GROWING STRONGER WITH EVERY NEW CHALLENGE

KUMHO TIRES —— ANNUAL REPORT 2011

KUMHO TIRES

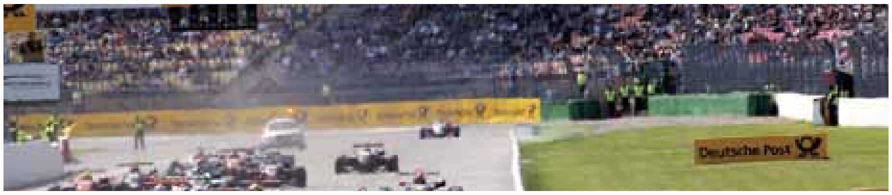
GROWING STRONGER WITH EVERY NEW CHALLENGE

GROWING STRONGER WITH EVERY NEW CHALLENGE

KUMHO TIRES —— ANNUAL REPORT 2011

DRIVING INNOVATION THROUGH CONSTANT CHANGE

01



Just like a tree that has withstood the elements and gradually grows to be strong, a company develops its strength to grow even while overcoming challenges. And just as a company continuously gets past each successive challenge, both from within and from outside, Kumho Tires has gained the wisdom needed to survive and develop strength to grow further over the years.

Kumho Tires is increasing its financial stability by improving upon its profit and loss structure and the expansion of equity capital, while also smoothly carrying out a workout plan through consultation with stakeholders that include creditors. In 2010, the company recorded the highest sales in its history, a 42.6 percent increase over the previous year, followed by an increase in sales in 2011 of 20.2 percent over 2010. In addition, since the company realized a turnaround in operating income in 2010, it has continuously increased its operating income. Instead of giving up in the face of a crisis, the company took its time to look at itself thoughtfully, catch its breath, and is now prepared to run again. In doing so, prices of raw materials stabilized, with the growth of the automobile industry improving as it centers around new markets. This has led to a growth in the tire industry as a whole. Today, both Kumho Tires and the market are ready for substantial growth. Changes at the company have already started with our internal stability.

AT A GLANCE

In 2011, Kumho Tires began a series of changes. The company recorded the highest sales in its history, which followed record sales in 2010, and financial stability is gradually increasing. Kumho Tires will make 2012 a year to make the next important step forward, and will turn changes in our business into rapid growth.

Key figures

1 million won

	2009	2010	2011
Sales	1,894,700	2,701,990	**3,247,967**
Operating Income (Loss)	-213,580	171,137	**254,129**
Operating Income to Sales Ratio	-11.27%	6.33%	**7.82%**
Net Income (Loss)	-776,168	144	**106,115**
Total Assets	2,409,032	3,092,126	**3,346,528**
Total Liabilities	2,344,549	2,573,981	**2,652,274**
Total Capital	64,482	518,145	**694,254**
Debt Ratio	3635.97%	496.77%	**382.03%**

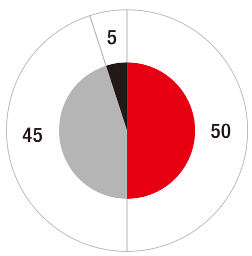
Global Production Capacity

1,000 units

	Plant	Production Capacity
Korea	Gwangju Plant	16,000
	Gokseong Plant	15,000
	Pyeongtaek Plant	2,200
China	Nanjing Plant	13,000
	Nanjing Plant (TBR)	440
	Tianjin Plant	11,700
	Changchun Plant	4,100
Vietnam	Vietnam Plant	3,300

Regional Production

%



Business Results over the Previous Year

Sales
+ 20.2 %

Operating Income
+ 48.5 %

Kumho Tires has experienced a number of challenges over the last few years, not only because of the global economic recession in 2008 but also because of other economic difficulties that posed a risk to Kumho's management. After the company began a full-scale workout and reorganization in 2010, it finally gained a foothold to secure change that would ensure rapid growth in 2011. In fact, in 2011 Kumho Tires achieved sales of 3,200 billion won, a 20 percent increase over 2010. Since realizing a turnaround in operating income in 2010, the company has continuously been able to increase this figure, achieving an operating income of 254.1 billion won in 2011. This is a significant achievement that surpasses figures from 2011, with sales of 2,700 billion won and an operating income of 171.1 billion won.

In 2012, uncertainty surrounding the global economy is greater than ever before, while financial crises continue to plague Europe. Despite this challenging management environment, Kumho Tires is continuing to work hard, as 2012 is an important year for new growth.

Kumho Tires is swiftly responding to changes in the management environment. At the same time, it is stabilizing labor-management relations, which in the past have experienced some volatility. Today, labor and management are both cooperating for one unified goal: normalizing management. The company is also making continuous investments for product competitiveness and higher productivity, which is allowing the company to see greater achievements. Kumho Tires is now at the precipice of a new beginning of changes because of every employee's firm dedication to the company. Kumho Tires is determined to be reborn through the constant hard work of its employees so that these changes lead to rapid growth.

DISCOVERING MORE CHANCES TO EXPAND GLOBALLY

02

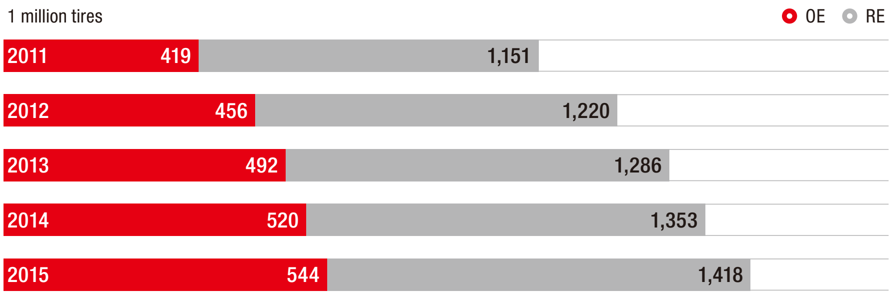
China is the world's largest automobile market and is expected to emerge as the world's largest tire market by 2014. Today, there is one car for every 17 Chinese citizens, so global automobile makers and tire manufacturers are paying more attention to China than ever before as it represents a huge market of opportunity.

The Chinese tire market's growth is rapidly catching up to European and North American markets, where growth has been slowed due to financial crises and market saturation. In 2009, China became the world's largest automobile market, surpassing the U.S. In 2012, many cars will begin to require tire replacement in China, which is expected to make the country the world's largest tire market by 2014. In 1994, Kumho Tires became the first global tire maker to enter the Chinese market, establishing four production plants in Nanjing, Tianjian, and Changchun that now have an annual production capacity of 29 million units. The company supplies 10 million OE tires for 16 automobile makers annually, and since 2008 it has maintained the largest share in China's original equipment (OE) tire market. When it comes to China's replacement equipment (RE) tire market, Kumho Tires is raising its brand awareness and increasing market share through continuous sports marketing. The company is also planning to release a new series of tires called Ecowing, which will be customized for road conditions specific to China.

KUMHO TIRES AND CHINA

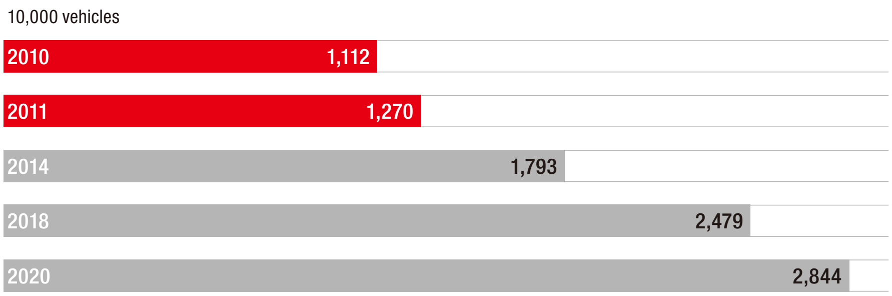
Heated competition to gain market share in China, which is expected to become the world's largest tire market in 2014, has already started. Kumho Tires will dominate business opportunities before the competition in the growing Chinese market based on brand awareness and a corporate reliability it has earned since becoming the first global tire maker to enter the Chinese market.

Global Tire Market Outlook



Source I 2010 LMC (London Management Consulting) World Tire Forecast

Automobile Sales Outlook in China



Source I Chinese State Information Center (SIC)

OE Tire Partners in China

- Beijing Hyundai Motor
- Tian Jin Glovis Auto Part
- Beijing BOAOMACHUAN
- Jiangling Motor Holding
- China Young Man Automobile
- Great Wall Motor
- Dongfeng Yueda Kia Motors
- Hunan Changfeng Motors
- FAW-Volkswagen Automotive
- FAW Jilin Automobile
- FAW Car
- Changan Ford Mazda Automobile
- Chery Automobile
- Dongfeng Peugeot Citroen Automobile
- Shanghai General Motors
- CODA Automotive

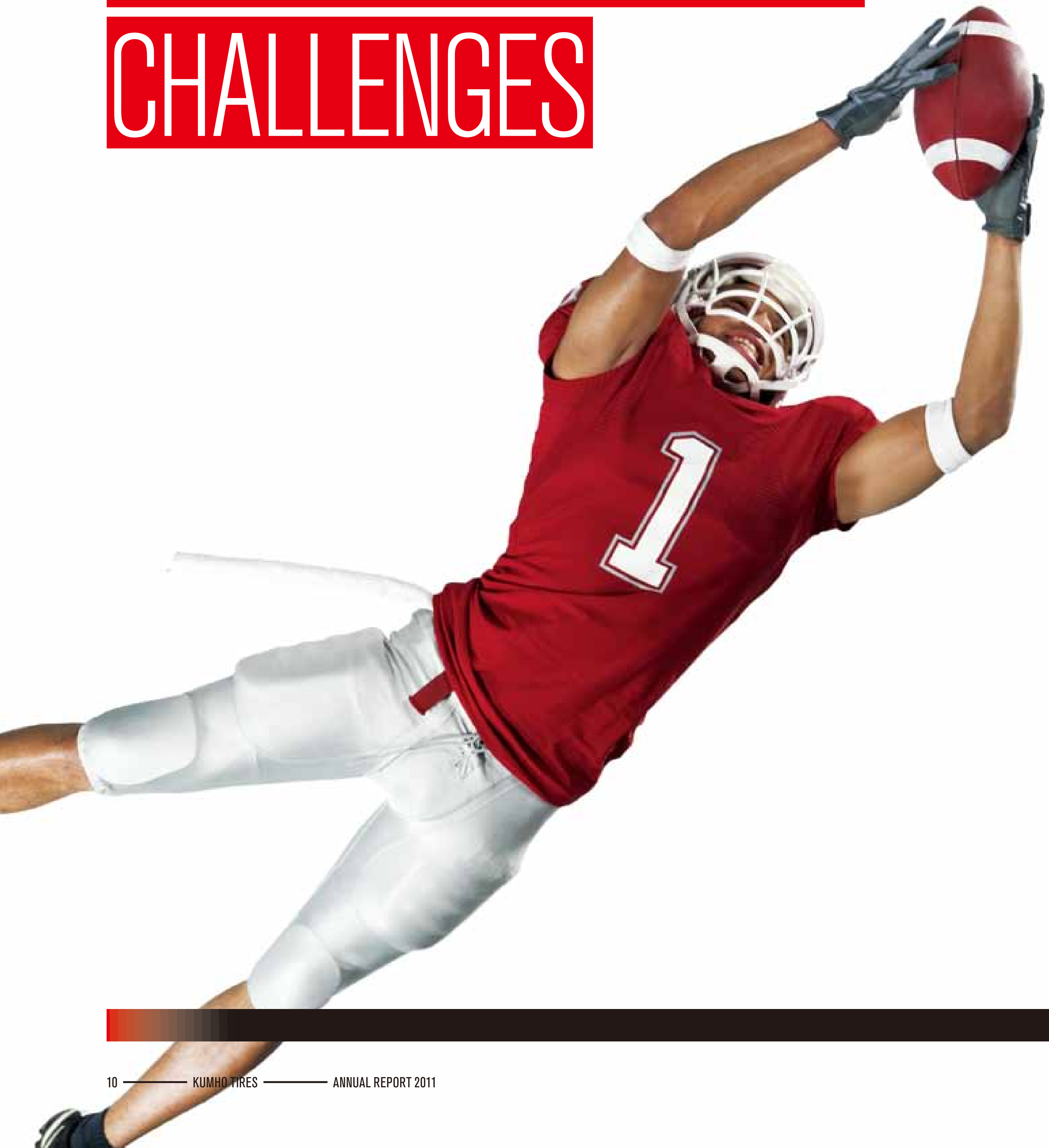
In 2010, China became the country with the second most number of cars after the U.S., with the number of automobiles surpassing the 100 million mark, or 10 percent of the world's cars. Based on annual sales since 2009, China has already became the world's largest automobile market, and when estimating figures based on growth rates over the last five years, the country's automobile market is expected to double within the next 20 years. Additionally, from 2012, when cars released in 2009 will require tire replacement, the RE tire market is expected to grow rapidly. Furthermore, China is expected to become the world's largest tire market by 2014.

Kumho Tires became the first global tire maker to enter China in 1994 and now has an annual production capacity of 29 million units at plants located in Nanjing, Tianjian, and Changchun. The company supplies 16 automakers, including Beijing Hyundai, Yancheng Kia, and Shanghai GM with over 60 kinds of tires. In addition, the company is running a specialized distribution network of 29 brand shops (Tire Pro) and over 1,500 KP (Kumho Premium) branches.

In 2011, Kumho Tires experienced a slowdown in business due to increasing competition in the Chinese market and an unstable supply of raw materials such as rubber and oil. Since then, however, it has been recovering by working hard to reinforce global product competitiveness, improve profitability, and secure sales competitiveness. Also, Kumho Tires signed a sponsorship with a local racing team to participate in the CRC (China Rally Championship), a popular motor sports event in China that has promoted the company's technical prowess. At the same time, Kumho Tires is planning to increase its market share in China by releasing an Ecowing tires series, one with a higher durability and reduced energy consumption that is ideal for driving conditions in China.

Kumho Tires is also accelerating the expansion of RE tire sales through constant R&D and aggressive marketing based on leading brand awareness, as the company's high OE tire market share grows rapidly in the Chinese market.

OVERCOMING SPORTS MARKETING CHALLENGES



03

People love sports partly because they can see how participants persistently stick to principles and tirelessly pursue goals. Principles and the pursuit of goals have been the driving forces to allow Kumho Tires to overcome adversity. We support sports with which we share the same values and are constantly promoting our brand to customers across the world.

Kumho Tires is making itself more known to the public through continued sports marketing expansion. For over 10 years, the company has been an official tire supplier in the Formula 3 Euro Series and Masters. It has also had its technology recognized and secured product reliability when it participated in the 24 Hours of Le Mans, one of the world's three biggest motor sports events, as well as other motor sports events like the CRC (China Rally Championship) and the Asia Pacific Rally Championship (APRC). Since 2011, Kumho Tires has officially sponsored three major sporting leagues in North America as well as the U.S. national soccer team. In Europe, the company signed a sponsorship agreement with the German Bundesliga team Hamburg SV and the Austrian Bundesliga team Rapid Wien.

SPORTS MARKETING

Kumho Tires is accumulating technological prowess and product reliability through F3 vehicles that drive at a high speed and rally cars that challenge the limits. In addition, the company is poised to grow rapidly as a world-class tire maker through an expansion in sports marketing.

Major Sponsorships

- Official tire supplier for Masters of F3 (2002-2014)
- Official tire supplier for Formula 3 Euro Series (2003-2011)
- Official tire supplier for the Australian Rally Championship (2010-2012)
- Official tire supplier for Korea's CJ Super Race Championship (2009-2012)
- Participation in VLN Series (2011-2012)
- Participation in China Rally Championship (CRC) (2011-2012)
- Sponsor of the NBA's LA Lakers and Miami Heat
- Sponsor of the NFL's New York Jets and Buffalo Bills
- Sponsor of the NHL's Vancouver Canucks
- Sponsor of the U.S. National soccer team (Men's and Women's teams)
- Sponsor of Hamburg SV of the German Bundesliga
- Sponsor of Rapid Wien of the Austrian Bundesliga

For F3 machines that race at tremendous speeds and rally cars driving in extreme environments, tires are needed to shorten records and support safer driving. In motor sports, where every minute counts, the technology of tires is one of the most important parts that can influence the outcome of the competition. As a result, technological prowess proven through motor sports leads to product reliability, which directly affects a tire maker's sales.

Kumho Tires started developing racing tires in full after it established its U.S. technical center (KATC) in 1990. Later, the company was selected as an official tire supplier for the 2000 F3 in Changwon, the 2002 Masters of F3, and the F3 Euro Series, which was launched in 2003. The company has maintained its status at these events for over 10 years. A top company for F3, Kumho Tires has captured 40 percent of the F3 tire market (by number of supplied units) and been recognized as a technological leader in its field. On top of sponsoring F3 races, the company has sponsored various motor sports events around the world, such as the Australian Rally Championship (as an official tire supplier) and the Chinese Rally Championship. Kumho Tires also saw excellent results when its tires were on the vehicle that 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 order to connect better with customers globally, Kumho Tires is expanding its sports marketing. After starting a full-pledged sports marketing campaign when it signed a partnership agreement with Manchester United in 2007, the company has been conducting an aggressive sports marketing strategy. In North America, it has achieved this by becoming an official sponsor of the NBA's LA Lakers and Miami Heat, the NFL's New York Jets and Buffalo Bills, the NHL's Vancouver Canucks, and the U.S. national soccer team in 2010. Through active sports marketing in North America, one of the biggest automobile markets, Kumho Tires will increase its brand awareness and expand its market share.

In Europe, the company has signed sponsorship agreements with German Bundesliga's Hamburg SV, where Korean national football team player Son Heung-min plays, and Rapid Wien, which belongs to Austrian Football League Division 1.

UNITING THE WORLD THROUGH HONEST COMMUNICATION

04

A company's power to overcome crises, predict dangers in an uncertain management environment, and seize opportunities in the market earlier than its competitors starts with open and honest communication with stakeholders, both inside and outside the company.

Kumho Tires continues to expand communication with inside/outside stakeholders. Products with global competitiveness are developed at R&D centers in the U.S., Europe, and China, which work in cooperation with one another through maximized efficiency, while products are tailor-made for specific cars and road conditions. The company keeps in contact with customers around the world through an extensive sales network and communicates with people through expanded contact points using social networking services (SNS). Kumho Tires is improving its technological leadership by working with professional drivers involved in motor sports and developing environmentally friendly tires. Its ability to have maintained partnerships with global automakers including Mercedes-Benz, Volkswagen, GM, and Ford lies in technology development that reflects customer needs.

MAXIMIZING CUSTOMER VALUE

Kumho Tires is always analyzing trends through a worldwide network with the aim of maximizing customer value, while also constantly developing products that customers want by continuously diversifying customer communication channels.

Global OE Tire Partners

- Daimler (Mercedes-Benz)
- Volkswagen
- Chrysler
- Ford
- GM
- Volvo
- Hyundai
- Kia
- GM Korea
- Ssangyong
- Renault-Samsung
- Tata Daewoo

Domestic and Foreign Awards

- Ranked no. 1 by the Korea Management Association Consulting (KMAC)'s Korean Customer Satisfaction Index (KCSI) for seven consecutive years
- Ranked no. 1 by KMAC's Korea Net Promoter Score (KNPS) in the automobile tire category for four consecutive years
- Road Venture SAT tires ranked no. 1 in the on-/off-road all-terrain category of a consumer satisfaction survey conducted by Tire Rack
- Ecowing All-Season tires selected as a green product of the year by the Korea Green Purchasing Network
- ECSTA LE SPORT ranked 3rd at a tire testing competition held by the Austrian magazine Wheels
- Selected as a brand star in the tire category by Brandstock Corp. for four consecutive years
- Recipient of a product design award for Majesty SOLUS, ECSTA LE SPORT, I´ZEN KW27 at the iF Design Awards 2010, Germany's International Forum Design (iF)
- Korea Internet Communication Association's Korea Internet Communication Award for two consecutive years

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 more than USD 1.75 billion worth of products to over 180 countries annually. As a global tire maker, Kumho Tires has eight production bases, five R&D/technical centers, nine sales corporations, and 17 branches around the world. 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 respond to global needs rapidly and flexibly. They also develop technology that is most apt for each particular region through active cooperation and an efficient division of tasks.

Kumho Tires preemptively responds to changes in the automobile market and develops top technology through active communication with global automakers. The company also supplies original equipment (OE) tires to America's major automakers – GM, Ford, and Chrysler – Mercedes-Benz and Volkswagen in Europe, and Korean car brands. In the future, the company will continue to expand its partnerships with automakers in Korea and overseas, increase the ratio of premium tire sales, and further strengthen its global competitiveness.

At the same time, the company is expanding its communication channels so that it can make products that fulfill the needs of its customers and a rapidly changing market environment. In 2010, Kumho Tires was the first company in the Korean tire industry to introduce social network service (SNS) marketing and now has a Twitter account and a Facebook page. Kumho Tires directly communicates with customers, promotes the strengths of its products and services, and constantly encourages customer feedback. Furthermore, by establishing a marketing intelligence (MI) system which enables all sectors of the company to share analysis results, the company is able to provide the highest value for customers. Kumho Tires will continue to grow through multifaceted efforts to raise brand value and customer service satisfaction.

CEO MESSAGE

Kumho Tires is working hard to increase customer value through continuous innovation by maximizing customer value.
Every employee will continue to communicate with customers in Korea and abroad with a clear, sincere, and reliable attitude.

Hello,

It is my pleasure and honor to write to all our customers and shareholders. Ever since assuming the presidency of this company, I have felt a strong sense of responsibility to prepare for rapid growth in the future.

We became convinced of the potential of Kumho Tires in 2011 and learned how we had to cultivate an inner stability within the company.

Despite the difficult management environment, with financial crises in Europe and the U.S., followed by a global economic recession and market instability with raw materials such as rubber and oil, Kumho Tires still achieved business results that surpassed head office's business goals. In 2011, parent sales increased by 20.2 percent, with operating income increasing by 48.5 percent. Net income has also been in the black for two consecutive years.

We were able to achieve all of this by becoming more competitive and building a customer-oriented foundation in all areas of our business, including R&D, technology, production, logistics, sales, and management. We correctly forecasted and responded to the price of raw materials in a preemptive way, while also working hard to improve global product competitiveness and internal capabilities.

In addition, we improved our unique brand value by conducting SNS marketing in Korea and overseas, continued with our sports marketing in North America and Europe, and kept up with our ability to make premium OE tires, all of which increased our brand value.

This year is an important time for Kumho Tires to build a foundation for a new era of growth. Although a challenging year is expected because of uncertain conditions externally, we will ensure we reach all of our goals in 2012 through a strategic management system and contingency plans to flexibly respond to changes in the business environment.

By working hard to increase customer value through continuous innovation, Kumho Tires is maximizing customer value. To achieve our goal, we have set four major strategies to pursue: reinforcing global competitiveness, securing a driving force for future growth, realizing a short-term turnaround and increasing brand value. Every employee will also continue to communicate with customers in Korea and abroad in a clear, sincere, and reliable way.

Kumho Tires is being reborn as a prestigious tire maker with a half century of experience behind it. We are confident that the company will offer a new era of growth to our customers and shareholders.

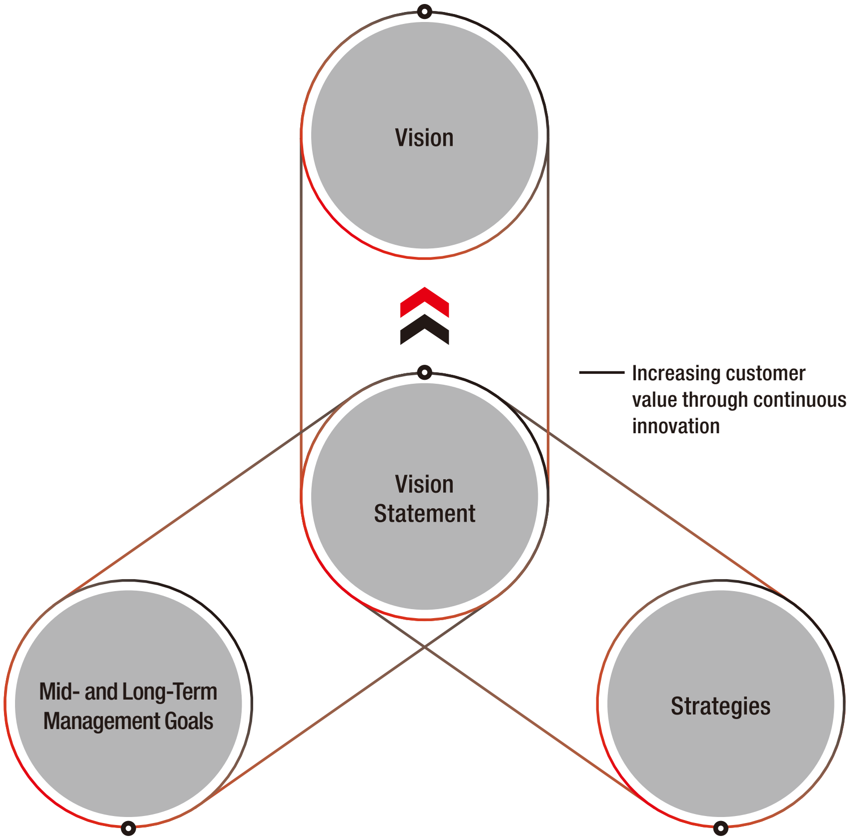
We appreciate your support and encouragement as we continue to encourage feedback and provide the highest value and reliability.

Thank you.

Kim Chang-kyu
President & CEO, Kumho Tires Co., Inc.

VISION AND STRATEGY

CUSTOMER VALUE MAXIMIZER



Increasing customer value through continuous innovation

Sales of 7 trillion won & over 10 percent of operating income to sales ratio by 2016

- Realizing a short-term turnaround
- Reinforcing global competitiveness
- Securing a driving force for future growth
- Increasing brand value

Strategies

Realizing a Short-term Turnaround

Kumho Tires will overcome all uncertain external conditions and establish a profit structure for a new era of growth through a strategic system and contingency plan that will enable the company to maintain its business principles and flexibly respond to changes in the business environment. To reinforce global capabilities, it will prepare a foundation to improve the health and independence of its overseas subsidies, while firmly establishing a global management system.

Reinforcing Global Competitiveness

To reinforce global competitiveness, Kumho Tires will innovate its logistics system by establishing product quality and technology standards at the highest global levels as well as utilizing outside resources and improving delivery & inventory management. Furthermore, the company will improve upon its labor-management relations based on an openness that increases the sense of belonging among its employees, both in Korea and abroad.

Securing a Driving Force for Future Growth

Kumho Tires will expand its sales network in new markets, the core of the driving force of future growth, and consolidate an advanced market infrastructure. To this end, the company will ensure a flexible production management capability by reorganizing production facilities and building more production plants. It will also secure a driving force for future growth by newly building a Central R&D Center and reinforcing R&D capabilities.

Increasing Brand Value

Kumho Tires will increase its brand value through selection and concentration regarding R&D and marketing investment. The company will raise its brand status through the systematic preparation of labeling as well as new products for electric vehicles (EV), and continue to increase brand value through strategic responses toward the OE tire market, the reorganization of its global distribution network, and an improved product mix.

NEWS HIGHLIGHTS

January

Participation in the Tokyo Auto Salon

In January, Kumho Tires took part in the Tokyo Auto Salon for the third consecutive year, exhibiting products that included the V700 racing tire, the eco-friendly Ecowing tire, and ECSTA LE, a tire for luxury sports sedans. In addition, it captured its time at the Tokyo Auto Salon live using Twit on Air, which consumers in Korea and overseas appreciated.

February

Road Venture SAT for SUVs Ranked No.1 in On-/Off-Road All-Terrain Category

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 category. Kumho Tires first entered the U.S. market in 1975 and has firmly maintained its top status among Korean tires in the North American RE tire market since then.

March

Sponsorship Agreement with the U.S. National Soccer Team

Kumho Tires signed an official sponsorship agreement with the U.S. national soccer team for two years, acquiring the rights to the national team's logo and portraits of players for promotion. The company is using sports marketing as a core strategy, aiming at becoming one of the top five tire brands in the U.S. by 2015.

April

Participation in the Seoul Motor Show

In April, Kumho Tires took part in the 2011 Seoul Motor Show for 10 days. At the event, it presented ghost cars with no main bodies. The ghost cars represented the company's intention to provide customers with the highest satisfaction, with the event designed to share with customers the future vision of Kumho Tires as it attempts to maximize customer value.

May

Sponsorship Agreement with German Bundesliga's Hamburg SV

In May, Kumho Tires signed a two-year (2011-2013) sponsorship agreement with Hamburg SV of Germany's Bundesliga, one of the world's three biggest football leagues. In December, the company sponsored a charity game for children in impoverished areas of Africa that was held by Hamburg SV and an all-star team including players such as Zinedine Zidane and Ronaldo.

June

Sponsoring Chinese Motor Sports Competitions

Kumho Tires signed a sponsorship agreement with China's The Southeast Motor Wanyu Team, after which it started full-pledged motor sports marketing in China. This agreement is expected to become an opportunity for Kumho Tires to prove its technological prowess yet again in China, making its brand even more familiar to Chinese consumers.

June

High Ranking at an Australian Tire Testing Event

The Kumho Tires ECSTA LE Sport was well received along with global brands such as Michelin and Continental at a 2011 tire test event held by Wheels, a major Australian automobile magazine. As a result of this event, which was seen as a reliable, objective test event, ECSTA LE SPORT is expected to become a tire of high value and performance in foreign markets, including Australia.

July

Sponsorship Agreement with Austrian Bundesliga's Rapid Wien

On July 7, Kumho Tires signed a three-year (2011-2014) sponsorship agreement with Sportklub Rapid Wien, part of Austria's Football League Division 1. The agreement with Rapid Wien, following one with Hamburg SV, is expected to help Kumho Tires keep in closer contact with consumers and strengthen brand awareness through the sport of football in Europe.

September

Participation in the Frankfurt Motor Show

Kumho Tires participated in the 2011 Frankfurt Motor Show in September. At the show, where mainly eco-friendly cars like electric vehicles were exhibited, Kumho Tires displayed its new eco-friendly tire for Europe. The Ecowing KH 19 features a minimum amount of hazardous substances, is lighter weight than average tires, and has improved rotational constraint, proving the company's technological prowess for future car trends.

October

Sponsorship Agreement with the NFL's New York Jets

Kumho Tires signed a sponsorship agreement with the NFL's New York Jets for two seasons (2011-2013). The New York Jets are one of the most successful NFL teams and boast of average stadium attendance numbers around 78,000 people. The sponsorship is expected to help Kumho Tires' sports marketing earn more recognition with Americans.

November

Recipient of iF Design Award

At the iF Design Awards 2012, three Kumho Tires products, Majesty SOLUS, ECSTA LE Sport, and I'Zen KW27, won awards in the product design award's transportation category. As consumers consider design as important as function when choosing a product, Kumho Tires will work harder to develop products that are both functional and scientifically designed.

December

Recipient of the Korea Internet Communication Award

Kumho Tires has won the Korea Internet Communication Association's Korea Internet Communication Award in the mechanical equipment/parts category for two consecutive years. Furthermore, the company opened a Facebook page and a Twitter account in 2010, expanding direct communication with customers as a viable communicator.

SEPARATE FINANCIAL STATEMENTS

01

Report of Independent Auditors

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

We have audited the accompanying separate statement of financial position of KUMHO TIRE CO.,INC. (the Company) as of December 31, 2011, and the related separate statements of comprehensive income, changes in equity and cash flows for the year 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 audit. The financial statements of the Company as of and for the year ended December 31, 2010, were audited by us as per our audit report dated March 16, 2011, where we expressed an unqualified opinion on those statements. The financial statements on which we expressed an unqualified opinion do not reflect the adjustments as described in Note 5 as required by the International Financial Reporting Standards adopted by the Republic of Korea ("Korean IFRS"). However, the financial statements presented herein for comparative purposes reflect such adjustments in accordance with Korean IFRS.

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

In our opinion, the separate financial statements, referred to above, present fairly, in all material respects, the financial position of KUMHO TIRE CO., INC. as of December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with Korean IFRS.

Without qualifying our opinion, as mentioned in Note 32, the Company and the creditor financial institutions have entered into a contract to execute its business rehabilitation plans on May 31, 2010. 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.

Auditing standards and their application in practice vary among countries. 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 is for use by those who are informed about Korean auditing standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
March 22, 2012

RESPECTED TRUSTED PROFESSIONAL SAMIL
www.samil.com
LS Yongsan Tower, 191, Hangangno 2-ga, Yongsan-gu,
Seoul 140-702, Korea (Yongsan P.O Box 266, 140-600)

This report is effective as of March 22, 2012, 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 separate 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.

02

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

in millions of Korean won

Separate Statements of Financial Position

	Note(s)	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets				
Cash and cash equivalents	3, 8	74,790	137,809	12,395
Financial deposits	3, 6, 8	-	-	549
Available-for-sale financial assets	3, 8, 9	19	8	8
Trade receivables	3, 7, 8, 31	904,140	798,195	784,113
Loans and other receivables	3, 7, 8, 31	79,088	254,728	261,106
Inventories	10	300,209	213,873	181,513
Other current assets	14	57,414	12,518	27,275
		1,415,660	**1,417,131**	**1,266,959**
Non-current assets				
Financial deposits	6, 8	35	35	33
Available-for-sale financial assets	3, 8, 9	192,353	733	548
Held-to-maturity investments	3, 8, 9	-	-	1,500
Investments in subsidiaries and associates	11	289,114	486,177	430,726
Long-term loans receivable	7, 8	333,589	7	25
Property, plant and equipment	12	1,013,663	1,039,323	1,054,877
Intangible assets	12	33,858	39,046	43,132
Investment property	13	7,882	7,912	7,903
Deferred income tax assets	27	32,018	70,563	80,602
Other non-current assets	14	28,356	31,199	37,867
		1,930,868	**1,674,995**	**1,657,213**
Total assets		**3,346,528**	**3,092,126**	**2,924,172**

02

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

Separate Statements of Financial Position

in millions of Korean won

	Note(s)	December 31, 2011	December 31, 2010	January 1, 2010
Liabilities				
Current liabilities				
Trade payables	3, 8, 15, 31	448,261	379,360	335,824
Short-term borrowings	3, 8, 16	788,922	877,601	1,287,702
Current portion of bonds	3, 8, 16	-	-	159,542
Current portion of bonds with warrants	3, 8, 16	75,295	73,774	79,729
Current portion of long-term borrowings	3, 8, 16	-	10,923	541,579
Other payables	3, 8, 15, 31	180,873	227,470	272,355
Current income tax liabilities	27	2,995	-	-
Financial guarantee liabilities	8, 30	2,421	482	1,314
Derivative liabilities	3, 8	-	-	1,669
Other current liabilities	17	24,030	14,134	16,941
		1,522,797	**1,583,744**	**2,696,655**
Non-current liabilities				
Convertible bonds	3, 8, 16	130,102	113,599	-
Long-term borrowings	3, 8, 16	760,495	694,756	-
Defined benefit liability	18	163,164	114,805	98,513
Long-term employee benefit liability	18	21,897	19,650	19,566
Financial guarantee liabilities	8, 30	13,795	15,297	20,799
Product warranty reserve	30	40,023	32,130	26,399
		1,129,476	**990,237**	**165,277**
Total assets		**2,652,274**	**2,573,981**	**2,861,932**
Equity				
Capital stock	19	531,786	466,023	350,042
Share premium	19	96,673	341,429	316,470
Other components of equity	19	(16,618)	(18,645)	(16,602)
Accumulated other comprehensive income(loss)	9	(43,030)	145	-
Retained earnings(accumulated deficit)		125,443	(270,807)	(587,670)
Total equity		**694,254**	**518,145**	**62,240**
Total liabilities and equity		**3,346,528**	**3,092,126**	**2,924,172**

The accompanying notes are an integral part of these separate financial statements.

03

Separate Statements of Comprehensive Income

Years Ended December 31, 2011 and 2010

in millions of Korean won, except per share amounts

	Note(s)	2011	2010
Net sales	2, 20, 31	**3,247,967**	**2,701,990**
Cost of sales	21, 22, 31	**(2,652,144)**	**(2,096,012)**
Gross profit		**595,823**	**605,978**
Selling and administrative expenses	22, 23	(336,858)	(373,200)
Other operating income	24, 31	50,619	51,853
Other operating expenses	24	(55,456)	(113,494)
Operating income	24	**254,128**	**171,137**
Financial income	25	30,605	142,961
Financial expenses	26	(130,458)	(144,626)
Impairment loss of investments in subsidiaries and associates		-	(187,188)
Gain on disposal of investments in subsidiaries and associates	30	-	31,291
Profit before income tax		**154,275**	**13,575**
Income tax expense	27	(48,160)	(13,431)
Profit for the year		**106,115**	**144**
Other comprehensive income			
Available-for-sale financial assets, net of tax	9	(43,175)	145
Actuarial gain (loss) on defined benefit liability, net of tax	18	(9,442)	249
Total comprehensive income for the year		**53,498**	**538**
Earnings per share attributable to the equity holders of the Company	28		
Basic earnings per share		1,083	8
Diluted earnings per share		898	8

The accompanying notes are an integral part of these separate financial statements.

04

Years Ended December 31, 2011 and 2010

in millions of Korean won

Separate Statements of Changes in Equity

	Note(s)	Capital Stock	Share Premium	Other Components of Equity
Balance at January 1, 2010		350,042	316,470	(16,602)
Comprehensive income				
Profit for the year		-	-	-
Available-for-sale financial assets	9	-	-	-
Actuarial gain on defined benefit liability	18	-	-	-
Transactions with equity holders				
Disposition of accumulated deficit		-	(316,470)	-
Exercise of stock warrants		12,799	2,336	-
Capital reduction without consideration		(299,268)	299,268	-
Discount on stock issuance		-	-	(2,027)
Loss on disposal of treasury stock		-	-	(16)
Debt-for-equity conversion	19, 32	402,450	-	-
Issuance of convertible bonds		-	39,825	-
Balance at December 31, 2010		466,023	341,429	(18,645)
Balance at January 1, 2011		466,023	341,429	(18,645)
Comprehensive income				
Profit for the year		-	-	-
Available-for-sale financial assets	9	-	-	-
Actuarial loss on defined benefit liability	18	-	-	-
Transactions with equity holders				
Disposition of accumulated deficit	19	-	(301,604)	-
Exercise of stock warrants	19	19,243	3,338	-
Discount on stock issuance		-	-	2,027
Debt-for-equity conversion	19, 32	46,520	54,893	-
Stock issuance cost		-	(259)	-
Effect of change in tax rate		-	(1,124)	-
Balance at December 31, 2011		531,786	96,673	(16,618)

04

Years Ended December 31, 2011 and 2010

Separate Statements of Changes in Equity

in millions of Korean won

	Note(s)	Accumulated Other Comprehensive Income (loss)	Retained Earnings (Accumulated Deficit)	Total
Balance at January 1, 2010		-	(587,670)	62,240
Comprehensive income				
Profit for the year		-	144	144
Available-for-sale financial assets	9	145	-	145
Actuarial gain on defined benefit liability	18	-	249	249
Transactions with equity holders				
Disposition of accumulated deficit		-	316,470	-
Exercise of stock warrants		-	-	15,135
Capital reduction without consideration		-	-	-
Discount on stock issuance		-	-	(2,027)
Loss on disposal of treasury stock		-	-	(16)
Debt-for-equity conversion	19, 32	-	-	402,450
Issuance of convertible bonds		-	-	39,825
Balance at December 31, 2010		145	(270,807)	518,145
Balance at January 1, 2011		145	(270,807)	518,145
Comprehensive income				
Profit for the year		-	106,115	106,115
Available-for-sale financial assets	9	(43,175)	-	(43,175)
Actuarial loss on defined benefit liability	18	-	(9,442)	(9,442)
Transactions with equity holders				
Disposition of accumulated deficit	19	-	301,604	-
Exercise of stock warrants	19	-	-	22,581
Discount on stock issuance		-	(2,027)	-
Debt-for-equity conversion	19, 32	-	-	101,413
Stock issuance cost		-	-	(259)
Effect of change in tax rate		-	-	(1,124)
Balance at December 31, 2011		(43,030)	125,443	694,254

The accompanying notes are an integral part of these separate financial statements.

05

Years Ended December 31, 2011 and 2010

Separate Statements of Cash Flows

in millions of Korean won

	Note(s)	2011	2010
Cash flows from operating activities			
Cash generated from operations			
- Profit for the year		106,115	144
- Adjustments	29	235,003	297,589
- Changes in operating assets and liabilities	29	(173,179)	891
		167,939	**298,624**
Interest received		297	1,778
Interest paid		(66,724)	(95,644)
Dividends received		2,674	2,499
Income tax paid		(1,083)	(128)
Net cash generated from operating activities		**103,103**	**207,129**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	12	1,603	3,041
Proceeds from disposal of available-for-sale financial assets		-	549
Decrease in loans and other receivables		21,636	25,607
Proceeds from disposal of investments in subsidiaries and associates		-	79,302
Decrease in other assets		197	6,494
Increase in loans and other receivables		(147,138)	(56,988)
Acquisition of investments in subsidiaries and associates		(37,797)	(300,568)
Acquisition of available-for-sale financial assets		(11)	-
Acquisition of property, plant and equipment	12	(62,709)	(68,767)
Acquisition of intangible assets	12	(342)	(412)
Increase in other non-current assets		-	(5,243)
Net cash generated from operating activities		**(224,561)**	**(316,985)**

Years Ended December 31, 2011 and 2010

in millions of Korean won

Separate Statements of Cash Flows

	Note(s)	2011	2010
Cash flows from financing activities			
Proceeds from short-term borrowings		399,570	716,327
Exercise of stock warrants		22,127	15,013
Receipts of government grants	12	504	-
Repayment of short-term borrowings		(349,203)	(647,246)
Acquisition of treasury stock		-	(16)
Issuance of convertible bonds		-	158,181
Repayment of current portion of bonds		-	(90,000)
Discount on stock issuance		-	(2,027)
Advanced payment of long-term borrowings		(43)	238,703
Repayment of current portion of bonds with warrants		(2,023)	(4,059)
Repayment of current portion of long-term borrowings		(11,250)	(147,659)
Net cash generated from financing activities		**59,682**	**237,217**
Net increase (decrease) in cash and cash equivalents		**(61,776)**	**127,361**
Cash and cash equivalents at the beginning of the year		**137,809**	**12,395**
Exchange losses on cash and cash equivalents		**(1,243)**	**(1,947)**
Cash and cash equivalents at the end of the year		**74,790**	**137,809**

The accompanying notes are an integral part of these separate financial statements.

Notes to Separate Financial Statements

01. General Information

KUMHO TIRE CO., INC. (the “Company”) was incorporated on June 30, 2003, under the laws of the Republic of Korea, to engage in manufacturing and selling tires. Kumho Industrial Co., Ltd. contributed and transferred its tire business to the Company on June 30, 2003.
The Company has its headquarters at Gwangju, operates manufacturing plants in various locations, including Gwangju and Kok-Sung in the Republic of Korea, and has several overseas subsidiaries and research centers.
In February 2005, the Company’s shares were listed on Korea Stock Exchange and its shares were listed on the London Stock Exchange in the form of global depository shares.
As of December 31, 2011, 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 ₩531,786 million.

02. Significant Accounting Policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of Preparation

The financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea (“Korean IFRS”). These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.
The separate financial statements of the Company were prepared in accordance with Korean IFRS and are subject to Korean IFRS 1101, ‘First-time Adoption of Korean IFRS’. The transition date, according to Korean IFRS 1101, from the previous accounting principles generally accepted in the Republic of Korea (“previous K-GAAP”) to Korean IFRS, is January 1, 2010. Reconciliations and descriptions of the effect of the transition from previous K-GAAP to Korean IFRS on the Company’s equity, its comprehensive income and cash flows are provided in Note 5.
The preparation of financial statements in accordance with Korean IFRS 1034 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 4.
The following standards and amendments to existing standards have been published and are mandatory for the Company’s accounting periods beginning on or after January 1, 2011 or later periods, but the Company has not early adopted them.

- Amendments to K-IFRS 1101 ‘Exemption for Severe Hyperinflation and Removal of Fixed Date’
The amendment requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from January 1, 2004. Therefore, the Company is not required to restate the derecognition related to a period earlier than the date of transition to IFRS. The amendment is effective for the Company for the fiscal year beginning on or after January 1, 2012.

- Amendments to K-IFRS 1012 ‘Income Taxes’
According to the amendments to Korean-IFRS 1012, ‘Income Taxes’, for the investment property that is measured using the fair value model, the measurement of deferred tax liability and deferred tax asset should reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale, unless evidences support otherwise. This amendment is applied to the Company for the fiscal year beginning on or after January 1, 2012.

- Amendments to K-IFRS 1019 'Employee Benefits'

According to the amendments to Korean IFRS 1019, 'Employee Benefits', use of a 'corridor' approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense(income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities(assets). This amendment will be effective for the Company for the fiscal year beginning on or after January 1, 2013.

- Amendments to K-IFRS 1107 'Financial Instrument: Disclosures'

The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's statement of financial position. And, where financial assets have been derecognized but the entity is still exposed to certain risks and a reward associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is effective for the Company for the fiscal year beginning on or after July 1, 2011.

- Enactment to K-IFRS 1113 'Fair Value Measurement'

Korean IFRS 1113, 'Fair Value Measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within the Korean IFRSs. This amendment will be effective for the Company for the fiscal year beginning on or after January 1, 2013.

The above standards and amendments that the Company has not early adopted would have no possible impact on the Company's separate financial statements based on the Company management's judgement.

Investments in Subsidiaries and Associates

The Company's financial statements are the separate financial statements subject to Korean IFRS1027, 'Consolidated and Separate Financial Statements'. The investments in subsidiaries, jointly controlled entities or associates are recorded at acquisition cost on the basis of the direct equity interest. As of the date of transition to Korean IFRS, previous K-GAAP carrying amount at the transition date is used as its deemed cost. The Company recognizes a dividend from a subsidiary, jointly controlled entity or associate in profit or loss when its right to receive the dividend is established.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as 'impairment loss on investment in an associate' in the income statement.

Foreign Currency Translation

a. Functional and presentation currency

Items included in the separate financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The separate financial statements are presented in 'Korean won', which is the Company's functional currency.

b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at each reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are reported in 'financial income and expenses' in the statement of comprehensive income. All other foreign exchange gains and losses are reported in 'other operating income and expenses' in the statement of comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognized in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in the equity.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short- term highly liquid investments with original maturities of less than three months.

Financial Instruments

a. Classification

The Company classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments and financial liabilities measured at amortized cost. The classification depends on the purpose for which the financial instruments were acquired and the nature of the instruments. Management determines the classification of financial instruments at initial recognition.

i) Financial assets and liabilities at fair value through profit or loss   Financial assets and liabilities at fair value through profit or loss are financial instruments held for trading. Financial assets and liabilities are classified in this category if acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives that are not subject to hedge accounting and financial instruments having embedded derivatives are also included in this category.

ii) Loans and receivables   Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables consist of 'cash and cash equivalents', 'financial deposits', 'trade receivables', and 'loans and other receivables'.

iii) Held-to-maturity investments   Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are included in non-current assets, except for those with maturities of less than 12 months after the end of the reporting period, which are classified as current assets.

iv) Available-for-sale financial assets   Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

v) Financial liabilities measured at amortized cost The Company classifies non-derivative financial liabilities as financial liabilities measured at amortized cost, except for financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition. In this case, the transferred asset continues to be recognized and a financial liability is measured as the consideration received. Financial liabilities measured at amortized cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

b. Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the statement of comprehensive income within ‘financial income and expenses’ in the period in which they arise. The Company recognises a dividend from financial assets at fair value through profit or loss in the statement of comprehensive income when its right to receive the dividend is established.

When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognized in equity are reported in the statement of comprehensive income as ‘other operating income and expenses’.

Interest on available-for-sale financial assets calculated using the effective interest method is recognized in the statement of comprehensive income as part of ‘financial income’. Dividends on available-for-sale financial assets are recognized in the statement of comprehensive income as part of ‘financial income’ when the Company’s right to receive payments is established.

c. Derecognition

Financial assets are derecognized when the contractual rights to receive cash flows from the investments have expired or have been transferred and the Company has substantially transferred all risks and rewards of ownership. If the risk and rewards of ownership of transferred assets have not been substantially transferred, the Company reviews the level of control retained over that asset and the extent of its continuing involvement to determine if transfers do not qualify for derecognition.

Collaterals (trade receivables and other) provided in transactions of discount and factoring of trade receivables do not meet the requirements for asset derecognition if risks and rewards do not substantially transfer in the event the debtor defaults. Financial liabilities recognized in relation to these transactions are included as borrowings in the Company’s statement of financial position.

d. Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Impairment of Financial Assets

a. Assets measured at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a company of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  i) Adverse changes in the payment status of borrowers in the portfolio;
  ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive income. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

b. Available-for-sale financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria referred to (a) above. In the case of equity investments classified as available-for- sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Trade receivables are derecognized when the right to receive cash flows from the trade receivables have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Inventories

Inventories are stated at the lower of cost and net realizable value. 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. The cost of finished goods and work in progress consists of raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation and accumulated impairment loss. Historical cost includes expenditures directly attribute to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and construction-in-progress are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

	Estimated Useful Lives
Building	30 ~ 40 years
Structures	15 ~ 20 years
Machinery	4 ~ 19 years
Others	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other operating income and expenses' in the statement of comprehensive income.

Intangible Assets

a. Industrial property rights

Industrial property rights have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of industrial property rights over their estimated useful lives of five to ten years.

b. Membership rights

Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

c. Other intangible assets

Other intangible assets such as software which meet the definition of an intangible asset are amortized using the straight-line method over their estimated useful lives of ten years when the asset is available for use.

Investment Property

Investment property is held to earn rentals or for capital appreciation or both. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at its cost less any accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using the straight-line method over their estimated useful life of forty years.

The depreciation method, the residual value and the useful life of an asset are reviewed at least at each financial year end and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

Borrowing Costs

The Company capitalizes borrowing costs directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset during an extended period in which it prepares an asset for its intended use. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Company recognizes other borrowing costs as an expense in the period in which it is incurred.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method. The Company classifies the liability as current when it does not have an unconditional right to defer its settlement for at least 12 months after the end of reporting period.

Compound Financial Instruments

Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Debt Restructuring

Regarding a modification of loan terms such as extension of payment terms and adjustment of interest rate with the existing creditors, if the present value of cash flows under new term discounted by the initial effective interest rate is different from book value less than 10%, the Company accounts it for as an modification of loan terms and recognizes the difference as a gain and discounts on debts respectively. The discounts on debts are amortized over the term of the debentures using the effective interest rate method and amortization of the discount is recognized as an interest expense. Meanwhile, if the present value of cash flows under new term discounted by the initial effective interest rate is different from book value more than 10%, the Company accounts it for as an extinguishment of the original financial liability and the recognition of a new financial liability. Any gain or loss on extinguishment is recognized in the statement of comprehensive income.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provisions due to passage of time is recognized as a financial expense.

Current and Deferred Income Tax

The tax expense for the period consists of current and deferred tax. The tax expense is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. It represents future tax consequences that will arise when recovering or settling the carrying amount of its assets (liabilities). However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred income tax assets are recognized only to the extent that it is probable that the temporary difference will be reversed in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention either to settle the balances on a net basis or to realize the asset and settle the liability simultaneously.

Employee Benefits

a. Retirement benefit

The Company operates a defined benefit plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit liability is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

b. Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

c. Other long-term employee benefits

The Company provides other long-term employee benefits to their employees. The entitlement to these benefits is usually conditional on the employee working more than five years. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the income statement as they occur.

Share Capital

Ordinary shares are classified as equity. Where the Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

a. Sales of goods

The Company manufactures and sells tires and related products. Sales of goods are recognized when the Company has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

b. Interest income

Interest income is recognized using the effective interest method. When loans and receivables are impaired, the Company reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognized using the original effective interest rate.

c. Dividend income

Dividend income is recognized when the right to receive payment is established.

d. Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

A financial lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. The Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in 'borrowings'. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Consideration for Warrants and Conversion Rights

The Company recognizes consideration for warrants and conversion rights as equity in accordance with Financial Supervisory Service's Accounting Implementation Guide '00094', and accounted for in Korean IFRS under Item 1 of Paragraph 1 of Article 13 of the 'Act on external Audit of Stock Companies'.

Government Grants

Grants from a government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are presented as a deduction of related assets and are credited to depreciation over the expected lives of the related assets.

Financial Guarantee Contract

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the amounts below. Any increase in the liability relating to guarantees is reported as other financial liabilities.

- amount calculated in accordance with Korean IFRS 1037, 'Provisions, Contingent Liabilities and Contingent Assets'; or
- The initial amount, less accumulated amortization recognized in accordance with Korean IFRS 1018, 'Revenue'.

Operating Segments

The Company has a single reportable segment, manufacturing and selling tires, in accordance with Korean IFRS 1108, 'Operating Segments'.
External sales by geographic area for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Domestic	1,051,143	1,364,546
Europe	584,434	296,205
North America	686,348	534,102
Latin America	314,821	152,956
Middle East	247,726	136,288
Africa	100,499	76,409
Asia[1]	116,912	64,870
Oceania[2]	146,085	76,614
Total	**3,247,968**	**2,701,990**

[1] Asian region, excluding Middle East Asia.
[2] Including Australia and New Zealand.

There is no external customer contributing more than 10% of total sales for the years ended December 31, 2011 and 2010.

Approval of the Separate Financial Statements

The separate financial statements for the year ended December 31, 2011, were approved by the Board of Directors on March 15, 2012.

03. Risk Management

Financial Risk Management

The Company's financial risk management policies aim to support each business division to achieve stable and continuous performance against market, credit and liquidity risks. In addition, the policies are designed to enhance cost competitiveness through low cost by improving finance restructuring and effective cash management.

While cooperating with other divisions, the finance team in the Company mainly implements financial risk management. This involves setting-up risk management policies and recognizing, evaluating and hedging risks from an integrated point of view.

In addition, the Company operates overseas regional treasury centers (China, U.S.A., Germany and other countries) and improves its policies and monitors financial risks to mitigate financial risks in a global business environment.

Financial assets are comprised of cash and cash equivalents, financial instruments, trade receivables, and other receivables. Financial liabilities are composed of trade payables, borrowings, bonds, and other payables.

a. Market risk

i) Foreign exchange risk The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

As of December 31, 2011 and 2010, and January 1, 2010, foreign currency denominated assets and liabilities which are exposed to foreign exchange risk are as follows:

in thousands of US dollar, Japanese yen, Euro and millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents			
USD	28,354	33,560	-
Trade receivables			
USD	332,168	327,163	294,642
JPY	840,221	953,719	388,496
EUR	140,681	82,057	74,407
Other Currency[1]	139,941	133,572	121,522
Loans and other receivables			
USD	385,622	215,701	185,207
JPY	473	129	-
EUR	43	7	-
Other Currency[1]	2,796	3,482	1,726
Trade payables			
USD	49,322	42,405	94,204
EUR	-	100	98

	December 31, 2011	December 31, 2010	January 1, 2010
Other payables			
USD	18,036	21,833	72,849
JPY	-	490	69,100
EUR	503	2,492	5,087
Other Currency[1]	827	2,536	5,444
Borrowings			
USD	433,009	412,298	279,296
JPY	1,359,578	1,465,582	829,112
EUR	109,222	70,331	68,251
Other Currency[1]	121,086	119,010	117,444

[1] Korean won equivalent of other foreign currencies.

As of December 31, 2011 and 2010, if the foreign exchange rate of the Korean won fluctuated by 10% while other variables were fixed, the effects on income before tax would be as follows:

in millions of Korean won

	December 31, 2011		December 31, 2010	
	10% increase	10% decrease	10% increase	10% decrease
USD	28,345	(28,345)	11,376	(11,376)
JPY	(771)	771	(716)	716
EUR	4,631	(4,631)	1,384	(1,384)

The above sensitivity analysis is done with foreign currency denominated assets and liabilities which are not in each entity's functional currency.

ii) Interest rate risk The Company is exposed to interest rate risk through changes in interest-bearing liabilities. The risk mainly arises from borrowings with variable interest rates linked to market interest rate changes in the future. In the case of deposits and borrowings with fixed interest rates, profit or loss or equity are not affected by market interest rate changes.

As of December 31, 2011, financial liabilities exposed to interest rate risk are borrowings with variable interest rates amounting to ₩186,823 million (2010: ₩123,228 million).

As of December 31, 2011, if interest rates fluctuate by 1% without other variables changing, the effects on expenses related to borrowings with variable interest rates are as follows:

in millions of Korean won

	2011		2010	
	1% increase	1% decrease	1% increase	1% decrease
Interest expense	257	(257)	172	(172)

iii) Price risk The Company is exposed to equity securities price risk on the investments held by the Company and classified as available-for-sale financial assets. The Company regularly measures risk through changes in the fair value or future cash flow due to changes in the market price. Material investment assets are managed separately and the acquisition and disposal is approved by the management of the Company.
As of December 31, 2011 and 2010, if the price of marketable equity securities held by the Company fluctuates by 10% without other variables changing, the effects on income before tax would be as follows:

in millions of Korean won

	2011		2010	
	10% increase	10% decrease	10% increase	10% decrease
Ssangyong Motor Co., Ltd.	44	(44)	73	(73)
Daewoo Engineering & Construction[1]	19,191	(19,191)	-	-
	19,235	(19,235)	73	(73)

[1] The investment was categorized as investments in associates till December 31, 2010, as the Company can exert influence through its seat in the investee's board of directors although the Company's equity interest is less than 20%. During 2011, the investment was reclassified as available-for-sale financial assets due to termination of its seat in the investee's board of directors.

b. Credit risk

The Company's credit risk arises from general transaction and investment activities when customers or other parties fail to fulfill obligations under the terms of contract. The Company regularly assesses financial credit quality of the customer and the other party taking into account its financial position, past experience and other factors and set up the credit limits on the customers and the other parties respectively in order to manage the credit risk.
The Company's credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to trade accounts and notes receivable, loans and other receivables.
In accordance with the Company's credit risk management policy, credit risk is managed for the purpose of minimizing losses through efficient risk management, support for prompt decision making and safeguards on receivables.

c. Liquidity risk

Liquidity risk is defined as the risk that the Company is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing.
The Company forecasts its cash flows from operating, investing and financing activities by setting up an annual cash flow forecast and monitors liquidity status to manage liquidity risk proactively.
Liquidity risk analysis as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

in millions of Korean won

		December 31, 2011				
	Carrying value	Less than 1 year	Over 1 year and less than 2 years	Over 2 year and less than 3 years	Over 3 years	Total
Trade and other payables	629,134	629,134	-	-	-	629,134
Borrowings[1]	1,549,417	825,847	44,118	867,227	-	1,737,192
Bonds with warrants[1]	75,295	78,160	-	-	-	78,160
Convertible bonds[1]	130,102	3,164	3,164	202,139	-	208,467
Financial guarantee contracts[1]	16,216	1,244,705	-	-	-	1,244,705
Total	**2,400,164**	**2,781,010**	**47,282**	**1,069,366**	**-**	**3,897,658**

in millions of Korean won

		December 31, 2010				
	Carrying value	Less than 1 year	Over 1 year and less than 2 years	Over 2 year and less than 3 years	Over 3 years	Total
Trade and other payables	606,830	606,830	-	-	-	606,830
Borrowings[1]	1,583,280	933,393	35,092	35,092	810,125	1,813,702
Bonds with warrants[1]	73,774	83,342	-	-	-	83,342
Convertible bonds[1]	113,599	3,164	3,164	3,164	202,139	211,631
Financial guarantee contracts[1]	15,779	994,769	-	-	-	994,769
Total	**2,393,262**	**2,621,498**	**38,256**	**38,256**	**1,012,264**	**3,710,274**

in millions of Korean won

		January 1, 2010				
	Carrying value	Less than 1 year	Over 1 year and less than 2 years	Over 2 year and less than 3 years	Over 3 years	Total
Trade and other payables	608,178	608,178	-	-	-	608,178
Borrowings[1]	1,988,823	2,098,665	-	-	-	2,098,665
Bonds with warrants[1]	79,729	93,841	-	-	-	93,841
Financial guarantee contracts[1]	22,113	1,115,648	-	-	-	1,115,648
Total	**2,698,843**	**3,916,332**	**-**	**-**	**-**	**3,916,332**

[1] The amounts in the table above are contractual undiscounted cash flows including cash flows from interest expenses. Also, financial guarantee contracts are stated as gross amount.

Capital Risk Management

The Company's capital risk management purpose is to maximize shareholders' value through maintaining a sound capital structure. The Company monitors financial ratios, such as liability to equity ratio and net borrowing ratio each month and implements required action plan to improve the capital structure.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

Debt-to-equity ratio and net borrowing ratio are as follows:

in millions of Korean won, except ratios

	December 31, 2011	December 31, 2010	January 1, 2010
Total liabilities (A)	2,652,274	2,573,981	2,861,933
Total equity (B)	694,254	518,145	62,240
Cash and cash equivalents (C)	74,790	137,809	12,395
Borrowings (D)	1,754,814	1,770,654	2,068,552
Debt-to-equity ratio (A / B)	382.0%	496.8%	4,598.2%
Net borrowing ratio ((D - C) / B)	242.0%	315.1%	3,303.6%

Methods and Assumptions in Determining Fair Value

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Financial assets and liabilities measured at fair value by hierarchy are as follows:

in millions of Korean won

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Marketable equity instruments	192,353	-	-	192,353
Debt instruments	19	-	-	19
	192,372	**-**	**-**	**192,372**

in millions of Korean won

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Marketable equity instruments	733	-	-	733
Debt instruments	8	-	-	8
	741	**-**	**-**	**741**

in millions of Korean won

	January 1, 2010			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Marketable equity instruments	548	-	-	192,353
Debt instruments	8	-	-	19
	556	**-**	**-**	**192,372**
Derivative financial liabilities				
Derivative financial liabilities	-	1,669	-	1,669

04. Critical Accounting Estimates and Judgements

The Company makes estimates and assumptions concerning the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities after the end of the reporting date are addressed below.

Income Taxes

The measurement of current and deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. However, where the final tax consequences of these matters are different from the expected amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Fair Value of Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

Provisions

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, no provision is recognised for costs that need to be incurred to operate in the future.

Defined Benefit Liability

The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 18.

Investments in Subsidiaries and Associates

The Company determines whether investments in subsidiaries and associates are impaired in accordance with Korean IFRS 1028 and 1039, which requires critical judgements. The Company assesses the period and degree of decline in fair value of the asset, the results of operations, the changes in technology, short-term business prospects including operation/investment cash flows, and credit quality, when the Company determines whether investments in subsidiaries and associates are impaired.
As of December 31, 2010, the Company recognized impairment loss amounting to ₩187,188 million on investments in Daewoo Engineering & Construction and Kumho Tire H.K., expecting that reduction of the fair value below its book value would be significant and would last for a long period.

05. Transition to Korean IFRS

The Company`s transition date to Korean IFRS is January 1, 2010, and adoption date is January 1, 2011.
In preparing these separate financial statements in accordance with Korean IFRS 1101, First-time Adoption of Korean IFRS, the Company has applied the mandatory exceptions and certain optional exemptions allowed by Korean IFRS.

a. Exemptions elected by the Company

The Company has elected to apply the following optional exemptions from full retrospective application

i) Deemed cost The Company has elected to use a previous K-GAAP revaluation of land before January 1, 2010, the date of transition to Korean IFRS as deemed cost at the date of the revaluation. The Company has elected to measure certain other property, plant and equipment at fair value at the date of transition to Korean IFRS and use that fair value as its deemed cost at that date.

ii) 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.

iii) Investments in subsidiaries and associates As of January 1, 2010, the date of transition to Korean IFRS, previous K-GAAP carrying amount of investments in subsidiaries and associates at the transition date is used as its deemed cost.

b. Reconciliations between Korean IFRS and previous K-GAAP

The following reconciliations provide a quantification of the effect of the transition to Korean IFRS.

i) Effects on the total assets, liabilities and equity as of January 1, 2010, the date of Korean IFRS transition, are as follows:

in millions of Korean won

	January 1, 2010		
	Total assets	Total liabilities	Total equity
Reported amount under previous K-GAAP	**2,409,031**	**2,344,549**	**64,482**
Adjustments:			
Transfer of financial assets[1]	496,042	491,145	4,897
Recognition of financial guarantee liabilities in subsidiaries[2]	22,113	22,113	-
Reclassification and impairment of membership rights[3]	(2,863)	-	(2,863)
Retirement benefit obligations[4]	-	(19,536)	19,536
Other long-term employee benefits[5]	-	19,566	(19,566)
Others	(151)	4,094	(4,246)
Total adjustments	**515,141**	**517,382**	**(2,242)**
Adjusted amount under Korean IFRS	**2,924,172**	**2,861,931**	**62,240**

ii) Effects on the total assets, liabilities and equity as of December 31, 2010, are as follows:

in millions of Korean won

	December 31, 2010		
	Total assets	Total liabilities	Total equity
Reported amount under previous K-GAAP	**2,516,861**	**2,016,356**	**500,505**
Adjustments:			
Transfer of financial assets[1]	568,282	565,708	2,574
Recognition of financial guarantee liabilities in subsidiaries[2]	15,779	15,779	-
Reclassification and impairment of membership rights[3]	(2,863)	-	(2,863)
Capitalization of borrowing costs[7]	296	-	296
Retirement benefit obligations[4]	-	(3,023)	3,023
Other long-term employee benefits[5]	-	19,650	(19,650)
Equity method investments[8]	187,188	-	187,188
Impairment of equity method investments[8]	(187,188)	-	(187,188)
Gain on condoned liabilities[9]	-	(44,583)	44,583
Others	(46)	4,094	(4,140)
Deferred tax effect[6]	(6,183)	-	(6,183)
Total adjustments	**575,265**	**557,625**	**17,640**
Adjusted amount under Korean IFRS	**3,092,126**	**2,573,981**	**518,145**

iii) Effects on the profit and comprehensive income for the year ended December 31, 2010, are as follows:

in millions of Korean won

	2010	
	Profit	Comprehensive income
Reported amount under previous K-GAAP	**8,901**	**(17,691)**
Adjustments:		
Transfer of financial assets[1]	(2,323)	(2,323)
Capitalization of borrowing costs[7]	296	296
Retirement benefit obligations[4]	(16,832)	(16,582)
Other long-term employee benefits[5]	(84)	(84)
Equity method investments[8]	158,813	185,549
Impairment of equity method investments[8]	(187,188)	(187,188)
Gain on condoned liabilities[9]	44,583	44,583
Others	106	106
Deferred tax effect[6]	(6,128)	(6,128)
Total adjustments	**(8,757)**	**18,229**
Adjusted amount under Korean IFRS	**144**	**538**

[1] The trade receivables which are transferred and sold, but cannot be derecognised under Korean IFRS are treated as borrowings with collateral, and losses from disposal of the trade receivables which are not matured are reclassified as prepaid expenses.
[2] Financial guarantee liabilities are recognized for the guarantee provided for the subsidiaries and gain is recognized over guarantee periods.
[3] Membership rights which have the returning value at the maturity are classified as guarantee deposit, while membership rights other than investments are classified as intangible assets.
[4] Defined benefit liability is calculated by using an actuarial method and actuarial loss on defined benefit liability is recognised in other comprehensive income.
[5] Other long-term employee benefit obligations are calculated by using an actuarial method and actuarial loss on other long-term employee benefit obligations is recognised in the income statement.
[6] Deferred tax effects from the above adjustments.
[7] Interest on all qualifying assets for which the commencement date for capitalization is after the transition date are capitalized.
[8] As of January 1, 2010, the date of transition to Korean IFRS, the previous K-GAAP carrying amount of investments in subsidiaries and associates is used as its deemed cost and the valuation method is changed into the acquisition method. Also, the Company recognized impairment loss on investments in Daewoo Engineering & Construction and Kumho Tire H.K., expecting that reduction of the fair value below its book value would be significant and will last for a long period.
[9] Derecognize existing liabilities and recognize new liabilities using the effective interest rate at the date of change in condition related to debt restructuring.

The principal Korean IFRS transition effects presented by the Company in the statements of cash flows for the year ended December 31, 2010, were as follows:
According to Korean IFRS, cash flows of the related income (expenses) and assets (liabilities) are adjusted to separately disclose the cash flows from interest received, interest paid and cash payments of income taxes that were not presented separately under previous K-GAAP. Also the effects of the change in exchange rate on cash and cash equivalents held or due in a foreign currency are presented separately from cash flows from operating, investing and financing activities.
Cash flows from operating and financing activities are adjusted respectively because some transactions which are treated as borrowings with collateralised trade receivables were treated as a sale under previous K-GAAP. Also, other Korean IFRS transition effects are reflected on cash flows if they have any effect on cash flows.

06. Restricted Financial Instruments

Details of restricted financial instruments as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

in millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010	Description
Deposits with financial institutions(current)	-	-	549	Collaterals for the leasehold deposits
Deposits with financial institutions(non-current)	35	35	33	Deposits for checking accounts
	35	35	582	

07. Trade Receivables, Loans and Other Receivables

Trade receivables, loans and other receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

in millions of Korean won

	December 31, 2011		
	Total amount	Allowance for doubtful accounts	Net amount
Current assets			
Trade receivables	934,725	(30,585)	904,140
Accounts receivable	61,573	(824)	60,749
Accrued revenue	18,226	-	18,226
Loans	114	-	114
Subtotal	**1,014,638**	**(31,409)**	**983,229**
Non-current assets			
Loans	333,862	(273)	333,589
Subtotal	**333,862**	**(273)**	**333,589**
Total	**1,348,500**	**(31,682)**	**1,316,818**

in millions of Korean won

	December 31, 2010		
	Total amount	Allowance for doubtful accounts	Net amount
Current assets			
Trade receivables	826,980	(28,785)	798,195
Accounts receivable	40,217	(824)	39,393
Accrued revenue	14,404	-	14,404
Loans	200,931	-	200,931
Subtotal	**1,082,532**	**(29,609)**	**1,052,923**
Non-current assets			
Loans	280	(273)	7
Subtotal	**280**	**(273)**	**7**
Total	**1,082,812**	**(29,882)**	**1,052,930**

in millions of Korean won

	January 1, 2010		
	Total amount	Allowance for doubtful accounts	Net amount
Current assets			
Trade receivables	809,904	(25,791)	784,113
Accounts receivable	80,489	(1,071)	79,418
Accrued revenue	6,636	-	6,636
Loans	175,051	-	175,051
Subtotal	**1,072,080**	**(26,862)**	**1,045,218**
Non-current assets			
Loans	298	(273)	25
Subtotal	**298**	**(273)**	**25**
Total	**1,072,378**	**(27,135)**	**1,045,243**

Difference between carrying value and fair value is not significant, as above trade receivables, short-term loans and other receivables are short-term receivables.

The aging analysis of trade receivables, loans and other receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

in millions of Korean won

	December 31, 2011		
	Trade receivables	Other receivables	Loans
Within due[1]	903,538	78,975	333,703
Overdue			
- Less than 3 months	5,951	-	-
- Over 3 months	6,755	-	-
Subtotal	**12,706**	**-**	**-**
Impaired	18,481	824	273
Total	**934,725**	**79,799**	**333,976**

in millions of Korean won

	December 31, 2010		
	Trade receivables	Other receivables	Loans
Within due[1]	787,722	53,797	200,938
Overdue			
- Less than 3 months	10,258	-	-
- Over 3 months	10,224	-	-
Subtotal	**20,482**	**-**	**-**
Impaired	18,776	824	273
Total	**826,980**	**54,621**	**201,211**

in millions of Korean won

	January 1, 2010		
	Trade receivables	Other receivables	Loans
Within due[1]	778,102	86,054	175,076
Overdue			
- Less than 3 months	6,217	-	-
- Over 3 months	9,484	-	-
Subtotal	**15,701**	**-**	**-**
Impaired	16,101	1,071	273
Total	**809,904**	**87,125**	**175,349**

[1] According to the Company's classification criteria for receivables, receivables up to four months are classified as within due and the Company monitors receivables which are overdue.

The Company recognizes allowance for impaired trade receivables, loans and other receivables. The bad debts expense is included in 'selling and administrative expenses' in the statement of comprehensive income.
Changes in allowance for trade receivables, loans and other receivables for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	December 31, 2011			December 31, 2010		
	Trade receivables	Other receivables	Loans	Trade receivables	Other receivables	Loans
Beginning	**28,785**	**824**	**273**	**25,791**	**1,070**	**273**
Addition	2,293	-	-	4,661	-	-
Recovery	(493)	-	-	-	-	-
Reversal	-	-	-	(1,667)	(246)	-
Ending	**30,585**	**824**	**273**	**28,785**	**824**	**273**

As of December 31, 2011 and 2010, and January 1, 2010, trade receivables transferred to financial institutions but not matured are as follows:

in millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010
Borrowings with collateralised trade receivables	555,882	565,708	491,145

The maximum exposure to credit risk is the sum of carrying value of each class of receivable mentioned above and financial guarantees (Note 30).

08. Financial Instruments by Category

in millions of Korean won

	December 31, 2011				
	Financial assets at fair value through profit or loss	Loans and receivables	Available-forsale financial assets	Held-tomaturity investments	Total
Cash and cash equivalents	-	74,790	-	-	74,790
Financial deposits	-	35	-	-	35
Trade receivables	-	904,140	-	-	904,140
Loans and other receivables	-	412,678	-	-	412,678
Available-for-sale financial assets	-	-	192,372	-	192,372
Total	**-**	**1,391,643**	**192,372**	**-**	**1,584,015**

in millions of Korean won

	December 31, 2011		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Total
Trade payables	-	448,261	448,261
Borrowings	-	1,549,417	1,549,417
Bonds with stock warrants	-	75,295	75,295
Convertible bonds	-	130,102	130,102
Other payables	-	180,873	180,873
Financial guarantee liabilities	-	16,216	16,216
Total	**-**	**2,400,16**	**2,400,164**

in millions of Korean won

	December 31, 2010				
	Financial assets at fair value through profit or loss	Loans and receivables	Available-forsale financial assets	Held-tomaturity investments	Total
Cash and cash equivalents	-	137,809	-	-	137,809
Financial deposits	-	35	-	-	35
Trade receivables	-	798,195	-	-	798,195
Loans and other receivables	-	254,735	-	-	254,735
Available-for-sale financial assets	-	-	741	-	741
Total	**-**	**1,190,774**	**741**	**-**	**1,191,515**

in millions of Korean won

	December 31, 2010		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Total
Trade payables	-	379,360	379,360
Borrowings	-	1,627,864	1,627,864
Bonds with stock warrants	-	73,774	73,774
Convertible bonds	-	113,599	113,599
Other payables	-	227,470	227,470
Financial guarantee liabilities	-	15,779	15,779
Total	**-**	**2,393,262**	**2,393,262**

in millions of Korean won

	January 1, 2010				
	Financial assets at fair value through profit or loss	Loans and receivables	Available-forsale financial assets	Held-tomaturity investments	Total
Cash and cash equivalents	-	12,395	-	-	12,395
Financial deposits	-	582	-	-	582
Trade receivables	-	784,113	-	-	784,113
Loans and other receivables	-	261,130	-	-	261,130
Available-for-sale financial assets	-	-	556	-	-
Held-to-maturity investments	-	-	-	1,500	1,500
Total	**-**	**1,190,774**	**556**	**1,500**	**1,060,276**

in millions of Korean won

	January 1, 2010		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Total
Trade payables	-	335,824	335,824
Borrowings	-	1,829,281	1,627,864
Bonds with stock warrants	-	159,542	73,774
Convertible bonds	-	79,729	113,599
Other payables	-	272,355	227,470
Financial guarantee liabilities	-	22,113	22,113
Derivative liabilities	1,669	-	1,669
Total	**1,669**	**2,698,844**	**2,700,513**

Gains and losses arising from financial assets and liabilities are as follows:

in millions of Korean won

	2011	2010
Available-for-sale financial assets		
Gain (loss) on valuation of available-for-sale financial assets	(43,174)	145
Loans and receivables		
Interest income	4,119	9,546
Gains (losses) on exchange differences	13,554	(12,653)
Bad debt expenses	3,176	4,661
Financial liabilities measured at amortised cost		
Interest expenses	110,807	127,751
Gains (losses) on exchange differences	(6,995)	5,546
Gain on condoned liabilities	7,611	116,145
Gain on retirement of bond	-	373

09. Available-for-sale Financial Assets and Held-to-maturity Investments

Available-for-sale financial assets as of December 31, 2011 and 2010, and January 1, 2010, consist of the following:

in millions of Korean won

		December 31, 2011	December 31, 2010	January 1, 2010
Current	Bonds for regional development	19	8	8
Non-current	Marketable equity securities	192,353	733	548
	Total	**192,372**	**741**	**556**

For the years ended December 31, 2011 and 2010, the changes in gain on valuation of available-for-sale securities recorded as accumulated other comprehensive income (loss) are as follows:

in millions of Korean won

	December 31, 2011	Increase (decrease)	Tax effects	December 31, 2010
Ssangyong Motor Co., Ltd.	144	(289)	66	(79)
Daewoo Engineering & Construction	-	(42,951)	-	(42,951)
Total	144	(43,240)	66	(43,030)

in millions of Korean won

	January 1, 2010	Increase (decrease)	Tax effects	December 31, 2010
Ssangyong Motor Co., Ltd.	-	185	41	144
Total	-	185	41	144

Details of marketable equity securities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

in millions of Korean won except number of shares

	December 31, 2011				
	Number of shares	Percentage of ownership (%)	Acquisition cost	Fair value	Book value
Ssangyong Motor Co., Ltd.	86,865	0.07	548	444	444
Daewoo Engineering & Construction[1,2]	18,277,029	4.40	234,859	191,909	191,909
Total	18,363,894		235,407	192,353	192,353

[1] The investment was categorized as investments in associates as of December 31, 2010, as the Company can exert influence through its seat in the investee's board of directors although the Company's equity interest is less than 20%. During 2011, the investment was reclassified as available-for-sale financial assets due to termination of its seat in the investee's board of directors.

[2] As of December 31, 2011, it is pledged as collateral for the long-term borrowings (Note 16).

in millions of Korean won except for number of shares

	December 31, 2010				
	Number of shares	Percentage of ownership (%)	Acquisition cost	Fair value	Book value
Ssangyong Motor Co., Ltd.	86,865	0.24	548	733	733

in millions of Korean won except for number of shares

	January 1, 2010				
	Number of shares	Percentage of ownership (%)	Acquisition cost	Fair value	Book value
Ssangyong Motor Co., Ltd.	86,865	0.24	548	548	548

Held-to-maturity Investments

Details of held-to-maturity investments as of December 31, 2011 and 2010, are as follows:

in millions of Korean won except for number of shares

		Acquisition cost			Book value		
	Maturity	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Shinbo Securitization Specialty Subordinated Bond[1]	2012/04/29	1,200	1,200	1,200	-	-	1,200
Shinbo Securitization Specialty Subordinated Bond[1]	2012/03/04	300	300	300	-	-	300
Total		**1,500**	**1,500**	**1,500**	**-**	**-**	**1,500**

[1] The Company recognized the impairment loss on the subordinated bonds amounting to the book value during 2010 and the subordinated bonds are pledged as as collateral for the long-term borrowings as of December 31, 2011 (Note 16).

10. Inventories

Details of inventories as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

in millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010
Finished goods	145,972	96,039	111,578
Merchandise	3,951	3,838	5,319
Semi finished goods	14,114	11,413	8,680
Raw materials	44,389	38,400	31,916
Supplies	1,401	1,156	963
Merchandise-in-transit	99,128	71,773	31,266
Subtotal	**308,955**	**222,619**	**189,722**
Less: valuation allowance	(8,746)	(8,746)	(8,209)
Total	**300,209**	**213,873**	**181,513**

As of December 31, 2011, a certain portion of inventories is pledged as collateral for the borrowings (Note 16).

11. Investments in Subsidiaries and Associates

Details of investments in subsidiaries and associates as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

in millions of Korean won

	Percentage of ownership(%)	Acquisition cost			Book value		
Investee	December 31, 2011	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Kumho Tire U.S.A.	100.00	-	-	-	-	-	-
Kumho Tyre U.K.	100.00	-	-	-	-	-	-
Kumho Tire Europe	100.00	-	-	-	-	-	-
Kumho Tire Japan	100.00	-	-	-	-	-	-
Kumho Tire Canada[2]	100.00	2,633	2,633	2,633	1,163	1,163	2,633
Kumho Tyre Australia	100.00	-	-	-	-	-	-
Kumho Tire France[2]	100.00	628	628	628	604	604	628
Kumho Tire H.K.[2]	100.00	378,915	341,118	40,550	287,347	249,550	40,550
Kumho Asiana Main Tower Co., Inc.	-[3]	-	-	57,928	-	-	57,928
Subtotal		**382,176**	**344,379**	**101,739**	**289,114**	**251,317**	**101,739**
Daewoo Engineering & Construction[1,2]	4.40	-	328,987	328,987	-	234,860	328,987
Total		**382,176**	**673,366**	**430,726**	**289,114**	**486,177**	**430,726**

[1] The investment was categorized as investments in associates as of December 31, 2010, as the Company can exert influence through its seat in the investee's board of directors although the Company's equity interest is less than 20%. During 2011, the investment was reclassified as available-for-sale financial assets due to termination of its seat in the investee's board of directors.

[2] As of December 31, 2010, the Company recognized the impairment loss of 187,188 million as the difference between its recoverable value and carrying value is significant, and being expected that the trend will be continuous. These investments are pledged as collaterals for borrowings (Note 16).

[3] Categorized as a subsidiary as the Company has the right to purchase all or part of shares at fair value until February 2013, although the Company has no equity interest in Kumho Asiana Main Tower Co., Inc.(Note 30).

12. Property, Plant and Equipment, and Intangible Assets

Property, plant and equipment

Details of property, plant, and equipment are as follows:

in millions of Korean won

December 31, 2011	Land	Buildings	Machinery and equipment	Constructionin-progress	Others	Total
Cost of acquisition	262,661	316,473	912,344	67,968	299,273	1,858,719
Accumulated depreciation and other	-	(64,832)	(554,560)	-	(225,664)	(845,056)
Book amount	**262,661**	**251,641**	**357,784**	**67,968**	**73,609**	**1,013,663**

in millions of Korean won

December 31, 2010	Land	Buildings	Machinery and equipment	Constructionin-progress	Others	Total
Cost of acquisition	262,695	315,723	895,931	68,667	288,707	1,831,723
Accumulated depreciation and other	-	(56,393)	(526,549)	-	(209,458)	(792,400)
Book amount	**262,695**	**259,330**	**369,382**	**68,667**	**79,249**	**1,039,323**

in millions of Korean won

January 1, 2010	Land	Buildings	Machinery and equipment	Constructionin-progress	Others	Total
Cost of acquisition	262,695	314,168	875,321	57,796	271,239	1,781,219
Accumulated depreciation and other	-	(47,949)	(491,516)	-	(186,877)	(726,342)
Book amount	**262,695**	**266,219**	**383,805**	**57,796**	**84,362**	**1,054,877**

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

in millions of Korean won

	2011					
	Land	Buildings	Machinery and equipment	Constructionin-progress	Others	Total
At January 1	**262,695**	**259,330**	**369,382**	**68,667**	**79,249**	**1,039,323**
Acquisition	-	-	-	52,855	9,854	62,709
Transfer	-	969	28,763	(45,361)	14,314	(1,315)
Disposal	(34)	(177)	(2,862)	-	(1,219)	(4,292)
Depreciation	-	(8,481)	(37,499)	-	(28,085)	(74,065)
Government grants	-	-	-	(8,193)	-	(8,193)
At December 31	**262,661**	**251,641**	**357,784**	**67,968**	**73,609**	**1,013,663**

in millions of Korean won

	2010					
	Land	Buildings	Machinery and equipment	Constructionin-progress	Others	Total
At January 1	**262,695**	**266,219**	**383,805**	**57,796**	**84,362**	**1,054,877**
Acquisition	-	-	-	63,574	5,193	68,767
Transfer	-	1,554	27,253	(52,703)	22,922	(974)
Disposal	-	-	(661)	-	(2,645)	(3,306)
Depreciation	-	(8,444)	(41,014)	-	(30,583)	(80,041)
At December 31	**262,695**	**259,329**	**369,383**	**68,667**	**79,249**	**1,039,323**

For the year ended December 31, 2011, the Company capitalized the interest of ₩1,383 million incurred on the borrowings used to finance the cost of acquisition of the property, plant and equipment, applying the capitalization rate of 5.9%.

As of December 31, 2011, substantial portions of the Company's land, buildings and machinery are pledged as collaterals for long-term and short-term debt obligations (Note 16).

As of December 31, 2011, substantial portions of the Company's land, buildings and machinery and equipment and others are pledged as collaterals for long-term and short-term borrowings of up to ₩346,600 million, US$ 457,200 thousand, and JPY 2,532,000 thousand in aggregate.

Intangible Assets

Details of intangible assets are as follows:

in millions of Korean won

	December 31, 2011			
	Industrial property rights	Membership rights	Other	Total
Cost of acquisition	3,196	50,342	3,726	57,264
Accumulated amortization	(2,146)	(21,261)	-	(23,407)
Book amount	**1,050**	**29,081**	**3,726**	**33,857**

in millions of Korean won

	December 31, 2010			
	Industrial property rights	Membership rights	Other	Total
Cost of acquisition	2,854	50,342	3,726	56,922
Accumulated amortization	(1,649)	(16,227)	-	(17,876)
Book amount	**1,205**	**34,115**	**3,726**	**39,046**

in millions of Korean won

	January 1, 2010			
	Industrial property rights	Membership rights	Other	Total
Cost of acquisition	2,442	49,405	3,726	55,573
Accumulated amortization	(1,200)	(11,241)	-	(12,441)
Book amount	**1,242**	**38,164**	**3,726**	**43,132**

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

in millions of Korean won

	2011			
	Industrial property rights	Membership rights	Other	Total
At January 1	**1,205**	**34,115**	**3,726**	**39,046**
Acquisition	342	-	-	342
Amortization	(497)	(5,034)	-	(5,531)
At December 31	**1,050**	**29,081**	**3,726**	**33,857**

in millions of Korean won

	2010			
	Industrial property rights	Membership rights	Other	Total
At January 1	**1,242**	**38,164**	**3,726**	**43,132**
Acquisition	412	-	-	412
Transfer	-	937	-	937
Amortization	(449)	(4,986)	-	(5,435)
At December 31	**1,205**	**34,115**	**3,726**	**39,046**

13. Investment Property

Investment property as of December 31, 2011 and 2010, and January 1, 2010, is as follows:

in millions of Korean won

	Location	December 31, 2011	December 31, 2010	January 1, 2010
Land	Daejeon, Korea	6,924	6,924	6,924
Building	Daejeon, Korea	1,189	1,189	1,151
Accumulated depreciation		(231)	(201)	(173)
Total		**7,882**	**7,912**	**7,902**

Fair value of investment property as of December 31, 2011, is approximately ₩8,000 million.

14. Other Current Assets and Other Assets

Details of other current assets and other assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

in millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010
Current			
Advances	44,157	2,072	9,502
Prepaid expenses	13,251	10,438	17,748
Prepaid taxes	6	8	25
Total	**57,414**	**12,518**	**27,275**
Non-current			
Long-term trade receivables	-	1,145	1,024
Guarantee	14,561	14,754	15,991
Long-term prepaid expenses	13,795	15,299	20,853
Total	**28,356**	**31,198**	**37,868**

15. Trade Payables and Other Payables

Details of trade payables and other payables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

Trade Payables

in millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010
Notes payable	305,827	220,445	111,338
Accounts payable	142,434	158,915	224,486
Total	**448,261**	**379,360**	**335,824**

Other Payables

in millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010
Non-trade payables	141,982	176,725	231,042
Accrued expenses	38,891	50,745	41,313
Total	**180,873**	**227,470**	**272,355**

As of December 31, 2011, the fair value of trade payables and other payables is same as the carrying value.

16. Borrowings

The carrying amounts of borrowings as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

in millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010
Current			
Short-term borrowings[1]	788,922	877,601	1,287,702
Current portion of bonds with warrant	75,295	73,774	79,729
Current portion of bonds	-	-	159,542
Current portion of long-term borrowings	-	10,923	541,579
Subtotal	**864,217**	**962,298**	**2,068,552**
Non-current			
Convertible bonds	130,102	113,599	-
Long-term borrowings	760,495	694,756	-
Subtotal	**890,597**	**808,355**	**-**
Total	**1,754,814**	**1,770,653**	**2,068,552**

[1] Accounts receivable transferred to financial institutions with recourse amounting to ₩555,882 million (Dec. 31, 2010: ₩565,708 million; Jan. 1, 2010: ₩491,145 million) are recognized as short-term borrowings with collateralized trade receivables.

Details of Borrowings

Short-term borrowings

in millions of Korean won

	Interest rate (%) at December 31, 2011	December 31, 2011	December 31, 2010	January 1, 2010
Commercial papers issued	6.26	3,200	137,165	407,130
Bank overdraft	2.00 ~ 7.00	34,380	51,500	95,720
Usance	0.67 ~ 3.60	186,823	123,228	74,298
Borrowings with collateralised trade receivables	1.20 ~ 4.00	555,882	565,708	491,145
Won currency loans	-	-	-	200,727
General term loans	4.11	8,637	-	18,682
Total		**788,922**	**877,601**	**1,287,702**

The Company has bank overdraft agreements with The Korea Development Bank and other banks for up to ₩136,648 million. Certain portions of the Company's inventories, available-for- sale financial assets, property, plant and equipment, and two promissory notes are pledged as collaterals for the borrowings above (Note 9, 10, 11, 12 and 30).

Long-term borrowings

in millions of Korean won

	Maturity	Interest rate (%) at December 31, 2011	December 31, 2011	December 31, 2010	January 1, 2010
Won currency loans	2014/12/31	2.00 ~ 7.00	798,868	754,907	530,575
Foreign currency loans	2014/12/31	2.00 ~ 4.00	39,923	31,376	12,604
Subtotal			**838,791**	**786,283**	**543,179**
Less: current portion			-	(11,250)	(541,579)
			838,791	**775,033**	**1,600**
Less: present value discount			(78,296)	(80,277)	(1,600)
Total			**760,495**	**694,756**	**-**

As of December 31, 2011, Company's investments in subsidiaries and associates, property, plant and equipment, and available-for-sale financial assets are pledged as collaterals for the long-term borrowings above (Notes 9, 10, 11 and 12).

For the year ended December 31, 2010, the creditor financial institutions committee of the Company implemented the debt restructuring program, including debt-for-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 32).

Debentures

in millions of Korean won

	Interest rate (%) at December 31, 2011	December 31, 2011	December 31, 2010	January 1, 2010
Bonds with warrants	7.00	68,805	71,022	79,969
Less: discount on		(180)	(965)	(1,788)
Less: stock warrants adjustment		(678)	(3,631)	(6,726)
Add : redemption premium		7,348	7,348	8,274
Less: current portion, net of discount		(75,295)	(73,774)	(79,729)
Total		-	-	-
Convertible bonds	2.00	158,181	158,181	-
Less: conversion rights adjustment		(68,873)	(85,376)	-
Add : premium on convertible bonds		40,794	40,794	-
Total		130,102	113,599	-

The Company issued bonds with detachable warrants in public and conditions are as follows:

Issue date	May 11, 2009
Date of maturity	May 11, 2012
Coupon rate	7.00%
Right of early redeem of the creditors	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.
Redemption premium	The bonds will mature in three years from the issue date and will be repaid at 110.3466% of their principal amount at maturity.
Details of the stock warrants	(1) First exercise price: ₩5,650/share (adjusted to ₩5,880/share since November 30, 2010) (2) The exercise period: from August 1, 2009 to April 11, 2012.

The warrants of 3,848,527 shares were exercised in this year and as of December 31, 2011, stock warrants of 7,303,416 shares are outstanding (Note 19). As of December 31, 2011, the bond with stock warrants above were reclassified as current due to breach of the loan agreements.
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 conditions are as follows:

Issue date	July 23, 2010
Date of maturity	December 31, 2014
Coupon rate	2.00%
The yield to maturity(YTM)	7.00%
The right of early redeem of the creditors	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).
Detail of conversion rights	(1) Conversion price: ₩5,000/share (2) Conversion period: from July 23, 2011 to December 30, 2014.

17. Other Current Liabilities

in millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010
Advances	15,722	6,785	9,683
Withholdings	1,601	1,880	809
Deposits received	5,582	4,522	4,653
Taxes withheld	1,125	947	1,796
Total	**24,030**	**14,134**	**16,941**

18. Defined Benefit Liability and other Long-term Benefit liability

Defined Benefit Liability

The amounts recognized in the statements of financial position are determined as follows:

in millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010
Present value of obligations	294,839	252,203	255,539
Fair value of plan assets	(131,675)	(137,399)	(157,026)
Liability	**163,164**	**114,804**	**98,513**

The amount recognized in the statements of comprehensive income for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Current service cost	26,792	25,329
Interest expense	15,576	16,470
Expected return on plan assets	(4,484)	(5,666)
Total expenses	**37,884**	**36,133**

The line items in which expenses are included for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Cost of sales	31,616	28,049
Selling and administrative expenses	6,268	8,084
Total expenses	**37,884**	**36,133**

Actuarial losses recognized in the statement of other comprehensive loss for the year ended December 31, 2011, are ₩9,442 million (2010: actuarial gains of ₩249 million).
Changes in the defined benefit for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
At January 1	**252,203**	**255,539**
Current service cost	26,792	25,329
Interest expense	15,576	16,470
Benefits paid	(11,635)	(43,789)
Actuarial gains (losses)	11,903	(1,346)
At December 31	**294,839**	**252,203**

Changes in the fair value of plan assets for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
At January 1	**137,399**	**157,026**
Expected return on plan assets	4,484	5,666
Benefits paid	(9,665)	(24,268)
Actuarial gains	(544)	(1,026)
At December 31	**131,675**	**137,398**

The actual return on plan assets for the years ended December 31, 2011 and 2010, are ₩3,940 million and ₩4,640 million, respectively. The principal actuarial assumptions used are as follows:

%

	December 31, 2011	December 31, 2010	January 1, 2010
Discount rate	5.24	6.17	6.98
Expected rate of return	2.59	3.44	3.93
Future salary increase	5.81	5.62	5.88

All plan assets are invested in the fixed deposits.
Sensitivity analysis for the changes of principals actuarial assumptions is as follows:

in millions of Korean won

	1% Increase	1% Decrease
Changes in discount rate	(26,588)	30,582
Changes in salary increase rate	30,666	(27,130)

Adjustments for the differences between initial assumptions and actual figures as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

in millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010
Present value of obligations	294,839	252,203	255,539
Fair value of plan assets	(131,675)	(137,399)	(157,026)
Deficit of the funded plans	163,164	114,804	98,513
Defined benefit liability adjustments	12,557	(502)	-
Plan assets adjustments	(544)	(1,026)	-

Long-term Employee Benefit Liability

Changes in the long-term employee benefit liability for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
At January 1	**19,650**	**19,566**
Current service cost	1,423	1,368
Interest expenses	1,176	1,278
Benefits paid	(2,224)	(2,659)
Actuarial gains	1,872	97
At December 31	**21,897**	**19,650**

19. Capital Stock and Other Components of Equity

Changes in the Company's capital stock and other components of equity are as follows:

in millions of Korean won Total except for number of shares

	Number of shares	Common stock	Other components of equity		Total
			Treasury stock	Other capital adjustments	
January 1, 2010	**70,008,343**	**350,042**	**316,471**	**-**	**316,471**
Exercise of stock warrants[1]	2,559,964	12,799	2,336	-	2,336
Capital reduction without consideration	(59,853,639)	(299,268)	-	299,268	299,268
Disposition of accumulated deficit	-	-	(316,471)	-	(316,471)
Issuance of convertible bonds	-	-	-	39,825	39,825
Debt-for-equity conversion[2]	80,489,952	402,450	-	-	-
December 31, 2010	**93,204,620**	**466,023**	**2,336**	**339,093**	**341,429**
Exercise of stock warrants	3,848,527	19,243	3,338	-	3,338
Disposition of accumulated deficit	-	-	(301,604)	-	(301,604)
Debt-for-equity conversion[2]	9,303,974	46,520	54,634	-	54,634
Effect of change in tax rate	-	-	-	(1,124)	(1,124)
December 31, 2011	**106,357,121**	**531,786**	**57,972**	**38,701**	**96,673**

[1] Refer to Note 16 for details of stock warrants exercised during the year.
[2] Refer to Note 32 for details of debt-for-equity conversion during the year.

Other Components of Equity

Details of other Components of Equity as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

in millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010
Loss on disposal of treasury stock	(16)	(16)	-
Discounts on stocks issued	-	(2,027)	-
Other capital adjustments	(16,602)	(16,602)	(16,602)
Total	**(16,618)**	**(18,645)**	**(16,602)**

Retained Earnings

Appropriation of retained earnings (disposition of accumulated deficit) for the years ended December 31, 2011 and 2010, is as follows:

in millions of Korean won

	2011 (Date of appropriation: March 30, 2012)		2010 (Date of appropriation: March 30, 2011)	
Retained earnings before appropriation (accumulated deficit before disposition)				
- Unappropriated retained earnings (undisposed accumulated deficit) carried over from prior year	30,798		(464,474)	
- Effects of Korean IFRS adoption	-		193,524	
- Actuarial gains and losses	(9,442)		-	
- Discount on stock issuance	(2,028)		-	
- Net income	106,115	125,443	144	(270,807)
Disposition of accumulated deficit		-		301,604
Unappropriated retained earnings carried forward to subsequent year		125,443		30,798

20. Sales

Details of sales for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Sales of finished goods	2,380,078	2,127,954
Sales of merchandise	856,736	550,784
Others	29,029	34,643
Gross sales	**3,255,843**	**2,713,381**
Sales discounts and others	(7,876)	(11,391)
Net sales	**3,247,967**	**2,701,990**

21. Cost of Sales

Details of cost of sales for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Inventory, beginning	99,877	116,897
Manufacturing cost for the period	2,689,768	2,044,911
Subtotal	**2,789,645**	**2,161,808**
Transfer from other accounts	12,422	34,081
Inventory, ending	(149,923)	(99,877)
Cost of sales	2,652,144	2,096,012

22. Expenses by Nature

Details of expenses by nature for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Changes in inventories	(86,336)	(32,360)
Purchase of raw materials and merchandise	2,199,695	1,619,697
Salary	282,444	300,975
Depreciation and amortization	79,626	85,505
Advertising expense	32,806	31,864
Freight and passage fare	132,009	160,363
Commissions expense	16,796	18,571
Utility expense	71,952	59,057
Employee Benefits	62,303	59,351
Service costs	48,006	44,047
Warranty expense	20,474	18,974
Rental expense	12,818	12,771
Research expenses	18,384	17,499
Others	98,025	72,898
Total[1]	**2,989,002**	**2,469,212**

[1] Sum of 'cost of sales' and 'selling and administrative expenses' in the statement of comprehensive income.

23. Selling and Administrative Expenses

Details of selling and administrative expenses for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Salaries and wages	42,566	43,009
Severance benefits	6,268	8,084
Termination benefits	-	7,142
Welfare expense	10,038	10,791
Travel expense	4,746	4,665
Rental expense	11,557	11,347
Depreciation	6,460	6,790
Amortization	4,741	4,645
Insurance expense	6,492	6,451
Advertising expense	32,806	31,864
Freight	25,206	22,792
Passage fare	105,841	136,596
Service costs	18,029	18,424
Warranty expense	20,474	18,974
Others	41,634	41,626
Total	**336,858**	**373,200**

24. Other Operating Income and Expenses

The line items included in operating income according to Korean-IFRS are as follows:

in millions of Korean won

	2011	2010
Operating income before applying Korean-IFRS	**258,966**	**232,778**
Other operating income	50,619	51,853
Other operating expenses	(55,456)	(113,495)
Operating income according to Korean-IFRS	**254,129**	**171,136**

Other operating income for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Dividends	2,674	2,499
Exchange difference	43,601	36,988
Gain on disposal of property, plant and equipment	684	539
Reversal of allowance for doubtful accounts	-	1,914
Gain on prior period error correction	-	3,584
Gain on derivatives transactions	-	1,423
Others	3,660	4,906
Total	**50,619**	**51,853**

Other operating expenses for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Exchange difference	36,226	44,115
Loss on disposal of property, plant and equipment	3,522	804
Donations	33	29
Other bad debt expenses	1,150	-
Impairment loss on property, plant and equipment	8,193	-
Impairment loss on held-to-maturity investments	-	1,500
Loss on discard of inventories	2,324	463
Loss on adjustment of transfer price	-	59,739
Others	3,968	6,845
Total	**55,456**	**113,495**

25. Financial Income

Financial income for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Interest income	4,119	9,546
Exchange difference	18,875	16,897
Gain on condoned liabilities	7,611	116,145
Gains on retirement of bond	-	373
Total	**30,605**	**142,961**

26. Financial Expenses

Financial expenses for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Interest expenses	110,807	127,751
Exchange difference	19,651	16,875
Total	**130,458**	**144,626**

27. Income Taxes

Deferred Income Tax

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

in millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets			
Deferred tax asset to be recovered after more than 12 months	12,718	15,511	10,340
Deferred tax asset to be recovered within 12 months	114,235	148,108	104,710
Deferred tax liabilities			
Deferred tax liability to be recovered after more than 12 months	269	1,607	-
Deferred tax liability to be recovered within 12 months	94,666	91,449	34,448
Deferred tax assets (liabilities), net	**32,018**	**70,563**	**80,602**

The gross movements on the deferred income tax account for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Beginning balance	**70,563**	**80,602**
Income statement charge	(40,493)	(8,614)
Tax charge (credit) relating to components of other comprehensive income	(1,057)	(1,355)
Tax charged (credited) directly to equity	3,005	(70)
Ending balance	**32,018**	**70,563**

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

in millions of Korean won

	January 1, 2011	Income statement	Other comprehensive income	December 31, 2011
Changes in temporary differences				
Investments in subsidiaries and associates	149,373	(42,587)	-	106,786
Fixed assets	10,258	(3,514)	-	6,744
Trade receivables	7,910	(51)	-	7,859
Accrued expenses	4,323	976	-	5,299
Provisions	4,620	2,161	-	6,781
Gain (loss) on foreign currency translation	3,680	(2,716)	-	964
Severance benefits	22,927	8,560	3,005	34,492
Gain on revaluation of land	(24,431)	(2,443)	-	(26,874)
Available-for-sale financial assets	(41)	57,525	10,460	67,944
Others	(23,816)	5,139	(1,057)	(19,734)
Subtotal	**154,803**	**23,050**	**12,408**	**190,261**
Tax credit carryforwards	20,814	6,531	-	27,345
Tax loss carryforwards	66,515	(47,894)	-	18,621
Total	**242,132**	**(18,313)**	**12,408**	**236,227**
Not recognized as deferred tax assets				
Investments in subsidiaries and associates	148,977	(42,191)	-	106,786
Available-for-sale financial assets	-	57,458	10,394	67,918
Tax assets related to subsidiaries	1,778	382	-	2,160
Tax credit carryforwards	20,814	6,531	-	27,345
Book value	**70,563**	**(40,493)**	**1,948**	**32,018**

in millions of Korean won

	January 1, 2010	Income statement	Other comprehensive income	December 31, 2010
Changes in temporary differences				
Investments in subsidiaries and associates	107,808	41,565	-	149,373
Fixed assets	15,536	(5,278)	-	10,258
Trade receivables	5,755	2,155	-	7,910
Accrued expenses	-	4,323	-	4,323
Provisions	3,230	1,390	-	4,620
Gain (loss) on foreign currency translation	2,840	840	-	3,680
Gain on valuation of derivatives	404	(404)	-	-
Severance benefits	23,155	(158)	(70)	22,927
Gain on revaluation of land	(24,431)	-	-	(24,431)
Available-for-sale financial assets	-	-	(41)	(41)
Others	(6,931)	(15,571)	(1,314)	(23,816)
Subtotal	**127,366**	**28,862**	**(1,425)**	**154,803**
Tax credit carryforwards	21,902	(1,088)	-	20,814
Tax loss carryforwards	107,007	(40,492)	-	66,515
Total	**256,275**	**(12,718)**	**(1,425)**	**242,132**
Not recognized as deferred tax assets				
Investments in subsidiaries and associates	107,714	41,263	-	148,977
Available-for-sale financial assets	19,652	(17,874)	-	1,778
Tax assets related to subsidiaries	21,902	(1,088)	-	20,814
Tax credit carryforwards	26,405	(26,405)	-	-
Book value	**80,602**	**(8,614)**	**(1,425)**	**70,563**

As of December 31, 2011, the maturities of tax credit carryforwards and tax loss carryforwards are as follows:

in millions of Korean won

	Tax loss carryforwards (tax effect)	Tax credit carryforwards
Less than 1 year	-	94
Over 1 year and less than 2 years	-	8.926
Over 2 years and less than 3 years	-	6,938
Over 3 years	18,621	11,387
Total	**18,621**	**27,345**

Income Tax Expenses

in millions of Korean won

	2011	2010
Current tax		
- Current tax on profits for the year	3,590	4,817
- Adjustments in respect of prior years	4,077	-
- Total current tax	7,667	4,817
Deferred tax		
- Origination and reversal of temporary differences	39,090	8,614
- Impact of change in Korean tax rate	1,403	-
- Total deferred tax	40,493	8,614
Income tax expense	**48,160**	**13,431**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

in millions of Korean won

	2011	2010
Profit before tax	154,275	13,575
Tax calculated at domestic tax rates applicable to profits in the respective countries	37,308	3,259
Tax effects of		
- Expenses not deductible for tax purposes	6,053	3,714
- Tax losses for which no deferred income tax asset was recognized	(639)	5,803
- Adjustment in respect of prior years	4,077	-
- Re-measurement of deferred tax – change in the Korean tax rate	(5,677)	(4,094)
- Foreign tax withheld not deducted	3,590	4,777
- Others	3,448	(28)
Tax Charge	**48,160**	**13,431**
Effective tax rate	**31%**	**99%**

As of December 31, 2011, the Company recognized the deferred tax in accordance with the revised tax law of Korea in the current year, which the 22% tax rate was changed into 24.2%(including residence tax).
The income tax (charged)/credited directly to equity as of December 31, 2011 and 2010, are as follows:

in millions of Korean won

	December 31, 2011			December 31, 2010		
	Before tax	Tax (charge) credit	After tax	Before tax	Tax (charge) credit	After tax
Fair value gains from available-for-sale financial asset	289	66	223	(185)	(40)	(145)
Actuarial loss on retirement benefit obligations	12,447	3,005	9,442	(320)	(71)	(249)
Gain on revaluation of land	-	-	-	40,985	9,919	31,066
Convertible bonds	-	(1,123)	-	(51,058)	(11,233)	(39,825)
Total	12,736	1,948	9,665	(10,578)	(1,425)	(9,153)

28. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Basic earnings per share

	2011	2010
(1) Weighted average number of ordinary shares	106,114,926,753	143,743,555
(2) Net income for common shares	97,960,713	17,655,313
(3) Basic earnings per share ((2)/(1))	1,083	8

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible debt and share options. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2011	2010
Profit attributable to ordinary shares	106,114,926,753	143,743,555
Interest expense on convertible debt (net of tax)	14,907,080,753	-
Profit used to determine diluted earnings per share	121,022,007,506	143,743,555
Weighted average number of ordinary shares in issue Adjustments for	97,960,713	17,655,313
- Warrants	5,205,842	177,203
- Assumed conversion of convertible debt	31,636,200	-
Weighted average number of ordinary shares for diluted earnings per share	134,802,755	17,832,516
Diluted earnings per share	898	8

29. Cash Generated from Operations

Details of adjustments for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Depreciation	74,095	80,070
Provision for severance benefits	37,884	36,133
Amortization of intangible assets	5,531	5,435
Loss on foreign currency translation	8,112	13,201
Interest expense	110,807	127,751
Bad debts expense	2,026	4,661
Other bad debts expense	1,150	-
Reversal of allowance for doubtful accounts	-	(1,914)
Provision for warranty reserve	7,892	5,731
Impairment loss on held-to-maturity investments	-	1,500
Gain on foreign currency translation	(15,916)	(5,783)
Interest income	(4,119)	(9,546)
Impairment loss of investments in subsidiaries and associates	-	187,188
Gain on disposal of investments in subsidiaries and associates	-	(31,291)
Dividend income	(2,674)	(2,499)
Gain on condoned liabilities	(7,611)	(116,145)
Gain on bond retirement	-	(373)
Loss on disposal of property, plant and equipment	3,522	804
Impairment loss on property, plant and equipment	8,193	-
Loss on discard of inventories	2,324	463
Gain on disposal of property, plant and equipment	(684)	(539)
Long-term employee benefit expense	4,471	2,742
Total	**235,003**	**297,589**

Changes in operating assets and liabilities for the years ended December 31, 2011 and 2010, are as follows:

in millions of Korean won

	2011	2010
Increase in trade receivables	(107,285)	(17,531)
Decrease(increase) in other receivables	(19,166)	46,661
Increase in inventories	(88,644)	(32,823)
Decrease in deferred tax assets	40,492	8,614
Decrease(increase) in other assets	(39,121)	13,855
Increase in trade accounts payable	68,838	43,942
Payment of retirement benefit obligations	(11,635)	(43,789)
Decrease in plan assets	9,665	24,268
Decrease in derivative liabilities	-	(1,669)
Decrease in other liabilities	(26,323)	(40,637)
Total	**(173,179)**	**891**

Significant transactions not affecting cash flows are as follows:

in millions of Korean won

	2011	2010
Reclassification from construction-in-progress to property, plant and equipment	44,045	52,703
Debt-for-equity conversion	101,413	402,450

30. Contingencies and Commitments

1) As of December 31, 2011 and 2010, and January 1, 2010, the Company has provided guarantees for the operations of its overseas subsidiaries, and details are as follows:

in thousands of USD

	December 31, 2011	December 31, 2010	January 1, 2010
Kumho Tire Tianjin	378,536	325,335	333,860
Kumho Tire Changchun	118,110	104,000	104,000
Nanjing Kumho Tire	101,808	61,231	71,481
Kumho Tire China	26,573	6,000	6,000
Kumho Tire H.K.	268,140	217,189	217,189
Kumho Tire Vietnam	186,088	158,392	199,670
Kumho Tire Japan	-	1,300	4,841
Kumho Tire U.K.	-	-	4,503
Kumho Tire Austrailia	-	-	13,962
Total	**1,079,255**	**873,447**	**955,506**

As of December 31, 2011, the Company recognized financial guarantees liabilities amounting to ₩16,216 million regarding guarantees above. As of December 31, 2011, the Company has provided guarantees of up to ₩1,372 million for the borrowings of Tire Net Corporation, one of its suppliers.

2) As of December 31, 2011, 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$ 227,430 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 collaterals in connection with performance guarantees, redemption of commercial paper and discount on notes receivable, respectively.

3) As of December 31, 2011, and 2010, the credit limits of the Company provided by financial institutes are as follows:

in millions of Korean won

	December 31, 2011	December 31, 2010
Bank overdraft	136,648	136,648
Discount on notes receivable	46,000	41,000
Discount on trade receivables in foreign currency	550,959	544,080
Guarantees in relation to the opening of letters of credit	262,295	205,110
Total	**995,902**	**926,838**

4) As of December 31, 2011, the Company has technical assistance and license agreements with subsidiaries.

5) The Company has also agreed with the International Finance Corporation(IFC) and others that it should maintain ownership of more than 51% in the investee, Nanjing Kumho Tire Co., Ltd, until Nanjing Kumho Tire'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.

6) As of December 31, 2011, the Company is a defendant in several lawsuits filed by customers in relation to product liability. The Company recognized product warranty reserve amounting to 40,023 million for potential loss resulting from litigations. The Company is also insured by Hyundai Marine & Fire Insurance Co., Ltd. and other insurance companies against future claims.
In addition, the Company is named as a defendant in several lawsuits. The ultimate outcome of these cases cannot presently be determined as of the report date.

7) On February 17, 2010, the Company sold all of its equity-method investments in Kumho Asiana Main Tower to Asiana Airlines Inc., and the Company has entered into an agreement with Asiana Airlines Inc., which gives the Company the right to repurchase all or part of the investments in Kumho Asiana Main Tower at appraised value within three years from the transaction date.

8) Operating lease commitments – the Company as the lessee
The future aggregate minimum lease payments under non-cancellable operating leases as of December 31, 2011 and 2010, are as follows:

in millions of Korean won

	December 31, 2011	December 31, 2010
Less than 1 year	4,319	4,259
Between 1 year and 5 years	11,517	15,618
Total	15,836	19,877

31. Related Party Transactions

1) Details of the related parties are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Entity which exercises control	-	-	Kumho Petrochemical Co., Ltd
Entity which exercises significant control or influence	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, and Kumho Asiana Main Tower Co., Inc.		
Jointly controlled entities and associates	-	Daewoo Engineering & Construction	Daewoo Engineering & Construction
Other related parties[1]	Kumho Petrochemical Co., Ltd. and its subsidiaries, Kumho Industrial Co., Ltd. and its subsidiaries, Asiana Airlines Inc. and its subsidiaries, Korea Express Corporation and its subsidiariesn		

[1] Kumho Petrochemical Co., Ltd., Kumho Industrial Co., Ltd., Asiana Airlines Inc., and Korea Express Corporation are classified to other related parties due to their inclusion in the Kumho Asiana Group as of December 31, 2011.

2) 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

	2011		2010	
	Sales[1]	Purchases	Sales[1]	Purchases
Subsidiaries	1,520,904	680,996	1,272,947	442,756
Others	5,628	455,142	84,983	395,938
Total	**1,526,532**	**1,136,138**	**1,357,930**	**838,694**

[1] Sales include sale of property, plant and equipment of ₩240 million for the year ended December 31, 2011 (2010: ₩2,169 million).

in millions of Korean won

	December 31, 2011		December 31, 2010		January 1, 2010	
	Receivables[2]	Payables	Receivables[2]	Payables	Receivables[2]	Payables
Parent company	-	-	-	-	-	55,601
Subsidiaries	1,124,911	45,595	832,413	54,094	747,356	164,825
Others	2,306	283,917	2,541	256,402	8,679	222,003
Total	**1,127,217**	**329,512**	**834,954**	**310,496**	**756,035**	**442,429**

[2] Receivables are presented as net of allowance for bad debts of ₩5,355 million (2010: ₩2,798 million) as of December 31, 2011.

Receivables include a US$289,245 thousand (equivalent to ₩333,586 million) loan to a subsidiary. The changes in the said loan are as follows:

in millions of Korean won

	Beginning	Increase	Decrease	Ending
Kumho Tire H.K.	176,357	132,888	20,000	289,245

As of December 31, 2011, the Company has provided guarantees for its overseas subsidiaries (Note 30).

3) Compensation for key management consists of the following:

in millions of Korean won

	2011	2010
Short-term salaries	5,896	4,161
Post-retirement benefits	1,072	691
Total	**6,968**	**4,852**

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.

32. Debt Restructuring

1) 1st Debt Restructuring in 2010

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-for-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 loans to be converted into equity and loans with modified terms are as follows:

in millions of Korean won

	Debts before restructuring	Conversion into equity	Modification of terms
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
Total	**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, the ratio of which was 100:1 for major shareholders and 3:1 for minority shareholders, in order 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
Type of shares issued	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 associates 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 on 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 condoned 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 also provide a usance and D/A amounting to US$148,295 thousand and US$98,863 thousand, respectively.

For the year ended December 31, 2010, the Company recognized gain on condoned liabilities amounting to ₩116,145 million as financial income related to these debt restructuring and debt- for-equity conversion.

2) 2nd Debt Restructuring in 2011

According to the resolution at the fifth conference of creditor financial institutions held on September 2, 2011, 2nd troubled debt restructuring program are as follows:

	Debts before restructuring	Conversion into equity	Modification of terms
Short-term borrowing excluded in the 1st dept restructuring	133,965	78,712	55,253

Conversion into Equity

	Description
Amount	₩78,712 million
Type of shares issued	Common stock
Issue price	₩8,460 per share
Shares issued	9,303,980 shares

Deferred Payment of Debts

	Description
Amount	₩55,253 million
Period of postponement	Until December 31, 2014
Method of repayment	The creditor financial institutions will decide on 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	₩133,965 million
Interest rate to be applied	2%
Period of adjustment	From December 30, 2009 to December 31, 2014
Others	Interests for receivables to be converted into equity are condoned from December 30, 2009

For the year ended December 31, 2011, the Company recognized gain on condoned liabilities amounting to ₩7,611 million as financial income related to these debt restructuring and debt-for- equity conversion.

3) 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. Subsequent Events

In January 2012, the Company provided guarantees for the borrowings of Kumho Tire (Tianjin) Co., Ltd. and Kumho Tire (Vietnam) Co., Ltd. amounting to USD3,788 thousand and USD 8,000 thousand, respectively. Also, the Company provided guarantee for the borrowing of Nanjing Kumho Tire Co., Ltd. amounting to RMB 240 million.

In January 2012, the Company loaned Kumho Tire (H.K.) Co., amounting to USD 7,458 thousand with interest rate of 6M Libor+3.5% and payable in two years.

In January, 2012, the Company borrowed USD 4,468 thousand from Korean Exchange Bank with interest rate of 3M Libor+3.5% and payable in a year.

07

Report of Independent Accounts' Review of Internal Accounting Control System

To the President of
KUMHO TIRE CO., INC.

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

March 22, 2012

Samil PricewaterhouseCoopers

08

Report on the Operations of the Internal Accounting Control System

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

I, as the Internal Accounting Control Officer ("IACO") of KUMHO TIRE CO., INC. ("the Company"), assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2011.

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, 2011, in all material respects, in accordance with the IACS standards.

March 19, 2012

Kyung Jin Kim
Internal Accounting Control System Officer

Jong Ho Kim
Chief Executive Officer

CONSOLIDATED FINANCIAL STATEMENTS

01

Report of Independent Auditors

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

We have audited the accompanying consolidated statement of financial position of KUMHO TIRE CO., INC. (the "Company") and its subsidiaries (collectively the "Group") as of December 31, 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year 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 audit. We did not audit the financial statements of certain consolidated subsidiaries, whose financial statements represent 37.5% of the Group's consolidated total assets as of December 31, 2011, and 52.6% of the Group's consolidated total sales for the year then ended. These statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for certain consolidated subsidiaries, is based solely on the reports of the other auditors. The consolidated financial statements of the Company as of and for the year ended December 31, 2010, were audited by us as per our audit report dated March 31, 2011, where we expressed an unqualified opinion on those statements. The financial statements on which we expressed an unqualified opinion do not reflect the adjustments as described in Note 5 as required by the International Financial Reporting Standards adopted by the Republic of Korea ("Korean IFRS"). However, the financial statements presented herein for comparative purposes reflect such adjustments in accordance with Korean IFRS.

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

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of KUMHO TIRE CO., INC. and its subsidiaries as of December 31, 2011, and their financial performance and cash flows for the year then ended in accordance with Korean IFRS.

Without qualifying our opinion, as mentioned in Note 32, the Company and the creditor financial institutions have entered into a contract to execute its business rehabilitation plans on May 31, 2010. 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

Auditing standards and their application in practice vary among countries. 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 is for use by those who are informed about Korean auditing standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
March 22, 2012

RESPECTED TRUSTED PROFESSIONAL SAMIL
www.samil.com
LS Yongsan Tower, 191, Hangangno 2-ga, Yongsan-gu,
Seoul 140-702, Korea (Yongsan P.O Box 266, 140-600)

This report is effective as of March 22, 2012, 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 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.

02

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

in millions of Korean won

Consolidated Statements of Financial Position

	December 31, 2011	December 31, 2010	January 1, 2010
Current assets			
Cash and cash equivalents	146,163	289,823	101,465
Financial deposits	133,766	84,087	39,442
Available-for-sale financial assets	19	8	8
Trade receivables	741,642	644,965	711,926
Loans and other receivables	17,346	20,855	103,227
Inventories	786,783	608,560	541,707
Other current assets	54,097	56,683	69,114
	1,879,816	**1,704,981**	**1,566,889**
Non-current assets			
Financial deposits	238	240	270
Available-for-sale financial assets	192,353	733	548
Held-to-maturity investments	-	-	1,500
Investments in associates	-	234,860	328,987
Long-term loans receivable	175	118	168
Property, plant and equipment	2,431,043	2,449,042	2,501,178
Intangible assets	58,321	63,602	67,821
Investment property	265,220	267,869	270,478
Deferred income tax assets	63,351	102,784	97,712
Other non-current assets	34,017	39,211	44,099
	3,044,718	**3,158,459**	**3,312,761**
Total assets	**4,924,534**	**4,863,440**	**4,879,650**

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

Consolidated Statements of Financial Position

in millions of Korean won

	December 31, 2011	December 31, 2010	January 1, 2010
Liabilities			
Current liabilities			
Trade payables	684,064	655,437	599,054
Short-term borrowings	1,223,447	1,163,138	1,696,785
Current portion of bonds	-	-	159,542
Current portion of bonds with warrants	75,295	73,774	79,729
Current portion of long-term borrowings	456,082	672,980	1,202,125
Other payables	308,020	315,892	326,975
Current income tax liabilities	5,746	6,097	1,882
Derivative liabilities	-	-	1,669
Other current liabilities	46,203	57,596	53,084
	2,798,857	**2,944,914**	**4,120,845**
Non-current liabilities			
Convertible bonds	130,102	113,599	-
Long-term borrowings	1,156,087	1,077,083	555,954
Defined benefit liability	163,384	114,998	98,681
Long-term employee benefit liability	22,105	19,799	19,683
Product warranty reserve	46,591	40,408	26,496
Deferred income tax liabilities	14,450	18,132	18,961
Other non-current liabilities	23,458	26,881	23,318
	1,556,177	**1,410,900**	**743,093**
Total liabilities	**4,355,034**	**4,355,814**	**4,863,938**
Equity attributable to owners of the Parent Company			
Capital stock	531,786	466,023	350,042
Share premium	119,631	364,387	316,470
Other components of equity	(19,538)	(20,299)	(16,602)
Accumulated other comprehensive income(loss)	(13,009)	8,982	-
Accumulated deficit	(170,102)	(426,675)	(687,952)
	448,768	**392,418**	**(38,042)**
Non-controlling interest	**120,732**	**115,208**	**53,754**
Total equity	**569,500**	**507,626**	**15,712**
Total liabilities and equity	**4,924,534**	**4,863,440**	**4,879,650**

03

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2011 and 2010

in millions of Korean won, except per share amounts

	2011	2010
Net sales	**3,915,875**	**3,530,007**
Cost of sales	**(3,109,732)**	**(2,689,161)**
Gross profit	**806,143**	**840,846**
Selling and administrative expenses	(612,490)	(666,253)
Other operating income	90,056	76,839
Other operating expenses	(98,671)	(121,161)
Operating income	**185,038**	**130,271**
Financial income	55,155	151,370
Financial expenses	(219,284)	(234,471)
Loss on disposal of investments in associates	-	(16,069)
Loss on valuation of investments in associates	-	(51,121)
Impairment loss of investments in associates	-	(26,023)
Profit (loss) before income tax	**20,909**	**(46,043)**
Income tax expense	(47,763)	(5,040)
Loss for the period	**(26,854)**	**(51,083)**
Other comprehensive income (loss)		
Available-for-sale financial assets	(43,175)	145
Actuarial gain(loss) on defined benefit liability	(9,442)	249
Currency translation differences	23,564	8,330
Total comprehensive loss for the period	**(55,907)**	**(42,359)**

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2011 and 2010

in millions of Korean won, except per share amounts

	2011	2010
Profit (loss) for the period attributable to:	**(26,854)**	**(51,083)**
Equity holders of the Parent Company	(33,562)	(55,442)
Non-controlling interest	6,708	4,359
Comprehensive income (loss) for the attributable to:	**(55,907)**	**(42,359)**
Equity holders of the Parent Company	(64,995)	(46,211)
Non-controlling interest	9,088	3,852
Loss) per share attributable to the equity holders of the Parent Company during the period (in Korean won)		
Basic loss per share	(343)	(3,140)
Diluted loss per share	(343)	(3,140)

Years Ended December 31, 2011 and 2010

in millions of Korean won

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Parent Company		
	Paid-in Capital	Share Premium	Other Components of Equity
Balance at January 1, 2010	**350,042**	**316,470**	**(16,602)**
Comprehensive income :			
Profit for the period	-	-	-
Actuarial gain on defined benefit liability	-	-	-
Available-for-sale financial assets	-	-	-
Currency translation differences	-	-	-
Transactions with equity holdersthe Parent Company :			
Disposition of accumulated deficit	-	(316,470)	-
Exercise of stock warrants	12,799	2,336	-
Change in ownership interest over subsidiaries	-	22,958	(1,654)
Debt-for-equity conversion	402,450	-	-
Capital reduction without consideration	(299,268)	299,268	-
Discount on stock issuance	-	-	(2,027)
Loss on disposal of treasury stock	-	-	(16)
Issuance of convertible bonds	-	39,825	-
Dividend from subsidiaries	-	-	-
Balance at December 31, 2010	**466,023**	**364,387**	**(20,299)**
Balance at January 1, 2011	**466,023**	**364,387**	**(20,299)**
Comprehensive income :			
Loss for the period	-	-	-
Available-for-sale financial assets	-	-	-
Actuarial loss on defined benefit liability	-	-	-
Currency translation differences	-	-	-
Transactions with equity holders the Parent Company :			
Disposition of accumulated deficit	-	(301,604)	-
Exercise of stock warrants	19,243	3,338	-
Discount on stock issuance	-	-	2,027
Debt-for-equity conversion	46,520	54,893	-
Stock issue cost	-	(259)	-
Dividend from subsidiaries	-	-	-
Acquisition of investments in subsidiaries	-	-	(1,266)
Effect of change in tax rate	-	(1,124)	-
Balance at December 31, 2011	**531,786**	**119,631**	**(19,538)**

04

Consolidated Statements of Changes in Equity

in millions of Korean won

Accumulated Other Comprehensive Income (loss)	Accumulated Deficit	Total	Non-controlling Interest	Total Equity
-	**(687,952)**	**(38,042)**	**53,754**	**15,712**
-	(55,442)	(55,442)	4,359	(51,083)
-	249	249	-	249
145	-	145	-	145
8,837	-	8,837	(507)	8,330
-	316,470	-	-	-
-	-	15,135	-	15,135
-	-	21,304	57,998	79,302
-	-	402,450	-	402,450
-	-	-	-	-
-	-	(2,027)	-	(2,027)
-	-	(16)	-	(16)
-	-	39,825	-	39,825
-	-	-	(396)	(396)
8,982	**(426,675)**	**392,418**	**115,208**	**507,626**
8,982	**(426,675)**	**392,418**	**115,208**	**507,626**
-	(33,562)	(33,562)	6,708	(26,854)
(43,175)	-	(43,175)	-	(43,175)
-	(9,442)	(9,442)	-	(9,442)
21,184	-	21,184	2,380	23,564
-	301,604	-	-	-
-	-	22,581	-	22,581
-	(2,027)	-	-	-
-	-	101,413	-	101,413
-	-	(259)	-	(259)
-	-	-	(4,830)	(4,830)
-	-	(1,266)	1,266	-
-	-	(1,124)	-	(1,124)
(13,009)	**(170,102)**	**448,768**	**120,732**	**569,500**

05

Years Ended December 31, 2011 and 2010

Consolidated Statements of Cash Flows

in millions of Korean won

	2011	2010
Cash flows from operating activities		
Cash generated from operations		
- Loss for the period	(26,854)	(51,083)
- Adjustments	459,808	485,787
- Changes in operating assets and liabilities	(240,623)	49,771
	192,331	**484,475**
Interest received	1,876	3,322
Interest paid	(138,436)	(171,620)
Dividends received	-	914
Dividends paid	(4,830)	(396)
Income tax paid	(3,945)	(3,988)
Net cash generated from operating activities	**46,996**	**312,707**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	4,944	16,263
Disposal of investments in associates	-	79,302
Decrease in loans and receivables	3	-
Decrease in other assets	4	50
Decrease in other non current asset	193	8,236
Decrease in financial deposits	2,241	11,981
Increase in long and short-term loans	(37)	-
Acquisition of property, plant and equipment	(108,283)	(136,484)
Acquisition of investment in properties	-	(38)
Acquisition of intangible assets	(730)	(2,982)
Increase in other assets	(752)	(2)
Increase in other non-current assets	(53)	(5,272)
Increase in financial deposits	(16,812)	(42,678)
Net cash used in investing activities	**(119,282)**	**(71,624)**

05

Years Ended December 31, 2011 and 2010

Consolidated Statements of Cash Flows

in millions of Korean won

	2011	2010
Cash flows from financing activities		
Proceeds from short-term borrowings	610,968	1,165,105
Proceeds from long-term borrowings	215,497	352,639
Issuance of convertable bonds	-	158,181
Exercise of stock warrants	22,387	15,013
Proceeds from treasury stock	-	94
Others	504	-
Repayment of short-term borrowings	(530,602)	(1,017,617)
Advanced payment of long-term borrowings	(385,600)	(552,765)
Repaymeent from current portion of bonds	-	(90,000)
Repayment of current portion of bonds with warrants	(2,023)	(4,059)
Repayment of current portion of long-term borrowings	(3,154)	(66,234)
Discount on stock issuance	(260)	(2,028)
Acquisition of treasury stock	-	(109)
Net cash used in financing activities	**(72,283)**	**(41,780)**
Effects of exchange rate changes on cash and cash equivalents	**2,188**	**(9,142)**
Net increase (decrease) in cash and cash equivalents	**(142,381)**	**190,161**
Cash and cash equivalents at the beginning of the year	**289,823**	**101,465**
Exchange gains (losses) on cash and cash equivalents	**(1,279)**	**(1,803)**
Cash and cash equivalents at the end of the year	**146,163**	**289,823**

GLOBAL NETWORK

SEOUL OFFICE

KUMHO ASIANA MAIN BUILDING, 115 SINMUNRO 1-GA, JONGNO-GU, SEOUL, KOREA

PLANTS

GWANGJU PLANT
555 SOCHON-DONG, GWANGSAN-GU, GWANGJU, KOREA (HEAD OFFICE)

GOKSEONG PLANT
145 SEOBONG-RI, YIP-MYEON, GOKSEONG-GUN, JEOLLANAM-DO

PYEONGTAEK PLANT
679-15 NAEGI-RI, POSEUNG-MYEON, PYEONGTAEK, GYEONGGGI-DO, KOREA

NANJING KUMHO TIRE CO., LTD.
418 HEYAN ROAD, NANJING, JIANGSU, CHINA

NANJING KUMHO TIRE CO., LTD.TBR PLANT
NO.1 XINJINHULU, GAOXINQU, NANJING, JIANGSU, CHINA

KUMHO TIRE (TIANJIN) CO., INC.
NO. 333 ZHONGNAN, 2ST. TEDA, TIANJIN, CHINA

KUMHO TIRE (CHANGCHUN) CO., INC.
NO. 677 JINHU ROAD, CHANGCHUN, CHINA

KUMHO TIRE (VIETNAM) CO., LTD.
GCN, MY PHUOC3, INDUSTRIAL PARK, BEN CAT DIST.,
BINH DUONG PROVINCE, VIETNAM

R&D CENTERS

GWANGJU R&D CENTER
555 SOCHON-DONG, GWANGSAN-GU, GWANGJU, KOREA

YONGIN R&D CENTER
SAN 2-1 JIDOK-DONG, YONGIN, GYEONGGI-DO, KOREA

KATC(U.S.A.)
KUMHO TIRE AMERICA TECHNICAL CENTER 711 KUMHO DRIVE, AKRON, OHIO 44333, USA

KECT(GERMANY)
KUMHO TIRE EUROPE TECHNICAL CENTER STARKENBURG STRASSE 10, 64546, MOERFELDEN-WALLDORF, GERMANY

KCTC(CHINA)
NO.49 XINYE 3 STREET, THE WEST ZONE OF TEDA, TIANJIN, CHINA

OVERSEAS SALES CORPORATIONS

KUMHO TIRE U.S.A., INC.
10299 6TH STREET RANCHO CUCAMONGA, CA 91730 U.S.A.
TEL. 1-909)428-3999 / FAX. 1-909)428-3992(3)(5)

KUMHO TIRE EUROPE GMBH
BRUESSELER PLATZ 163067, OFFENBACH AM MAIN GERMANY
TEL. 49-69)943318(0) / FAX. 49-69)490-069

KUMHO TYRE (U.K.) LTD.
6TH FLOOR NINE SUTTON COURT ROAD SUTTON,SURREY SM1 4SZ, UK
TEL. 44-020)8915-0627(5) / FAX. 44-020)8661-2771

KUMHO TIRE FRANCE S.A.S
BAT LE ART'VAL PARIS NORD 2 9 RUE DES TROIS SOEURS BP 42030 VILLEPINTE 95912 ROISSY C.D.G. CEDEX, FRANCE
TEL. 33-01)4938-0538 / FAX. 33-01)4938-0895

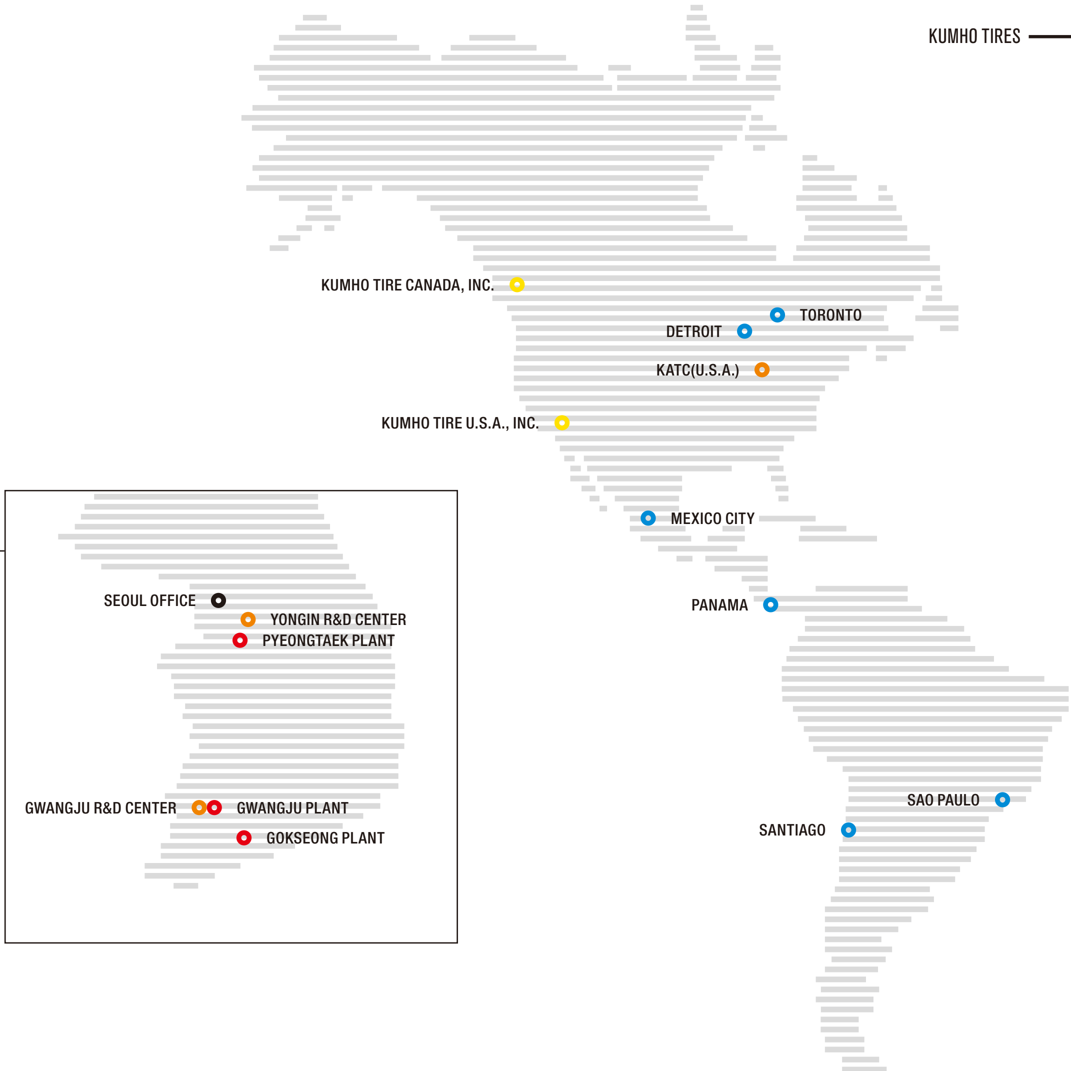
KUMHO TIRE CANADA, INC.
UNIT260 - 4011 VIKING WAY RICHMOND B.C V6V 2K9
TEL. 1-604)241-4142 / FAX. 1-604)241-5591

KUMHO TIRE JAPAN, INC.
DAISAN NAGAOKA BLDG 6F, 2-13-4 HATCHOBORI, CHUO-KU, TOKYO, JAPAN
TEL. 81-3)3553-4060 / FAX. 81-3)3553-4070

KUMHO TYRE AUSTRALIA PTY., LTD
LEVEL 2, UNIT 214 VERSATILE, 29-31 LEXINGTON DRIVE BELLA VISTA NSW 2153 P.O. BOX 6199 BAULKHAM HILLS SW 2153 AUSTRALIA
TEL. 61-2)9912-9800 / FAX. 61-2)9912-9830

KUMHO TIRE VINA CO., LTD
OFFICE # 409, 39 LE DUAN STREET, DISTRICT 1, KUMHO ASIANA PLAZA, HO CHI MINH CITY, VIETNAM
TEL. 84-8)3829-5059 / FAX. 84-8)3829-5383

KUMHO TIRE CHINA CO., INC.
0-31F, BLK A, NO 391 GUIPING RD., NEW CAOHEJING INTERNATIONAL BUSINESS CENTER, XUHUI DISTRICT, SHANGHAI, CHINA
TEL. 86-21) 61391100/ FAX86-21) 61391416



OVERSEAS BRANCHES & OFFICES

GRAZ
STRASSGANGERSTRASSE 291, 8053 GRAZ, AUSTRIA
TEL. 43-316)2853-6201 / FAX. 43-316)285-655

MOSCOW
OFFICE 604, ENTRANCE 3, WORLD TRADE CENTER
KRASNOPRESNENSKAYA NAB.12,123610 MOSCOW, RUSSIA
TEL/FAX. 7)495-258-1133

MILANO
VIA TORINO 25 CENTRO DIREZIONALE SUMMIT A-1 20063
CERNUSCO SUL NAVIGLIO (MI), ITALY
TEL. 39-02)9210-6688 / FAX. 39-02)9210-7523

MADRID
A-6, KM 24(DIRECCION MADRID) COMPLEJO EUROPA
EMPRESARIAL EDIFICIO LONDRES, PLANTA 1 OFICINA 428230 -
LAS ROZAS, MADRID, SPAIN
TEL. 34-91)636-6630 / FAX. 34-91)636-6631

DETROIT
2855 COOLIDGE HWY SUITE 107, TROY, MICHIGAN, 48084, U.S.A.
TEL. 1-248)614-0748 / FAX. 1-248)614-0769

TORONTO
UNIT B, 6430 KENNEDY RD. MISSISSAUGA, ON L5T 2Z5
TEL. 1-905)564-0882 / FAX. 1-905)564-8930

MEXICO CITY
BOSQUES DE CIRUELOS NO. 140, PISO 12, DEPT. 1204. COL.
BOSQUES DE LAS LOMAS C.P. 11700 MEXICO, D.F.
TEL. 52-55)5251-7617 / FAX. 52-55)5251-3149

PANAMA
EDIF. PLAZA OBARRIO OFICINA 304 AVE. SAMUEL LEWIS Y CALLE
SANTA RITA, PANAMA, REP. DE PANAMA
TEL. 507)209-6750(1) / FAX. 507)209-6754

SAO PAULO
RUA. FLORIDA 1758, CJ32, CEP: 04565-001, SAO PAULO, SP,
BRAZIL
TEL. 55-11)5102-4748 / FAX. 55-11)5102-2852

SANTIAGO
AVE.NUEVA TAJAMAR 481,OFICINA 1003, TORRE SUR,WORLD
TRADE CENTER,LAS CONDES, SANTIAGO, CHILE
TEL. 56-2)657-2130(1) / FAX. 56-2)657-2133

SINGAPORE
22MALACCA STREET 07-01 A, ROYALBROTHERS BUILDING,
SINGAPORE
TEL. 65-6536-3852 / FAX. 65-6536-3875

DUBAI
OFFICE NO 339, OFFICE TOWER 4, GHURAIR CITY, DEIRA, DUBAI
TEL. 971-4)299-9765 / FAX. 971-4)299-9525

ISTANBUL
INSIRAH YOKUSU ANADOLU APT. 13/2 34342 BEBEK-ISTANBUL/
TURKEY
TEL. 90-212)263-6618 / FAX. 90-212)263-6628

JEDDAH
FLAT NO. 504, AL WALED CENTER, KHALED AL WALEED STREET,
AL SHARAFEYA DISTRICTION, JEDDAH, KSA
TEL. 966-2)650-0878(EXT.103) / FAX. 966-2)652-2899

CAIRO
FLAT NO. 183-B, 18TH FLOOR GHADET EL-MAADI TOWER, NILE
CORNISHE CAIRO, EGYPT
TEL. 20-2)2525-6128 / FAX. 20-2)2528-1353

JOHANNESBURG
7, LIME STREET,BRYANSTON EXT.3, RANDBURG, SOUTH AFRICA
P.O.BOX: 781030 SANDTON 146, SOUTH AFRICA
TEL. 27-11)462-8559 / FAX. 27-11)462-2562

BANGKOK
55 WAVE PLACE BUILDING, 9TH FLOOR, UNIT 9.08, WIRELESS
ROAD, PATHUMWAN, BANGKOK 10330, THAILAND
TEL. 66-2)253-3911~2 / FAX. 66-2)253-3913

KUMHO TIRES

Kumho Asiana Main Building, 115 Sinmunro 1-Ga,
Jongno-Gu, Seoul, Korea
Tel. 822. 6303. 8114 Fax. 822. 6303. 8297
www.kumhotire.com

IR CONTACTS

Pack, Byung Kun
Deputy General Manager & Team Head, Investor Relations Team
parkbg@kumhotire.com

Yun, Yong Jin
Assistant Manager, Investor Relations Team
yjyun2@kumhotire.com