

# 2014 Hankook Tire

## 4th Quarter Result

Jan. 30, 2015

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

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

# Table of Contents

---

- **2014 Review**
  - **Financial Highlights**
    - 1) **Performance : Sales Performance & Outlook by Region**
    - 2) **Stability : Raw Material Cost & Balance Sheet**
  - **2015 Business Plan**
    - 1) **2015 Guidance**
    - 2) **Mid-to-Long Term Growth Strategy**
  - **Appendix**
- 

# Financial Highlights

## '14 Global Performance (Consolidated)

[unit : 100 Million KRW, %]

	2013	2014	YoY
Sales	70,692	66,795	-5.5%
COGS	47,109 <i>(66.6%)</i>	42,800 <i>(64.1%)</i>	-9.1%
Operating Profit	10,310 <i>(14.6%)</i>	10,311 <i>(15.4%)</i>	0.0%
Ordinary Profit	9,897 <i>(14.0%)</i>	9,343 <i>(14.0%)</i>	-5.6%
EBITDA	14,440 <i>(20.4%)</i>	14,689 <i>(22.0%)</i>	1.7%

# Financial Highlights

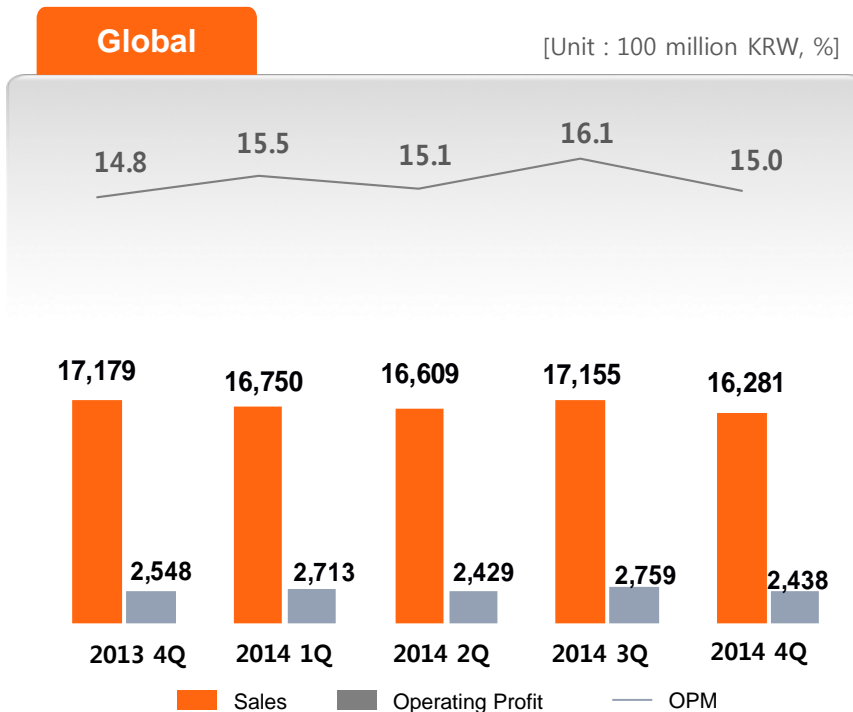
## 4Q '14 Global Performance (Consolidated)

[unit : 100 Million KRW, %]

	2013 4Q	2014 3Q	2014 4Q	QoQ	YoY
Sales	17,179	17,155	16,281	-5.1%	-5.2%
COGS	11,065 <i>(64.4%)</i>	11,019 <i>(64.2%)</i>	10,119 <i>(62.2%)</i>	-8.1%	-8.5%
Operating Profit	2,548 <i>(14.8%)</i>	2,759 <i>(16.1%)</i>	2,438 <i>(15.0%)</i>	-11.6%	-4.3%
Ordinary Profit	2,297 <i>(13.4%)</i>	2,515 <i>(14.7%)</i>	2,041 <i>(12.5%)</i>	-18.8%	-11.1%
EBITDA	3,467 <i>(20.2%)</i>	3,713 <i>(21.6%)</i>	3,544 <i>(21.8%)</i>	-4.6%	2.2%

# 1) Performance – Global

- **MKT** : Price competition intensified due to continuous raw material cost drop & over supply
- **HKT** : Despite of revenue decrease, sales volume increased by 2% YoY & OPM was secured through improvement of product mix



## 4Q Review

### 1. 4Q '14

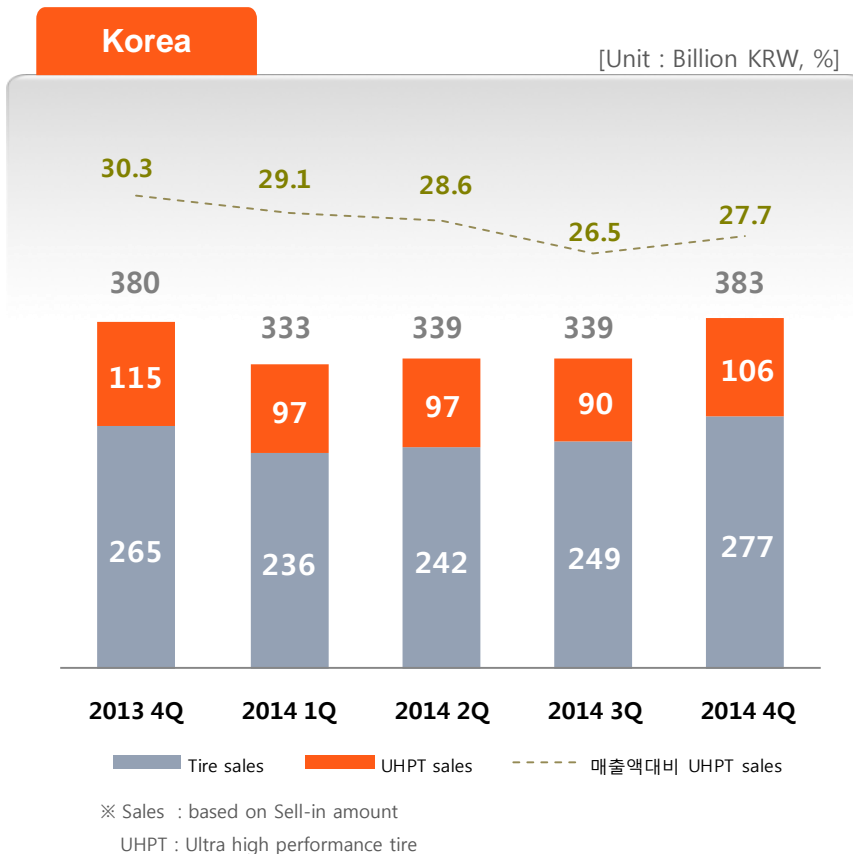
- ✓ **RE** : Sales decreased QoQ and slightly increased YoY despite of deepened market competition
- ✓ **OE** : Sales increased QoQ and YoY due to business expansion to premium OE

### 2. '15 Outlook

- ✓ **MKT** : 3% YoY market growth expected
- ✓ **HKT** : Plan to achieve business target by fully utilizing favorable business environment in US, second brand of Laufenn and diversifying global sales network

# 1) Performance – Korea

- **MKT** : Slow market growth continued and imported tires increased due to F/X effect
- **HKT** : Focused on premium market further differentiating HKT from competitors



## 4Q Review

### 1. 4Q '14

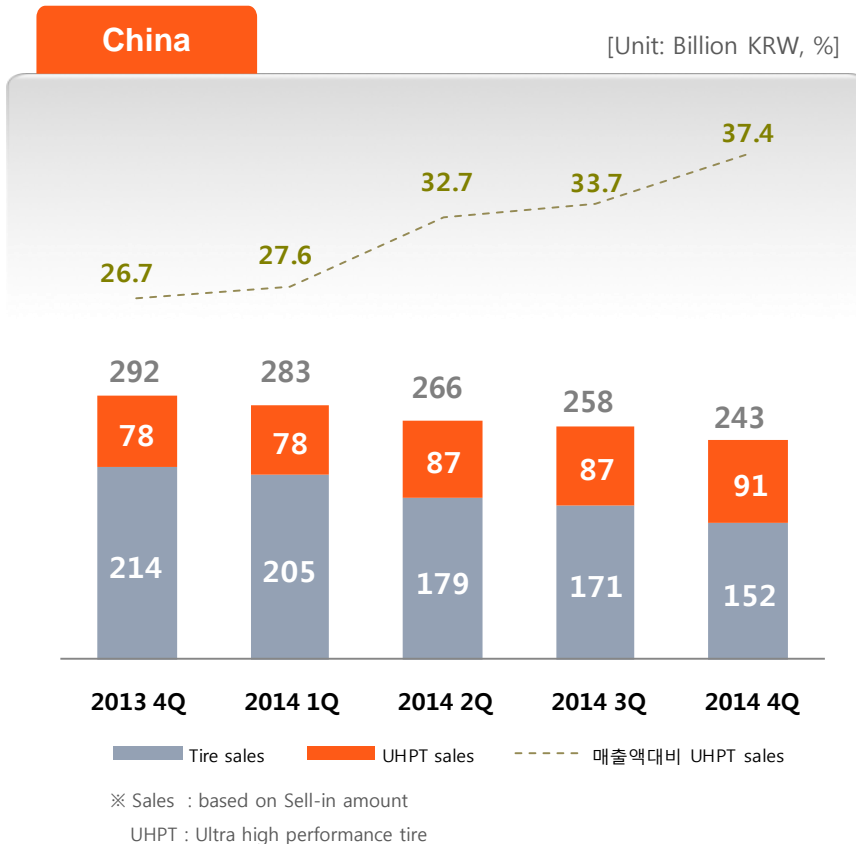
- ✓ **RE** : Sales increased QoQ and YoY due to the focus on premium market and product mix improvement in LTR and TBR segment
- ✓ **OE** : Sales increased QoQ, however, decreased YoY due to intensified price competition

### 2. '15 Outlook

- ✓ **MKT** : Expect increase of Japanese brand tires due to continued weak JPY
- ✓ **HKT** : Will strengthen dominant market position by expansion to premium OE sales

# 1) Performance – China

- **MKT** : Price competition intensified due to falling ASP and over supply in RE market
- **HKT** : Achieved qualitative growth by expanding UHP sales despite of severe market competition



## 4Q Review

### 1. 4Q '14

- ✓ **RE** : Sales stagnated in PCR and decreased in TBR due to growth slowdown in TBR
- ✓ **OE** : Sales increased QoQ and YoY thanks to steady demand and expansion to premium OE

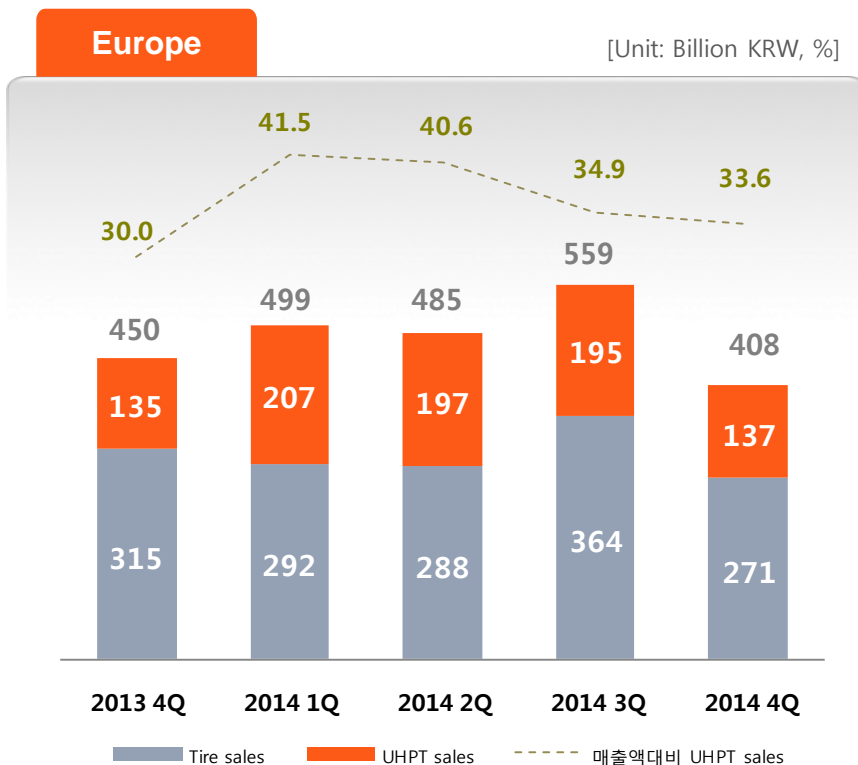
### 2 '15 Outlook

- ✓ **MKT** : Expect intensified market competition due to tariff impose by US gov't towards tires made in China
- ✓ **HKT** : Plan to focus on high inch and strategic product sales along with strengthening of TBR competitiveness



# 1) Performance – Europe

- MKT : Price competition continued due to the slow demand growth
- HKT : Enhanced brand awareness by expanding premium OE business in the region



※ Sales : based on Sell-in amount  
UHPT : Ultra high performance tire

## 4Q Review

### 1. 4Q '14

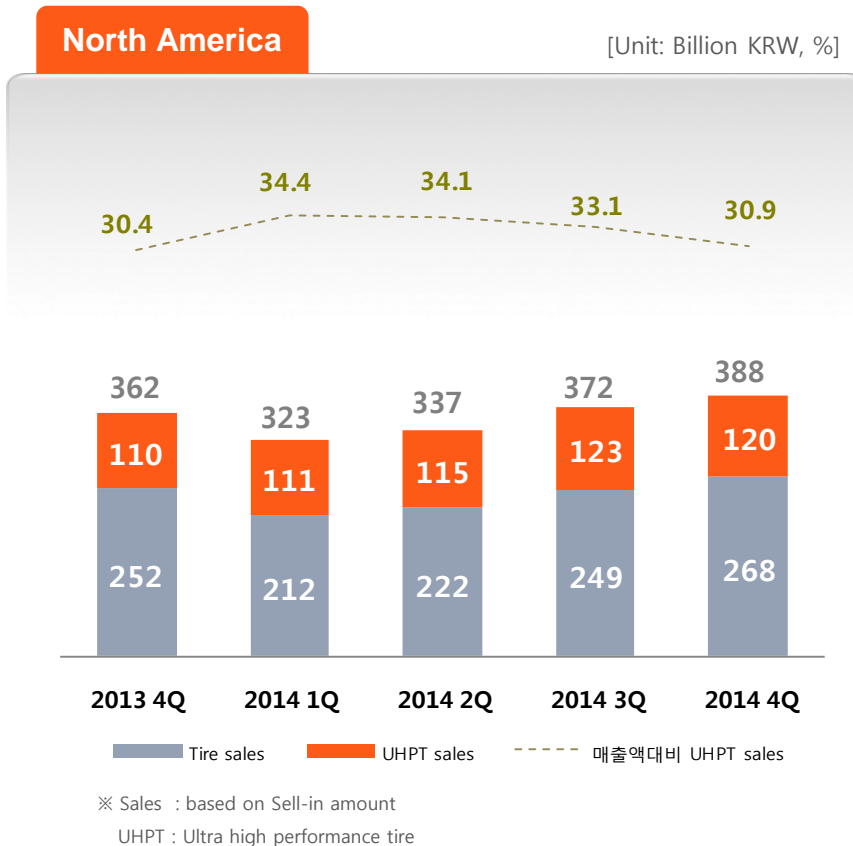
- ✓ RE : Sales dropped QoQ due to slow demand and price competition, however, volume slightly increased YoY
- ✓ OE : Sales increased in quantity QoQ and YoY thanks to business expansion around TBR segment

### 2 '15 Outlook

- ✓ MKT : Price competition will be intensified due to M/S expansion strategy among manufacturers
- ✓ HKT : Plan to restructure price positioning through enhanced retail networks

# 1) Performance – North America

- **MKT** : Demand gradually recovering due to steady economy recovery and demand expansion towards high efficient cars
- **HKT** : Recovered M/S by enhancing sales competency in the region



## 4Q Review

### 1. 4Q '14

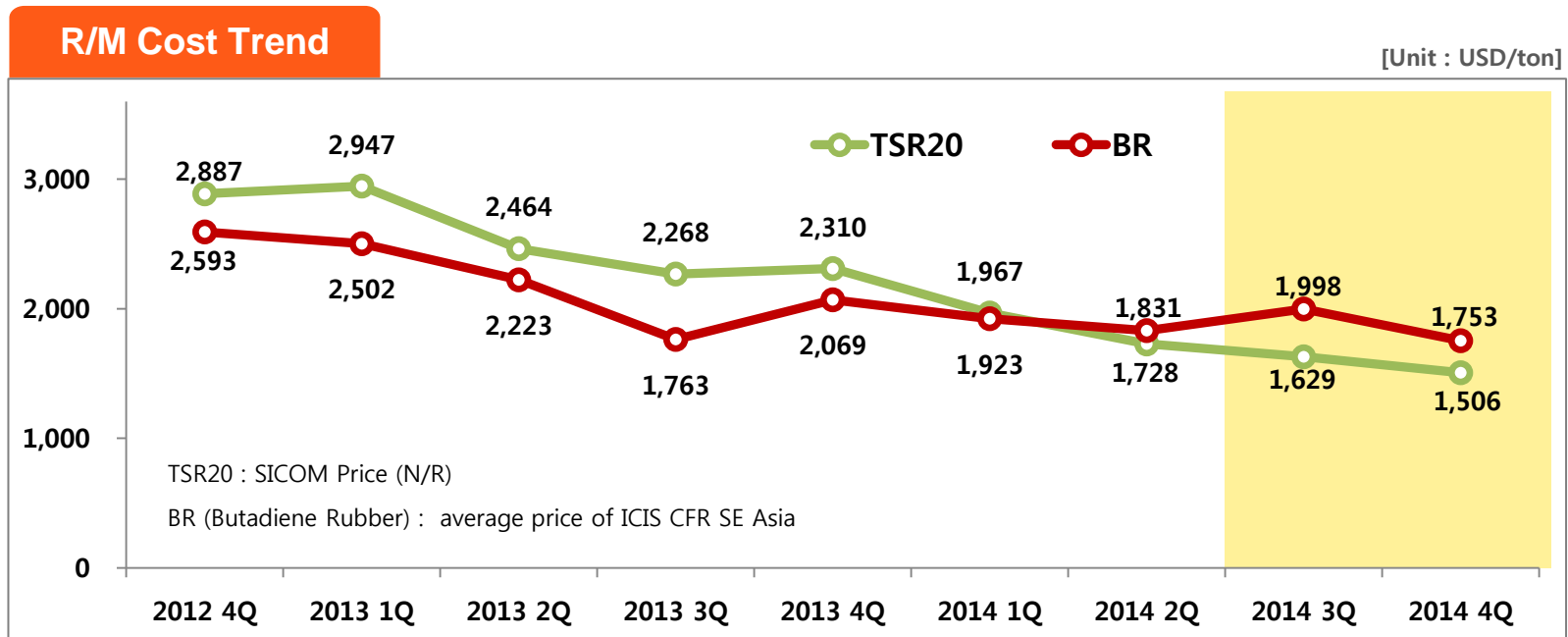
- ✓ **RE** : Sales increased QoQ and YoY due to economy recovery and growth in LTR and TBR segment
- ✓ **OE** : Revenue increased YoY thanks to sales expansion to major OE makers

### 2. '15 Outlook

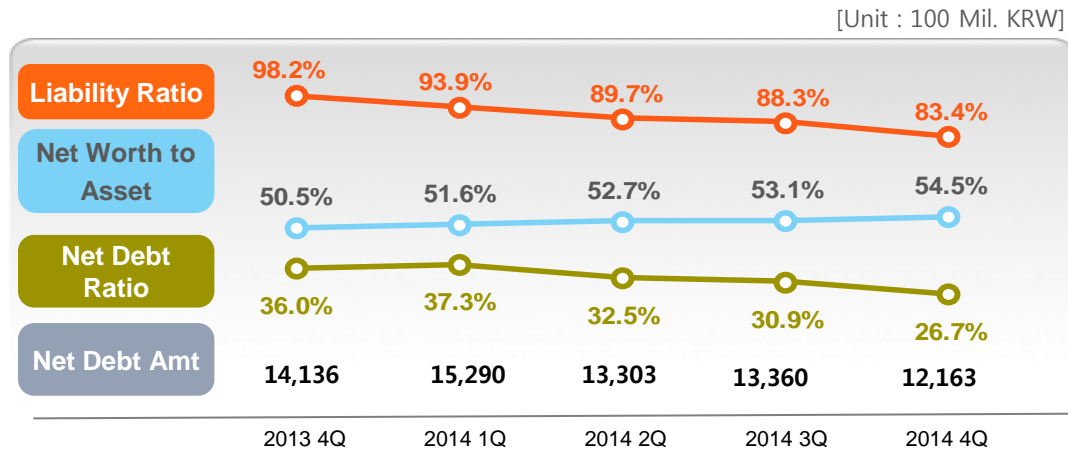
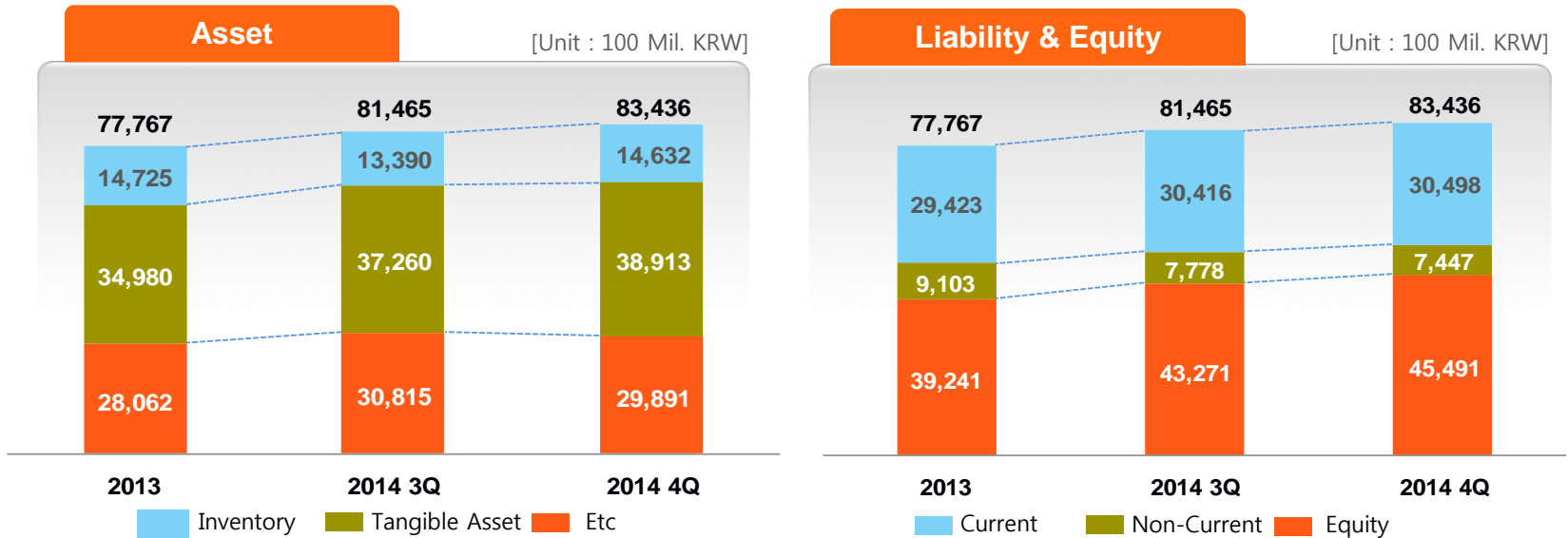
- ✓ **MKT** : Expect high market volatility according to tariffs & AD decision by US gov't towards Chinese tires
- ✓ **HKT** : Plan to expand M/S fully utilizing favorable market condition and introducing second brand, Laufenn

## 2) Stability : Raw Material Cost

- N/R
  - NR price kept falling due to weak demand in China and over supply from South East Asia
  - Expect slight price recovery in '15 thanks to economy recovery in US and demand increase in China
- S/R
  - S/R price in Asia dropped in large scale during 4Q due to lack of demand resulting in over supply
  - Price expected to remain same or slight lower level due to delay of global economy recovery



## 2) Stability : Balance Sheet (Consolidated)



---

# 2015 Business Plan

# 2015 Business Plan

- ▶ **Plan to digest ramp up volumes in '15 by enhancing sales competency & brand competitiveness**

**Develop new market & distribution downstream**

**Introduce second brand & enhance brand competitiveness**

**Secure product leadership**

# 1) 2015 Guidance

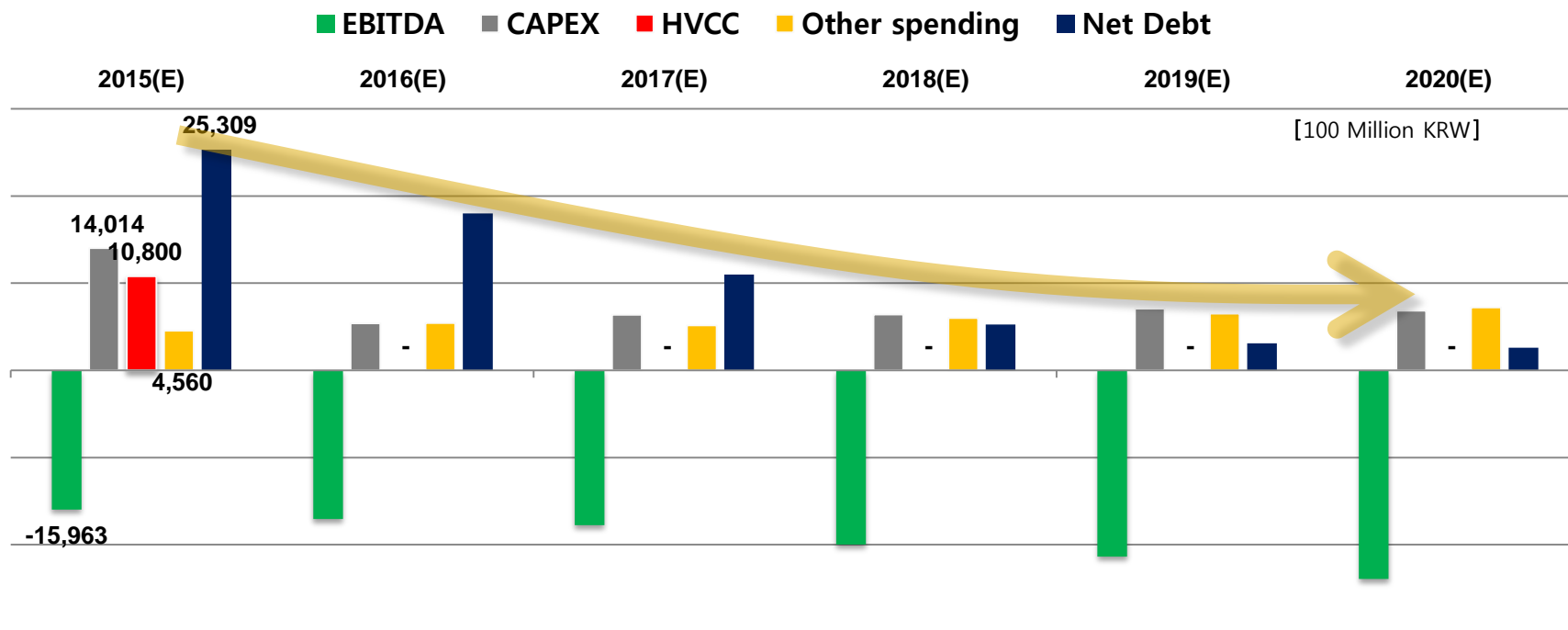
[100 Million KRW, %]

Global	2014 Result	2015 Plan	(%)
Sales	66,795	72,500	8.5%
COGS	42,800	47,450	10.9%
% of COGS	64.1%	65.4%	
Gross Profit	23,995	25,050	4.4%
SG&A	13,684	14,700	7.4%
Operating Profit	10,311	10,350	0.4%
OPM	15.4%	14.3%	

※ Consolidated basis

## 2) Mid/Long-Term Growth Strategy

- Hold a solid financial structure to grow as a global tire and auto parts company by 2020 through stable EBITDA generation

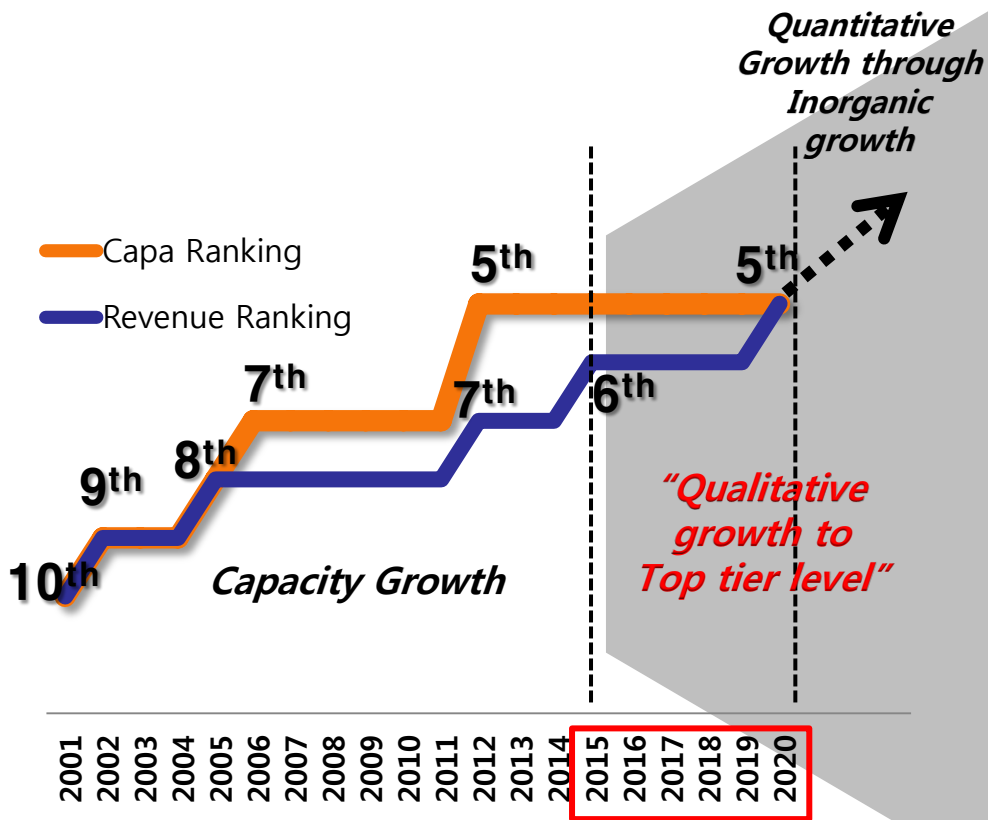


- Expect continuing net debt amount decrease by secured EBITDA generation
- Expect to hold enough cash for Inorganic growth thanks to CAPEX decrease from '16



## 2) Mid/Long-Term Growth Strategy

- Plan to transform organic investment strategy towards qualitative growth
- Reach out to global top tier level in area of product, brand and profitability by 2020
- Growth strategy to be applied for biz diversification in auto related industry & market control in tire industry



### Enhancement of Tire Market Control (Organic)

- Transformation to premium brand
- Productivity enhancement
- Investment expansion in R&D

### Revenue Growth & Biz. Diversification (Inorganic)

- Making investment based on ROI & business environment
- Candidate areas for Inorganic growth :  
Global auto parts biz, Global tire biz, or Region based biz

**End of The Document**

# Appendix. F/S – Consolidated B/S

[100 Million KRW]

	2013		2014		Diff.	
	Amt.	%	Amt.	%	Amt.	%
<b>Assets</b>	<b>77,767</b>	<b>100.0%</b>	<b>83,436</b>	<b>100.0%</b>	5,669	7.3%
Current Assets	39,522	50.8%	38,913	46.6%	-609	-1.5%
cashable assets	11,649	15.0%	11,735	14.1%	86	0.7%
Accounts receivable	11,910	15.3%	11,803	14.1%	-107	-0.9%
Inventories	14,725	18.9%	14,632	17.5%	-93	-0.6%
Non-current Assets	38,245	49.2%	44,523	53.4%	6,278	16.4%
Tangible assets	34,980	45.0%	40,216	48.2%	5,236	15.0%
<b>Liabilities</b>	<b>38,526</b>	<b>49.5%</b>	<b>37,945</b>	<b>45.5%</b>	-581	-1.5%
Current Liabilities	29,423	37.8%	30,498	36.6%	1,075	3.7%
Non-Current Liabilities	9,103	11.7%	7,447	8.9%	-1,656	-18.2%
<b>Shareholders' Equity</b>	<b>39,241</b>	<b>50.5%</b>	<b>45,492</b>	<b>54.5%</b>	6,251	15.9%
Debt	25,785		23,898			
Net debt	14,136		12,163			
<b>Liability Ratio</b>		98.2%		83.4%		
<b>Net Worth to Assets</b>		50.5%		54.5%		
<b>Net Debt Ratio</b>		36.0%		26.7%		

# Appendix. F/S – Korea B/S

[100 Million KRW]

	2013		2014		Diff.	
	Amt.	%	Amt.	%	Amt.	%
<b>Assets</b>	<b>46,560</b>	<b>100.0%</b>	<b>50,744</b>	<b>100.0%</b>	4,184	9.0%
Current Assets	22,881	49.1%	24,287	47.9%	1,406	6.1%
cashable assets	8,321	17.9%	5,562	11.0%	-2,759	-33.2%
Account receivable	9,892	21.2%	9,939	19.6%	47	0.5%
Inventories	4,552	9.8%	3,970	7.8%	-582	-12.8%
Non-current Assets	23,679	50.9%	26,457	52.1%	2,778	11.7%
Tangible assets	13,775	29.6%	13,921	27.4%	146	1.1%
<b>Liabilities</b>	<b>15,908</b>	<b>34.2%</b>	<b>16,679</b>	<b>32.9%</b>	771	4.8%
Current Liabilities	12,938	27.8%	14,300	28.2%	1,362	10.5%
Non-Current Liabilities	2,970	6.4%	2,379	4.7%	-591	-19.9%
<b>Shareholders' Equity</b>	<b>30,652</b>	<b>65.8%</b>	<b>34,065</b>	<b>67.1%</b>	3,413	11.1%

# Appendix. F/S – China B/S

[Mil RMB]

	2013		2014		Diff.	
	Amt.	%	Amt.	%	Amt.	%
<b>Assets</b>	<b>17,737</b>	<b>100.0%</b>	<b>18,484</b>	<b>100.0%</b>	<b>747</b>	<b>4.2%</b>
Current Assets	7,849	44.3%	7,926	42.9%	76	1.0%
Account receivable	5,229	29.5%	4,299	23.3%	-931	-17.8%
Inventories	1,539	8.7%	1,520	8.2%	-19	-1.2%
Non-current Assets	9,888	55.7%	10,558	57.1%	671	6.8%
Tangible assets	7,654	43.2%	8,081	43.7%	426	5.6%
<b>Liabilities</b>	<b>10,321</b>	<b>58.2%</b>	<b>9,614</b>	<b>52.0%</b>	<b>-708</b>	<b>-6.9%</b>
Current Liabilities	9,288	52.4%	8,304	44.9%	-984	-10.6%
Non-Current Liabilities	1,034	5.8%	1,310	7.1%	276	26.7%
<b>Shareholders' Equity</b>	<b>7,416</b>	<b>41.8%</b>	<b>8,870</b>	<b>48.0%</b>	<b>1,455</b>	<b>19.6%</b>

# Appendix. F/S – Hungary B/S

[Mil HUF]

	2013		2014		Diff.	
	Amt.	%	Amt.	%	Amt.	%
<b>Assets</b>	<b>262,384</b>	<b>100.0%</b>	<b>360,153</b>	<b>100.0%</b>	<b>97,769</b>	<b>37.3%</b>
Current Assets	164,526	62.7%	204,874	56.9%	40,347	24.5%
Account receivable	58,792	22.4%	68,825	19.1%	10,033	17.1%
Inventories	25,580	9.7%	30,578	8.5%	4,997	19.5%
Non-current Assets	97,858	37.3%	155,279	43.1%	57,421	58.7%
Tangible assets	97,814	37.3%	155,238	43.1%	57,424	58.7%
<b>Liabilities</b>	<b>163,935</b>	<b>62.5%</b>	<b>227,002</b>	<b>63.0%</b>	<b>63,067</b>	<b>38.5%</b>
Current Liabilities	131,579	50.1%	204,959	56.9%	73,380	55.8%
Non-Current Liabilities	32,356	12.3%	22,042	6.1%	-10,313	-31.9%
<b>Shareholders' Equity</b>	<b>98,449</b>	<b>37.5%</b>	<b>133,151</b>	<b>37.0%</b>	<b>34,702</b>	<b>35.2%</b>

# Appendix. F/S – Indonesia B/S

[K USD]

	2013		2014		Diff.	
	Amt.	%	Amt.	%	Amt.	%
<b>Assets</b>	<b>398,419</b>	<b>100.0%</b>	<b>623,482</b>	<b>100.0%</b>	<b>225,063</b>	<b>56.5%</b>
Current Assets	83,300	20.9%	199,794	32.0%	116,494	139.8%
Cashable assets	2,540	0.6%	70,418	11.3%	67,878	2672.3%
Account receivable	13,840	3.5%	22,437	3.6%	8,597	62.1%
Inventories	39,813	10.0%	35,013	5.6%	-4,800	-12.1%
Non-current Assets	315,119	79.1%	423,688	68.0%	108,569	34.5%
Tangible assets	281,610	70.7%	391,778	62.8%	110,168	39.1%
<b>Liabilities</b>	<b>283,452</b>	<b>71.1%</b>	<b>341,415</b>	<b>54.8%</b>	<b>57,963</b>	<b>20.4%</b>
Current Liabilities	61,310	15.4%	88,641	14.2%	27,331	44.6%
Non-Current Liabilities	222,142	55.8%	252,774	40.5%	30,632	13.8%
<b>Shareholders' Equity</b>	<b>114,967</b>	<b>28.9%</b>	<b>282,068</b>	<b>45.2%</b>	<b>167,100</b>	<b>145.3%</b>

# Appendix. F/S – Consolidated I/S

[100 Million KRW]

]	2013 4Q		2014 3Q		2014 4Q		YoY (%)	QoQ (%)
	Amt.	%	Amt.	%	Amt.	%		
<b>Sales</b>	<b>17,179</b>	<b>100.0%</b>	<b>17,155</b>	<b>100.0%</b>	<b>16,281</b>	<b>100.0%</b>	<b>-5.2%</b>	<b>-5.1%</b>
COGS	11,065	64.4%	11,019	64.2%	10,119	62.2%	-8.5%	-8.2%
Gross Profit	6,114	35.6%	6,136	35.8%	6,162	37.8%	0.8%	0.4%
SG&A	3,566	20.8%	3,377	19.7%	3,724	22.9%	4.4%	10.3%
<b>Operating Profit</b>	<b>2,548</b>	<b>14.8%</b>	<b>2,759</b>	<b>16.1%</b>	<b>2,438</b>	<b>15.0%</b>	<b>-4.3%</b>	<b>-11.6%</b>
Other Revenue	365	2.1%	495	2.9%	465	2.9%	27.2%	-6.1%
Other Expense	511	3.0%	693	4.0%	799	4.9%	56.3%	15.3%
Financial Revenue	110	0.6%	192	1.1%	233	1.4%	112.1%	21.4%
Financial Expense	215	1.3%	238	1.4%	296	1.8%	37.6%	24.4%
Income Before Income Tax	2,297	13.4%	2,515	14.7%	2,041	12.5%	-11.2%	-18.8%
<b>EBITDA</b>	<b>3,467</b>	<b>20.2%</b>	<b>3,713</b>	<b>21.6%</b>	<b>3,544</b>	<b>21.8%</b>	<b>2.2%</b>	<b>-4.6%</b>
<b>Depreciation</b>	<b>919</b>	<b>5.3%</b>	<b>954</b>	<b>5.6%</b>	<b>1,106</b>	<b>6.8%</b>	<b>20.3%</b>	<b>15.9%</b>



# Appendix. F/S – Korea I/S (IFRS)

[100 Million KRW]

	2013 4Q		2014 3Q		2014 4Q		YoY (%)	QoQ (%)
	Amt.	%	Amt.	%	Amt.	%		
<b>Sales</b>	<b>10,093</b>	<b>100.0%</b>	<b>8,900</b>	<b>100.0%</b>	<b>9,072</b>	<b>100.0%</b>	<b>-10.1%</b>	<b>1.9%</b>
COGS	6,850	67.9%	5,971	67.1%	6,042	66.6%	-11.8%	1.2%
Gross Profit	3,243	32.1%	2,928	32.9%	3,030	33.4%	-6.6%	3.5%
SG&A	2,078	20.6%	1,882	21.1%	2,051	22.6%	-1.3%	9.0%
<b>Operating Profit</b>	<b>1,165</b>	<b>11.5%</b>	<b>1,046</b>	<b>11.8%</b>	<b>979</b>	<b>10.8%</b>	<b>-16.0%</b>	<b>-6.4%</b>
Other Revenue	776	7.7%	755	8.5%	650	7.2%	-16.3%	-13.9%
Other Expense	276	2.7%	530	6.0%	568	6.3%	105.6%	7.2%
Financial Revenue	33	0.3%	115	1.3%	215	2.4%	555.1%	87.0%
Financial Expense	101	1.0%	85	1.0%	118	1.3%	16.5%	38.8%
Income Before Income Tax	1,596	15.8%	1,301	14.6%	1,158	12.8%	-27.5%	-11.0%
<b>EBITDA</b>	<b>1,689</b>	<b>16.7%</b>	<b>1,564</b>	<b>17.6%</b>	<b>1,531</b>	<b>16.9%</b>	<b>-9.4%</b>	<b>-2.1%</b>
<b>Depreciation</b>	<b>524</b>	<b>5.2%</b>	<b>516</b>	<b>5.8%</b>	<b>554</b>	<b>6.1%</b>	<b>5.7%</b>	<b>7.4%</b>

# Appendix. F/S – China B/S

[100 Million RMB]

	2013 4Q		2014 3Q		2014 4Q		YoY (%)	QoQ (%)
	Amt.	%	Amt.	%	Amt.	%		
<b>Sales</b>	<b>27.59</b>	<b>100.0%</b>	<b>25.17</b>	<b>100.0%</b>	<b>23.49</b>	<b>100.0%</b>	<b>-14.9%</b>	<b>-6.7%</b>
COGS	19.39	70.3%	18.37	73.0%	17.01	72.4%	-12.3%	-7.4%
Gross Profit	8.20	29.7%	6.80	27.0%	6.48	27.6%	-21.0%	-4.7%
SG&A	4.88	17.7%	4.72	18.8%	4.38	18.6%	-10.2%	-7.2%
<b>Operating Profit</b>	<b>3.32</b>	<b>12.0%</b>	<b>2.08</b>	<b>8.3%</b>	<b>2.09</b>	<b>8.9%</b>	<b>-37.1%</b>	<b>0.7%</b>
Other Revenue	0.69	2.5%	0.88	3.5%	2.19	9.3%	217.4%	148.1%
Other Expense	0.57	2.1%	1.22	4.8%	0.96	4.1%	68.4%	-21.3%
Financial Revenue	0.89	3.2%	0.13	0.5%	0.19	0.8%	-78.7%	48.2%
Financial Expense	1.06	3.8%	0.52	2.1%	0.38	1.6%	-64.2%	-26.7%
Income Before Income Tax	3.27	11.9%	1.35	5.4%	3.13	13.3%	-4.4%	131.9%
<b>E B I T D A</b>	<b>5.18</b>	<b>18.8%</b>	<b>3.82</b>	<b>15.2%</b>	<b>3.85</b>	<b>16.4%</b>	<b>-25.6%</b>	<b>0.9%</b>
<b>Depreciation</b>	<b>1.85</b>	<b>6.7%</b>	<b>1.74</b>	<b>6.9%</b>	<b>1.76</b>	<b>7.5%</b>	<b>-5.0%</b>	<b>1.1%</b>

# Appendix. F/S – Hungary I/S (IFRS)

[100 Million HUF]

	2013 4Q		2014 3Q		2014 4Q		YoY (%)	QoQ (%)
	Amt.	%	Amt.	%	Amt.	%		
<b>Sales</b>	<b>392.05</b>	<b>100.0%</b>	<b>435.53</b>	<b>100.0%</b>	<b>409.12</b>	<b>100.0%</b>	<b>4.4%</b>	<b>-6.1%</b>
COGS	281.04	71.7%	291.25	66.9%	264.40	64.6%	-5.9%	-9.2%
Gross Profit	111.01	28.3%	144.29	33.1%	144.72	35.4%	30.4%	0.3%
SG&A	42.57	10.9%	50.74	11.7%	47.79	11.7%	12.3%	-5.8%
<b>Operating Profit</b>	<b>68.44</b>	<b>17.5%</b>	<b>93.54</b>	<b>21.5%</b>	<b>96.93</b>	<b>23.7%</b>	<b>41.6%</b>	<b>3.6%</b>
Other Revenue	4.30	1.1%	4.89	1.1%	15.19	3.7%	253.1%	210.7%
Other Expense	5.70	1.5%	6.15	1.4%	8.12	2.0%	42.4%	32.1%
Financial Revenue	4.33	1.1%	3.53	0.8%	6.51	1.6%	50.3%	84.6%
Financial Expense	5.70	1.5%	7.42	1.7%	28.22	6.9%	395.2%	280.1%
Income Before Income Tax	65.67	16.8%	88.38	20.3%	82.29	20.1%	25.3%	-6.9%
<b>E B I T D A</b>	<b>115.19</b>	<b>29.4%</b>	<b>134.99</b>	<b>31.0%</b>	<b>133.69</b>	<b>32.7%</b>	<b>16.1%</b>	<b>-1.0%</b>
<b>Depreciation</b>	<b>46.74</b>	<b>11.9%</b>	<b>41.45</b>	<b>9.5%</b>	<b>36.76</b>	<b>9.0%</b>	<b>-21.4%</b>	<b>-11.3%</b>

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

[ Mil USD]

	2013 4Q		2014 3Q		2014 4Q		YoY (%)	QoQ (%)
	Amt.	%	Amt.	%	Amt.	%		
<b>Sales</b>	<b>62.10</b>	<b>100.0%</b>	<b>57.21</b>	<b>100.0%</b>	<b>65.19</b>	<b>100.0%</b>	<b>5.0%</b>	<b>13.9%</b>
COGS	41.76	67.2%	40.67	71.1%	45.42	69.7%	8.8%	11.7%
Gross Profit	20.34	32.8%	16.55	28.9%	19.77	30.3%	-2.8%	19.5%
SG&A	11.01	17.7%	10.02	17.5%	11.31	17.3%	2.7%	12.9%
<b>Operating Profit</b>	<b>9.33</b>	<b>15.0%</b>	<b>6.53</b>	<b>11.4%</b>	<b>8.46</b>	<b>13.0%</b>	<b>-9.3%</b>	<b>29.5%</b>
Other Revenue	0.45	0.7%	3.80	6.6%	0.34	0.5%	-23.8%	-91.0%
Other Expense	1.30	2.1%	3.88	6.8%	0.50	0.8%	-61.5%	-87.1%
Financial Revenue	0.11	0.2%	0.42	0.7%	0.27	0.4%	154.7%	-35.2%
Financial Expense	1.77	2.9%	1.75	3.1%	1.30	2.0%	-26.6%	-25.8%
Income Before Income Tax	6.81	11.0%	5.11	8.9%	7.26	11.1%	6.6%	42.0%
<b>E B I T D A</b>	<b>14.49</b>	<b>23.3%</b>	<b>12.09</b>	<b>21.1%</b>	<b>14.48</b>	<b>22.2%</b>	<b>-0.1%</b>	<b>19.8%</b>
<b>Depreciation</b>	<b>5.17</b>	<b>8.3%</b>	<b>5.55</b>	<b>9.7%</b>	<b>6.02</b>	<b>9.2%</b>	<b>16.6%</b>	<b>8.5%</b>