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KUMHO TIRES ANNUAL REPORT 2010











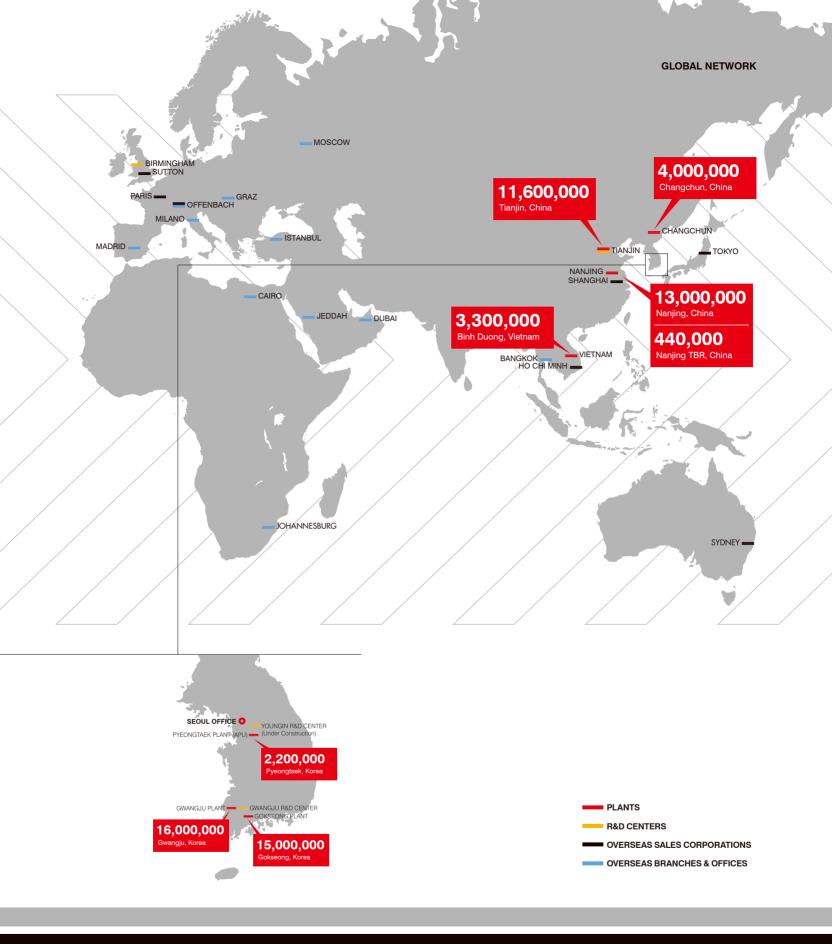
GLOBAL NETWORK

SAO PAULO

SANTIAGO

Since Kumho Tires started exporting tires to Thailand in 1965, its exports have continuously been rising. The recipient of the Korean government's USD 1 Billion Export Tower Award in 2005, the company now exports USD 1.8 billion worth of products to over 180 countries annually. With eight production bases, four R&D/technical centers, nine sales corporations, and 16 branches around the world, Kumho Tires has become one of the world's top 10 tire makers.

Kumho Tires is also relentless in its pursuit to develop/supply locally customized products, while at the same time responding to global demands in a timely and flexible manner. With its R&D Center in Gwangju, Korea playing a leading role, the company's technical centers in the U.S., Europe, and China share global market trends with each other as they develop technology most apt for each particular region through active cooperation. Today, Kumho Tires is one of big five RE tire makers in the United States, and the number one among Korean brands. Moreover, in 1994 Kumho Tires became the first Korean tire company to enter the Chinese market, which recently emerged as the world's largest automobile market. At present, the company is operating four Chinese production factories in Nanjing, Tianjin, and Changchun. Since 2008, Kumho Tires has maintained the largest share in China's OE tire market. Also, in 2007 Kumho Tires established a natural rubber processing factory in Vietnam to secure a reliable source of raw materials and to thoroughly control product quality, and a year later it established a tire factory there as well.











TECHNOLOGY LEADERSHIP

Kumho Tires supplies original equipment (OE) tires to America's Big Three automakers: GM, Ford, and Chrysler. It also supplies tires to Mercedes-Benz and Volkswagen in Europe, as well as Korean and Japanese cars. In the future, the company will continue to expand its partnerships with automakers in Korea and overseas, increase its percentage of premium tire sales, and further strengthen its global competitiveness.

The key to maintaining and expanding partnerships with the world's top automakers lies in its technological prowess. Kumho Tires has its technology recognized by some of the world's most prestigious test organizations every year. In 2010, the company won the Tire Manufacturing and Design Innovation of the Year Award at the Tire Technology Expo 2010, the world's biggest tire expo. In addition, its ECSTA HM tire ranked third by *Auto Bild*, an influential German automobile magazine, and also received the magazine's "Very Recommendable" rating. Furthermore, in a consumer satisfaction survey conducted by Tire Rack, the biggest U.S. online auto parts sales site, the Kumho Tires ROAD VENTURE SAT (KL61) for SUVs ranked number one in the On-/Off-Road All-Terrain and Repurchase Rate categories.





DOMESTIC AND FOREIGN AWARDS -

- ——— Tire Manufacturing and Design Innovation of the Year Award, Tire Technology Expo 2010, Germany
 - —— Received "Very Recommendable" rating from the German car magazine Auto Bild
- The industry's largest number of eco-friendly certifications from the Korea Environmental Industry & Technology Institute
- Ranked no. 1 by Korea Management Association Consulting (KMAC)'s Korean Customer Satisfaction Index (KCSI) for six consecutive years

KUMHO TIRES' MAJOR OE TIRE PARTNERS -

———— Daimler (Mercedes-Benz) ————	Volkswagen
——— Mitsubishi ——— Chrysler ——	—— Ford
GM Hyundai	– Kia







SPORTS MARKETING

For those who are passionate about F3, the Kumho Tires logo is synonymous with cars that reach speeds of up to 240 km/h. Since signing a partnership agreement with Manchester United in 2007, sales have grown by 80 percent in the U.K. and by more than 30 percent in Europe and China for Kumho Tires.

Kumho Tires continues to expand its sponsorship of motor sports events, which just increases the company's technological reputation and earns its products a greater sense of reliability with people. In 2007, Kumho Tires signed a sponsorship agreement with Manchester United of the English Premier League, a move that distinctively helped increase the company's global market share. As an official tire supplier for the F3 Euro Series and the Master of F3, Kumho Tires has captured 40 percent of the F3 tire market (by the number of supplied units), and had its technology recognized when it won the 24 Hours of Le Mans (P2 Class), one of the world's three great motor sports events, as well as the Super GT Pokka 1,000 km race, Japan's biggest car racing competition. In 2010, Kumho Tires also began sponsoring professional basketball teams and college football teams in the U.S. These moves are in line with the company's plan to grow its brand recognition by connecting it with technology and product quality already recognized in North America, the world's largest tire market.







MAJOR SPONSORSHIPS -

- Platinum sponsors of Manchester United (English Premier League)
- Official tire supplier for Masters of F3 (since 2002)
- Official tire supplier for Formula 3 Euro Series (2009-2011)
- Official tire supplier for the Australian Rally Championship
- Official tire supplier for the 2010 CJ O Super Race
- Sponsor of the NBA's LA Lakers and Miami Heat
- Sponsor of five college football teams: USC, Ohio State University, University of Florida, University of Texas, and University of Tennessee













FINANCIAL HIGHLIGHTS

Although the company started 2010 with a workout plan in place, Kumho Tires began showing positive results quickly enough to normalize management in less than a year. Indeed, the company achieved sales of 2,700 billion won, a 43 percent increase over 2009, and the highest sales figure in its history. Kumho Tires also realized a turnaround in net income, which had been a deficit for the three preceding years.

With its achievements in 2010, markets turned worry about Kumho Tires into optimistic expectation. This was made possible because the entire company – from production to sales – cooperated with each other in a most efficient way. In terms of relations between management and labor, something which had been chronically affecting the competiveness of Kumho Tires, both parties agreed to fruitful negotiations, and the factory operating rate reached 95 percent, widely considered a normal level in the industry. In addition, its financial structure largely improved as creditor financial institutions' conversion of investment and profit-and-loss improvement were completed without a hitch. Through its efforts to change a production method that used to be focused on quantity into one based on quality, and with improved sales capacities in domestic and foreign markets yielding positive results, Kumho Tires strengthened its overall competitiveness. With its major economic challenges now over, Kumho Tires has been paving the way for growth, improved product quality, and increased technology. Today, Kumho Tires is taking a significant step forward into the future based on the solid achievements it made in 2010.



		(Unit: million won)
2010	2009	2008
2,701,990	1,894,700	2,398,560
244,947	(213,580)	36,260
9.1%	(11.3%)	1.5%
8,901	(776,168)	(200,356)
2,516,861	2,409,032	3,104,195
2,016,356	2,344,549	2,196,327
500,505	64,482	907,868
402.9%	3636.0%	241.9%
	2,701,990 244,947 9.1% 8,901 2,516,861 2,016,356 500,505	2,701,990 1,894,700 244,947 (213,580) 9.1% (11.3%) 8,901 (776,168) 2,516,861 2,409,032 2,016,356 2,344,549 500,505 64,482

CEO MESSAGE



Under the motto of maximizing customer value, Kumho Tires is mapping out detailed strategies after thoroughly analyzing past shortcomings, while also making bold moves to navigate the tough road ahead.

Greetings.

It is my pleasure to be reconnected with customers and shareholders once again.

For Kumho Tires, 2010 was a year to prepare for a new era of growth. Through an effective reorganization of the company, we acquired the necessary abilities to grow as a dynamic corporate entity yet again. After Kumho Tires signed an agreement for a workout plan on May 31, 2010, we did everything in our power to increase the competitiveness of the entire company, from production to sales. As a result of these proactive measures, we achieved a turnaround in management performance. At the same time we regained a sense of hope and confidence for the future despite unstable economic conditions throughout the world, including an increase in the prices of raw materials and oil.

By reorganizing management to concentrate on customers and the market under a motto of maximizing customer value, and by establishing win-win labor-management relations, Kumho Tires witnessed a turnaround in management performance in 2010, unlike the net losses the company suffered between 2007 and 2009.

In 2010, parent sales increased by 42.6 percent and consolidated sales increased by 18.4 percent. Head office's operating income to sales ratio grew as well, up 3.6 percent in Q1, 10.7 percent in Q2, 11.2 percent in Q3, and 10.0 percent in Q4. Above all, Kumho Tires pursued constant communication with all its stakeholders, and worked hard to regain the trust of all its employees, distribution networks, and creditors.

CEO MESSAGE

At Kumho Tires, executives and employees alike are doing everything they can to secure cost competitiveness and maintain a win-win partnership between labor and management, while also agreeing to reductions in pay. In addition, the company has been strictly controlling non-essential costs and investments in order to normalize management as quickly as possible, and continues to maintain an efficient global management system.

As we accelerate our efforts to normalize management, there is still some risk that external conditions could threaten the company's bold attempts to achieve its goals. As such, 2011 is an important turning point in discovering whether the workout plan will be successfully carried out or not. Nonetheless, we will work hard to achieve our management goals whatever business environment unfolds in the future. By coming up with a number of detailed strategies and thoroughly analyzing past shortcomings, we are confident that Kumho Tires will be successful in all of our bold endeavors.

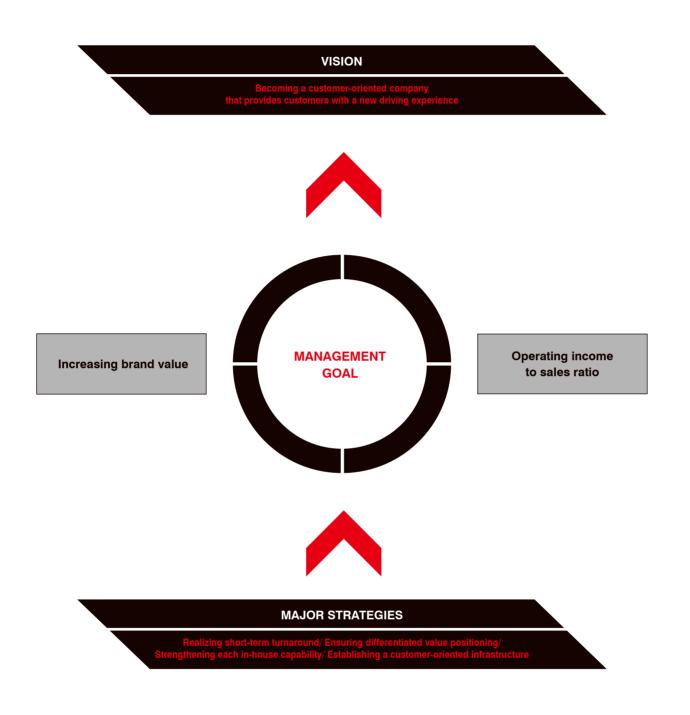
We appreciate your continued support of Kumho Tires and welcome any feedback as we strive to maintain the highest value for all stakeholders.

Thank you.

Kim Jong-ho

President & CEO, Kumho Tires Co., Inc.

VISION & STRATEGY



KUMHO TIRES ———ANNUAL REPORT 2010 ————22

MAJOR STRATEGIES



Realizing short-term turnaround



Ensuring differentiated value positioning



Strengthening each in-house capability



Establishing a customeroriented infrastructure

REALIZING SHORT-TERM TURNAROUND

With the aim of securing short-term liquidity and improving business profitability, Kumho Tires is planning to reinforce its control over non-essential investments as well as controllable costs. The company will effectively manage outside risks caused by hikes in the cost of raw materials and fluctuations in foreign exchange rates, as it increases profitability by realizing a stable cost structure based on win-win labor-management relations.

ENSURING DIFFERENTIATED VALUE POSITIONING

As it continues to explore new markets, even in the midst of solidifying its position in its main markets of Korea and China, Kumho Tires is heightening its brand image through the sale of high-profit products in North America and Europe. In terms of marketing, the company is planning to concentrate its marketing resources on carefully selected areas with strategic policies, while making prudent investments. Continuing with its sports marketing approach - sponsoring major races, American college football teams, and NBA teams - Kumho Tires will also reinforce promotional activities through events such as the Tokyo Auto Salon and the Seoul Motor Show. Finally, the company is planning to improve its product mix by shoring up its lineup of eco-friendly products and UHP products, as well as developing strategic new products for the future. Furthermore, it will ensure it has the most competitive technology by forming alliances with some of the world's top companies and conducting academic partnership programs.

STRENGTHENING EACH IN-HOUSE CAPABILITY

In order to become a customer-oriented company that provides customers with a new driving experience, Kumho Tires is strengthening its capabilities and pursuing high priority policies in every division. With respect to production and logistics, the company is becoming even more competitive through improved cost structure and productivity, while increasing its production capabilities at overseas factories through sensible investments and efficient management. In addition, Kumho Tires is increasing production efficiency by limiting the number of products it makes, and readjusting global production for all its goods, as it improves its logistics service with optimized logistics bases and smart outsourcing decisions. The sales and marketing divisions are increasing customer value through the reinforcing of employee capabilities and the diversification of sales channels so that they can actively respond to rapidly changing customer needs.

ESTABLISHING A CUSTOMER-ORIENTED INFRA-STRUCTURE

Kumho Tires puts the highest priority on its customers, and has been working hard to establish an effective customer-oriented infrastructure. In order to change the mindset and behavior of employees so that they adhere to customer-oriented marketing, the company is identifying customer needs at customer contact points and continuously improving customer satisfaction through marketing intelligence (MI), part of which means sharing this information with every division at the company.

2010 HIGHLIGHTS

² FEB

Feb. 13, 2010

re Technology Expo 2010 Award

Kumho Tires won the Tire Manufacturing and Design Innovation of the Year Award at the Tire Technology Expo 2010, the world's biggest tire expo. Held in Cologne, Germany from February 9 to 11, Kumho Tires was given the award for one of its concept tires that made use of laser etching technology. Kumho Tires will continue to manufacture a wide range of premium tires as it takes customers' opinions into account and responds to industry trends where design is just as important as quality.

3 MAR

Mar. 14, 2010

"Very Recommendable" Rating from Auto Bild

The ECSTA HM tire from Kumho Tires ranked third of 14 different tires by *Auto Bild*, an influential German automobile magazine, and also received the magazine's prestigious "Very Recommendable" rating. The ECSTA HM is the company's main product for the European market, which shared second spot among all tires tested in 2009 by the German magazine *Autozeitung*. The upgraded UHP tread compound technology improved both driving stability and the product lifecycle of the tire. Kumho Tires will continue to make significant advancements in overseas markets by utilizing its world-class R&D assets.

5 MAY

May 27, 2010

Official Tire Supplier for the 2010 CJ O Super Race

Kumho Tires is also involved in supporting domestic motor sports activities, and was named as the official tire of the 2010 CJ O Super Race, Korea's most influential car race. At the CJ O Super Race, Kumho Tires had its product selected as the official tire for the Super 6000 Class, the competition's biggest event, and the Super 3800 Class. Since 1992, Kumho Tires has been a consistent supporter of Korean motor sports events, which has helped to increase brand recognition. It has also carried out a number of sports marketing programs.

7 JUL

Jul. 13, 2010

Recipient of Eco-friendly Certifications

In 2010, the Korea Environmental Industry & Technology Institute gave Kumho Tires Eco Label certifications for seven types of its tires. This brought the company's total number of eco-friendly certifications to 17, the industry's largest number and a total it has been building on since receiving the first Eco Label certification in the Korean tire industry in 1999. The newly certified products included four KH30 products from the Ecowing series and three KRA33 and KRA11 products for trucks/buses.

8 AUG

Aug. 30, 2010

Three Years Straight of Reduced CO₂ Emission

For the past three years, Kumho Tires has taken part in the Korean government's initiative to reduce greenhouse gases and has lowered its CO₂ emissions by 3,625 tons over that time, which is roughly equivalent to planting 500,000 25-year-old pine trees (according to the Korea Forest Research Institute's 2009 data on CO₂ absorption rates per tree species). In its continued bid to fulfill its responsibility as an eco-friendly company, Kumho Tires is not just producing eco-friendly products but also applying eco-friendly principles to the overall production process.

9 SEP

Sept. 1, 2010

Oth Anniversary

Kumho Tires held its 50th anniversary ceremony in 2010 at both its Seoul office and its Gwangju plant. In attendance were executives, employees, major clients, and business partners. At the ceremonies, some of the longest serving employees helped cut the 50th anniversary cake, while employees from the Gwangju plant held a tree-planting event as a symbol of the promising future and continuing growth of the company. Kumho Tires has pledged to overcome its present adversities and to do its utmost to ensure that the next 50 years are successful as well.

10 OCT

Oct. 1, 2010

anked No. 4 by KCCI for City Consequetive Very

Kumho Tires was chosen as the number one automobile tire by the Korean Customer Satisfaction Index (KCSI), which is managed by Korea Management Association Consulting (KMAC). The customer satisfaction survey, now in its 19th year, included more than 320 companies in 99 industries. Kumho Tires achieved this feat by earning a total of 67.7 points from one-on-one customer interviews that included factors such as overall satisfaction, satisfaction with certain elements to the product, and the likelihood of repurchasing in the future, which it scored 11.1 percent higher than the closest competitor.

Oct. 5, 2010

aunch of SNS Marketing

Kumho Tires was the first company in the Korean tire industry to launch a twitter account (http://twitter.com/Dr_Tire) and a Facebook page (http://www.facebook.com/KumhoTires). The company provides general information on tires and seasonal safety checks, as well as information on products and services from Kumho Tires, through these social networks. It also responds to customer inquiries and regularly announces various events through Facebook and Twitter. Kumho Tires will continue to reflect customer demands about its products and services through honest communication via these influential social networking services.

Oct. 7, 2010

Launch of Sports Marketing in North America (football

In order to target the North American market more effectively, Kumho Tires signed sponsorship agreements with five American college football teams: University of Southern California, Ohio State University, University of Florida, University of Texas, and University of Tennessee. This has provided the company with a wide range of opportunities to promote its brand, from sponsorship information released during games and the operation of audience booths and events outside football stadiums to the Kumho Tires banner appearing on the teams' official websites and the company's logo appearing on billboards and electronic signboards at each team's home stadium. These sports marketing programs will bring Kumho Tires one step closer to American customers in the future.

11 NOV

Nov. 11, 2010

Supplying OE Tires for Chrysler

Kumho Tires supplies OE tires for Chrysler's all-new 2011 Jeep Grand Cherokee model, which has been available in numerous countries around the world since the latter half of 2010. The 2011 Jeep Grand Cherokees will be equipped with Kumho tires and be exported to over 100 countries in Europe, Asia, South America, and the Middle East. Furthermore, Kumho Tires is the only Korean company that has supplied OE tires for Mercedes-Benz and Volkswagen, and is now in Europe through Chrysler as well. Kumho Tires plans to continue targeting the premium OE tire market and expand its partnerships with foreign automakers.

Nov. 29, 2010

NBA Sponsorship Agreements

Kumho Tires has signed sponsorship agreements with two of the NBA's best teams, the LA Lakers and the Miami Heat. One of the three most popular sports in the U.S., each NBA game is watched live by 20,000 people, and broadcast over the Internet and through 200 TV stations around the world. With the sponsorship agreements, Kumho Tires has the opportunity to expose its brand on Jumbotrons and scoreboards. It also gets to have its logo in related interviews, 30-second spot video images, and athlete-related events. In addition, there will be onsite promotional events and other opportunities for local Kumho Tires dealers to take advantage of. These NBA sponsorship deals are expected to make Kumho Tires more of a household name in North America, the world's largest tire market.

12 DEC

Dec. 20, 2010

Named No. 1 Tire by KNPS

Kumho Tires has been chosen as the number one automobile tire for three consecutive years by Korean Net Promoter Score (KNPS), which is managed by Korea Management Association Consulting (KMAC). Kumho Tires earned 34.9 points, 15.2 points higher than its closest competitor.





BUSINESS REPORT

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Report of Independent Auditors

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

We have audited the accompanying non-consolidated statements of financial position of KUMHO TIRES CO., INC. (the "Company") as of December 31, 2010 and 2009, and the related non-consolidated statements of income, 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 TIRES CO., INC. as of December 31, 2010 and 2009, 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 32 to the accompanying non-consolidated financial statements, as of December 31, 2010, the Company's current liabilities exceeded its current assets by ₩150,567 million. From January 6, 2010, the Company has been under the joint management with the creditor financial institutions. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

As discussed in Note 33 to the accompanying non-consolidated financial statements, the Company restructed troubled debt, including debt-for-equity conversions according to the resolution of the creditor financial institutions committee dated on April 30, 2010 about troubled debt restructuring plan.

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 16, 2011 Samil Pricenterhousdoopers

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This report is effective as of March 16, 2011, 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, 2010 and 2009

(in millions of Korea won)

		2010		2009
Assets				
Current assets				
Cash and cash equivalents (Note 20)	₩	137,809	₩	12,395
Short-term investments (Note 3)		8		557
Trade accounts and notes receivable, net (Notes 4, 20 and 22)		232,487		292,968
Other accounts receivable, net (Notes 4, 20 and 22)		39,393		79,418
Short-term loans receivable (Notes 20 and 22)		200,930		175,051
Inventories, net (Notes 5 and 9)		213,873		181,513
Deferred income tax assets (Note 18)		14,527		10,340
Others (Notes 20 and 22)		23,866		27,701
Total current assets	₩	862,893	₩	779,943
Long-term Financial Instruments (Note 3)		35		-
Long-term trade accounts receivable, net (Note 4)		1,145		1,024
Long-term investments (Note 6)		733		2,048
Equity-method investments (Note 7)		486,177		430,726
Deferred income tax assets (Note 18)		62,220		70,262
Property, plant and equipment, net (Notes 8 and 9)		1,046,939		1,062,780
Intangible assets, net (Note 10)		35,366		39,558
Other non-current assets		21,353		22,690
Total assets	₩	2,516,861	₩	2,409,031

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Non-Consolidated Statements of Financial Position

December 31, 2010 and 2009

(in millions of Korea won)

		2010		2009
Liabilities and Shareholders' Equity				
Current liabilities				
Trade accounts payable (Notes 20 and 22)	₩	379,360	₩	335,824
Short-term borrowings (Note 11)		311,893		796,557
Current portion of debentures, net (Note 12)		_		159,542
Current portion of bonds with warrant, net (Note 12)		73,774		79,729
Current portion of long-term debts, net (Note 12)		10,923		541,579
Other accounts payable (Notes 20 and 22)		176,725		231,042
Accrued expenses (Note 22)		46,650		37,219
Derivative liabilities (Note 27)		_		1,669
Others		14,135		16,941
Total current liabilities	₩	1,013,460	₩	2,200,102
Convertible bonds, net (Note 12)		113,599		
Long-term borrowings, net (Note 12)		739,339		-
Accrued severance benefits, net (Note 13)		117,827		118,048
Product warranty reserve (Note 14)		32,131		26,399
Total liabilities	₩	2,016,356	144	2,344,549
Shareholders' equity Capital stock Common stock (Notes 12 and 15)		466,023		350,042
Capital surplus (Notes 12 and 15)		,		,
Paid-in capital in excess of par value		2,336		316,470
Others		339,093		· _
Capital adjustments				
Discount on stock issuance		(2,028)		-
Loss on sale of treasury stock		(15)		-
Others		(18,256)		(16,602)
Accumulated other comprehensive income				
Accumulated comprehensive income from equity-method investees (Note 7)		82,492		109,037
Accumulated comprehensive expense from equity-method investees (Note 7)		(330)		(139)
Gain on revaluation of land		86,619		86,619
Gain on valuation of available-for-sale securities (Note 6)		145		
Accumulated deficit				
Undisposed accumulated deficit		(455,574)		(780,945)
Total shareholders' equity		500,505		64,482
Total liabilities and shareholders' equity	₩	2,516,861	₩	2,409,031

_____31

Non-Consolidated Statements of Income

Years Ended December 31, 2010 and 2009

(in millions of Korean won, except per share amounts)

		2010		2009
Sales, net (Notes 16, 22, 26 and 29)	₩	2,701,990	₩	1,894,700
Cost of sales (Notes 17, 22 and 23)		2,086,870		1,789,686
Gross income		615,120		105,014
Selling and administrative expenses (Notes 21 and 23)		370,173		318,593
Operating income (loss)		244,947		(213,579)
Non-operating income				
Interest revenues		14,065		12,492
Gain on valuation of equity-method investments (Note 7)		183		6,697
Gain on disposal of equity-method investments (Note 7)		63,943		-
Gain on foreign currency transactions		48,101		92,856
Gain on foreign currency translation		5,783		13,030
Reversal of allowance for doubtful accounts		2,036		-
Gain on disposal of property, plant and equipment		539		1,698
Gain on derivatives transactions (Note 27)		1,423		417
Gain on valuation of derivatives		-		561
Gain on condoned liabilities (Note 33)		60,234		-
Gain on prior period error correction		3,506		-
Gain on bond retirement		373		-
Others		4,907		2,752
	₩	205,093	₩	130,503

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Non-Consolidated Statements of Income

Years Ended December 31, 2010 and 2009

(in millions of Korean won, except per share amounts)

		2010		2009
Non-operating expenses				
Interest expenses	₩	94,615	₩	118,521
Loss on valuation of equity-method investments (Note 7)		147,057		193,979
Impairment loss on equity-method investments (Note 7)		26,023		120,746
Loss on disposal of equity-method investments (Note 7)		16,069		
Impairment loss on intangible assets (Note 10)		-		90,797
Loss on foreign currency transactions		47,790		93,673
Loss on foreign currency translation		13,201		24,767
Loss on disposal of property, plant and equipment		804		1,371
Impairment loss on property, plant and equipment (Note 8)		-		8,879
Loss on disposal of accounts receivable		19,703		26,457
Impairment loss on long-term investments (Note 6)		1,500		742
Other bad debts expense		-		7,594
Donations (Note 25)		29		646
Loss on discard of inventories		463		27,188
Loss on derivatives transactions		-		4,723
Loss on adjustment of transfer price (Note 28)		59,739		
Others		6,844		4,005
		433,837		724,088
Income (Loss) before income tax expenses(benefit)	-	16,204		(807,164)
Income tax expenses (benefit) (Note 18)	-	7,303		(30,996
Net income (loss)		8,901		(776,168
Basic and diluted earning per share (Note 19)				
Basic earning (loss) per share		504		(75,481
Diluted earning (loss) per share	₩	477	₩	(75,481

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, 2010 and 2009

(Dates of disposition: March 25, 2011 and March 30, 2010 for the years ended December 31, 2010 and 2009, respectively)

(in millions of Korean won)

		2010		2009
Accumulated deficit before disposition				
Undisposed accumulated deficit from prior year	₩	(464,474)	₩	-
Changes in equity-method retained earnings		-		(4,777)
Net income(loss)		8,901		(776,168)
		(455,573)		(780,945)
Transfer from discretionary reserve		-		_
		(455,573)		(780,945)
	_			
Dispositions of accumulated deficit				
Capital surplus		301,604		316,471
		301,604		316,471
Undisposed accumulated deficit carried forward to subsequent year	₩	(153,969)	₩	(464,474)

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

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Non-Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2010 and 2009

(in millions of Korean won)

		Capital stock		Capital surplus			adjustment		s adjustment				com	Accumulated other comprehensive income(loss)		other comprehensive		deficit		other deficit prehensive		Total
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		-										
Acccumulated deficit after disposition										_		907,868										
Exercise of stock warrants		42		5		-		-		-		47										
Net loss		_		-		-		-		(776,168)		(776,168)										
Capital injection for subsidiaries		_		_		856				_		856										
Changes in retained earnings from equity-																						
method investments		-		-		-		-		(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										
Balance as of January 1, 2010	₩	350,042	₩	316,470	₩	(16,602)	₩	195,517	₩	(780,945)	₩	64,482										
Disposition of accumulated deficit		-		(316,470)		-		-		316,470		-										
Acccumulated deficit after disposition										(464,475)		64,482										
Exercise of stock warrants (Notes 12 and 15)		12,799		2,336		-		-		-		15,135										
Reduction of capital stock without consideration		(299,268)		299,268		-		-		-		-										
Net income		_		-		-		-		8,901		8,901										
Discounts on stocks issued		-		-		(2,028)		-		-		(2,028)										
Loss on disposal of treasury stock		-		-		(15)		-		-		(15)										
Gain on valuation of available-for-sale securities		-		-		-		145				145										
Capital injection for subsidiaries		_		-		(1,654)		_		-		(1,654)										
Debt-for-equity conversion		402,450		-		-		_		_		402,450										
Issuance of convertible bond		-		39,825		-		_		-		39,825										
Changes in accumulated comprehensive income																						
from equity-method investments		-		-		-		(26,736)		-		(26,736)										
Balance as of December 31, 2010	₩	466,023	₩	341,429	₩	(20,299)	₩	168,926	₩	(455,574)	₩	500,505										

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

Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2010 and 2009

(in millions of Korean won)

		2010		2009
Cash flows from operating activities				
Net income (loss)	₩	8,901	₩	(776,168)
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Bad debts expense		4,661		4,629
Depreciation		80,070		97,345
Provision for severance benefits		31,084		28,731
Amortization of intangible assets		5,541		11,739
Loss on disposal of property, plant and equipment		804		1,371
Impairment loss on property, plant and equipment		-		8,879
Impairment loss on long-term investments		1,500		742
Loss on foreign currency translation		10,789		24,767
Loss on discard of inventories		463		27,188
Interest expense (discounted present value)		18,596		6,046
Loss on valuation of equity-method investments		147,057		193,979
Impairment loss on equity-method investments		26,023		120,746
Loss on disposal of equity-method investments		16,069		-
Impairment loss on intangible assets		-		90,797
Provision for warranty reserve		5,731		2,031
Other bad debts expense		-		7,594
Gain on foreign currency translation		(5,318)		(13,030)
Reversal of allowance for doubtful accounts		(2,036)		-
Gain on valuation of equity method investments		(183)		(6,697)
Gain on disposal of property, plant and equipment		(539)		(1,698)
Gain on disposal of equity-method investments		(63,943)		-
Gain on bond retirement		(373)		-
Gain on condoned liabilities		(60,234)		-
Gain on valuation of derivatives		-		(561)
	₩	215,762	₩	604,598

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Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2010 and 2009

		(III IIIIII OII OI NOI Gail Woll)
		2010 2009
Changes in operating assets and liabilities		
Trade accounts and notes receivable	₩ 57	7,032 ₩ 196,051
Other accounts receivable	46	3,515 (35,190)
Prepaid expenses	4	,206 (3,758)
Inventories	(32	823) 151,748
Derivative instruments assets		- 31,642
Deferred income tax assets	2	2,485 (37,998)
Other assets		(175) 17,314
Trade accounts payable	43	3,942 (14,227)
Other accounts payable	(53	,779) (23,342)
Accrued expenses	20),666 (3,406)
Derivative instruments liabilities	(1,	669) (26,502)
Other liabilities	(2,	808) (11,492)
Payment of severance benefits	(51)	309) (38,663)
Transfer of accrual of severance benefits		- 600
Deposits for severance benefit insurance	19	9,627 (6,306)
Decrease in contribution to National Pension Fund		377 291
Dividends received from equity method investments	2	2,499 4,569
	54	,786 201,331
Net cash provided by operating activities	279	0,449 29,761
Cash flows from investing activities		
Proceeds from disposal of short-term investments		549
Collection of short-term loans receivable	25	5,607
Proceeds from disposal of equity-method investments	79	9,302
Proceeds from disposal of property, plant and equipment	3	3,041 7,049
Proceeds from disposal of other non-current assets	6	3,644
Proceeds from disposal of other investment assets		17 23
Acquisition of short-term investments		- (51)
Short-term loans granted	(56)	988) (178,872)
Acquisition of equity-method investments	(300)	568) (43,407)
Acquisition of property, plant and equipment	(68	,471) (62,029)
Acquisition of intangible assets		(412) (252)
Acquisition of other non-current assets	(5	240) (9)
Acquisition of other investment assets		(2) (1,500)
Net cash used in investing activities	₩ (316	.689) ₩ (275,404)

Non-Consolidated Statements of Cash Flows

Years Ended December 31, 2010 and 2009

(in millions of Korean won)

	2010	2009
Cash flows from financing activities		
Proceeds from short-term borrowings	₩ 641,765	₩ 3,708,212
Proceeds from long-term borrowings	264,563	194,158
Issuance of convertible bond	158,181	49,540
Issuance of bond with warrants	-	77,800
Exercise of stock warrants	15,013	16
Proceeds from treasury stock	94	-
Payment of short-term borrowings	(647,246)	(3,327,790)
Payment of current portion of long-term debts	(147,659)	(226,468)
Payment of current portion of debentures	(90,000)	(175,000)
Payment of current portion of bonds with warrants	(4,059)	-
Advanced payment of long-term borrowings	(25,860)	(54,087)
Stock-issuing costs	(2,028)	-
Acquisition of treasury stock	(109)	-
Net cash provided by financing activities	162,655	246,381
Net increase in cash and cash equivalents	125,415	739
Cash and cash equivalents		
Beginning of the year (Note 31)	12,395	11,656
End of the year (Note 31)	₩ 137,809	₩ 12,395

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

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Notes to Non-Consolidated Financial Statements

December 31, 2010 and 2009

1. The Company

KUMHO TIRES 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: \(\psi\)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.

As of December 31, 2010, the Company is authorized to issue 400 million shares with a par value of ₩5,000 per share, and it has an outstanding capital stock amounting to ₩466,023 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.

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.

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

Land is shown at fair value based on a periodic valuation conducted at least every three years and performed by an independent appraiser. All other property, plant and equipment are stated net of accumulated depreciation. 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.

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. Also, the residual

accumulated other comprehensive income related to valuation of the property, plant and equipment is recognized as profit or loss when the property, plant and equipment are discarded or disposed of.

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 years¹	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 amortization methods and estimated useful lives:

	Estimated Useful Lives	Amortization 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.

Capitalization of Interest Expense

The Company capitalizes the interest it incurs on borrowings used to finance the cost of manufacturing, acquisition, and construction of inventory and property, plant, and equipment that require more than one year to complete from the initial date of manufacture, acquisition, and construction.

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 has partially funded the accrued severance benefits through severance insurance deposits with an insurance company. Deposits made by the Company are recorded as deductions from accrued severance benefits. The excess portion of deposits over accrued severance benefits is recorded as other investments.

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 (2010:USD1: ₩ 1,138.9 2009:USD1: ₩ 1,167.6), and the resulting translation gains and losses are recognized in current operations.

Currency Translation for Foreign Operations

Assets and liabilities of a foreign branch or company subject to the equity method of accounting for investments are translated into Korean won at the rates of exchange in effect at the date of the statement of financial position, while their equity is translated at the exchange rate at the time of transaction, and income statement accounts at the average rate over the period. Resulting translation gains and losses are recorded as accumulated other comprehensive income and expense. Corresponding gains and losses are recognized as gain or loss when the foreign branch or company is liquidated or sold.

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, 2010 financial statements of the Company were approved by the Board of Directors on March 8, 2011.

3. Restricted Financial Instruments

				(in millions of Korean won)
		2010		2009
Short-term investments ¹	₩	-	₩	557
Long-term financial Instruments ²		35		33
	₩	35	₩	590

¹ Short-term investments were restricted to withdrawal as they served as collaterals for the leasehold deposits in 2009.

4. Trade Accounts and Notes Receivable and Others

(in millions of Korean won)

						2010
		Gross amount	Allowance for o	doubtful accounts		Carrying value
Trade accounts and notes receivable	₩	261,272	₩	(28,785)	₩	232,487
Long-term trade accounts receivable		1,894		(749)		1,145
Other accounts receivable	₩	40,217	₩	(824)	₩	39,393

(in millions of Korean won)

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

5. Inventories

		2010		2009
Finished goods	₩	96,039	₩	111,578
Merchandise		3,838		5,319
Semi finished goods		11,413		8,680
Raw materials		38,281		31,916
Supplies		1,156		963
Merchandise-in-transit		71,773		31,266
		222,250		189,722
Less: Valuation allowance		(8,627)		(8,209)
	₩	213,873	₩	181,513

² Long-term financial instruments are deposits for checking account related to foundation of a branch in Dubai

6. Long-term Investments

Available-for-sale Securities

(in millions of Korean won)

	Percentage of Ownership (%)		Acc	uisitio	n cost	Book Value			Fair Value or Net Asset Value ¹				
	2010.12.31		2010		2009		2010		2009		2010		2009
RUBBERNETWORK.COM ²	5.28	₩	-	₩	742	₩	-	₩	-	₩	-	₩	36
Ssangyong Motor Co., Ltd.	0.08		548		548		733		548		733		548
		₩	548	₩	1,290	₩	733	₩	548	₩	733	₩	584

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.

For the year ended December 31, 2010, the changes in gain on valuation of available-for-sale securities recorded as accumulated other comprehensive income and expense, are as follows:

							(111)	millions of Korean worl)
		Beginning Balance	-	Increase(Decrease)		Tax Effects		Ending Balance
Ssangyong Motor Co., Ltd.	₩	-	₩	185	₩	41	₩	144

Held-to-maturity

(in millions of Korean won)

							(1111111111	OHS OF INO	reall woll)
	Maturity	Maturity Acquisition Cost		Book Value ¹					
			2010		2009		2010		2009
Shinbo Chae-An Fund 1st Securitization Specialty									
Subordinated Bond ¹	2012.4.29	₩	1,200	₩	1,200	₩	-	₩	1,200
Shinbo Chae-An Fund 2 nd Securitization Specialty					••••••			-	
Subordinated Bond ¹	2012.3.4		300		300		-		300
		₩	1,500	₩	1,500	₩	-	₩	1,500

¹ As of December 31, 2010, the subordinated bonds are pledged as collateral for the long-term borrowings and the Company recognized the impairment loss on the subordinated bonds as the book value is significantly greater than the recoverable value (Note 12).

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

7. Equity-Method Investments

(in millions of Korean won)

						,	,		
Investee	Percentage of Ownership (%)	Ac	quisition cost		Book Value	Net asset value1			
	2010.12.31	2010	2009	2010	2009	2010	2009		
Kumho Tire U.S.A.	100.00	₩ 13,001	₩ 13,001	₩ -	₩ -	₩ (30,453)	₩ (30,068)		
Kumho Tyre U.K.	100.00	-	-	-	-	(7,265)	(7,897)		
Kumho Tire Europe	100.00	-	-	-	-	(17,506)	(15,083)		
Kumho Tire Japan	100.00	1,293	1,293	-	-	879	746		
Kumho Tire Canada	100.00	-	-	1,163	2,633	2,083	2,828		
Kumho Tyre Australia	100.00	4,522	4,522	-	-	10,586	7,587		
Kumho Tire France	100.00	873	873	603	628	1,333	1,281		
Kumho Tire H.K.	100.00	595,543	294,975	249,551	40,550	268,796	62,172		
Kumho Asiana Main Tower									
Co., Inc.	-	-	15,200	-	57,928	-	57,928		
Daewoo Engineering									
& Construction ²	4.40	472,564	472,564	234,860	328,987	146,018	171,392		
		₩1,087,796	₩ 802,428	₩ 486,177	₩ 430,726	₩ 375,191	₩ 250,886		

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.

Details of equity-method investment valuations for the year ended December 31, 2010, are as follows:

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.	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
Kumho Tyre U.K.	-	-	-	-	-	-	-	-
Kumho Tire Europe	-	-	-	-	-	-	-	-
Kumho Tire Japan	-	-	-	-	-	-	-	-
Kumho Tire Canada	2,633	-	(1,554)	84	-	-	-	1,163
Kumho Tyre Australia	-	-	-	-	-	-	-	-
Kumho Tire France	628	-	183	(208)	-	-	-	603
Kumho Tire H.K. ⁴	40,550	330,568	(94,382)	4,469	-	(1,654)	-	249,551
Kumho Asiana Main Tower								
Co., Inc. ¹	57,928	(56,343)	-	-	(1,585)	-	-	-
Daewoo Engineering &								
Construction ^{2, 3, 4}	328,987	-	(51,121)	1,839	(914)	-	(43,931)	234,860
2010	₩ 430,726	₩ 244,225	₩ (146,874)	₩ 6,184	₩ (2,499)	₩ (1,654)	₩ (43,931)	₩ 486,177
2009	₩ 766,303	₩ 43,406	₩ (187,282)	₩ (68,662)	₩ (4,569)	₩ 856	₩ (119,326)	₩ 430,726

¹ For the year ended December 31, 2010, the Company sold all of its equity-method investments in Kumho Asiana Main Tower to a related party, Asiana Airlines Inc., and recognized a gain on disposal amounting to ₩ 63,943 million (Note 14).

² The Company's equity interest in Daewoo Engineering & Construction is less than 20%. However, the equity method was applied as the Company can exert influence through its seat in the investee's board of directors. As of December 31, 2010, the market value of the equity investments in Daewoo Engineering & Construction amounts to \text{\$\text{\frac{W234,860 million}}}.

² As of December 31, 2010, the percentage of ownership was decreased from 5.61% to 4.40% due to the asymmetric capital increase and the Company recognized loss on the disposal of equity-method investments in DAEWOO Engineering & Construction amounting to ₩16,069 million(including realized accumulated comprehensive income from equity-method investments amounting to ₩397 million).

³ As of December 31, 2010, the Company recognized the impairment loss of ₩ 26,023 million (including realized accumulated comprehensive income from equity-method investments amounting to ₩ 1,442), representing the difference between its recoverable value and its carrying value.

⁴ As of December 31, 2010, the equity-method investments are pledged as collaterals for long-term borrowings (Note 12).

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 Australia ₩ (10)₩ ₩ ₩ (9) Daewoo Engineering & Construction 157,677 (9,091)(59,606)88,980 2010 157,667 (9,090) (59,606) 88,971 2009 ₩ 317,656 (17,895)(142,094)157,667

For the year ended December 31, 2010, unrealized profit amounting to ₩81,125 million (2009: ₩47,924 million) was eliminated during the valuation of equity-method investments.

The Company's unrecorded accumulated changes in net asset of the equity-method investee for which the application of equity-method of accounting has been suspended due to their accumulated losses, are as follows:

						(in millions of Korean won)
Investee		Beginning balance		Increase(Decrease)		Ending balance ¹
Kumho Tire U.S.A.	₩	33,129	₩	38,981	₩	72,110
Kumho Tyre U.K.		7,562		(961)		6,601
Kumho Tire Europe		17,903		1,269		19,172
Kumho Tyre Australia		939		3,789		4,728
Kumho Tire Japan		291		376		667
Total	₩	59,824	₩	43,454	₩	103,278

¹ Includes capital adjustments from gain and loss on valuation of equity-method investments.

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

							(in m	illions of Korean won)
				2010				2009
		Net income		Net assets		Net loss		Net assets
Suspension of equity-method	₩	46,439	₩	103,278	₩	(6,122)	₩	59,824

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

(in millions of Korean won)

Investee				2010
	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 Japan¹	37	-	-	37
Kumho Tire Canada¹	335	66	-	401
Kumho Tyre Australia	(91)	-	-	(91)
Kumho Tire France ¹	13	(204)	-	(191)
Kumho Tire H.K.	76,937	4,469	-	81,406
Kumho Asiana Main Tower Co., Inc.1	31,067	-	(31,067)	-
Daewoo Engineering & Construction	-	1,839	(1,839)	-
Other comprehensive income	109,036	6,361	(32,906)	82,491
Other comprehensive loss	₩ (139)	₩ (191)	₩ -	₩ (330)

Investee				2009
	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 Japan¹	133	(96)	-	37
Kumho Tire Canada¹	237	98	-	335
Kumho Tyre Australia	(91)	-	-	(91)
Kumho Tire France ¹	63	(50)	-	13
Kumho Tire H.K.	132,767	(55,830)	-	76,937
Kumho Asiana Main Tower Co., Inc.1	31,968	(901)	-	31,067
Daewoo Engineering & Construction	6,565	(12,762)	6,197	-
Other comprehensive income	172,380	(63,344)	_	109,036
Other comprehensive loss	₩ (139)	₩ (6,197)	₩ 6,197	₩ (139)

¹ Includes capital adjustments from gain and loss on valuation of equity-method investments.

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

(in millions of Korean won)

							2010
	Assets		Liabilities		Sales	Net	income(loss)
₩	354,049	₩	384,502	₩	709,295	₩	(629)
	53,529		60,794		99,482		138
	107,060		124,565		263,179		(3,742)
	14,577		13,698		47,637		23
	15,409		12,606		42,145		(104)
	83,344		72,758		125,002		2,007
	51,293		49,960		93,876		173
	697,248		428,452		-		(52,801)
	9,214,340		5,893,878		6,734,285		(749,023)
₩	10,590,849	₩	7,041,213	₩	8,114,901	₩	(803,958)
		₩ 354,049 53,529 107,060 14,577 15,409 83,344 51,293 697,248 9,214,340	₩ 354,049 ₩ 53,529 107,060 14,577 15,409 83,344 51,293 697,248 9,214,340	₩ 354,049 ₩ 384,502 53,529 60,794 107,060 124,565 14,577 13,698 15,409 12,606 83,344 72,758 51,293 49,960 697,248 428,452 9,214,340 5,893,878	₩ 354,049 ₩ 384,502 ₩ 53,529 60,794 107,060 124,565 14,577 13,698 15,409 12,606 83,344 72,758 51,293 49,960 697,248 428,452 9,214,340 5,893,878	₩ 354,049 ₩ 384,502 ₩ 709,295 53,529 60,794 99,482 107,060 124,565 263,179 14,577 13,698 47,637 15,409 12,606 42,145 83,344 72,758 125,002 51,293 49,960 93,876 697,248 428,452 - 9,214,340 5,893,878 6,734,285	₩ 354,049 ₩ 384,502 ₩ 709,295 ₩ 53,529 60,794 99,482 107,060 124,565 263,179 14,577 13,698 47,637 15,409 12,606 42,145 83,344 72,758 125,002 51,293 49,960 93,876 697,248 428,452 - 9,214,340 5,893,878 6,734,285

(in millions of Korean won)

Investee								2009
		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)

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8. Property, Plant and Equipment

(in millions of Korean won)

Investee												2010
	·				Mad	chinery and	Cor	nstruction-				
		Land		Buildings		equipment	ir	n-progress		Others		Total
Beginning balance	₩	269,620	₩	267,197	₩	383,806	₩	57,796	₩	84,361	₩	1,062,780
Acquisition		-		-		-		63,278		5,193		68,471
Transfer		-		1,592		27,252		(52,703)		22,922		(937)
Disposal		-		-	-	(662)		-		(2,643)		(3,305)
Depreciation		-		(8,472)		(41,014)		-		(30,584)		(80,070)
Ending balance	₩	269,620	₩	260,317	₩	369,382	₩	68,371	₩	79,249	₩	1,046,939
Acquisition cost	₩	269,620	₩	316,911	₩	906,081	₩	68,371	₩	288,707	₩	1,849,690
Accumulated depreciation	₩	-	₩	(56,594)	₩	(527,820)	₩	-	₩	(209,458)	₩	(793,872)
Accumulated impairment	₩	-	₩	-	₩	(8,879)	₩	-	₩	-	₩	(8,879)

(in millions of Korean won)

Investee												2009
					Ма	chinery and	Cor	nstruction-				
		Land		Buildings		equipment	ir	n-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)

As of December 31, 2010, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, amounts to approximately ₩175,226 million (2009: ₩169,693 million).

As of December 31, 2010, 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 (Notes 11 and 12).

At December 31, 2008, land was revalued at fair values by independent appraisers. As of December 31, 2010, the value of the Company's land, based on its acquisition cost, is ₩158,611 million (2009: ₩158,611 million).

Property, plant and equipment are insured against fire for up to $\mbox{$\frac{1}{2}$}$ 238,829 million (2009: $\mbox{$\frac{1}{2}$}$ 221,655 million) with The Korea Development Bank as the beneficiary of the insured amount.

9. Capitalization of interest expense

For the year ended December 31, 2010, the Company capitalized the interest of ₩5,940 million incurred on the borrowings used to finance the cost of acquisition of the property, plant and equipment.

A comparison of the relevant accounts assuming the interest is capitalized or expensed is as follows:

(in millions of Korean won)

				2010
		Capitalized		Expensed
Property, plant and equipment				
Acquisition cost	₩	1,849,690	₩	1,843,750
Accumulated depreciation		(793,872)		(793,872)
Depreciation		80,070		80,070
Interest expenses	₩	94,615	₩	97,049

10. Intangible Assets

(in millions of Korean won)

Investee						2010
	Indus	trial property rights		Other		Total
Beginning balance	₩	1,394	₩	38,164	₩	39,558
Acquisition		412		937		1,349
Amortization		(554)		(4,987)		(5,541)
Ending balance	₩	1,252	₩	34,114	₩	35,366

Investee								2009
		Goodwill	Industrial p	roperty 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.

11. Short-Term Borrowings

				s of Korean won)
Interest rate (%)				
at 12/31/2010		2010		2009
2.00 ~ 7.00	₩	51,500	₩	95,720
8.20 ~ 9.15		137,165		407,130
-		-		219,409
1.20 ~ 3.95		123,228		74,298
	₩	311,893	₩	796,557
	at 12/31/2010 2.00 ~ 7.00 8.20 ~ 9.15	at 12/31/2010 2.00 ~ 7.00 ₩ 8.20 ~ 9.15 1.20 ~ 3.95	at 12/31/2010 2010 2.00 ~ 7.00 ₩ 51,500 8.20 ~ 9.15 137,165 - - 1.20 ~ 3.95 123,228	at 12/31/2010 2010 2.00 ~ 7.00 ₩ 51,500 ₩ 8.20 ~ 9.15 137,165 - - 1.20 ~ 3.95 123,228

The Company has bank overdraft agreements with The Korea Development Bank and other banks for up to ₩136,659 million. Certain portions of the Company's property, plant and equipment and two promissory notes are pledged as collaterals for the borrowings above (Note 8).

12. Long-Term Debts

Debentures

				(in millior	ns of Korean won)
	Interest rate (%)				
	at 12/31/2010		2010		2009
Non-guaranteed debentures	-	₩	-	₩	160,000
Less: Discount on debentures			-		(458)
Less: Current portion, net of discount			-		(159,542)
Bond with stock warrants ¹	7.00		71,022		79,969
Add : Redemption premium			(965)		(1,788)
Less: Discount on debentures			(3,631)		(6,726)
Less: Stock warrants adjustment			7,348		8,274
Less: Current portion, net of discount			73,774		79,729
Convertible bonds ²	2.00		158,181		-
Less: Conversion rights adjustment			(85,376)		-
Add : Premium on convertible bonds			40,794		-
			113,599		-
		₩	113,599	₩	-

¹ 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 ₩ 5,880 per share on November 30, 2010, ₩15,000 per share on October 15, 2010, ₩ 5,000 per share on February 11, 2010 and ₩5,050 per share on November 11, 2009) of common stock. After adjusting an exercise price, the exercise rate was changed from 100% to 96.0884%. 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 date after 1.5 years from the issue date. If the warrants are exercised during the year, the Company considers the warrants were exercised at the beginning of the year.

For the year ended December 31, details of common stocks issued by exercising the warrants are as follows:

(in Korea won)

Exercise price						Issuanc	e of common stocks
			Industrial property rights		Payment in bonds		Total
₩	5,050	₩	4	₩	1,227	₩	1,231
	5,000		67,284		3,171		70,455
	15,000		13,076		2,950		16,026
	5,880		2,462,584		9,668		2,472,252
		₩	2,542,948	₩	17,016	₩	2,559,964

As of December 31, 2010, the warrants of 2,568,307 shares were exercised and stock warrants of 11,038,313 shares are outstanding.

As of December 31, 2010, the bond with stock warrants above were reclassified as current due to breach of the loan agreements.

Long-term Borrowing

(in millions of Korean won) Interest rate (%) at 12/31/2010 2010 2009 Won currency loans $2.00 \sim 4.00$ 754,907 530,575 Less: Present value discount (34,610) (1,592)Less: Current portion (10,923)(528,983)709,374 Foreign currency loans $2.00 \sim 4.00$ 31,375 12,604 US\$ 21,177 thousand, JPY 519,480 thousand (2009: US\$ 5,177 thousand, JPY 519,450 thousand) Less: Present value discount (1,410)(8) Less: Current portion (2009: US\$ 5,177 thousand, JPY 519,450 thousand) (12,596)29.965 739,339

As of December 31, 2010, Company's property, plant and equipment, long-term investments and equity-method investments are pledged as collaterals for the long-term borrowings above (Notes 6, 7 and 8).

For the year ended December 31, 2010, the creditor financial institutions committee of the Company implemented the debt restructuring program, including debt-to-equity conversion, extension of maturity, new financial support and others. Accordingly, the Company's debts were either converted into equity or general term-loans (Note 33).

₩

² On July 23, 2010 the Company issued convertible bonds privately according to the plan for the new financial support decided by the committee of the creditor financial institutions and the bonds will mature on December 31, 2014. The coupon rate is 2% and the yield to maturity (YTM) is 7%. If the Company terminates the joint management control of its creditor financial institutions before the maturity date, the creditors can ask the Company to redeem before the maturity date getting the yield to maturity (YTM). Stocks acquired due to conversion of the bonds could not be sold without an approval of the creditor financial institutions until the maturity date of the bonds. They are convertible from July 23, 2011 until December 30, 2014, at a conversion price of \(\psi_5,000\) per share and the conversion ratio is 100%. If the convertible bonds are exercised during the year, the Company considers they were exercised at the beginning of the year.

13. Accrued Severance Benefits

			(in millior	ns of Korean won)
		2010		2009
Accrued severance benefits	₩	257,417	₩	277,642
Less : Severance insurance deposits		(137,399)		(157,026)
Deposits to National Pension Fund		(2,191)		(2,568)
	₩	117,827	₩	118,048

As of December 31, 2010, the Company estimates severance payable to all employees to be ₩257,417 million (2009: ₩277,642 million) and records the corresponding amount as accrued severance benefits. Also, the Company funded 53.38% (2009: 56.56%) of severance payable through severance insurance deposits with the Korea Development Bank.

For the years ended December 31, 2010 and 2009, the Company paid retired employees and directors ₩51,309 million and ₩38,633 million, respectively.

14. Commitments and Contingencies

As of December 31, 2010 and 2009, the Company has provided guarantees amounting to US\$ 873,447 thousand (equivalent to ₩994,769 million) and US\$ 955,506 thousand (equivalent to ₩1,115,648 million), respectively, for the operations of its overseas associates as follows:

		(in the	usands of US dollar)
_	2010		2009
US\$	1,300	US\$	4,841
	=		4,503
	325,335		333,860
	104,000		104,000
	61,231		71,481
	6,000		6,000
	-		13,962
	217,189		217,189
	158,392		199,670
US\$	873,447	US\$	955,506
		US\$ 1,300	2010 US\$ 1,300 US\$

As of December 31, 2010, the Company has provided guarantees of up to ₩1,372 million for the borrowings of Tire Net Corporation, one of its suppliers.

Unmatured foreign currency trade accounts receivable sold as of December 31, 2010, amount to ₩562,564 million, including letters of credit.

Notes receivable issued by its customers at a discount that have not yet matured amount to ₩3,144 million as of December 31, 2010.

As of December 31, 2010, 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\$ 180,095 thousand. In addition, the Company has been provided with performance guarantees by Seoul Guarantee Insurance Company and others. Meanwhile, 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, 2010, 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.

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, 2010, 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.

As of December 31, 2010, the Company is a defendant in a lawsuit filed by Industrial Bank of Korea and four other financial institutions regarding payments of debts involving damages of \forall 24,915 million. In addition, the Company is named as a defendant in several lawsuits involving damages of \forall 1,495 million. Accordingly, the Company recorded borrowings and other liabilities in the financial statements amounting to \forall 24,948 million for litigation regarding payments of notes.

On February 17, 2010, the Company sold all of its equity-method investments in Kumho Asiana Main Tower to a related party, Asiana Airlines Inc. and the Company has entered into an agreement with Asiana Airlines Inc., which gives the Company the right to purchase all or part of the investments in Kumho Asiana Main Tower at appraised value three years from the date of closing of trade.

15. Capital Stock

(in millions of Korean won except number of shares)

						,				. ,
					Paid-i	n capital in	0	ther capital		
	Num	ber of shares		Buildings	excess	of par value		surpluses		Total
January 1, 2010	₩	70,008,343	₩	350,042	₩	316,470	₩	-	₩	666,512
Exercise of stock warrants ¹		2,559,964		12,799		2,336		-		15,135
Disposition of accumulated deficit		-		-		(316,470)		-		(316,470)
Issuance of convertible bonds ²		-		-		-		39,825		39,825
Capital reduction without consideration		(59,853,639)		(299,268)		-		299,268		-
Debt-for-equity conversion		80,489,952		402,450		-		-		402,450
December 31, 2010	₩	93,204,620	₩	466,023	₩	2,336	₩	339,093	₩	807,452

¹ Refer to note 12 for details of the exercise of the warrants for the year ended December 31, 2010.

16. Sales

('n	millions	of	Korean	won'	١
١.		11111110113	Oi	Norcan	WV OII	,

		2010		2009
Sales				
Sales of finished goods	₩	2,127,954	₩	1,492,749
Sales of merchandise		550,784		469,186
Others		34,643		56,149
Total sales		2,713,381		2,018,084
Sales discounts and others		(11,391)		(123,384)
Net sales	₩	2,701,990	₩	1,894,700

² Consideration for conversion rights amounting to ₩ 39,825 million is recognized due to issuance of the convertible bonds.

17. Cost of Sales				
		2010	(ir	n millions of Korean won) 2009
Inventory, beginning	₩	116,897	₩	251,747
Manufacturing cost for the year		2,035,770	VV	1,684,894
Transfer to other accounts				
		34,080		(30,058)
Inventory, ending		(99,877)	\A/	(116,897) 1,789,686
Cost of sales	₩	2,086,870	₩	1,703,000
18. Income Taxes			(ir	n millions of Korean won)
		2010		2009
Current income tax	₩	4,817	₩	7,002
Deferred income tax from temporary differences ¹		(10,232)		805
Deferred income tax due to tax loss carryforwards	········	14,088		(37,924)
Deferred income taxes directly charged to shareholders' equity ²		(1,370)		(879)
Income tax expenses(benefit)	₩	7,303	₩	(30,996)
¹ Changes in deferred income tax from temporary differences are computed as fo	ollows:		(ir	n millions of Korean won)
		2010	(2009
Beginning deferred tax assets	₩		₩	805
Ending deferred tax assets ¹		10,232		-
Deferred income tax due to temporary differences	₩	(10,232)	₩	805
¹ Excludes deferred income tax asset amounting to ₩66,515 million due to tax los ² Changes in deferred income taxes directly charged to shareholders' equity are a	•	ners.		
			(ir	millions of Korean won)
		2010		2009
Increase (decrease) resulting from equity-method	₩	9,904	₩	(879)
Gain on valuation of available-for-sale securities	<u>.</u>	(41)		-
Consideration for conversion rights		(11,233)		-
Total	₩	(1,370)	₩	(879)
Reconciliation of Net income(loss) before Tax and Income	Tax Exnenses(h	enefit)		
			(ir	n millions of Korean won)
		2010		2009
Net income (loss) before tax benefit	₩	16,204	₩	(807,164)
Income tax expenses (benefit)				
based on statutory rate		3,895		(195,309)
Adjustments				
Non-deductable expense		3,714		4,509
Effect of unrecognized deferred tax asset		(440)		142,982
Changes in the statutory tax rate		(4,644)		16,876
Others		4,778		(54)
Income tax expenses (benefit)	₩	7,303	₩	(30,996)
Effective tax rate(Income tax over net income before tax)		45.07%		3.84%

The changes in temporary differences and related deferred income tax assets and liabilities are as follows:

(in millions of Korean won)

				Deferred tax assets(liabilities)			
	Beginning	Increase	Ending	Deferred tax a	assets(liabilities)		
	balance	(Decrease)	balance	Current	Non-current		
Allowance for doubtful accounts	₩ 24,214	₩ 3,296	₩ 27,510	₩ 6,657	₩ -		
Provision for warranty expense	5,650	5,731	11,381	-	2,504		
Equity-method investments	490,481	191,623	682,104	-	150,063		
Derivative financial instruments	1,669	(1,669)	-	-	-		
Foreign currency translation	11,736	3,469	15,205	3,680	-		
Inventory valuation reserve	8,209	537	8,746	2,116	-		
Bond with stock warrants	-	3,820	3,820	925	-		
Amortization of intangible assets	70,620	(26,903)	43,717	-	9,618		
Accrued severance benefits	105,250	1,987	107,237	-	23,592		
Convertible bonds	-	(44,582)	(44,582)	-	(9,808)		
Gain on exemption of debts	-	(36,019)	(36,019)	-	(7,924)		
Available-for-sale securities	-	(185)	(185)	-	(41)		
Increase (decrease) resulting from equity-method	(41,432)	40,918	(514)	-	(113)		
Land (revaluation gain)	(111,050)	-	(111,050)	-	(24,431)		
Tax loss carryforwards	486,397	(184,058)	302,339	-	66,515		
Tax credit carryforwards	21,902	3,762	25,664	-	25,664		
Others	12,385	610	12,995	1,149	1,814		
	1,086,031	(37,663)	1,048,368	14,527	237,453		
Not recognized as a deferred tax assets					(175,233)		
2010	1,086,031	(37,663)	1,048,368	14,527	62,220		
2009	₩ 283,156	₩ 802,875	₩ 1,086,031	₩ 10,340	₩ 70,262		

To determine the realizability of deferred income tax assets, all available positive and negative evidences are considered, including the Company's performance, the market environment in which the Company operates, forecasts of future profitability, the utilization period of past tax credits and tax loss carryforwards, and other factors. Management periodically considers these factors in reaching its conclusion. As of December 31, 2010, the Company has recognized the deferred income tax assets related to temporary differences, excluding the tax credit carryforwards of \$25,664 million and the temporary differences of \$679,858 million that are deemed to be not realizable. The balance of the deferred income tax assets is subject to change in accordance with changes in estimates for future taxable income

Temporary Differences not Recognized as a Deferred Tax Assets

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

	Year of Expiration		Amount
Equity-method investments		₩	679,858
Tax credit carryforwards	2013		13,420
	2014		8,482
	2015	₩	3,762

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

(in millions of Korean won)

	2010							2009
	Defer	red tax assets	tax assets Deferred tax liabilities		Deferred tax assets		Deferred tax liabilitie	
Current	₩	14,527	₩	-	₩	10,340	₩	-
Non-current	₩	104,537	₩	(42,317)	₩	104,710	₩	(34,448)

19. 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.

		2010	2009		
(1) Weighted average number of common shares ¹	₩	17,655,313 shares	₩	10,283,006 shares	
(2) Net income(loss) for common shares		8,900,823,745		(776,168,111,849)	
(3) Basic earnings(loss) per share ((2)/(1))	₩	504	₩	(75,481)	

¹ The number of common shares is calculated by using the weighted-average method. Weighted average number of common shares in 2009 is recalculated based on the rate of the capital reduction implemented in 2010.

Diluted Earnings Per Share

		2010		2009
(1) Adjusted weighted average number of common shares ²	₩	42,734,898 shares	₩	10,283,006 shares
(2) Adjusted net income (loss) attributable to common shares ³		20,399,575,234		(776,168,111,849)
(3) Diluted earnings (loss) per share ((2)/(1))	₩	477	₩	(75,481)

¹ Diluted earnings(loss) per share is identical to basic earnings(loss) per share as the exercise price of the bond with warrant and the conversion price per of the convertible bond are higher than the average price of the Company's share.

² Details of adjusted weighted average number of common shares are as follows:

		2010		2009
Weighted average number of common shares		17,655,313 shares		10,283,006 shares
(1) Bond with stock warrants		11,038,313 shares		-
(2) Convertible bonds		14,041,272 shares		-
Adjusted weighted average number of common		42,734,898 shares		10,283,006 shares
³ Details of adjusted net income (loss) attributable to common shares are as follows:				(in Korean won)
		2010		2009
Net income (loss) for common shares	₩	8,900,823,745	₩	(776,168,111,849)
Adjustments:				
(1) Interest from the bond with stock warrants(after tax)		5,349,373,961		-
		6.149.377.528		-
(2) Interest from the convertible bonds(after tax)		-,,,		

20. Monetary Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies, other than accounts presented in notes 11 and 13, are as follows:

(in millions of Korean won, foreign currencies in thousands)

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			Fore	eign currencies	Korean won			
	US\$	JPY	EUR	Others¹	equivalent			
Assets								
Cash and cash equivalents	33,560	-	-	-	38,221			
Trade accounts receivable	42,781	7,616	11,725	14,562	81,139			
Other accounts receivable	26,696	129	7	3,482	33,899			
Short-term loans receivable	176,357	-	-	-	200,853			
Accrued revenues	6,223	-	-	-	7,088			
2010	285,617	7,745	11,732	18,044	361,200			
2009	285,064	78,864	6,155	5,957	349,947			
Liabilities								
Trade accounts payable	42,405	-	100	-	48,446			
Other accounts payable	21,833	490	2,492	2,536	31,181			
2010	64,238	490	2,592	2,536	79,627			
2009	167,053	69,100	5,185	23,312	210,050			

¹ Korean won equivalent of other foreign currencies.

21. Selling and Administrative expenses

(in millions of Korean won)

			illiono or nordan worij
	2010		2009
Salaries and wages	₩ 43,009	₩	49,901
Employee fringe benefits	12,278		6,540
Welfare expense	10,605		12,846
Travel expense	4,665		5,287
Rental expense	11,347		12,040
Depreciation	6,790		6,898
Amortization	4,752		11,281
Insurance premium	6,451		6,627
Advertising expense	31,864		36,915
Freight	22,792		19,369
Passage fare	136,596		78,065
Sales commissions	18,424		20,229
Warranty expense	18,974		13,955
Others	41,626		38,640
	₩ 370,173	₩	318,593

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22. Related Party Transactions

Details of the parent and subsidiaries are as follows:

	Related party
Subsidiaries	Kumho Tire U.S.A., Kumho Tire Georgia, Kumho Tire Georgia Holding, Kumho Tyre U.K., Kumho Tire Europe, Kumho Tire
	Japan, Kumho Tire Canada, Kumho Tyre Australia, Kumho Tire France, Kumho Tire H.K., Nanjing Kumho Tire, Kumho Tire
	Tianjin, Kumho Tire Changchun, Kumho Tire Vietnam, Kumho Tire China, Kumho Tire Vina
Others ¹	Kumho Petrochemical Co., Ltd

¹Kumho Petrochemical Co., Ltd. was classified as the parent company in 2009. However, it was classified as others due to the capital reduction on October 15, 2010 (Note 33).

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
Subsidiaries	₩	1,271,078	₩	438,468	₩	310,034	₩	54,094
Others		84,983		400,227		2,541		256,402
2010	₩	1,356,061	₩	838,694	₩	312,574	₩	310,496
2009	₩	841,059	₩	768,572	₩	323,428	₩	442,429

¹ Revenue includes sale of property, plant and equipment of ₩25 million for the year ended December 31, 2010 (2009: ₩24,922 million) and book value of the property, plant and equipment is ₩22 million (2009: ₩23,863 million).

Receivables include ₩ 200,853 million(US\$ 176,357 thousand) of loans to a subsidiary, the changes in loans to a subsidiary are as follows:

							(in thousands	s of US dollar)
		Beginning		Increase		Decrease		Ending
Kumho Tire H.K.	US\$	149,857	US\$	48,790	US\$	22,290	US\$	176,357

As of December 31, 2010, the Company has provided guarantees for its overseas associates (Note 14).

Key management compensation consists of:

			(in	millions of Korean won)
		2010		2009
Short-term salaries	₩	4,161	₩	5,540
Post-retirement benefits		691		2,533
Total	₩	4,852	₩	8,073

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.

² Receivables are presented as net of allowance for bad debts of ₩2,797 million (2009: ₩443 million) as of December 31, 2010.

³ Payables include borrowings from related parties amounting to ₩ 780 million (2009: ₩158,300 million) as of December 31, 2010.

23. Value Added Information

(in millions of Korean won)

							(111111111011	3 Of Norcall Worl)
						2010		2009
	Selling and a	administrative						
		expenses		Cost of sales		Total		Total
Salaries and wages	₩	43,009	₩	214,793	₩	257,802	₩	292,473
Severance benefits		12,278		18,806		31,084		28,731
Employee fringe benefits		10,605		48,560		59,165		75,239
Rental charges		11,347		1,425		12,772		14,168
Depreciation		6,790		73,280		80,070		97,345
Taxes and dues		2,654		2,156		4,810		4,570
	₩	86,683	₩	359,020	₩	445,703	₩	512,526

24. Environmental Investments

(in millions of Korean won)

		,	
	2010		2009
₩	1,949	₩	1,367
	38		27
	4,715		3,306
₩	6,702	₩	4,700
	₩	₩ 1,949 38 4,715	₩ 1,949 ₩ 38 4,715

25. Contributions to Society

(in millions of Korean won)

			,	,
		2010		2009
Scholarships	₩	_	₩	40
Donation for social welfare		3		305
Donation to cultural organizations		10		200
Others	•	6		101
Total	₩	19	₩	646

As part of its employee welfare program, the Company provides housing loans to its qualified employees. As of December 31, 2010, outstanding loans to employees amounted to ₩374 million (2009: ₩376 million)

26. Geographical Segment Information

				Sales
		2010		2009
Domestic	₩	911,829	₩	667,910
North America		667,605		292,905
Europe		409,935		328,477
Asia		89,547		84,729
Others		623,074		520,679
Total	₩	2,701,990	₩	1,894,700

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 effective automatically when the exchange rate is higher than a certain rate.

Gains on foreign exchange forward transaction amounting to ₩1,423 million was recognized as the foreign currency option contracts were expired on July 28, 2010.

28. Loss on Adjustment of Transfer Price

The Company applied for a preliminary approval of the transfer price, which is related to purchase of merchandise(tire) from the related parties, Nanjing Kumho Tire, Kumho Tire Tianjin and Kumho Tire Changchun for the year ended December 31, 2010. The adjustment regarding transfer price from those related parties in China for prior years amounting to ₩59,739 million is recognized as non-operating expenses.

29. Operating Results for the Final Interim Period

		n except per share amounts)		
		2010		2009
Sales	₩	767,449	₩	459,307
Operating income (loss)		76,305		(375,003)
Net loss		88,290		439,618
Weighted average number of common shares outstanding		39,767,257 shares		10,284,721 shares
Basic ordinary loss per share	₩	2,220	₩	42,745

30. Comprehensive Income (loss)

				(In millions of Korean won)
		2010		2009
Net income(loss)	₩	8,901	₩	(776,168)
Accumulated other comprehensive income(loss) Valuation of equity-method				
investments, net of tax effects of ₩ 9,928 (2009: ₩(-)879)		(26,737)		(63,344)
Gain on valuation of available-for-sale securities, net of tax effect of $\ensuremath{\mathbb{W}}$ (-)41		145		-
Comprehensive income(loss)	₩	(17,691)	₩	(839,512)

31. Statements of Cash Flows

Significant non-cash transactions are as follows:

		(In r	millions of Korean won)
	2010		2009
₩	402,450	₩	-
	201,604		780,850
	52,703		98,475
	-		2,211
₩	656,757	₩	881,536
		₩ 402,450 201,604 52,703	2010 ₩ 402,450 ₩ 201,604 52,703

32. 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, as of December 31, 2010, the Company's current liabilities exceeded its current assets by ₩150,567 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-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.

33. Debt Restructuring

Since January 6, 2010, the Company has been under the joint management control by its creditor financial institutions to implement its business rehabilitation plans. At the third conference of creditor financial institutions held on April 30, 2010, the troubled debt restructuring program, including debt-to-equity conversion was finalized. Accordingly, the Company and the creditor financial institutions have entered into a contract to execute such program on May 31, 2010.

Details of troubled debt restructuring program are as follows:

	Debts	before restructuring		Conversion into equity		Terms for modification
Short-term borrowings	₩	446,394	₩	257,602	₩	188,792
Debentures		74,765		29,545		45,220
Long-term borrowings		440,393		108,686		331,707
Other debts		9,127		6,617		2,510
	₩	970,679	₩	402,450	₩	568,229

Meanwhile, the Company fulfilled a capital reduction without consideration according to the decision of the shareholders on October 15, 2010 of the ratio which is 100:1 for major shareholders and 3:1 for minority shareholders to implement the restructuring program of the third conference of creditor financial institutions.

Details of loans to be converted into equity and loans with modified terms are as follows:

Conversion into Equity

	Description
Amount	₩ 402,450 million
Kind of shares	Common stock
Issue price	₩ 5,000 per share
Restriction on disposal	Disposal of shares from this conversion is prohibited until December 31, 2014.(However, disposal of shares from the
	conversion of equity of Kumho affiliates is prohibited for 6 months)

Deferred Payment of Debts

	Description
Amount	₩ 568,229 million
Period of postponement	Until December 31, 2014
Method of repayment	The creditor financial institutions will decide the method of repayment considering the Company's cash flows from
	operating activities and others within three months before the end of the extended period.

Markdown of the Interest Rate and Condonation of the Accrued Interest

	Description
Amount	₩ 970,679 million
Interest rate to be applied	4% for receivables with collateral, 2% for receivable without collateral
Period of adjustment	From December 30, 2009 to December 31, 2014
Others	Interests for receivables to be converted into equity are exempted from December 30, 2009

Additional Financial Support

The creditor financial institutions decided to provide operating funds, and the Company will issue privately placed corporate bonds amounting to ₩158,181 million which will mature on December 31, 2014, and a limit of usance and a limit of D/A amounting to US\$148,295 thousand and US\$98,863 thousand, respectively.

The effect of debt restructurings are as follows:

Deferred Payment of Debts and Markdown of the Interest Rate

	Book v	alue of debts before		Book value of debts after		Gain on troubled debt
		restructuring		restructuring		restructuring
Deferred payment of debts and						
markdown of the interest rate	₩	568,229	₩	519,230	₩	48,999
Accrued interest	-	19,351		8,116		11,235
	₩	587,580	₩	527,346	₩	60,234

34. Adoption of Korean International Financial Reporting Standards

The Company is required to prepare its financial statements in accordance with the Korean International Financial Reporting Standards (K-IFRS) starting 2011, based on the roadmap on the adoption of International Financial Reporting Standards announced in March 2007.

The Company's implementation plan is as follows:

Preparation Plan for Adoption & Progress

Since the release of the IFRS roadmap in March 2007, the Company has organized a Task Force Team to perform preliminary analysis of the effects of K-IFRS adoption, and trained its relevant personnel through internal and external training programs. Since 2009, the Company has engaged an external advisory firm and completed an analysis on the significant differences between K-IFRS and current Korean Financial Accounting Standards and the likely effects of the adoption, and the final determination of the accounting policies. Since 2010, the alignment of accounting systems has started to apply the new accounting treatments under K-IFRS, and the financial reports on the Company's transition date have been prepared.

Major differences in accounting policies

Significant differences between the accounting policies adopted by the Company under K-IFRS and those under the current Korean generally accepted accounting principles (K-GAAP) are enumerated below. The following may not include all the differences and the effects of the adoption may change after subsequent analysis of any amendment of the standards in the future.

The first adoption of K-IFRS

The Company has applied the mandatory exceptions and certain optional exemptions allowed by K-IFRS, which are not applicable in K-GAAP.

Business combination: The Company has not retrospectively applied Korean IFRS 1103 to the business combinations that took place prior to the transition date of January 1, 2010.

For investments in subsidiaries, jointly controlled entities and associates in the non-consolidated financial statements as of January 1, 2010, the Company has elected to use the book value under K-GAAP as its deemed cost.

Deemed cost from fair value or revalued amounts: The Company has applied the exception, the Company regard revalued amounts by the current Korean generally accepted accounting principles (K-GAAP) as deemed cost. In the case of other property, plant and equipment, the Company has elected to measure an item at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date

Employee Benefits

Under K-GAAP, accrued severance benefits are calculated based on the assumption that all employees terminate their employment at the reporting date, and accumulating compensated absences are accounted for as a liability when the obligation of payment become certain. However, under K-IFRS, accrued severance benefits for all employees are valued using an actuarial method, and Furthermore, accumulating compensated absences should be accounted for as a liability when the employees render services

Business Combination

Under K-GAAP, the Company could use either the pooling method or the acquisition method to account for business combination, whereas K-IFRS only accept acquisition method. Also, under K-GAAP, the Company shall amortize goodwill or negative goodwill using straight-line method, whereas K-IFRS shall not amortize but test impairment of goodwill or recognize a gain from a bargain purchase on the acquisition date.

Property, Plant and Equipment

Under K-GAAP, the Company apply revaluation model to land only and acquisition cost method to other tangible assets. Under K-IFRS, the Company applies acquisition cost method to every property, plant and equipment.

Investment Properties

The Company recognized properties to earn rentals as property, plant and equipment under K-GAAP, but properties to earn

rentals or to benefit from capital appreciation, or both should be recognized as investment properties under K-IFRS.

Investments in Subsidiaries, Jointly controlled entities and Associates

Under K-GAAP, the Company applies the equity method to subsidiaries, jointly controlled entities and associates. Under K-IFRS, the Company applies the acquisition cost method in separate financial statements.

Memberships

The Company recognized memberships as other non-current assets under K-GAAP, but should be recognized as intangible assets which have indefinite useful life or financial instruments evaluated in the amortised cost under K-IFRS.

Financial Assets and Liabilities

Under K-GAAP, the Company evaluates long-term deferred payment as present value when the gap between the nominal value and present value is significant. However, under K-IFRS, financial assets and liabilities, which are classified as loans and receivables, should be estimated by fair value and the gap between fair value and nominal value should be amortized based on effective yield.

The Company classify transaction of receivables as transaction of trade or transaction of loan by the transfer of control under K-GAAP. Under K-IFRS, determination of time of derecognition and scope of recognition for transfer of receivables depends on sequence of standards such as, risk and compensation for receivables, control, continuous involvement and others.

The Company recognized financial guarantee contracts as Contingencies or provisions considering possibility of estimation of possibility of outflows of resources and amounts. Under K-IFRS, financial guarantee contracts at initial recognition should be recognized as financial liabilities at fair value and the amount appraised is the higher of the amount at initial recognition according to K-IFRS 1037 and the amount after deducting accumulated depreciation according to K-IFRS 1018.

Under K-GAAP, the Company recognized financial liabilities, discounted at effective interest rate when occured for restructuring of receivables and payables. However, under K-IFRS, the Company shall recognize financial liabilities at effective interest rate at the time of modification of conditions.

Embedded derivatives

Under K-GAAP, the Company has not recognized embedded derivatives as certain accounts, but under K-IFRS, the Company should recognize embedded derivatives as separate assets or liabilities. These assets and liabilities are measured at fair value, and the variation of fair value is recognized in income statement. Also, warrants which does not meet the definition of an equity instrument

Deferred Tax

Under K-GAAP, deferred tax assets and liabilities should be classified as either current or non-current based on the classification of their underlying assets and liabilities. If there are no correspondent assets or liabilities, deferred tax assets and liabilities were classified based on the periods the temporary differences were expected to reverse. Under K-IFRS, deferred tax assets and liabilities should be classified only non-current assets or liabilities.

Under K-GAAP, the Company recognized deferred tax assets and liabilities of temporary differences of investment for subsidiaries, jointly controlled companies and related companies without the distinction of sources Under K-IFRS, recognition of deferred tax asset and liabilities depending on the method of reversal of temporary differences for subsidiaries, jointly controlled companies and related companies.

Report of Independent Accounts' Review of Internal Accounting Control System

To the President of KUMHO TIRES CO., INC.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of KUMHO TIRES CO., INC. (the "Company") as of December 31, 2010. 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, 2010, the Company's IACS has been designed and is operating effectively as of December 31, 2010, 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, 2010, and we did not review management's assessment of its IACS subsequent to December 31, 2010. 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 16, 2011

Report on the Operations of the Internal Accounting Control System

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

I, as the Internal Accounting Control Officer ("IACO") of KUMHO TIRES 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, 2010.

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, 2010, in all material respects, in accordance with the IACS standards.

March 8, 2011

Ho Lee Internal Accounting Control System Officer

Jong Ho Kim Chief Executive Officer

IR CONTACTS

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