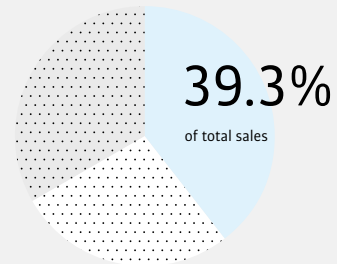


## Synthetic Rubbers

2016 Sales Revenue

# KRW 1,559.2 billion



### Main Products

SBR, HBR, LBR, SSBR, NBR,  
HSR, NdBR, SB Latex, NB Latex,  
SBS, STE

### Key Applications

Tires, Shoes, Automobile Parts,  
Sporting Goods, Asphalt,  
Waterproof Sheet, Plastics,  
Paper, Gloves

### Major Customers

Hankook Tire  
Kumho Tire  
Nexen Tire  
Goodyear Tire  
Continental Tire  
Bridgestone Tire  
Michelin Tire  
YTY  
Hartalega  
Moorim Paper  
Hankuk Paper



SALES IN OUR SYNTHETIC RUBBERS BUSINESS ROSE SLIGHTLY TO KRW 1,559.2 BILLION IN 2016. OUR FOCUS IN 2017 WILL BE ON IMPROVING PROFITABILITY ACROSS-THE-BOARD, INCLUDING RAMPING UP PRODUCTION AT OUR RECENTLY EXPANDED NB LATEX PLANT.

### 2016 Review

Synthetic rubbers accounted for 39.3% of total consolidated sales in 2016. Despite a challenging market environment, we recorded sales of KRW 1,559.2 billion, up slightly from the previous year. Profitability also improved, helping keep overall corporate profitability stable.

The synthetic rubbers market has seen competition intensify due to increasing oversupply during the past few years. At the same time, the supply for key feedstock BD (butadiene) has steadily tightened, leading to greater price volatility than changing market conditions would seem to warrant. Despite the above challenges, rising expectations for an improvement in the supply situation due to a decline in capacity expansion projects combined with easing oversupply in the natural rubber market helped demand for synthetic rubbers to make modest gains during the year. This enabled us to more easily pass on the cost of rising feedstock prices to customers in the first half of the year.

Overall, we were able to make encouraging profitability gains for the year in this business as we effectively responded to market conditions. Here, timely capacity expansion in more profitable product categories such as NB (acrylonitrile butadiene) latex combined with tight inventory management played a key role in boosting the proportion of higher margin products in our sales mix.

### 2017 Outlook

The global auto industry is projected to see continued growth in the 2% to 3% range in 2017. Global tire production is also expected to grow at the same rate, driven by steady growth in China, home to approximately one-third of global production capacity, as well as projected substantial production volume growth in other Asian markets. Although China's growth has slowed slightly due to environmental issues, that country's share of the global auto and tire markets will continue to grow.

We continue to work tirelessly to improve our performance in the synthetic rubbers business, a field beset by structural oversupply that has worsened with the addition of new capacity over the past few years. We will improve the profitability of major product categories such as BR and SBR by pursuing a flexible, profit-focused sales strategy. The completion of an NB latex capacity expansion project in 2016 will enable us to increase both capacity and profitability, boosting sales volume as well as our market clout. We will also be focusing on strengthening strategic relationships with our customers as we build a stronger, more robust sales network.

Securing a stable supply of BD feedstock for our operations is another area of ongoing focus. The recent trend toward vertical integration and a relative lack of capacity expansion in the BD market have created a tight supply situation and market volatility. We are strengthening our relationships with existing BD suppliers as we work to expand procurement channels where possible. We will also raise the utilization rate of our own captive BD plant to actively mitigate market volatility.