana Main Tower Co., Inc. are pledged as collateral for long-term debts (Notes 11 and 13).

² As of December 31, 2009, the market value of the equity investments in Daewoo Engineering & Construction amounts to ₩233,946 million.

Details of equity-method investment valuations for the year ended December 31, 2009, are as follows:

(in millions of Korean won)								
Investee	Beginning balance	Acquisition	Valuation gain/loss	Increase (decrease) in capital adjustments	Dividends	Capital adjustment	Other increase (decrease)	Ending balance
Kumho Tire U.S.A. ¹	₩ -	₩ 4,777	₩ -	₩ -	₩ -	₩ -	₩ (4,777)	₩ -
Kumho Tyre U.K.	-	-	-	-	-	-	-	-
Kumho Tire Europe	-	-	-	-	-	-	-	-
Kumho Tire Japan ²	691	-	(142)	(134)	-	-	(415)	-
Kumho Tire Canada ²	2,581	-	1,109	128	-	-	(1,185)	2,633
Kumho Tyre Australia	-	-	-	-	-	-	-	-
Kumho Tire France	1,275	-	(583)	(64)	-	-	-	628
Kumho Tire H.K. ³	238,899	38,629	(182,004)	(55,830)	-	856	-	40,550
Kumho Asiana Main Tower Co., Inc.	52,342	-	5,586	-	-	-	-	57,928
Daewoo Engineering & Construction ⁴	470,515	-	(11,248)	(12,762)	(4,569)	-	(112,949)	328,987
2009	₩ 766,303	₩ 43,406	₩ (187,282)	₩ (68,662)	₩ (4,569)	₩ 856	₩ (119,326)	₩ 430,726
2008	₩ 619,660	₩ 55,880	₩ (69,694)	₩ 183,858	₩ (9,139)	₩ (1,515)	₩ (12,747)	₩ 766,303

¹ The Company deducted newly acquired equity-method investments amounting to ₩4,777 million from which the application of the equity-method of accounting has been suspended due to its accumulated losses as of December 31, 2008, from retained earnings balance as of January 1, 2009.

² In 2009, ₩1,600 million of the unamortized difference between the purchase price and the net book value for Kumho Tire Japan and Canada was recognized as an impairment loss due to their continuous operating losses and accumulated deficit.

³ Bad debt expense of USD 83,926 thousand which Kumho Tire H.K. recognized for its loans amounting to USD 106,950 thousand to BEACON, a shareholder of the Company, was reflected as loss on valuation of equity-method investments in 2009.

⁴ The Company recognized the impairment loss of ₩119,146 million(including realized accumulated comprehensive loss from equity-method investments amounting to ₩6,197 million), representing the difference between its recoverable value(₩18,000 won per share) and its carrying value.

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity investments are amortized over their economic lives not to exceed 20 years using the straight-line method, along with changes in such amounts are as follows:

(in millions of Korean won)				
Investee	Beginning balance	Amortization	Impairment	Ending balance
Kumho Tire U.S.A.	₩ 18,386	₩ (1,268)	₩ (17,118)	₩ -
Kumho Tyre U.K.	240	(16)	(224)	-
Kumho Tire Europe	10,646	(734)	(9,912)	-
Kumho Tire Japan	759	(52)	(707)	-
Kumho Tire Canada	1,272	(88)	(1,184)	-
Kumho Tyre Australia	(11)	1	-	(10)
Kumho Tire France	-	-	-	-
Kumho Tire H.K.	-	-	-	-
Kumho Asiana Main Tower Co., Inc.	-	-	-	-
Daewoo Engineering & Construction	286,364	(15,738)	(112,949)	157,677
2009	₩ 317,656	₩ (17,895)	₩ (142,094)	₩ 157,667
2008	₩ 335,551	₩ (17,895)	₩ -	₩ 317,656

For the year ended December 31, 2009, unrealized profit amounting to ₩47,924 million (2008: ₩79,801 million) was eliminated as a result of the valuation of equity-method investments.

The Company suspended the equity method of accounting when the Company's share of losses exceeded the carrying value of its investment. The Company's unrecorded share in the losses of the equity method investees is as follows:

(in millions of Korean won)				
Investee	Beginning balance	Increase (Decrease)	Impairment	Ending balance ¹
Kumho Tire U.S.A.	₩ 64,918	₩ (48,907)	₩ 17,118	₩ 33,129
Kumho Tyre U.K.	7,465	(127)	224	7,562
Kumho Tire Europe	7,839	152	9,912	17,903
Kumho Tyre Australia	490	449	-	939
Kumho Tire Japan	-	-	291	291
Total	₩ 80,712	₩ (48,433)	₩ 27,545	₩ 59,824

¹ Capital adjustments from gain and loss on valuation of equity-method investments are included in the unrecorded share in the losses of investees.

Details of major differences between net income(loss) and net asset of individual financial statements and consolidated financial statements are as follows:

(in millions of Korean won)	2009		2008	
	Net loss	Net assets	Net loss	Net assets
Suspension of equity-method	₩ (6,122)	₩ 59,824	₩ (15,343)	₩ 80,712

Capital adjustments in shareholders' equity resulting from equity-method accounting are as follows:

(in millions of Korean won)				
Investee	Beginning Balance	Increase (Decrease)	Disposal (Realized)	Ending balance
Kumho Tire U.S.A.	₩ -	₩ -	₩ -	₩ -
Kumho Tyre U.K.	(48)	-	-	(48)
Kumho Tire Europe	647	-	-	647
Kumho Tire Japan	133	(96)	-	37
Kumho Tire Canada ¹	237	98	-	335
Kumho Tyre Australia	(91)	-	-	(91)
Kumho Tire France ¹	63	(50)	-	13
Kumho Tire H.K.	132,767	(55,829)	-	76,938
Kumho Asiana Main Tower Co., Inc. ¹	31,968	(901)	-	31,067
Daewoo Engineering & Construction	6,566	(12,763)	6,197	-
Other comprehensive income	₩ 172,381	₩ (63,344)	₩ -	₩ 109,037
Other comprehensive loss	₩ (139)	₩ (6,197)	₩ 6,197	₩ (139)

(in millions of Korean won)	2008			
Investee	Beginning Balance	Increase (Decrease)	Disposal (Realized)	Ending balance
Kumho Tire U.S.A.	₩ -	₩ -	₩ -	₩ -
Kumho Tyre U.K.	(48)	-	-	(48)
Kumho Tire Europe	647	-	-	647
Kumho Tire Japan ¹	(188)	321	-	133
Kumho Tire Canada ¹	97	140	-	237
Kumho Tyre Australia	(91)	-	-	(91)
Kumho Tire France ¹	-	63	-	63
Kumho Tire HongKong	(1,829)	134,596	-	132,767
Kumho Asiana Main Tower Co., Inc. ¹	-	31,968	-	31,968
Daewoo Engineering & Construction	(800)	7,366	-	6,566
Other comprehensive income	₩ 744	₩ 171,637	₩ -	₩ 172,381
Other comprehensive loss	₩ (2,956)	₩ 2,817	₩ -	₩ (139)

¹ This amount is net of deferred income tax effect of the capital adjustments from gain and loss on valuation of equity-method investments.

The financial statements of Kumho Asiana Main Tower Co., Inc. were adjusted to reflect a change in the accounting policies on property, plant and equipment. Details of the adjustment are as follows:

(in millions of Korean won)		Net asset		Net asset
Investee	Adjustment	before adjustment	Adjustment	after adjustment
Kumho Asiana Main Tower Co., Inc.	Land revaluation	₩ 21,179	₩ 51,231	₩ 72,410

Summaries of financial information of equity-method investees are as follows:

(in millions of Korean won)	2009				
Investee	Assets	Liabilities	Sales	Net income (loss)	
Kumho Tire U.S.A.	₩ 340,433	₩ 370,501	₩ 615,820	₩	(8,083)
Kumho Tyre U.K.	63,643	71,540	119,945		36
Kumho Tire Europe	128,282	143,365	246,692		(553)
Kumho Tire Japan	15,243	14,497	48,818		77
Kumho Tire Canada	12,441	9,613	54,150		447
Kumho Tyre Australia	69,428	61,841	111,474		1,483
Kumho Tire France	44,136	42,855	83,993		225
Kumho Tire H.K.	486,871	424,699	-		(181,922)
Kumho Asiana Main Tower Co., Inc.	278,366	205,956	28,281		6,944
Daewoo Engineering & Construction	8,841,021	5,785,898	7,097,387		80,003
Total	₩ 10,279,864	₩ 7,130,765	₩ 8,406,560	₩	(101,343)

(in millions of Korean won)	2008			
Investee	Assets	Liabilities	Sales	Net income (loss)
Kumho Tire U.S.A.	₩ 611,282	₩ 647,001	₩ 552,069	₩ 11,350
Kumho Tyre U.K.	69,966	77,537	114,567	254
Kumho Tire Europe	193,649	209,986	238,945	244
Kumho Tire Japan	17,491	16,671	38,349	-
Kumho Tire Canada	17,755	15,500	52,068	580
Kumho Tyre Australia	49,214	44,160	80,235	263
Kumho Tire France	57,394	56,185	92,721	255
Kumho Tire HongKong	671,185	409,650	-	(6,064)
Kumho Asiana Main Tower Co., Inc.	279,416	213,989	7,051	1,289
Daewoo Engineering & Construction	9,242,052	5,959,494	6,577,701	247,004
Total	₩ 11,209,404	₩ 7,650,173	₩ 7,753,706	₩ 255,175

8. Property, Plant and Equipment

(in millions of Korean won)	2009					
Investee	Land	Buildings	Machinery and equipment	Construction-in-progress	Others	Total
Beginning balance	₩ 269,688	₩ 270,298	₩ 400,898	₩ 98,731	₩ 94,630	₩ 1,134,245
Acquisition	-	-	-	57,540	4,489	62,029
Transfer	-	5,296	48,114	(98,475)	24,518	(20,547)
Disposal	(68)	-	(221)	-	(6,434)	(6,723)
Depreciation	-	(8,397)	(56,106)	-	(32,842)	(97,345)
Impairment	-	-	(8,879)	-	-	(8,879)
Ending balance	₩ 269,620	₩ 267,197	₩ 383,806	₩ 57,796	₩ 84,361	₩ 1,062,780
Acquisition cost	₩ 269,620	₩ 315,319	₩ 885,471	₩ 57,796	₩ 271,238	₩ 1,799,444
Accumulated depreciation	₩ -	₩ (48,122)	₩ (492,786)	₩ -	₩ (186,877)	₩ (727,785)
Accumulated impairment	₩ -	₩ -	₩ (8,879)	₩ -	₩ -	₩ (8,879)

(in millions of Korean won)	2008					
Investee	Land	Buildings	Machinery and equipment	Construction-in-progress	Others	Total
Beginning balance	₩ 157,835	₩ 263,813	₩ 411,129	₩ 69,886	₩ 89,809	₩ 992,472
Revaluation	111,050	-	-	-	-	111,050
Acquisition	-	-	-	177,328	24,065	201,393
Transfer	1,832	15,240	102,605	(148,483)	14,081	(14,725)
Disposal	(1,029)	(665)	(13,964)	-	(570)	(16,228)
Depreciation	-	(8,090)	(98,872)	-	(32,755)	(139,717)
Ending balance	₩ 269,688	₩ 270,298	₩ 400,898	₩ 98,731	₩ 94,630	₩ 1,134,245
Acquisition cost	₩ 269,688	₩ 310.023	₩ 841,357	₩ 98,731	₩ 257,958	₩ 1,777,757
Accumulated depreciation	₩ -	₩ (39,725)	₩ (440,459)	₩ -	₩ (163,328)	₩ (643,512)

As of December 31, 2009, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, amounts to approximately ₩169,693 million (2008: ₩171,346 million).

As of December 31, 2009, substantial portions of the Company's land, buildings and machinery are pledged as collaterals for long-term and short-term debt obligations of up to ₩294,600 million, US\$25.2 million and JPY2,532 million in aggregate. Property, plant and equipment are insured against fire for up to ₩2,221,655 million (2008: ₩2,113,879 million) with The Korea Development Bank as the beneficiary of the insured amount.

As of December 31, 2008, land was revalued at fair values by independent appraisers. Fair values were determined directly by reference to observable prices in an active market or recent market transactions made on arm's length terms. Gain on revaluation of land is presented net of tax effect under accumulated other comprehensive income and expense (Note 30).

As of December 31, 2009, the value of the Company's land, based on its acquisition cost, is ₩158,611 million (2008: ₩158,638 million).

9. Intangible Assets

	2009				
(in millions of Korean won)					
Investee	Goodwill	Industrial property rights	Other	Total	
Beginning balance	₩ 97,523	₩ 1,667	₩ 22,105	₩	121,295
Acquisition	-	252	20,547		20,799
Amortization	(6,726)	(525)	(4,488)		(11,739)
Impairment ¹	(90,797)	-	-		(90,797)
Ending balance	₩ -	₩ 1,394	₩ 38,164	₩	39,558

¹ The Company recognized the impairment loss of ₩90,797 million, representing the difference between the recoverable value of goodwill and its book value.

	2008				
(in millions of Korean won)					
Investee	Goodwill	Industrial property rights	Other	Total	
Beginning balance	₩ 104,249	₩ 1,201	₩ 11,684	₩	117,134
Acquisition	-	969	14,725		15,694
Amortization	(6,726)	(503)	(4,304)		(11,533)
Ending balance	₩ 97,523	₩ 1,667	₩ 22,105	₩	121,295

10. Short-Term Borrowings

	Interest rate (%) at 12/31/2009	2009	2008
(in millions of Korean won)			
Bank overdraft	7.20 ~ 9.52	₩ 95,720	₩ 97,650
Unsecured debenture	-	-	57,000
Commercial papers issued	8.20 ~ 9.40	407,130	110,636
General term-loans including US\$ 16,000 thousand (2008: US\$ 18,080 thousand)	5.10 ~ 10.00	219,409	33,800
Usance of US\$ 63,633 thousand (2008: US\$ 99,230 thousand)	1.65 ~ 2.85	74,298	124,779
		₩ 796,557	₩ 423,865

The Company has bank overdraft agreements with The Korea Development Bank and other banks amounting to ₩105,200 million. Certain portions of the Company's property, plant and equipment, inventories and two promissory notes are pledged as collaterals for the borrowings above (Notes 5 and 8).

11. Long-Term Borrowings

Debentures

	Interest rate (%) at 12/31/2009	2009	2008
(in millions of Korean won)			
Non-guaranteed debentures ¹	7.90 ~ 9.64	₩ 160,000	₩ 285,000
Less: Discount on debentures		(458)	(567)
Less: Current portion, net of discount		(159,542)	(174,776)
		-	109,657
Bond with stock warrants ²	7.00	79,969	-
Add : Redemption premium		8,274	-
Less: Discount on debentures		(1,788)	-
Less: Stock warrants adjustment		(6,726)	-
Less: Current portion, net of discount		(79,729)	-
		-	-
		₩ -	₩ 109,657

¹ The Held-to-maturity securities are pledged as collateral for the Company's non-guaranteed debentures (Note 6).

² On May 11, 2009, the Company issued bonds with warrants of ₩80,000 million at an interest rate of 7% per annum. The warrants are exercisable on or after August 1, 2009 through April 11, 2012, at an exercise price of ₩5,650 per share(adjusted to ₩5,050 per share from November 11, 2009) of common stock. The bonds will mature in three years from the issue date and will be repaid at 110.3466% of their principal amount at maturity. The bonds are redeemable before maturity at the option of the bondholders every three months from the interest payment day after 1.5 years from the issue date.

The face value of bond with stock warrants decreased by ₩31 million by paying in bonds instead of cash upon the exercise of the warrants during the year ended December 31, 2009. Also, the warrants of 2,491 shares and 371 shares were exercised for cash at the exercise price of ₩5,650 and ₩5,050 per share, respectively. As of December 31, 2009, stock warrants of 14,147,656 shares remains unexercised (Note 14).

As of December 31, 2009, the debentures amounting to ₩129,969 million were reclassified under current maturities of debentures due to breach of the loan agreements.

Long-term Debts

	Interest rate (%) at 12/31/2009	2009	2008
(in millions of Korean won)			
Won currency loans ¹	3.45 ~ 13.50	₩ 530,575	₩ 584,542
Less: Present value discount		(1,592)	(92)
Less: Current portion		(528,983)	(198,967)
		-	385,575
Foreign currency loans	2.15 ~ 2.18	12,604	41,251
US\$ 5,177 thousand, JPY 519,450 thousand (2008: US\$ 15,530 thousand, JPY 1,558,439 thousand)			
Less: Present value discount		(8)	(75)
Less: Current portion		(12,596)	(27,501)
US\$ 5,177 thousand, JPY 519,450 thousand (2008: US\$ 10,353 thousand, JPY 1,038,959 thousand)			
		-	13,750
		₩ -	₩ 399,304

¹ The Company transferred Class1 right of beneficiary certificate with a face value of ₩100,000 million, issued by Korea Exchange Bank, the trustee of the Company, to the Kumho Tire the 4th Securitization Specialty Co., Ltd. with trust principal of its future trade accounts receivable from Hyundai Motor Company and others from August 7, 2009 to August 7, 2011. The Company recognized the funds raised through asset securitization as long-term borrowing and the balance corresponding as of December 31, 2009, amounts to ₩95,000 million.

As of December 31, 2009, the long-term debts amounting ₩184,999 million were reclassified under the current maturities of long-term debts due to breach of the loan agreements. Meanwhile, the Company repaid ₩45,000 million and ₩20,000 million of this current maturities of long-term debts on February 8, 2010 and March 8, 2010, respectively.

As of December 31, 2009, a substantial portion of the Company's property, plant and equipment and equity-method investments are pledged as collaterals for the borrowings above (Notes 7, 8 and 13).

12. Accrued Severance Benefits

(in millions of Korean won)		2009		2008
Accrued severance benefits	₩	277,642	₩	286,975
Less : Severance insurance deposits		(157,026)		(150,721)
Cumulative deposits to National Pension Fund		(2,568)		(2,859)
	₩	118,048	₩	133,395

As of December 31, 2009, the Company estimates severance payable to all employees to be ₩277,642 million (2008: ₩286,975 million) and records the corresponding amount as accrued severance benefits. Also, the Company funded 56.56% (2008: 52.52%) of severance payable through severance insurance deposits with The Korea Development Bank.

13. Commitments and Contingencies

As of December 31, 2009 and 2008, the Company has provided guarantees amounting to US\$ 955,506 thousand (equivalent to ₩1,115,648 million) and US\$ 957,362 thousand (equivalent to ₩1,203,883 million), respectively, for the operations of its overseas associates as follows:

(in thousands of US dollars)		2009		2008
Kumho Tire Japan	US\$	4,841	US\$	19,265
Kumho Tyre U.K.		4,503		5,059
Kumho Tire Tianjin		333,860		320,796
Kumho Tire Changchun		104,000		114,000
Nanjing Kumho Tire		71,481		74,000
Kumho Tire China		6,000		6,000
Kumho Tyre Austrailia		13,962		9,961
Kumho Tire H.K.		217,189		217,189
Kumho Tire Vietnam		199,670		191,092
	US\$	955,506	US\$	957,362

As of December 31, 2009, the Company has provided guarantees of up to ₩860 million for the borrowings of Tire Net Corporation, one of its suppliers.

Unmatured trade accounts receivable sold as of December 31, 2009, amount to ₩466,301 million, including letters of credit.

Notes receivable issued by its customers at a discount that have not yet matured amount to ₩24,844 million as of December 31, 2009, and the notes receivable discounted above are secured by ₩972 million for the notes receivable.

As of December 31, 2009, The Korea Development Bank and other banks have provided the Company with guarantees in relation to the opening of letters of credit with a limit of US\$ 141,165 thousand. In addition, the Company has been provided with performance guarantees by Seoul Guarantee Insurance Company and others.

As of December 31, 2009, the Company has provided Kia Motors Corporation with two promissory notes, Daewoo Engineering & Construction with two promissory notes and IBK Capital with one promissory note as collateral in connection with performance guarantees, redemption of Commercial paper and discount on notes receivable, respectively.

As of December 31, 2009, the Company has technical assistance and license agreements with associated companies, Nanjing Kumho Tire Co., Ltd., Tianjin Kumho Tire Co., Ltd. and other associated companies.

As of December 31, 2009, the Company has granted put options to the International Finance Corporation (IFC) and other shareholders of Nanjing Kumho Tire Co., Ltd. (Nanjing Kumho) which give them the right to request the Company to purchase their shares. Further, the Company has also agreed with the IFC and others that it should maintain ownership of more than 51% in the investee, Nanjing Kumho, until Nanjing Kumho's loans are fully paid, and that should the said investee suffer financial insolvency resulting in a default, the Company is required to provide subordinated loans.

As of December 31, 2009, the Company is a defendant in several lawsuits filed by customers in relation to product liability. The ultimate outcome of these cases cannot presently be determined. The Company is also insured by Hyundai Marine & Fire Insurance Co., Ltd. and other insurance companies against future claims.

The Company has entered into an agreement with Kumho Industrial Co., Ltd., which prohibits the Company from selling, transferring, offering as a collateral, or disposing all or part of its shares in Daewoo Engineering & Construction through any method for three years and a month from December 15, 2006, the purchase date of the shares, without the prior consent from Kumho Industrial Co., Ltd. Also, the Company has entered into an agreement with Kumho Industrial Co., Ltd., which gives the Company the right to sell all or part of its shares of Daewoo Engineering & Construction through the same method, in case Kumho Industrial Co., Ltd. loses its position as the majority shareholder by selling its shares in Daewoo Engineering & Construction.

Pursuant to the loan agreement between the Company and Cobilian Co., Ltd., the shares of Kumho Asiana Main Tower Co., Inc. pledged as collateral for the borrowings are deemed to be under a transfer contract and the Company was notified of closing of the transfer contract from Cobilian Co., Ltd.as of February 1, 2010. Meanwhile, in accordance with the negotiation with Cobilian Co., Ltd., the Company sold all of these shares to Asiana Airlines Inc., a related party on February 17, 2010 (Notes 7, 11, and 32).

14. Capital Stock

(in millions of Korean won except number of shares)		Number of shares	Common stock	Paid-in capital in excess of par value	Total
January 1, 2009		70,000,000	₩ 350,000	₩ 427,707	₩ 777,707
Exercise of stock warrants		8,343	42	5	47
Disposition of accumulated deficit		-	-	(111,242)	(111,242)
December 31, 2009		70,008,343	₩ 350,042	₩ 316,470	₩ 666,512

During the year ended December 31, 2009, 5,481 shares of common stock were issued by paying in bond in substitute for cash at the exercise of the warrants. Also, the warrants of 2,491 shares and 371 shares were exercised for cash at the exercise price of ₩5,650 and ₩5,050 per share, respectively (Note 11).

15. Accumulated Deficit

(in millions of Korean won)		2009		2008
Legal reserve	₩	-	₩	12,686
Reserve for business expansion		-		50,000
Reserve for facilities		-		33,000
Accumulated deficit before disposition		(780,945)		(206,928)
	₩	(780,945)	₩	(111,242)

16. Sales

(in millions of Korean won)		2009		2008
Sales				
Sales of finished goods	₩	1,492,749	₩	1,906,584
Sales of merchandise		469,186		512,488
Others		56,149		61,671
Total sales		2,018,084		2,480,743
Sales discounts and others		(123,384)		(82,183)
Net sales	₩	1,894,700	₩	2,398,560

17. Cost of Sales

(in millions of Korean won)		2009		2008
Inventory, beginning	₩	251,747	₩	131,863
Manufacturing cost for the year		1,684,894		2,111,888
Transfer to other accounts		(30,058)		(11,440)
Inventory, ending		(116,897)		(251,747)
Cost of sales	₩	1,789,686	₩	1,980,564

Temporary Differences not recognized as a Deferred Tax Assets

Details of the deductible temporary differences which deferred tax assets were not recognized are as follows:

	Year of Expiration	Amount
(in millions of Korean won)		
Deductible temporary differences	-	₩ 88,475
Equity-method investment	-	489,433
Tax loss carryforwards	2013	120,024
Tax credit	2013	13,420
	2014	8,482
	₩	719,834

The gross balances of deferred tax assets and liabilities are as follows:

	2009		2008	
(in millions of Korean won)	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Current	₩ 10,340	₩ -	₩ 42,857	₩ (1,796)
Non-current	104,710	(34,448)	35,990	(33,569)

The tax effect of cumulative temporary difference was calculated based on future tax rate of the fiscal year when temporary differences are expected to reverse. The 24.2% tax rate was used for temporary difference expected to reverse in year 2010 and 2011, while 22% tax rate was used for temporary difference expected to reverse in year 2012 and thereafter. As a result, deferred tax assets were lower by ₩16,876 million as compared to the amounts computed using the current tax rate of 24.2%.

20. Earnings per Share

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

	2009	2008
(1) Weighted average number of common shares ¹	70,002,950 shares	70,000,000 shares
(2) Net loss for common shares	₩ 776,168,111,849	₩ 200,356,272,969
(3) Basic loss per share ((2)/(1))	₩ 11,088	₩ 2,862

¹ The number of common shares is calculated by using the weighted-average method.

Diluted loss per share is identical to basic loss per share as there is no dilutive effect from the unexercised stock warrants.

Non-Dilutive Potential Common Stock

	Exercising period	Shares to be issued	Condition
Stock Warrants	2009.08.11~2012.04.11	14,147,656	₩ 5,050 per share

21. Monetary Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies, other than accounts presented in notes 10 and 11, are as follows:

	Foreign currencies				Korean won equivalent
(in millions of Korean won)	US\$	JPY	EUR	Others ¹	
Assets					
Trade accounts receivable	99,344	78,864	6,155	4,548	131,374
Other accounts receivable	30,481	-	-	1,409	37,316
Short-term loans receivable	149,857	-	-	-	174,973
Accrued revenues	5,382	-	-	-	6,284
2009	285,064	78,864	6,155	5,957	349,947
2008	205,804	52,628	18,128	21,274	313,007
Liabilities					
Trade accounts payable	94,204	-	98	-	110,157
Other accounts payable	72,849	69,100	5,087	23,312	99,893
2009	167,053	69,100	5,185	23,312	210,050
2008	115,456	33,503	3,884	1,089	153,640

¹ Won equivalent of other foreign currencies.

22. Related Party Transactions

Details of the parent and subsidiaries are as follows:

	Related party
Parent company	Kumho Petrochemical Co., Ltd
Subsidiaries	Kumho Tire U.S.A., Kumho Tire Georgia Holding, Kumho Tire Georgia Inc., Kumho Tyre U.K., Kumho Tire Europe, Kumho Tire Japan, Kumho Tire Canada, Kumho Tyre Australia, Kumho Tire France, Kumho Tire HongKong, Nanjing Kumho Tire, Kumho Tire Tianjin, Kumho Tire Changchun, Kumho Tire China, Kumho Tire Vietnam and Kumho Asiana Main Tower Co., Inc.

Significant transactions entered into in the ordinary course of business with related parties and the related account balances are as follows:

(in millions of Korean won)	Revenues ¹	Purchases	Receivables ²	Payables ³
Parent company	₩ -	₩ 121,322	₩ -	₩ 55,601
Subsidiaries	834,358	501,185	314,749	164,825
Others	6,701	146,065	8,679	222,003
2009	₩ 841,059	₩ 768,572	₩ 323,428	₩ 442,429
2008	₩ 1,156,978	₩ 787,485	₩ 271,976	₩ 387,489

¹ Revenue includes sale of property, plant and equipment of ₩24,922 million for the year ended December 31, 2009 (2008: ₩12,912 million) and book value of the property, plant and equipment is ₩23,863 million (2008: ₩12,879 million).

² Receivables are presented as net of allowance for bad debts of ₩443 million (2008: ₩1,065 million) as of December 31, 2009.

³ Paybles include borrowings from related parties amounting to ₩153,800 million (2008: ₩60,700 million), as of December 31, 2009.

Receivables include ₩174,973 million(equivalent to US\$ 149,857 thousand) of loan to a subsidiary, the changes in loan to a subsidiary are as follows:

(in thousands of USA dollar)	Beginning	Increase	Decrease	Ending
Kumho Tire H.K.	US\$ 8,600	US\$ 149,817	US\$ 8,560	US\$ 149,857

Due to breach by the loan agreement of Kumho Tire H.K., the Company repaid the borrowings and its interest amounting to US\$ 118,000 thousand for Kumho Tire H.K. and recognized it as short-term loan.

As of December 31, 2009, the Company has provided guarantees for its overseas associates (Note 13).

Key management compensation consists of:

(in millions of Korean won)		2009		2008
Short-term salaries	₩	5,540	₩	6,399
Post-retirement benefits		2,533		4,964
Total	₩	8,073	₩	11,363

The above compensation expenses include all benefits provided to directors of the board, internal auditors and executives who are responsible for the planning, operations and control of the Company.

23. Value Added Information

(in millions of Korean won)				2009			2008
		Selling and administrative expenses	Cost of sales	Total		Total	
Salaries and wages	₩	49,901	₩ 242,572	₩ 292,473	₩	364,269	
Severance benefits		6,540	22,191	28,731		51,844	
Welfare expenses		12,846	62,393	75,239		80,300	
Rental charges		12,040	2,128	14,168		14,309	
Depreciation		6,898	90,447	97,345		139,717	
Taxes and dues		2,284	2,286	4,570		4,933	
	₩	90,509	₩ 422,017	₩ 512,526	₩	655,372	

24. Environmental Investments

(in millions of Korean won)		2009		2008
Facilities for the prevention of air pollution	₩	1,367	₩	2,523
Facilities for sanitation		27		121
Others		3,306		6,670
Total	₩	4,700	₩	9,314

25. Contributions to Society

(in millions of Korean won)		2009		2008
Scholarship	₩	40	₩	229
Donation for social welfare		305		484
Donation to cultural organizations		200		1,300
Others		101		174
Total	₩	646	₩	2,187

As part of its employee welfare program, the Company extends housing loans to its qualified employees. As of December 31, 2009, outstanding loans to employees amounted to ₩376 million. (2008: ₩415 million)

26. Geographical Segment Information

(in millions of Korean won)			Sales
		2009	2008
Domestic	₩	667,910	₩ 881,439
North America		292,905	593,931
Europe		328,477	404,093
Asia		84,729	71,439
Others		520,679	447,658
Total	₩	1,894,700	₩ 2,398,560

27. Foreign Currency Forward Agreement

In order to reduce the risk of changes in exchange rates on future cash flows, the Company has entered into foreign currency option contracts which are entered into contracts automatically when the exchange rate is higher than a certain rate. The resulting changes in fair value of derivative instruments are recognized under the income statement due to failure to meet the conditions for cash flow hedge and the Company recognized gains on valuation of derivatives during the year amounting to ₩561 million and derivative liabilities amounting to ₩1,669 million as of December 31, 2009.

(Euros in thousands)	Contract amount	Maturity	Option price
Put Option Buy	EUR 12,003	2010.1.27 ~ 2010.7.28	₩1,359.02/EUR ~ ₩1,623.35/EUR
Call Option Sell	EUR 12,003	2010.1.27 ~ 2010.7.28	₩1,359.02/EUR ~ ₩1,623.35/EUR

28. Operating Results for the Final Interim Period

(in millions of Korean won except per share amounts)		2009		2008
Sales	₩	459,307	₩	635,956
Ordinary loss		375,003		84,667
Net loss		439,618		140,670
Weighted average number of common shares outstanding		70,008,095 shares		70,000,000 shares
Basic ordinary loss per share	₩	6,280	₩	2,010

29. Significant Non-Cash Transactions

(in millions of Korean won)		2009		2008
Reclassification of current portion of long-term borrowings	₩	780,850	₩	401,468
Reclassification of construction-in-progress to property, plant and equipment		98,475		148,483
Reclassification from machinery-in-transit to machinery		2,211		16,418
Total	₩	881,536	₩	566,369

30. Comprehensive Income

(in millions of Korean won)		2009		2008
Net loss	₩	(776,168)	₩	(200,356)
Accumulated other comprehensive income				
Valuation of equity-method investments, net of tax effects of ₩ (-)879 (2008: ₩ (-)9,404)		(63,344)		174,454
Gain on revaluation on land, net of tax effect of (2008: ₩ (-)24,431)		-		86,619
Comprehensive income(loss)	₩	(839,512)	₩	60,717

31. Uncertainty over Going Concern

The Company's non-consolidated financial statements have been prepared in conformity with the accounting principles generally accepted in the republic of Korea, which contemplate continuation of the Company as a going concern. However, the Company incurred a net loss amounting to ₩776,168 million during the year ended December 31, 2009, and as of that date, the Company's current liabilities exceeded its current assets by ₩1,420,158 million. On the other hand, since January 6, 2010, the Company has been under the joint management control by its creditor financial institutions to implement its business rehabilitation plans.

These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management is implementing its business rehabilitation plans including the rescheduling of the existing borrowings, the adjustment of interest rate and the debt-to-equity swap.

Unless the plans mentioned above are executed successfully, the Company may not continue as a going concern, and therefore the Company's assets and liabilities on the basis of the book value may not be realized or redeemed through the normal operating activities. The ultimate effects of these significant uncertainties are not reflected in the accompanying financial statements.

32. Subsequent Event

On December 30, 2009, the Company filed for business rehabilitation and since January 6, 2010, has been under the joint management control by its creditor financial institutions to implement the business rehabilitation plans.

The Company sold its shares of Kumho Asiana Main Tower Inc., an equity-method investee, to Asiana Airlines Inc., a related company, for ₩79,700 million on February 17, 2010. On the other hand, the Company has the right to buy all or part of the said shares at the appraised value or at a certain price for three years from the date of transaction.

33. Adoption of Korean International Financial Reporting Standards

Preparation plan for adoption & Progress

Since the Financial Supervisory Service (FSS) announced the adoption of Korean International Financial Reporting Standards (K-IFRS) on March 2007, the Company created a team to implement the adoption process and conduct the necessary training for the employees in order to prepare for the adoption of K-IFRS. As K-IFRS will be mandatorily applied to every listed company by the fiscal year 2011, the Company is preparing for the adoption of K-IFRS in 2011. On June 2008, the Company appointed an external consulting firm to analyze the differences between current accounting policy and K-IFRS and the analysis is now in process. The Company will establish its accounting policies after setting up an alternative plan for the differences in current fiscal year. Also the Company is planning to improve its accounting system to support K-IFRS adoption.

Major differences in accounting policies

The following table illustrates the expected major differences between current accounting policies and K-IFRS which the Company has adopted.

	Current Accounting Policy	K-IFRS ¹
Property, Plant and Equipment	The Company shall choose either the cost model or the revaluation model to an entire class of PP&E. The Company applies the revaluation model for land and values it at fair value, and for other PP&E accounts, the Company applies the cost model.	The Company shall choose either the cost model or the revaluation model to an entire class of PP&E. The Company can treat the fair value at the date of transition as regarded cost and apply the cost model.
Actuarial Valuation for Defined Benefit Obligation	When an employee who served more than one year from the end of reporting period terminates his employment, the estimated benefit should be measured as allowance for severance and retirement benefits.	Defined benefit obligation is defined as the present value of expected benefit calculated under projected unit credit method using actuarial concept and discount rate.
Equity Method Investments	The investment company should apply equity method to its separate financial statements for the entities under significant influence.	In separate financial statements, cost model or recognition and measurement of financial instruments should be applied to investments on subsidiaries which are not classified as held-for-sale, jointly controlled entities and associates.
Deferred Income Tax	The Company should classify deferred income tax as current or noncurrent following the related account classifications in the statement of financial position. If it is not related to any account in the statement of financial position, define deferred income tax as current or noncurrent based on the expected expiration date.	Deferred tax asset & deferred tax liability are classified as noncurrent.

¹ As of December 31, 2009, the analysis is in process and the contents may change subsequently.

Report of Independent Accounts' Review of Internal Accounting Control System

To the President of
KUMHO TIRE CO., INC.

We have reviewed the accompanying management’s report on the operations of the Internal Accounting Control System (“IACS”) of KUMHO TIRE CO., INC. (the “Company”) as of December 31, 2009. 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, 2009, the Company’s IACS has been designed and is operating effectively as of December 31, 2009, 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, 2009, and we did not review management’s assessment of its IACS subsequent to December 31, 2009. 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 PricewaterhouseCoopers

March 22, 2010

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Audit Committee of
KUMHO TIRE CO., INC.

I, as the Internal Accounting Control Officer (“IACO”) of KUMHO TIRE CO., INC. (“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, 2009.

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, 2009, in all material respects, in accordance with the IACS standards.

March 10, 2010

Ju Wan Hong
Internal Accounting Control System Officer

Jong Ho Kim
Chief Executive Officer

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NOTHING CAN STOP US.

**Kumho Tires
Annual Report 2009**