

beyond  
the best

KUMHO PETROCHEMICAL

Kumho Petrochemical Annual Report 2012

# READY FOR TOMORROW





At Kumho Petrochemical Co., Ltd. (KKPC), we have grown along with our customers since our founding in 1970 by providing innovative petrochemical solutions and customer-focused service. Today as a trusted partner and the world's largest and most competitive producer of synthetic rubbers with world-class technology and products in the fields of synthetic resins, phenol derivatives, and specialty chemicals, we are now expanding into the fields of energy, electronic materials, building materials, and advanced materials to drive future growth as we pursue our vision becoming a global leading chemical group by 2020.

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# Ready for Tomorrow

In early 2010, the Kumho Asiana Group entered a workout program with creditors as its performance worsened due to an overaggressive merger and acquisition strategy further aggravated by the global financial crisis. As a member of the group, we at KKPC had also cross-invested in group affiliates. As the valuation losses on these equity-method investments in Kumho Industries, Kumho Tire, and other affiliates mounted, our soaring debt-to-equity ratio led to the signing of a memorandum of understanding with 14 creditor banks as part of our business normalization plan.

We approached this crisis as an opportunity to improve our financial structure and transform ourselves into a stronger, healthier company. We sold off our holdings in the unprofitable affiliates that had been the source of our equity-method valuation losses and refocused our holdings on our chemical affiliates to build a first-rate chemical group. These actions as well as consecutive record-setting business performances in 2010 and 2011 enabled us to graduate from our MOU with creditor banks on schedule at the end of 2012.

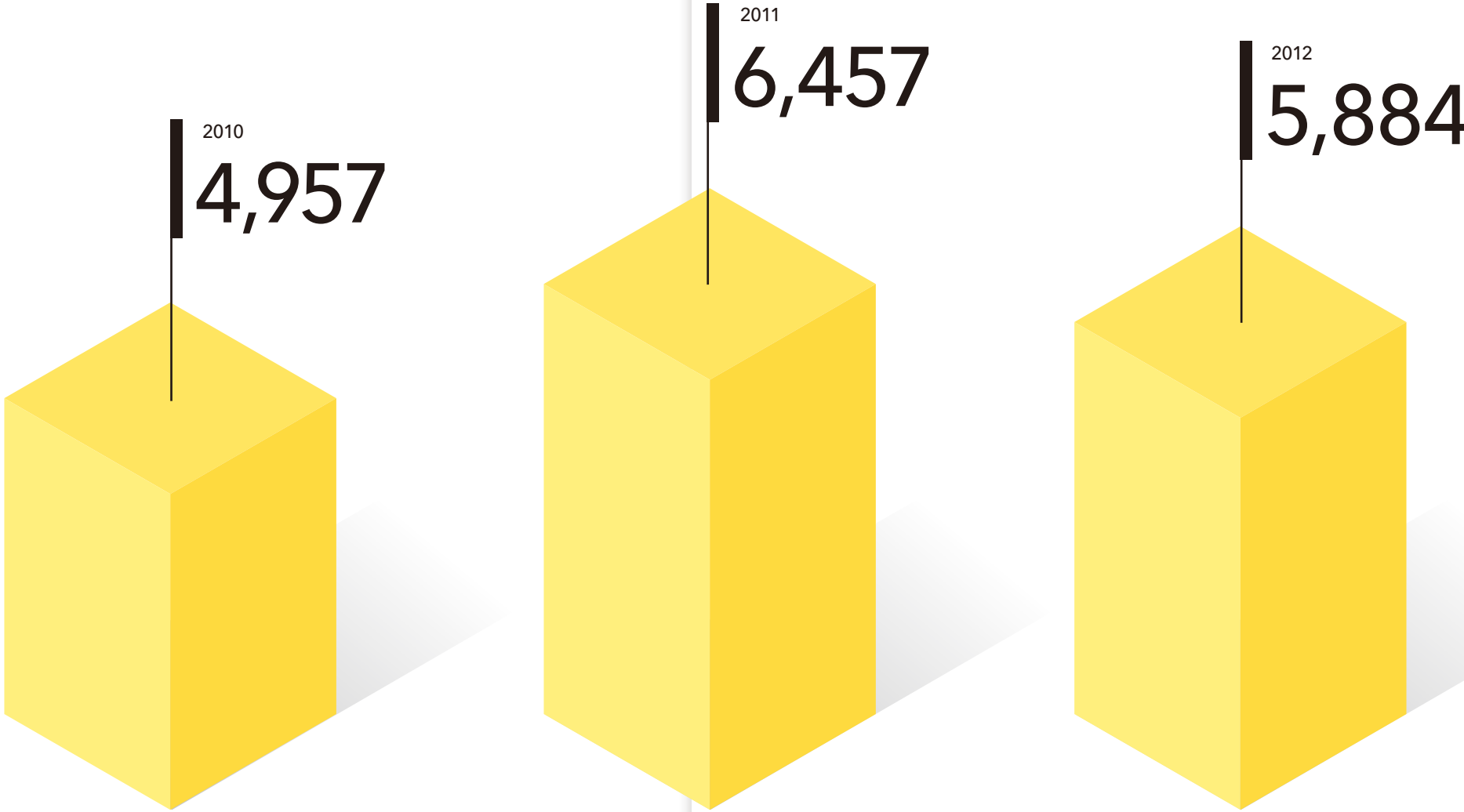
Over the past three years, we have achieved far beyond what we or anyone else could have imagined. The results speak for themselves.

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After recording sales of KRW 4,957 billion in 2010, the first year under the MOU with our creditor banks, we delivered the best performance in our history in 2011 with sales of KRW 6,457 billion as we continued to strengthen the global competitiveness of our core synthetic rubbers business through capacity expansion. In 2012, sales declined just under 9% to KRW 5,884 billion due to falling prices of both raw materials and products as the global economy weakened.

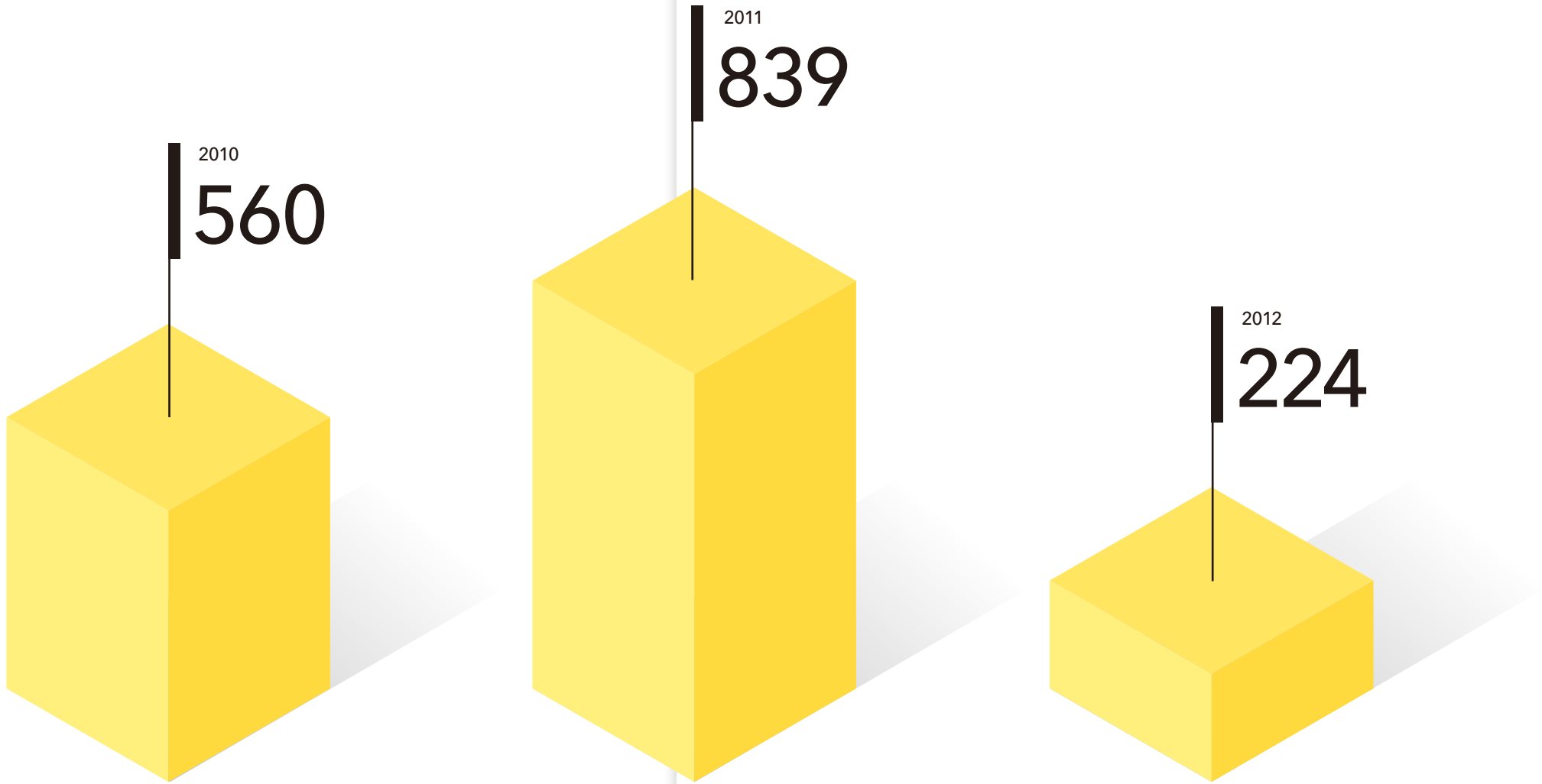
Sales

In KRW Billions



Operating income rose from KRW 560 billion in 2010 to KRW 839 billion in 2011 thanks to record sales and a boom in the synthetic rubber market that led to higher prices and profitability. In 2012, a major decline in demand for synthetic rubbers combined with volatile butadiene feedstock prices weakened profitability as operating income fell over 73% to KRW 224 billion.

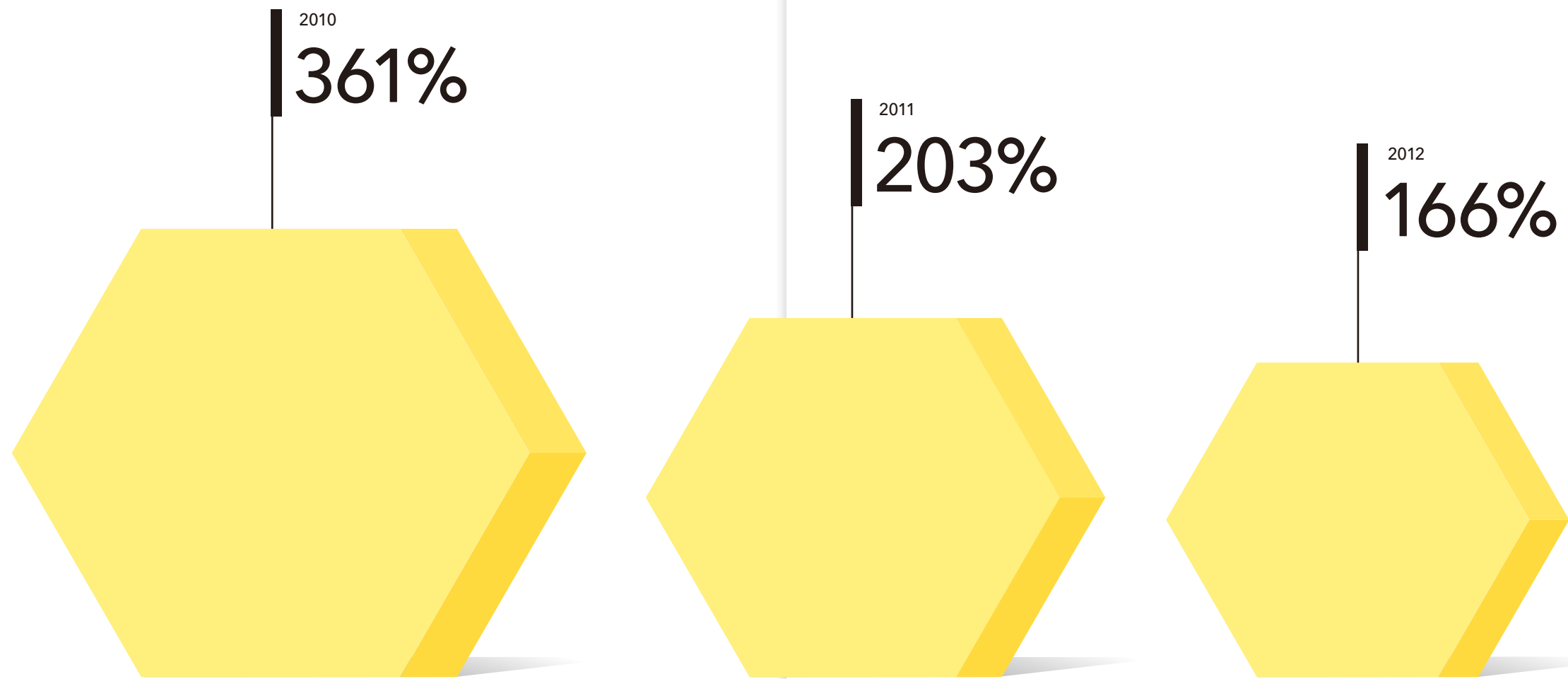
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**Operating Income**  
In KRW Billions





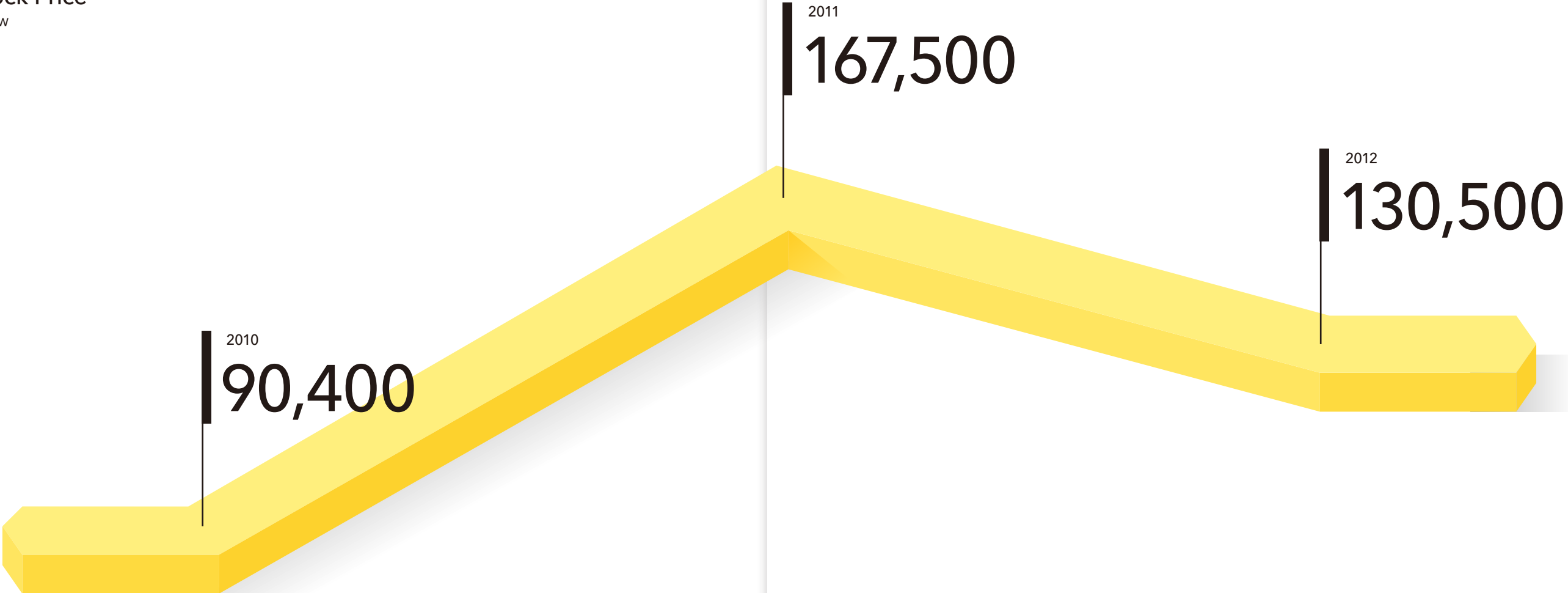
We have steadily reduced our debt-to-equity ratio from 361% at the end of 2010 by retiring or converting short-term debt into long-term debt, reducing our interest costs by winning credit upgrades, and improving our ability to generate cash. At the end of 2012, our net debt fell to KRW 1,843 billion, reducing our debt-to-equity ratio to 166%.

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Debt-to-Equity Ratio



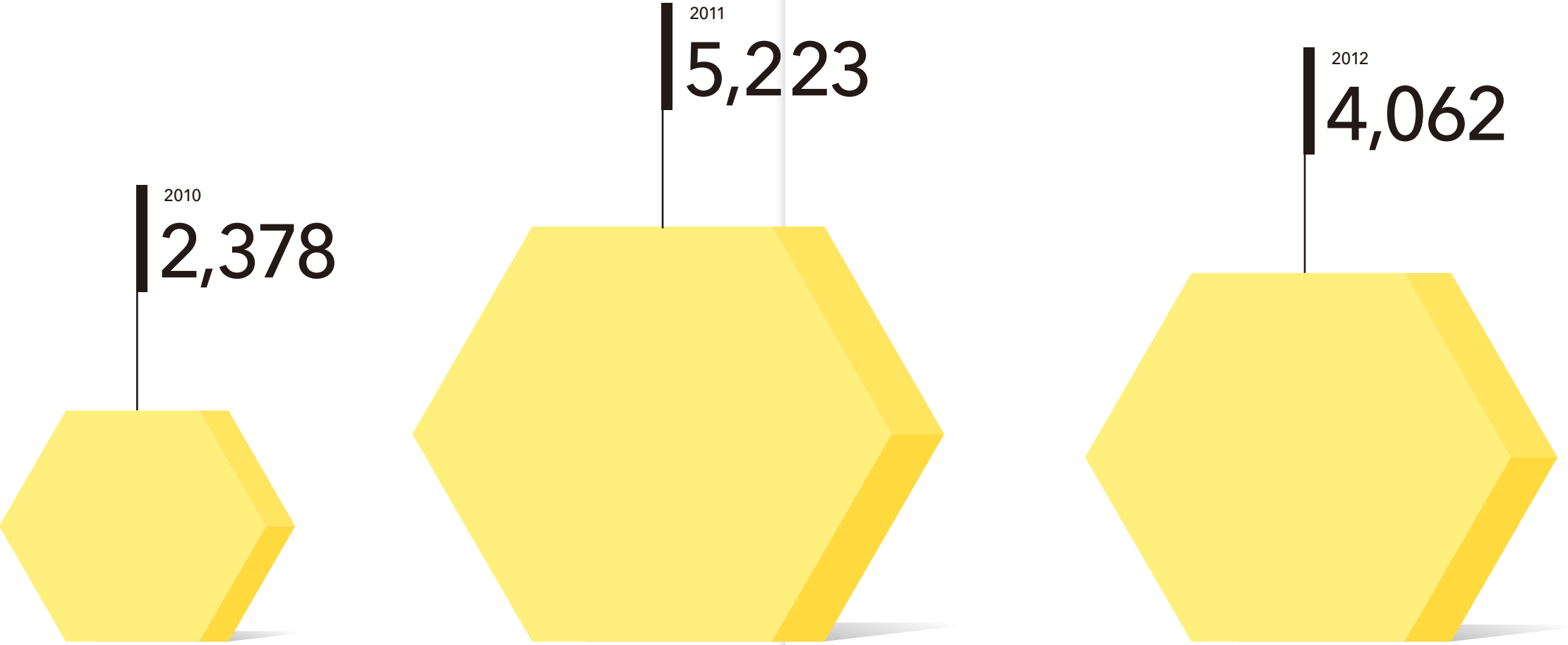
After closing 2010 at KRW 90,400, our stock began a steady climb on the strength of rising sales and profitability and an improved financial structure that saw it reach a record-high of KRW 253,000 in July 2011. However, declining demand and falling prices in our core synthetic rubbers business starting in late 2011 took a toll on our stock in 2012 as it finished the year down 22% at KRW 130,500.

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**Stock Price**  
In KRW



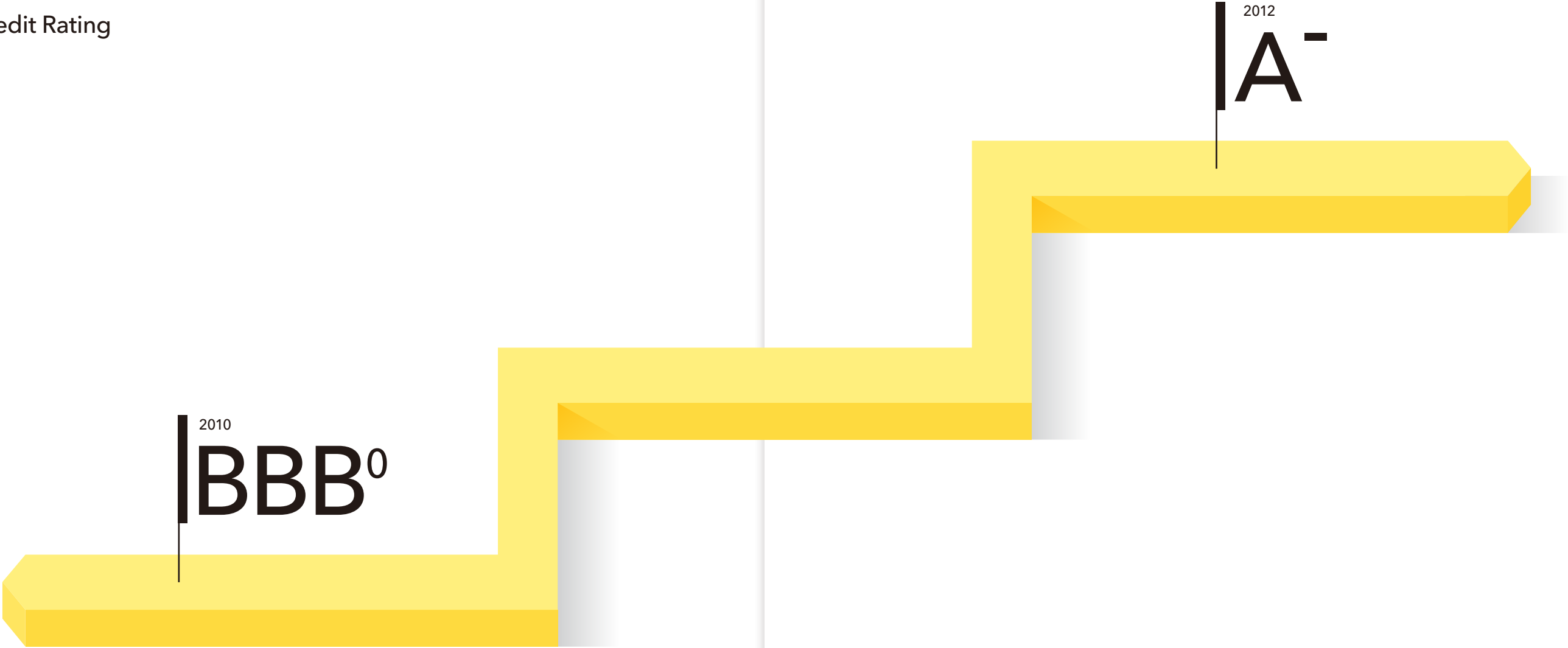
We closed 2010 with a market cap of KRW 2,378 billion. Since then, our market value has grown dramatically as we have earned increasingly favorable ratings in the marketplace by focusing on operational excellence, the asset quality of our chemical affiliates, and managerial independence. We closed 2012 with a market cap of KRW 4,062 billion.

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**Market Capitalization**  
In KRW Billions



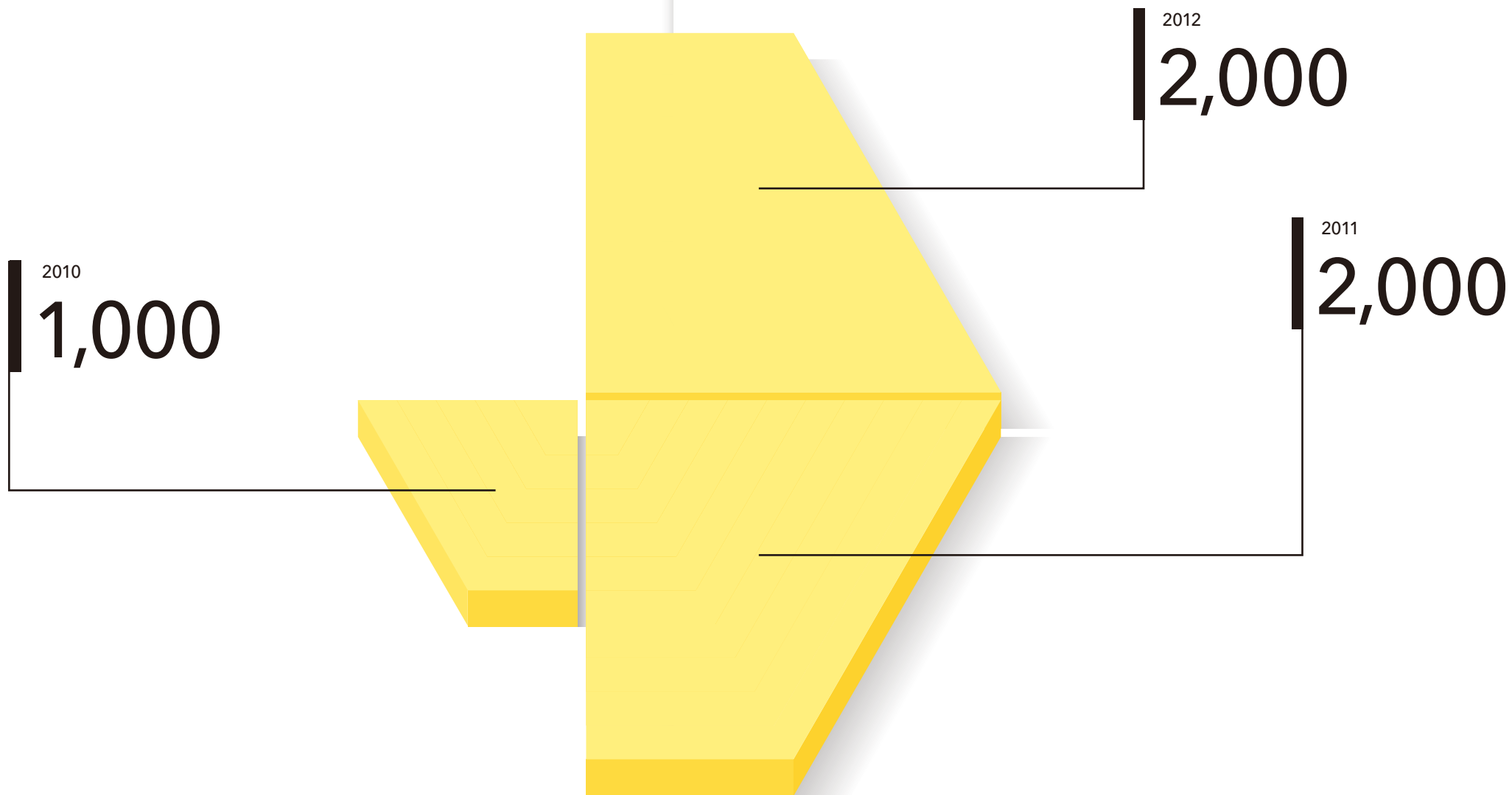
In May 2012, Korea Investors Service upgraded our credit rating to A-, up two steps from our BBB0 rating at the end of 2010. This upgrade was awarded based on the stability and competitiveness of our synthetic rubbers business, improved operating results and profitability due to ongoing capacity expansion, and sound fundamentals and profitability at our chemical affiliates.

Credit Rating



Consecutive net losses in 2008 and 2009 consumed all the reserves we had set aside to cover contingencies. Although this made it impossible for us to declare a dividend in 2009, our return to solid profitability in 2010 enabled us to declare a dividend of KRW 1,000 per common share in 2010 and KRW 2,000 in both 2011 and 2012.

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**Dividend**  
In KRW





**Ready for Tomorrow**

- 17 Lessons Learned
- 31 Financial Highlights
- 32 A Message from the Chairman
- 34 A Message from the President
- 38 Vision 2020
- 39 Ready for Tomorrow

**Management Review**

- 53 Corporate Governance
- 54 Key Executives
- 56 Shareholder Value
- 59 Research & Business Development
- 64 Risk Management

**Corporate Citizenship**

- 67 Business Ethics
- 68 Environmental Management
- 70 Social Responsibility

**Review of Operations**

- 73 2012 Overview
- 74 Synthetic Rubbers
- 78 Synthetic Resins
- 82 Other Businesses
- 87 The Year Ahead

**Financial Review**

- 89 Independent Auditors' Report
- 91 Consolidated Statements of Financial Position
- 93 Consolidated Statements of Income
- 94 Consolidated Statements of Comprehensive Income
- 95 Consolidated Statements of Changes in Equity
- 97 Consolidated Statements of Cash Flows
- 99 Independent Auditors' Report
- 101 Separate Statements of Financial Position
- 103 Separate Statements of Income
- 104 Separate Statements of Comprehensive Income
- 105 Separate Statements of Changes in Equity
- 106 Separate Statements of Cash Flows

- 108 Corporate History
- 110 Chemical Affiliates
- 111 Global Partnerships
- 112 Global Network

During this challenging period of company normalization under our MOU with creditor banks, we have made remarkable advances in terms of growth, profitability, and financial stability. At the same time, there have been a number of behind-the-scenes but equally important achievements at the organizational level as we have learned and grown through the process. This invaluable experience in uniting together to overcome adversity will provide a solid foundation for our growth and development in the years ahead.

The following are a few of the most important lessons we learned during the challenging past three years.





Discipline isn't just about doing more with less.



It's about having the integrity to do the right thing every time.







Leadership isn't just about managing things or people.



It's about sharing a vision and then enabling people to accomplish it.







Integrity isn't just about keeping our promises.



It's about cultivating a deep respect for the law and our stakeholders.







Overcoming challenges isn't just about getting things done.



It's about fostering dedication, collaboration, and professional growth.







Synergy isn't just about being more efficient or effective.



It's about collaborating with partners to better meet local needs.







Satisfaction isn't just about money and benefits.



It's about seeing our ideas succeed in the real world.





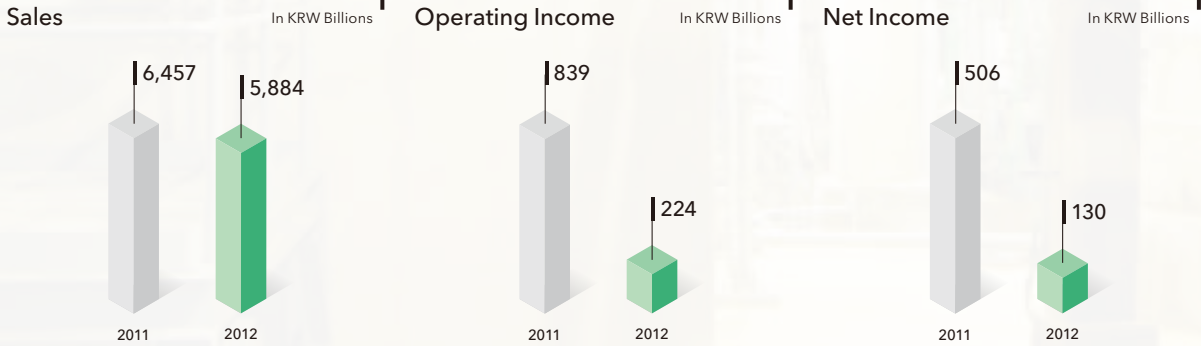


These invaluable lessons are the reasons we are ready for tomorrow, today.



## Financial Highlights

In KRW Billions	2012	2011
<b>Income Statements</b>		
Sales	5,883.7	6,457.4
Operating Income	223.8	839.0
Income before Income Tax	133.7	758.4
Net Income	129.6	505.6
Net Financing Cost	64.6	156.6
<b>Balance Sheets</b>		
Total Assets	4,410.7	4,714.2
Total Liabilities	2,752.4	3,157.2
Total Equity	1,658.4	1,557.1
<b>Key Figures</b>		
Operating Margin	3.8%	13.0%
Debt-to-Equity Ratio	166.0%	202.8%
Earnings per Share in KRW	4,959	24,723
Return on Equity	8.1%	41.3%
Interest Coverage Ratio	2.21x	5.99x
Dividend per Ordinary Share in KRW	2,000	2,000
Capital Expenditures	313.9	277.2







# A Message from the Chairman



Dear Valued Stakeholder,

Since our establishment in the 1970s, we have overcome countless challenges—from the oil shocks of the 1970s and the Asian financial crisis of the late 1990s, to the global financial crisis of the late 2000s—to become what we’ve become today. Although the road we’ve traveled hasn’t been easy, the most difficult moment we faced was in 2009 when we made the hard but unavoidable decision to sign an MOU with 14 creditor banks relating to a company normalization plan after we recorded the largest net loss in our history due to major valuation losses on our equity-method investments in Kumho Asiana Group affiliates.

Faced with this desperately serious situation, we came together as one. Every member of our organization worked tirelessly in unison to normalize management and build a better KKPC. These phenomenal efforts enabled us to graduate from our MOU with creditor banks on schedule at the end of 2012. It’s said that crisis is a rendezvous with opportunity. Over the past three years, we have separated ourselves from the Kumho Asiana Group, cultivated the ability to stand alone, and improved our structure, transforming our company into a strong and healthy organization capable of weathering any challenge that may lie ahead.

All of the above accomplishments have only been possible because of you, our valued stakeholders. If you’re a shareholder, thank you for unfailingly supporting and encouraging us through good times and bad. If you’re a customer, thank you for believing and buying our products. If you’re a partner, thank you for working with us to achieve our goals. If you’re a member of our local communities, thank you for our unwavering trust and support. And if you’re an employee, thank you for your tireless dedication and sacrifice behind the scenes.

Now that we have graduated from the MOU with our creditor banks, we expect to step up our decision-making speed and achieve higher managerial efficiencies in 2013 as we move full-speed ahead toward our vision of becoming a global leading chemical group by 2020. We are now better prepared than ever for the future. I say that because we have the right people, resources, and market competitiveness to take us to the next level. However, the sluggish global economic recovery and volatile exchange rates and raw materials prices are creating unprecedented volatility and uncertainty. In these increasingly challenging times, it’s imperative that we move forward in pursuit of mutual growth with you, our valued stakeholders. We ask for your continued support and encouragement as we take the next step toward becoming one of the world’s top petrochemical companies.

**Chan-Koo Park**  
Chairman & CEO, Kumho Petrochemical





# A Message from the President



Dear Valued Shareholder, Customer, or Partner,

The year 2012 was a challenging year for the entire global petrochemical industry as the global economy struggled. Even China, the country that had been buttressing the global economy ever since developed nations lost their growth momentum, saw its growth shrink. Our core synthetic rubbers business experienced a serious downturn that severely impacted profitability, preventing us from achieving our business targets for the year despite our best efforts.

Although our results were disappointing on the surface, we had a number of significant achievements during the year. In December 2012, we graduated from the MOU with our creditor banks, enabling us to fully regain our managerial independence. We successfully completed several capacity expansion projects during the year that strengthened the competitiveness of our existing businesses and laid a solid foundation for future growth. However, the Eurozone’s inability of find a clear resolution to its unfolding financial crisis is expected to prolong the current economic sluggishness as 2013 shapes up to be another challenging year for us. In the following paragraphs, I’ll review our 2012 performance and then preview our goals and major strategies for 2013.

**The Year in Review**

From an operational standpoint, we saw profitability fall in our synthetic rubbers and phenol derivatives businesses. Consolidated sales declined 8.9% to KRW 5,883.7 billion and operating income dropped 73.3% to KRW 223.8 billion. Although these results are disappointing following our record performance in 2011, we did have a number of notable achievements that will pave the way for solid growth going forward, including major SBR and SSBR capacity expansion projects in our synthetic rubbers business and additional investment in our energy business.

From a financial perspective, our debt-to-equity ratio fell 37 percentage points to 166% at the end of 2012. Korea Investors Service also raised our credit rating from BBB+ to A- as we continued to bolster our financial soundness. However, the most memorable moment of the year came in December when we regained our managerial independence as we graduated from our MOU with creditor banks, prepared for the next phase of growth.



From a business perspective, our synthetic rubbers business successfully wrapped up capacity expansion projects that increased SBR capacity by 110,000 mtpy in September and SSBR capacity by 60,000 mtpy in November, further enhancing our economies of scale. Our synthetic resins business rapidly responded to fast-changing market conditions to achieve its fourth-straight operating profit. Our phenol derivatives business completed a 25,000 mtpy MIBK expansion project in December and launched a 150,000 mtpy BPA expansion project. Our specialty chemicals business completed a pilot plant to produce key feedstock 4-ADPA. Our energy business had its best sales and operating income performance to date. Last but not least, our electronic materials business broke ground for a carbon nanotube plant, laying the foundation for new growth in that high-tech field.

**The Year Ahead**

Having graduated from our company normalization plan in 2012, the year 2013 will be the first year we are back in full control of our destiny. However, global instability due to ongoing Eurozone financial woes and friction over exchange rates indicate that the business environment will be anything but easy. Our experience in 2012 confirms that no business can expect to generate reliable returns without constant effort. Taking this lesson to heart, we are united in our determination not make the same mistakes again as we move forward with the following initiatives.

**Major Initiatives**

**We will strengthen our business structure.** With the global economic downturn expected to continue for the foreseeable future, we cannot rely on the external environment to boost our businesses. We must constantly look for ways to strengthen our competitiveness. Toward this end, we will be continually working to expand our customer base and pursue cost leadership as we focus on practical ways to improve sales and profitability.

**We will strengthen our sales, production, and procurement strategies.** The ability to respond to rapidly changing markets requires the smooth interchange of information between organizational units and timely decision-making. Toward this end, we will focus on inventory management and improving demand-forecasting accuracy to enable us to more flexibly respond to market uncertainty.

**We will strengthen our management capabilities.** We are now in the process of transforming into an organization that is capable of rapidly responding to change. In the R&D area, will evaluate and implement plans to improve the operational efficiency of our R&D operations to shorten our time-to-market for new products. In the sales area, we will actively target growth markets as we strive to bolster our leadership in existing ones.

**We will secure a foundation for continued growth.** We are now aggressively pushing ahead with the adoption of new technologies and products such as SSBR, which is used to make eco-friendly tires. At the same time, we will redouble our efforts to identify new business opportunities in related fields as well as entirely new ones. Another priority will be ensuring the smooth adoption of our new butadiene production process and construction of our new carbon nanotube plant now underway in Asan.

Our direction and goals outlined in Vision 2020 are clear. Armed with the confidence that we can overcome any challenge backed by our rigorously tested risk management capabilities, we will take the next step in 2013 toward our vision of becoming a global leading chemical group with sales of KRW 20 trillion and at least 20 world-class products by 2020. Your continued support and encouragement are greatly appreciated as our experienced and capable team sets its sights on creating greater value for all our stakeholders in the year ahead.

**Seong-Chae Kim**  
President & CEO, Kumho Petrochemical



## Vision 2020

By 2020, we aim to be a global leading chemical group with sales of KRW 20 trillion and 20 world-class products.

## Mission

### For Our Customers

We create customer value with the best solutions and synergy.

### For Our Shareholders

We deliver shareholder value by selecting and focusing to maximize profits.

### For Our Employees

We work to create a virtuous cycle of growth where both company and employees grow.

### For Humanity & The Environment

We will create green chemicals that coexist in harmony with people and nature.

## Core values

### Passion For Excellence

We take the initiative with responsibility and passion, always learning as we aim for world-class professional and technical leadership in pursuit of our vision.

### Innovation For Satisfaction

We embrace change as we proactively strive to deliver increasingly greater value to our customers, unencumbered by conventional practices and success formulas.

### Collaboration For Unity

We build personal and professional trust through respect for diversity, open communication, and mutual collaboration.

### Responsibility For Integrity

Our commitment to social and corporate responsibility is built on a commitment to the basics that puts environmental safety and corporate ethics first.

## Slogan

**beyond**  
the best

At KKPC, we have an ambitious vision of becoming a global leading chemical group by 2020 with sales of KRW 20 trillion and at least 20 world-class products.

Today, we are hard at work to make this vision a reality as we chart a course for continuous growth and global leadership by expanding our leadership in our synthetic rubbers business, thinking green to deliver new eco-friendly products, aiming for excellence in each product category, investing to expand economies of scale, generating new growth through our energy business, and expanding our growth possibilities by developing high-tech next-generation products.

# Expand Leadership

Over 10% of the world's tires are made with KKPC synthetic rubbers. As the world's No. 1 producer, we expanded our annual SBR and SSBR capacity in 2012 by 110,000 mtpy and 60,000 mtpy, respectively, taking our competitiveness and market leadership to the next level.

10%+

Synthetic Rubbers  
Global Market Share



# Think Green

Taking care of the environment is both a responsibility and an opportunity for companies. At KKPC, we completed a new 60,000-mtpy production line in 2012 for SSBR, a key material used in eco-friendly tires. Over the next couple years, we plan to boost SSBR capacity by an additional 120,000 mtpy, making us the world's top producer with a capacity of 180,000 mtpy by 2015.

## No.1

Projected 2015  
SSBR Market Share

# Aim for Excellence

If you're aiming to be a global leader, you need to back it up with the world's best products. At KKPC, we are setting our sights on balanced quantitative and qualitative growth as we aim to be a global top-five player in 20 product categories by 2020. In 2012, our NB latex, NBR synthetic rubber, and Kumanox 5010L antioxidant products were recognized for achieving a global top-five market share, increasing our leadership to seven categories.

7

Products with Global  
Top-5 Market Share



# Generate Synergy

Both nations and companies require more energy to grow. At KKPC, we built our Energy I and Energy II cogeneration plants at our Yeosu plant in 1997 and 2009 to meet our steam and power needs. We are currently investing KRW 425.8 billion to expand generating capacity at our Energy II plant—Korea's first to operate on more efficient and eco-friendly tire-derived fuel—as we set our sights on doubling the size of our energy business by 2015 to help it join synthetic rubbers and resins as one of our core businesses.

2x

2015 Energy Business  
Capacity Expansion  
Target

# Invest in Tomorrow

Continuous growth requires hard work today and investment from a long-term perspective. At KKPC, we and our affiliates are actively investing in tomorrow. Kumho P&B Chemicals is planning to complete a 70,000-mtpy epoxy resin plant expansion in August 2013 and 300,000-mtpy phenol and 185,000-mtpy acetone plant expansions in April 2015. Additionally, Kumho Polychem is planning to complete a 60,000-mtpy ethylene propylene diene monomer (EPDM) expansion in the first half of 2013 and an additional 60,000-mtpy expansion by the end of 2014.

4

Major Affiliate  
Capacity Expansion  
Projects



# Expand the Possibilities

The field of chemicals is full of unlimited possibilities. At KKPC, we entered the high-tech carbon nanotube business back in 2009 and are now on track to open our first 50-mtpy commercial plant in 2013. We are also exploring applications for carbon nanotube technology in our core synthetic rubbers and resins businesses as we aim to develop next-generation products ranging from high-strength composite polymers for automobiles, home appliances, and industrial products to electronic materials for high-quality semiconductors.



Chemical Industry  
Possibilities



# Management Review

53 Corporate Governance  
54 Key Executives  
56 Shareholder Value  
59 Research & Business Development  
64 Risk Management

## Corporate Governance

At KKPC, we are committed to earning the trust of all our stakeholders—from shareholders and customers to employees, partners, and communities. Today, our modern, board-centric governance structure enables us to practice responsible, ethical, and transparent management as we strive to create greater value for all stakeholder groups.

### Board of Directors

Our board is composed of a total of five directors, three of which are outside directors nominated by the Outside Director Nominating Committee and elected at the annual general shareholders' meeting. The board consults on and conducts oversight of all major business activities and has final decision-making authority and responsibility in all business matters. In addition to ensuring all decisions benefit shareholders, the board has the objective of maximizing corporate value from a long-term perspective. The board met a total of 13 times in 2012 to decide a number of major agenda items, including the approval of investments to expand production capacity in several of our businesses.

### Board Committees

Over half of the board seats are held by outside directors to enhance both the independence and professional expertise of the board. The board also operates three committees to aid it in its mission. The Audit Committee plays a key internal control role, elevating transparency in management and credibility in financial disclosures. The Outside Director Nominating Committee identifies, screens, and nominates qualified professionals to serve on the board. The Management Advisory Committee aids the board in thorough, timely decision-making on major pending business issues.



# Key Executives



**Seok-Geun Song**  
Senior Executive Vice President  
Production Division



**Dae-Sik Seok**  
Executive Vice President  
Administration & Management  
Division



**Dong-Hwa Han**  
Executive Vice President  
Planning Division



**Sung-Kyu Lim**  
Executive Vice President  
Sales Division



**Seung-Su Kim**  
Executive Vice President  
R&BD Center



**Seung-Hee Yun**  
Senior Vice President  
Synthetic Resin Research



**Chang-Soo Jung**  
Senior Vice President  
Ulsan Synthetic Resin Plant



**Young-Hoon Ko**  
Senior Vice President  
Synthetic Rubber Research



**Jin-Uk Chung**  
Senior Vice President  
Yeosu Specialty Chemicals Plant &  
Energy



**Dong-Kook Kim**  
Senior Vice President  
Synthetic Resin Sales



**Young-Do Ko**  
Senior Vice President  
Financing & Purchasing



**Sung-Il Kim**  
Senior Vice President  
Synthetic Rubber Sales



**Dong-Joo Seo**  
Senior Vice President  
Ulsan Synthetic Rubber Plant



**Kap-Jong Chang**  
Senior Vice President  
Yeosu Synthetic Rubber Plant



**Kwun-Wook Heo**  
Vice President  
Building Materials Business Unit



**Chang-Min Kim**  
Vice President  
Electronic Materials Business Unit



**Jeong-Hwan Kim**  
Vice President  
Yeosu Administration &  
Management



**Jae-Kam Ko**  
Vice President  
Administration & Management



**You-Sun Song**  
Vice President  
Technology Business



**Young-Soo Son**  
Vice President  
IT Strategic Center



**Chul-Whan Park**  
Vice President  
Synthetic Rubber Overseas Sales



**Jun-Kyung Park**  
Vice President  
Synthetic Resin Overseas Sales



**Kyeng-Jin Lim**  
Vice President  
Business Strategy



# Shareholder Value

At KKPC, we are focused on creating greater value for our shareholders. Although we now face challenging circumstances in our core businesses, our strong fundamentals in those same businesses position us to generate significant growth and value in the coming years as the global economy returns to growth.

## Capital Market Overview

Although the real economy experienced a downturn in 2012, global stock markets rebounded from major losses in 2011 despite continuing uncertainty and volatility. In the first half of the year, the Eurozone financial crisis peaked with the downgrade of France's sovereign rating by Standard & Poor's and rumors of a financial bailout for Spain. In the second half of the year, the US fiscal cliff negotiations were the major factor driving uncertainty.

In Korea, the KOSPI Index started the year at 1,826 and rose over 9% to close at 1,997. After making gains in the first quarter of the year, the KOSPI lost considerable ground in the second quarter when the Eurozone crisis once again came to the forefront. In the second half of the year, the upgrade of Korea's sovereign credit rating by leading ratings agencies helped the bourse make a turnaround and finish the year higher.

## Share Performance

Starting the year at KRW 167,500, our shares climbed as high as KRW 181,500 during the first quarter. However, our synthetic rubbers business continued to worsen contrary to expectations, sending our shares on a steady decline for the remainder of the first half. After trading as low as KRW 96,800 in the fourth quarter, the market consensus that the synthetic rubbers market had bottomed out gained favor, allowing our shares to make up some lost ground to close the year down 22% at KRW 130,500. Considering that our closing share price was over 30% off its high for the year while the KOSPI chemical industry index only fell 1% during the same period, this drop was comparatively steep. This was due to the fact that the synthetic rubbers segment had a relatively weaker performance than the chemical industry as a whole.

## IR Initiatives

We transparently and actively communicated key business issues and performance information to ensure that the market had a good understanding of our situation as we strategically worked to attract quality, long-term investors. We communicated our results, outlook, and major issues for both KKPC and our chemical affiliates at each quarterly earnings release. Our management team conveyed our firm commitment to improving shareholder value in both conferences and meetings with institutional investors. We also actively courted overseas investors through non-deal roadshows and other channels, helping boost their portion of the total from 9.9% at the end of 2011 to 11.9% at the end of 2012.

In addition to the above, we participated in an active calendar of one-on-one meetings and conference calls with both domestic and overseas investors as well as frequent large and small conferences, corporate days, and small group meetings. In the interest of providing fair, transparent, and timely disclosure to all investors, we also continued to expand the scope of information available on our IR website, making it as easy as possible for all interested parties to access and understand our overall business situation.

## Share Dividend

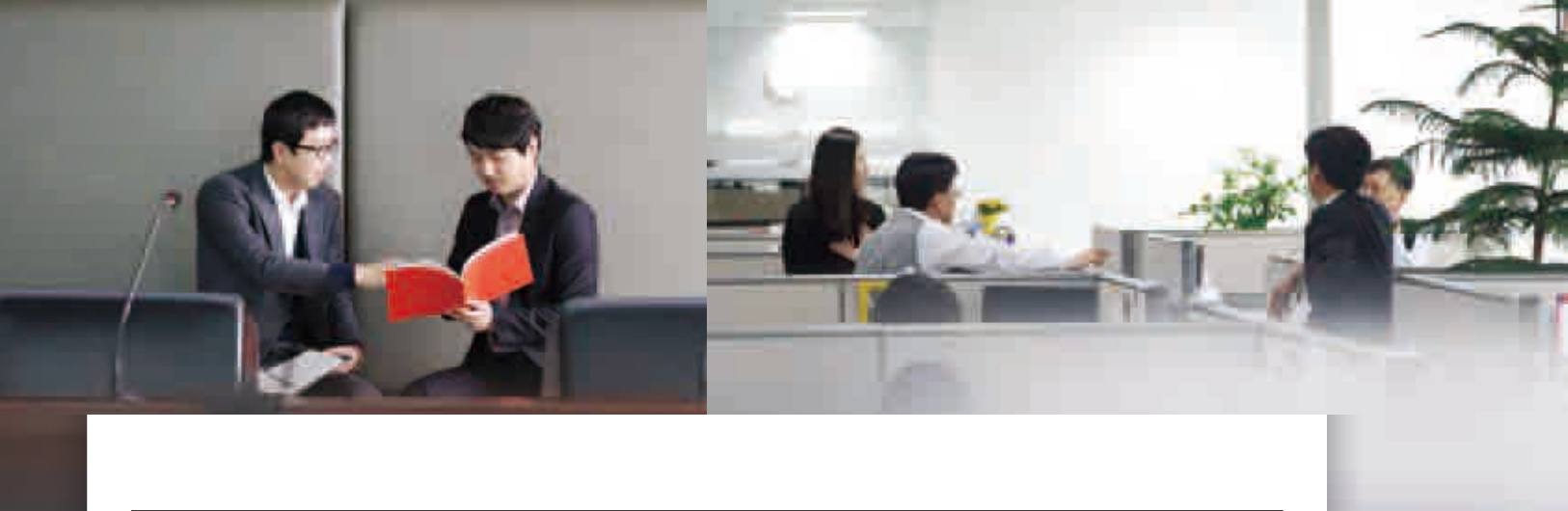
It is our policy to consistently return a fair and reasonable portion of our profits to our investors. Although the synthetic rubbers market downturn significantly impacted profitability, we declared a cash dividend of KRW 2,000 per common share and KRW 2,050 per preferred share for 2012, the same dividend we declared following our best business performance

to date in 2011. We made this decision based on the 2013 global economic outlook and early indicators in the year of a gradual recovery in our key businesses. Based on our confidence in our ongoing ability to generate profits, we intend to continue to increase our dividend to deliver greater value to our shareholders.

## Annual Report Recognition

Our 2011 annual report was recognized at a number of prestigious awards competitions in 2012. At the 2012 ARC Awards hosted by MerComm, we were honored with four awards, including the overall Grand Award for written text as well as Gold for overall report, Silver for interior design, and Bronze for financial data in the Chemicals category. We also took Gold and Silver at the 2011 Vision Awards and Silver at the 2012 Spotlight Awards, both hosted by the League of American Communications Professionals (LACP). Our consistently strong showing at the industry's top annual report awards year after year continues to raise our profile in global capital markets, enhancing our credibility with the international investment community.

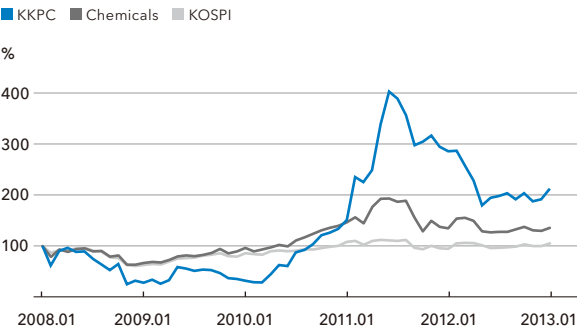




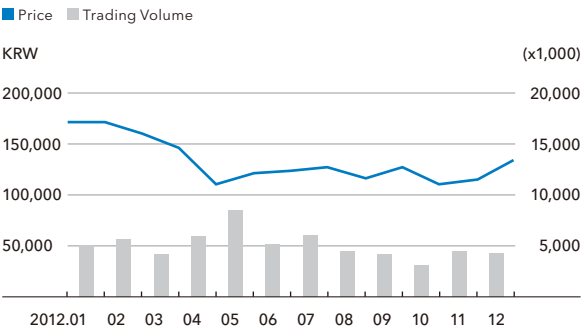
Key Figures

	2012	2011
<b>Share Data</b>		
Number of Shares	33,491,177	33,491,177
Common Shares	30,467,691	30,467,691
Preferred Shares	3,023,486	3,023,486
Market Capitalization in KRW Millions	4,061,598	5,223,522
Credit Rating from Korea Information Service	A-	BBB+
<b>Per Share Data (in KRW)</b>		
Net Income	4,959	24,723
Book Value	62,217	58,199
Dividend	2,000	2,000
Share Price		
Year-End	130,500	167,500
High	181,500	253,000
Low	96,800	90,200
<b>Shareholder Structure</b>		
Major Shareholders	23.87%	23.65%
Free Float	41.23%	41.45%

KKPC Stock Price vs. Key Indexes



KKPC Stock Performance in 2012



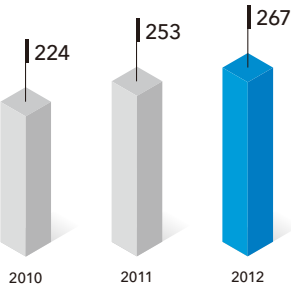
# Research & Business Development

At KKPC, we know that our future is riding on the competitiveness of our products, technologies, and processes. Today, we are working hard to ensure that our R&D advances add to our bottom line through organic collaboration between production, research, marketing, and all other areas of our operations as we deliver greater value to our customers.

R&BD Organization

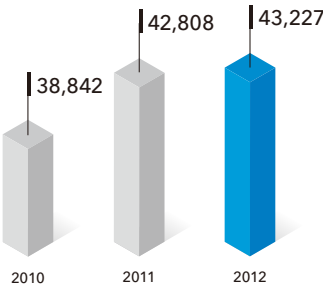
We refer to our R&D activities as “R&BD” or research and business development to reflect the common sense idea that business strategy as well as potential market needs must be taken into account from the R&D planning phase to ensure that each project makes a concrete contribution to corporate strategy. We have created an environment that facilitates deeper collaboration by building a research ERP system that integrates with our corporate ERP system. Our R&BD activities revolve around the Kumho Petrochemical R&BD Center in Daejeon, which focuses on the fields of synthetic rubbers, synthetic resins, and next-generation materials, and the Kumho Electronic Materials Laboratory in Asan, which focuses on advanced, value-added materials for the infotech sector.

R&BD Manpower



R&BD Investments

In KRW Millions



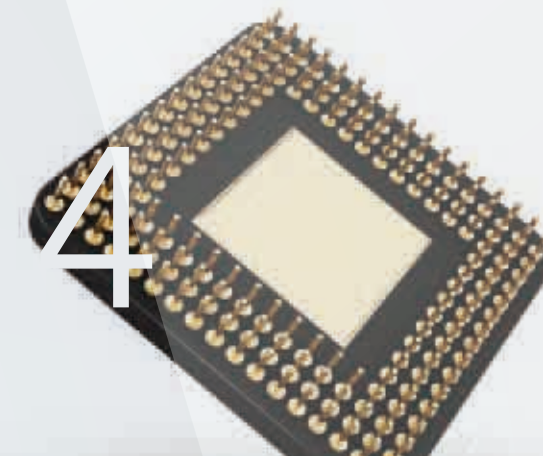
## Major Innovations

### SBR Grade Diversification

With the eco-friendly tire market on the rise and tire labeling requirements becoming increasingly common, demand for solution styrene butadiene rubber (SSBR) is growing rapidly. In response, we have developed new compounds and proprietary polymer structure control technologies that enable us to develop and produce unique SSBR grades with superior mechanical properties and silica filler dispersion characteristics.

### High Tensile Strength NB Latex

Medical glove makers are always looking for ways to create lighter gloves to improve quality and competitiveness. However, thinner gloves are harder to manufacture and have a more difficult time to pass safety standards in developed markets such as the US and Europe. We have developed and are now producing a high tensile strength acrylonitrile butadiene latex that is more than 10% stronger than existing grades as well as having excellent processability, winning accolades from our customers.



### BAADA Antioxidant

Although 6PPD is a widely used antioxidant with good resistance to ozone and excellent antioxidant performance in a bent state, it is highly toxic to aquatic life and has a browning effect when used in tires. In contrast, bis (alkylamino) diphenylamine (BAADA) has excellent resistance to ozone and cracking with less aquatic toxicity and no browning effect. We have completed development of a BAADA antioxidant and are now in the process of optimizing the lab production process.

### High Transparency SAN Resin

Acrylonitrile is used to increase the strength of high-rigidity SAN resins, but it has a yellowing effect. Specialized dyeing techniques are needed to convert the resin into a clear material and trace amounts of acrylonitrile must be removed to create a material suitable for food storage containers. We have created a proprietary vaporization process that enables us to produce a strong, highly transparent SAN resin that is suitable for food container use as well as cosmetics cases and a wide variety of other applications where clear containers are desirable.





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### High-Density Carbon Nanotube Technology

Carbon nanotube fine particles are extremely low in density, posing toxicity issues in humans if inhaled as well as workability challenges in manufacturing. We have developed a simple proprietary process to produce a high-density powder that gives us a competitive edge in the marketplace. We plan to begin mass production in the second half of 2013.

### ArF Photoresist

Argon fluoride (ArF) photoresist is a high-performance value-added material for making extremely small nanometer-scale patterns in the semiconductor photolithography process. In 2006, we completed development of our ArF photoresist entirely with in-house technology and began mass production. In 2012, we completed development of an ArF immersion photoresist and are now in the process of bringing it to market.

### Touchpanel Functional Coating Materials

Over the years, we have used our expertise in organic compounds to develop and bring to market a variety of UV-cured transparent liquid coating materials for use in the display and electronic materials fields. We are now leveraging this expertise to bring to market coating materials for the fast-growing touchscreen display segment as we push forward with development of highly-functional coating materials suitable for the larger touchscreens that are beginning to come to market.

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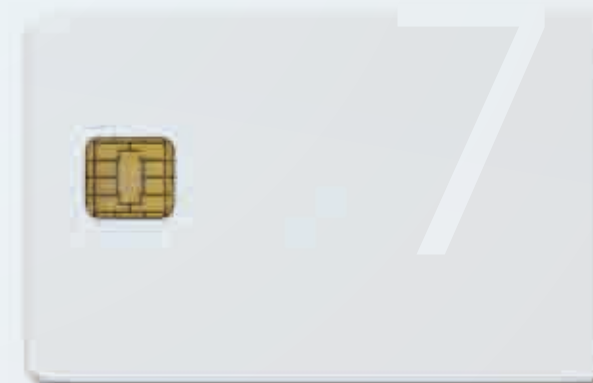
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### HT-SOC Hard Mask

Hot-temperature spin-on carbon (HT-SOC) is a high-value-added high-carbon organic compound with applications in semiconductor photolithography. In 2012, we developed an HT-SOC material and filed four related patent applications. The material is now undergoing technical evaluation by a number of customers and we expect to launch mass production in 2013.

### Photosensitive Polyimide

Photosensitive polyimide (PSPI) is an exceptionally reliable protective packaging material applied above the semiconductor passivation layer to protect chips from heat, moisture, and foreign substances. In 2012, we completed PSPI development and began preparations to bring it to market. We continue to work on performance enhancements as we prepare to enter this market currently dominated by Japanese suppliers.



# Risk Management

At KKPC, we recognize that our success and survival depends on how we handle the challenges that come our way. Today, our comprehensive risk management system enables us to effectively prevent as well as proactively handle the full spectrum of risks we face in the global marketplace.

## Currency Risk

Despite unfavorable conditions in global financial markets, Korea's rising credit rating and a growing preference for won-denominated assets helped the Korean won steadily appreciate. Although quantitative easing in developed nations increased global liquidity and fueled significant appreciation, the Korean government intervened to limit further gains. The won closed 2012 at KRW 1,071.1 to the US dollar, an appreciation of just over 7% or KRW 82.2.

In 2012, approximately 76% of total sales were in foreign currencies, including 66% from direct exports and 10% from local sales. About 96% of all overseas sales were in US dollars. Although our foreign-currency income is significantly higher than our expenses due to the high proportion of exports, our long cash position of less than 10% of the difference between the two means that exchange rate fluctuations will have a minimal impact on overall profitability.

Our 2012 business plans and targets are based on a relatively conservative average exchange rate of KRW 1,050 to the US dollar. With the average rate holding above KRW 1,100 at the end of the first quarter of 2013, we expect the rate to have little or no impact on our ability to achieve our business targets.

## Market Risk

In 2012, the global economy clearly slowed as the Eurozone financial crisis spread and China's economic recovery stalled. While the US and BRICs countries are showing signs of a gradual recovery in 2013, the downturn in Europe and Japan is expected to continue. Stagnant demand is expected to push down international raw materials prices, but global liquidity is on track to grow as nations relax monetary policy to stimulate their economies.

Our proactive strategy for minimizing inventory risk and securing profitability focuses on maintaining



pricing flexibility and reallocating regional sales quotas based on changing market conditions. We will also secure leadership in the increasingly in-demand eco-friendly and high-performance synthetic rubbers markets and focus on expanding sales in growing markets such as China and other emerging markets. We will also diversify exports to emerging markets in Latin America and Africa as well as step up sales in markets where we are expected to benefit under free trade agreements as we build a solid global foundation for sales.

## Raw Materials Risk

The global economic downturn in 2012 saw demand shrink for major raw materials. Prices for butadiene (BD), the key feedstock used to produce synthetic rubbers, also continued to fall, closing the year at around USD 1,500 per metric ton. In the first half of 2013, scheduled maintenance shutdowns by both Korean and other Asian producers and shrinking imports from outside the region are expected to tighten supply, pushing BD prices higher. In the second half of the year, global economic recovery as well as recovery in the tire industry are forecast to push the average BD price up to around USD 2,500 per metric ton. The major unknowns are whether China's economic recovery will slow and whether the Eurozone's financial crisis will continue to drag on.

We are actively working to secure a stable supply of BD feedstock by commercializing new, more efficient BD production processes and strategically investing to increase our BD self-supply ratio. We will also increase sourcing from existing domestic and international suppliers as well as seeking new suppliers in the

Middle East and other regions to ensure our BD feedstock requirements are met.

## Financial Risk

In December 2012, we graduated from our MOU with creditor banks after a three-year period. At the same time, we paid off a portion of our debt that been deferred and converted the rest to long-term debt as we proceeded with debt rescheduling. We benefitted from a credit rating upgrade during the year that cut our cost of borrowing as our financial soundness continued to improve. We finished the year with total debt of KRW 1.8 trillion and an improved debt-to-equity ratio of 166%, down from 203% at the end of 2011.

In 2013, we will be focusing on financial stability to prepare for increasing uncertainty in both domestic and global markets. With the exception of investment related to aging facilities or safety-related facilities, we will be taking a conservative approach to current investment. We will continue to strengthen our cash generating capabilities as we aim to reduce net debt to KRW 1.5 trillion and lower our debt-to-equity ratio to 140%. If necessary we are prepared to sell our available-for-sale securities in Daewoo Engineering & Construction and Asiana Airlines to secure additional liquidity.



# Corporate Citizenship

67 Business Ethics  
68 Environmental Management  
70 Social Responsibility

## Business Ethics

At KKPC, we believe that the path to success is based on principles and fundamentals. Today, those principles and fundamentals are at the heart of our business philosophy. We practice ethical management in every aspect of our operations as we promote the high standards of conduct and judgment we expect each member of our family to uphold.

### Stakeholder Trust

In 2002, we initiated the creation of an ethics management system designed to enable us to fulfill our legal and social responsibilities and earn the trust and respect of our stakeholders. Today, that system is the theoretical and practical foundation that makes integrity our first and foremost practice in the workplace. Enshrined in our code of conduct, this system is supervised by the Committee for Ethical Management and encompasses evaluation teams, councils at each plant location, and the KKPC Loving Helpers service organization. Now over a decade on, the system has become our firm standard and basis for decision-making and conduct and the foundation of everything we do.

### Win-Win Relationships

We believe in shared growth. Our labor-management win-win program aims to create a sound and productive labor culture, building bonds of trust through a grievance process and a variety of other communications channels. Taking this a step further, we're also working hard to build relationships with our suppliers that are transparent, fair, and mutually beneficial. Toward this end, we operate a variety of support programs that help them upgrade their competitiveness, enhance financial stability, and provide opportunities to fairly compete for business. We provide supplier employees with training and technical support programs. We help improve the financial stability of our small and medium-size vendors by paying invoices in cash and providing financial assistance. We also provide a level playing field by operating an online procurement system and a voluntary compliance program. This systematic support is helping show the way to greater shared growth for both our suppliers and communities.

# Environmental Management

At KKPC, we believe that putting the environment first in every aspect of our business is essential to sustainable growth. Today, our focus ranges from leadership in the environmental, health, and safety fields to eco-friendly product development, energy conservation, and greenhouse gas reduction as we do our part for a sustainable future.

## EHS Initiatives

We have put in place a comprehensive environmental, health, and safety system that is designed to ensure a safer and healthier environment for our customers, employees, and communities. We meet and exceed both domestic and international environmental standards as we continue to enhance our competitiveness in the global marketplace. We are now establishing greenhouse gas inventory systems at each of our plants to systematically manage emissions. We are also building a chemical material management system to manage hazardous materials at each step of the product development process.

We make the basic materials used by countless downstream industries to create many of the products consumers depend on in their daily lives. We are using life cycle assessment to determine the true environmental impact of our products as we steadily upgrade the eco-friendliness of our portfolio. In addition to actively complying with international environmental directives and regulations such as REACH and RoHS, we actively participate in Responsible Care, the global chemical industry's sustainability initiative.

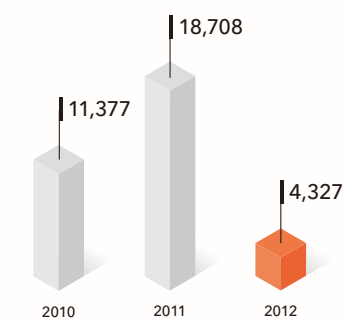
## Eco-Friendly Product Development

From the products we use in daily life to the materials used to build the infrastructure of modern society, chemicals have a vast array of applications. This is why they have such a major impact on health, safety, and the environment. Our environmental management system covers every aspect of our production plants, enabling us to consistently deliver the eco-friendly products that will have a positive ripple effect across all sectors of industry.

LEADCAP warm-mix asphalt additive and Kumanox-3110 mono-styrenated phenol (MSP) epoxy paint additive are two eco-friendly products we have developed that are now on the market. LEADCAP cuts carbon dioxide and harmful emissions up to 40% over standard hot-mix asphalt, reduces the moisture susceptibility of the asphalt mix, and improves crack and rutting resistance for more durable pavement. Kumanox-3110 is designed to replace nonylphenol, a substance whose use has been restricted due to its connection with hormone disruption and cancer, bringing the benefits of non-toxicity as well as enhanced production efficiency and product quality.

## Environmental Investment

In KRW Millions



## Environmental Investment by Area





# Social Responsibility

At KKPC, we believe that being a good corporate citizen is a privilege as well as a responsibility. Today, we are giving back to our local communities by supporting initiatives across a wide range of fields encompassing culture and the arts, social welfare, and education as we actively volunteer and serve in our local communities to make them better places to live.

## Community Initiatives

KKPC Chairman Chan-Koo Park places equal value on the objectives of local community development and corporate growth. Accordingly, he has asked our entire family to work together to make KKPC a company that faithfully fulfills its social responsibilities and makes a positive difference in society.

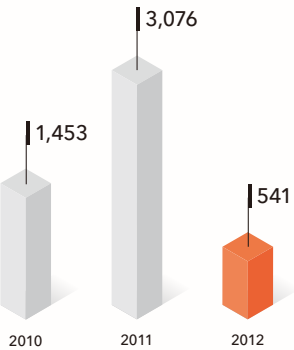
Backed by this firm conviction and active support from top management, our entire family is involved in a wide range of service activities in local communities. We are expanding hiring of the disabled and other disadvantaged persons to help them become financially independent. We are also using our products in a variety of ways to serve the needy in our local communities. In 2012, we donated window systems to community welfare centers and custom-designed wheelchairs to rehabilitation centers serving the severely disabled. We aim to progressively expand the scope of our activities to new areas as we strive to find unique and specialized community service projects that reflect our corporate DNA.

## Volunteer Service

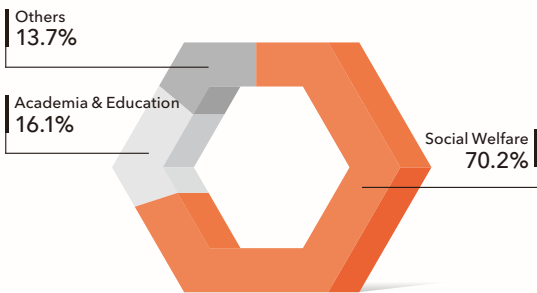
We believe that community service is not about supporting charity but about sharing to improve the quality of life for all. Today, we are shifting our focus from passive donations to active win-win involvement as we work to make community service a pillar of our corporate culture rather than a series of one-off events. Enthusiastic, voluntary employee participation is the secret behind the success of our active community service efforts. Our KKPC Loving Helpers service organization brings our people together to make a difference for the underprivileged in our local communities. In addition to annual blood drives, we actively participate in fundraising, donating the amounts under KRW 1,000 from our paychecks as well as making set monthly donations to charity which are matched by the company, doubling our impact for good.

Social Investment

In KRW Millions



Social Investment by Area





# Review of Operations

73 2012 Overview  
74 Synthetic Rubbers  
78 Synthetic Resins  
82 Other Businesses  
87 The Year Ahead

## 2012 Overview

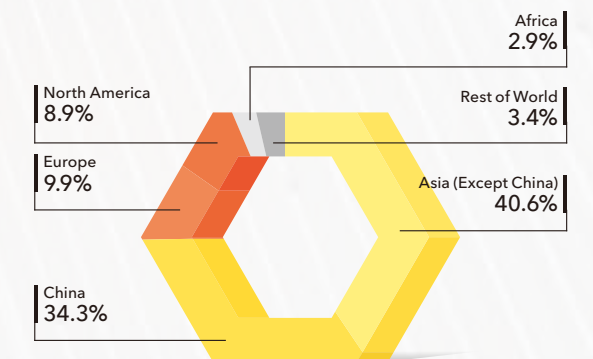
In 2012, KKPC sales fell 8.9% to KRW 5,883.7 billion and operating income fell 73.3% to KRW 223.8 billion. There were a number of primary drivers behind this disappointing performance. The global market experienced an overall downturn fueled by the ongoing Eurozone financial crisis and slowing growth in China. In addition, our synthetic rubbers business faced falling prices as well as volatile price fluctuations of its primary butadiene (BD) feedstock, worsening the business environment. Our phenol derivatives business also experienced falling demand, preventing rising feedstock prices from being reflected in selling prices. Rising inventories also led to lower operating rates, negatively impacting profitability.

Although our 2012 performance was disappointing, the year saw a number of notable achievements. In December, we graduated from the MOU with our creditor banks, enabling us to fully regain our managerial independence after three years of bank oversight. Although we actually fulfilled the graduation requirements at the end of 2011, in the interest of managerial continuity and strengthening our foundation for continuous growth, we extended the MOU an additional year to improve our financial structure. Another positive development was the upgrade of our credit rating, which enabled us to reduce our borrowing costs. We also paid off a portion of our debt and rescheduled and converted the rest to long-term debt, significantly improving our financial soundness.

Sales by Market



Exports by Region







# Synthetic Rubbers

Synthetic rubber is any type of artificially produced polymer material that acts as an elastomer or rubber. Elastomers are able to take much more deformation than most materials without permanent effects. The chemical properties of synthetic rubbers vary depending on the raw materials and methods used to make them. Synthetic rubbers are superior to the real thing in certain ways, including resistance to oil, heat, and ozone.





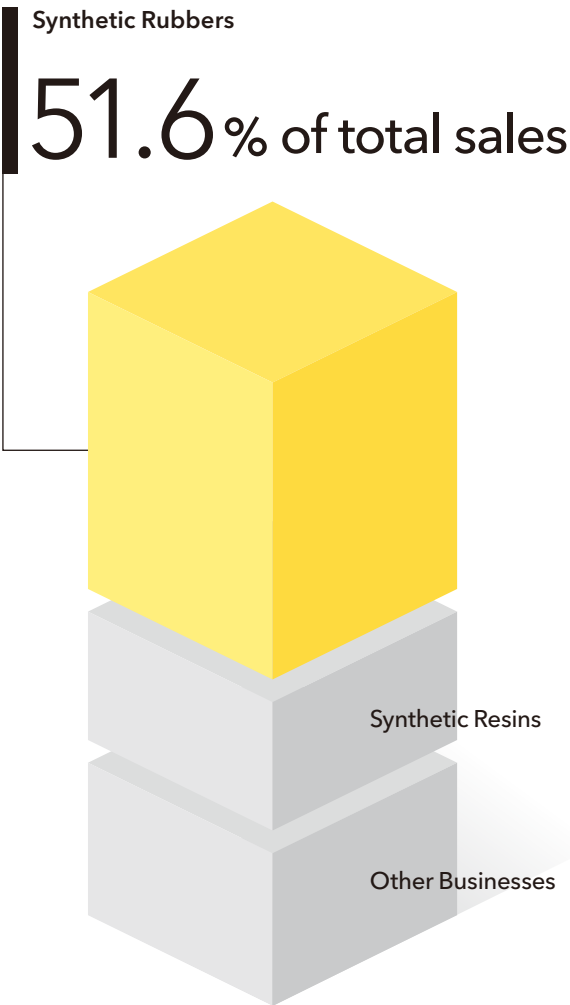
# Synthetic Rubbers

Sales Revenue  
In KRW Billions  
**3,037.7**

**Main Products**  
SBR, BR, SSBR, NBR, HSR, Nd-BR, SB Latex, NBR Latex, SBS, SEBS, STE

**Key Applications**  
Tires, Shoes, Automobile Parts, Sporting Goods, Asphalt, Waterproof Sheet, Plastics

**Major Customers**  
Kumho Tires, Hankook Tire, Nexen Tire, Bridgestone Tire, Michelin Tires, Goodyear Tires, Continental Tires, Cooper Tires, Sumitomo Tires, Pirelli Tire, Styrolution Korea, LG Chem, Moorim Paper, Hankuk Paper, Kimberly Clark



## 2012 Review

Accounting for 51.6% of overall sales in 2012, our synthetic rubbers business saw sales fall 14.1% to KRW 3,037.7 billion, playing a leading role in our disappointing performance. There were two primary factors behind these lower-than-expected results. First, global tiremakers cut back production, reducing demand for synthetic rubbers, turning that market into a buyer's market and sending selling prices downward. Second, volatile BD feedstock prices made it difficult to raise prices to cover the higher cost of production, significantly impacting profitability.

On a positive note, we successfully completed a new 110,000-mtpy SBR line in September and a 60,000-mtpy SSBR line in November, enhancing our economies of scale and taking our competitiveness to the next level. When the synthetic rubbers market returns to growth in the future, we will be in a better position to capitalize on the market opportunities. Our NBR latex and NBR products also earned the "World-Class Product of Korea" designation during the year for achieving a global top-five market share in their respective categories.

## 2013 Outlook

With the Eurozone financial crisis dampening consumer sentiment, global automobile sales are projected to be slow, rising around 3.4% in 2013. Tire production is expected to rise about 4.2% driven by demand in emerging markets. Following the end of US special safeguard measures on Chinese tires, Chinese tiremakers are expected to increase operating rates, creating expectations for synthetic rubbers sales growth in that market.

With new tire labeling standards coming into force at the end of 2012, demand for "green" tires and high-performances rubbers such as SSBR and Nd-BR is expected to gain momentum. We plan to aggressively ramp up production and pursue sales to secure leadership in these strategic product categories. For commodity products such as SBR and BR, we plan to focus on bolstering our sales base and profitability. Although BD feedstock is seeing stable availability in the first half of 2013 due to the stagnant global economy, we are putting in place a number of measures to ensure a stable supply in preparation for a projected tightening of supply in the second half as an expected economic recovery increases demand.



# Synthetic Resins

Synthetic resins are polymers whose properties have been modified by heat or pressure. Synthetic polymers are generally categorized into resins, fibers, and rubbers. Plastics—one of the most ubiquitous materials of modern life—are made with synthetic resins. Film, paint, and adhesives are also considered plastics.





# Synthetic Resins

**Sales Revenue**  
In KRW Billions

1,288.9

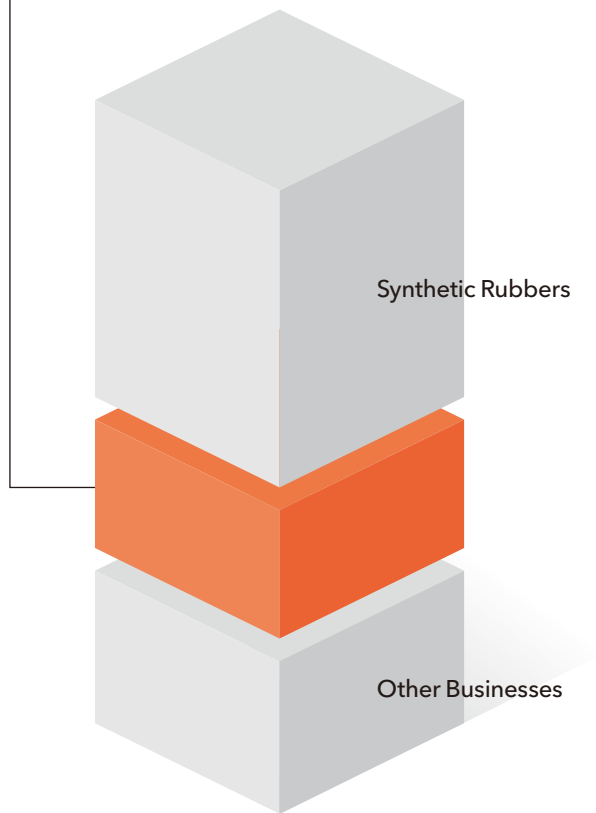
**Main Products**  
ABS, PS, EPS, EP, ENERPOR, SAN, PPG

**Key Applications**  
Home Appliances, Beverage Containers, Sporting Goods,  
Office Supplies, Building Materials, Synthetic Wood

**Major Customers**  
Samsung Electronics, LG Electronics, Archelik, Vestel, Sharp,  
Canon, Kingfa, Haier, Kelon, Sabic, Styron, Hyundai Motor,  
GM Korea, Korea Yakult, Namyang Dairy Products,  
Maeil Dairies, Lotte Samkang, Kolon Industries,  
Chungho Nais, Winia Mando

Synthetic Resins

21.9% of total sales



## 2012 Review

Accounting for 21.9% of overall sales in 2012, our synthetic resins business saw sales rise 3.4% to KRW 1,288.9 billion as it marked its fourth straight operating profit since 2009. The primary factors behind this solid performance were strong sales of high-value-added products as well as an aggressive push to make inroads into emerging markets that expanded our sales base.

While business sales grew, profitability lagged behind. The worsening of the global economy and slowing growth in China led to slumping demand for acrylonitrile butadiene styrene (ABS). Despite soaring prices for SM feedstock, market demand shrank, making it difficult to raise prices to cover the higher cost of production.

## 2013 Outlook

The global synthetic resin oversupply situation is expected to continue in 2013. In the ABS and PS markets, major capacity expansion projects are on the drawing board. In the EPS market, demand is expected to continue to grow due to growing use in insulation products, however the rate of growth will slow. Prices of SM feedstocks benzene and ethylene are expected to stay strong with rising operating rates in downstream industries keeps demand growing. Supply is expected to be remain particularly tight in the Asia region.

We will continue to push forward with our cost reduction initiatives based on process innovation to improve our manufacturing cost competitiveness. We will expand development and sales of higher margin products and continue to diversify our export markets to put in place a solid foundation for sales and profitability. We also plan to strengthen our strategic partnership with Kumho Mitsui Chemicals to expand our PPG sales base.

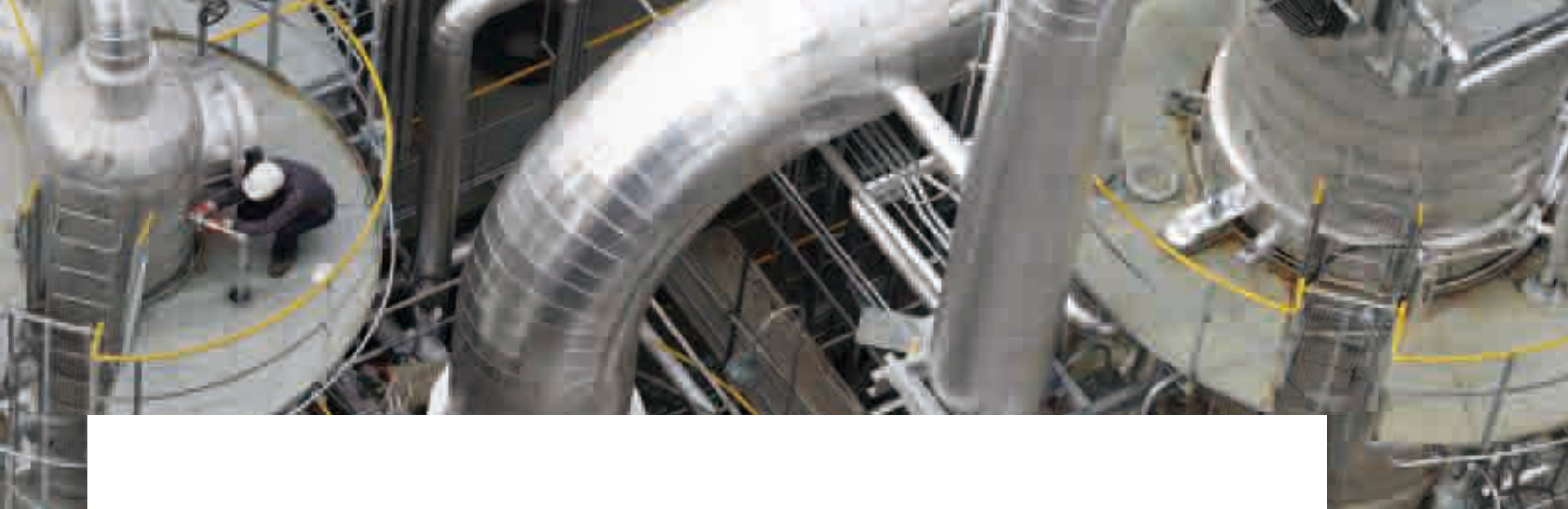




# Other Businesses

In addition to our mainstay synthetic rubbers and resins businesses, we are involved in the phenol derivatives, specialty chemicals, electronic materials, building materials, and energy businesses. Specialty chemicals and electronic materials are used to facilitate manufacturing or enhance the properties of the final product. Our Hugreen line of building materials continues to grow rapidly. And the Yeosu Energy I and II cogeneration utilities at our Yeosu plant provide power and steam for our use as well as resale.





# Other Businesses

Sales Revenue  
In KRW Billions

1,557.1

**Phenol Derivatives**  
**Main Products**  
Phenol, Acetone, BPA, MIBK, Epoxy Resin  
**Key Applications**  
Home Appliances, Automobile Parts, Paint

**Specialty Chemicals**  
**Main Products**  
Vulcanization Accelerators, Antioxidants  
**Key Applications**  
Tires, Belts, Hoses, Electric Wire, Shoes, Paint for Ships

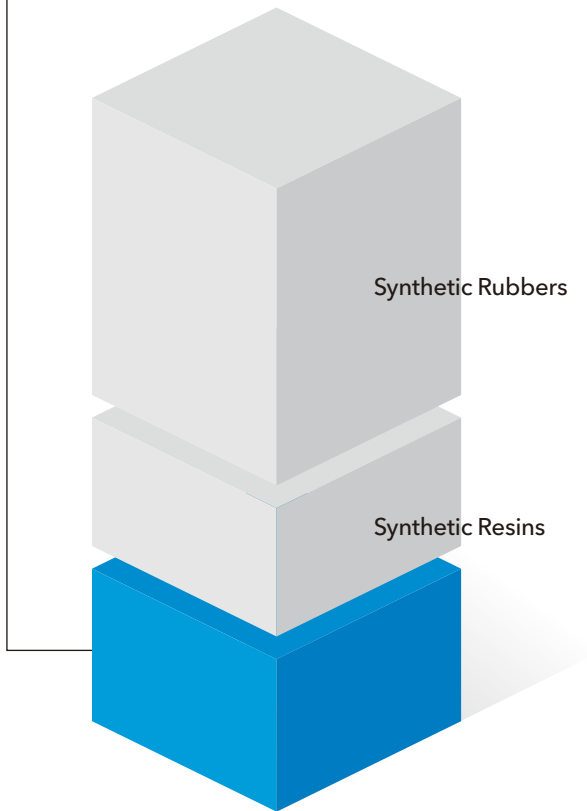
**Electronic Materials**  
**Main Products**  
Photoresist, BARC, PAG, PSPI, Sealant  
**Key Applications**  
Displays, Semiconductors

**Building Materials**  
**Main Products**  
Window Systems, Interior Materials

**Energy**  
**Main Products**  
Steam and Electricity

Other Businesses

26.5% of total sales



## 2012 Review

Accounting for 26.5% of overall sales in 2012, our other businesses—phenol derivatives, specialty chemicals, energy, electronic materials, and building materials—saw sales decline 7.0% to KRW 1,557.1 billion.

Our phenol derivatives business saw profitability weaken as operating rates fell due to rising feedstock prices and excessive inventories. Our specialty chemicals business saw its first loss in three years due to intensifying competition driven by the low-price strategy of certain competitors. Our electronic materials business saw sales shrink for the first time due to sales slump for existing products and delays in bringing new ones to market. Our building materials business reorganized its operations to refocus its efforts on its system window business, however it failed to turn a profit due to a sluggish construction market.

While the above businesses struggled during the year, our energy business saw both sales and operating income rise to set new records. The primary factors behind this improvement were increased steam sales to affiliate Kumho Mitsui Chemical following that company’s MDI expansion project as well as higher electricity rates. We also continued to invest in the construction of our first carbon nanotube plant, a new business we expect to drive future growth.

## 2013 Outlook

Our phenol derivatives business is expected to face growing competition as new BPA facilities come online. However, expanded capacity will give us world-class cost competitiveness and productivity, enabling us to ramp up marketing in the US, Latin America, and Europe. This as well as the resolution of anti-dumping and other trade issues will pave the way for stable growth.

Our specialty chemicals business will increase its feedstock self-supply ratio and diversify major feedstock supply channels to secure stable supplies and lay the foundation to win new business as it steps up cross-marketing with our insoluble sulfur plant in China. Our energy business will continue to optimize operations at both Yeosu Energy plants to meet increased demand for steam due to expansion projects at affiliates Kumho Mitsui Chemicals and Kumho Polychem. It will also diversify fuel sources to reduce costs and maximize profitability.

Our electronic materials business will aim to expand its market share as it looks to improve profitability by upgrading its quality competitiveness and productivity. Our building materials business will focus on improving the profitability of its PL window system business to accelerate this business’s shift to profitability.





## The Year Ahead

Global trade and economic growth are projected to continue to be weak in 2013 as the unfolding Eurozone financial crisis and weak consumer confidence continue to take their toll. Although the Korean chemical industry is currently experiencing difficulties due to the global economic slowdown and weak consumption in China, any improvements in the global economic situation are expected to boost both profitability and growth. However, there are significant concerns that demand for petrochemicals in China, a market we have relied on to drive growth due to stagnant demand in Korea, is now facing a structural decline in demand as well as that major petrochemical investments driven by the shale gas boom in the US will result in market oversupply.

Despite the challenging business environment we face, we have set an ambitious target of increasing sales by more than 10% in 2013 as we focus on reinforcing our regained managerial independence following our graduation from the MOU with our creditor banks. Toward this end, we will improve our corporate structure to enable us to better respond to change as we upgrade our research, production, and sales strategies to join our chemical affiliates in making 2013 a watershed year in accelerating progress toward our vision of becoming a global leading chemical group.



# Financial Review

89

Independent Auditors' Report

91

Consolidated Statements of Financial Position

93

Consolidated Statements of Income

94

Consolidated Statements of Comprehensive Income

95

Consolidated Statements of Changes in Equity

97

Consolidated Statements of Cash Flows

99

Independent Auditors' Report

101

Separate Statements of Financial Position

103

Separate Statements of Income

104

Separate Statements of Comprehensive Income

105

Separate Statements of Changes in Equity

106

Separate Statements of Cash Flows

# Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders

Kumho Petrochemical Co., Ltd.:

We have audited the accompanying consolidated statements of financial position of Kumho Petrochemical Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2012 and 2011 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Kumho P&B Chemicals Co., Ltd, a subsidiary, whose financial statements represent 16.65% and 14.70% of consolidated total assets as of December 31, 2012 and 2011 and 18.62% and 19.16% of consolidated total sales for the year ended December 31, 2012 and 2011. Other auditors audited those financial statements and our report, insofar as it relates to the subsidiary, is based solely on the report of other auditors.

We conducted our audits 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# Independent Auditors’ Report

Based on a report originally issued in Korean

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

As discussed in note 2 (4) to the consolidated financial statements, the Group adopted the amendment to K-IFRS No. 1001, ‘Presentation of Financial Statements’ for the year ended December 31, 2012. The amendment requires operating profit (loss), which is calculated by revenue less: 1) cost of goods sold, and 2) selling, general and administrative expenses, to be separately presented on the statements of comprehensive income. The Group applied this change in accounting policies retrospectively, and accordingly restated the comparative information of the statement of comprehensive income for the year ended December 31, 2011.

*KPMG Samjong Accounting Corp.*

KPMG Samjong Accounting Corp.  
Seoul, Korea  
March 11, 2013

This report is effective as of March 11, 2013, 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 the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

# Consolidated Statements of Financial Position

As of December 31, 2012 and 2011

In millions of won	2012	2011
<b>Assets</b>		
Property, plant and equipment	₩ 2,129,599	1,922,407
Investment property	794	823
Intangible assets	28,385	35,168
Investments in associates	318,066	270,466
Deferred tax assets	10,318	-
Available-for-sale financial assets	389,216	392,548
Financial assets held to maturity	6	6
Loans and other receivables	28,039	19,687
Other assets	16,219	14,997
<b>Non-current assets</b>	<b>2,920,642</b>	<b>2,656,102</b>
Inventories	567,314	581,567
Available-for-sale financial assets	16,641	21,802
Trade receivables	585,688	887,129
Loans and other receivables	56,650	44,741
Cash and cash equivalents	246,241	505,090
Other assets	17,310	17,802
Tax refund receivable	253	-
<b>Current assets</b>	<b>1,490,097</b>	<b>2,058,131</b>
<b>Total assets</b>	<b>₩ 4,410,739</b>	<b>4,714,233</b>



# Consolidated Statements of Financial Position

As of December 31, 2012 and 2011

In millions of won	2012	2011
<b>Equity</b>		
Capital	₩ 167,456	167,456
Capital surplus	265,303	265,303
Capital adjustment	-40,234	-40,234
Accumulated other comprehensive income	41,916	8,310
Retained earnings	1,113,221	1,046,865
<b>Equity attributable to owners of the Company</b>	<b>1,547,662</b>	<b>1,447,700</b>
<b>Non-controlling interests</b>	<b>110,690</b>	<b>109,378</b>
<b>Total equity</b>	<b>1,658,352</b>	<b>1,557,078</b>
<b>Liabilities</b>		
Other payables	3,995	6,750
Long-term accrued expenses	5,766	6,717
Borrowings	1,210,119	364,756
Deferred tax liabilities	61,121	39,359
Liabilities for defined benefit plans	27,268	19,711
Financial guarantee liabilities	1,230	1,771
Other liabilities	4,406	4,887
<b>Non-current liabilities</b>	<b>1,313,905</b>	<b>443,951</b>
<b>Current liabilities</b>	<b>1,438,482</b>	<b>2,713,204</b>
<b>Total liabilities</b>	<b>2,752,387</b>	<b>3,157,155</b>
<b>Total equity and liabilities</b>	<b>₩ 4,410,739</b>	<b>4,714,233</b>

# Consolidated Statements of Income

For the years ended December 31, 2012 and 2011

In millions of won, except earning per share information	2012	2011
Revenue	₩ 5,883,690	6,457,354
Cost of sales	5,480,613	5,410,343
<b>Gross profit</b>	<b>403,077</b>	<b>1,047,011</b>
Selling, general and administrative expenses	179,274	207,962
<b>Results from operating activities</b>	<b>223,803</b>	<b>839,049</b>
Other income	59,948	201,016
Other expenses	152,460	197,911
Finance income	74,871	61,664
Finance costs	139,498	218,232
Share of profit of equity accounted investees	67,000	72,792
<b>Profit before income tax</b>	<b>133,664</b>	<b>758,378</b>
Income tax expense	7,555	214,609
<b>Profit for the year</b>	<b>₩ 126,109</b>	<b>543,769</b>
<b>Profit attributable to:</b>		
Owners of the Company	129,564	505,629
Non-controlling interests	-3,455	38,140
<b>Profit for the year</b>	<b>126,109</b>	<b>543,769</b>
<b>Earnings per share (In won)</b>		
Basic earnings per share	₩ 4,959	24,723
Diluted earnings per share	₩ 4,959	24,723

# Consolidated Statements of Comprehensive Income

For the years ended December 31, 2012 and 2011

In millions of won	2012	2011
<b>Profit for the year</b>	<b>₩ 126,109</b>	<b>543,769</b>
Net change in fair value of available-for-sale financial assets	44,828	-71,660
Foreign currency translation differences for foreign operations	-4,325	3,968
Effective portion of changes in fair value of cash flow hedges	-	1,855
Net change in unrealized gain on valuation of investments in associates	-1,545	1,003
Net change in retained earnings of investments in associates	-476	-742
Defined benefit plan actuarial losses	-7,368	-7,726
<b>Other comprehensive income (loss) for the year, net of income tax</b>	<b>31,114</b>	<b>-73,302</b>
<b>Total comprehensive income for the year</b>	<b>₩ 157,223</b>	<b>470,467</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	155,910	433,880
Non-controlling interests	1,313	36,587
<b>Total comprehensive income for the year</b>	<b>₩ 157,223</b>	<b>470,467</b>

# Consolidated Statements of Changes in Equity

For the year ended December 31, 2011

In millions of won	Capital	Capital	Capital	Accumulated other	Retained	Non	Total
		surplus	Adjustment	comprehensive	earnings	controlling	Equity
				income		interests	
<b>Balance at January 1, 2011</b>	<b>₩ 142,240</b>	<b>79,049</b>	<b>-40,082</b>	<b>71,839</b>	<b>572,463</b>	<b>67,621</b>	<b>893,130</b>
<b>Total comprehensive income for the year</b>							
Profit for the year	-	-	-	-	505,629	38,140	543,769
Net change in fair value of available for-sale financial assets	-	-	-	-69,726	-	-1,934	-71,660
Foreign currency translation differences for foreign operations	-	-	-	3,541	-	427	3,968
Effective portion of changes in fair value of cash flow hedges	-	-	-	1,855	-	-	1,855
Net change in unrealized gain on valuation of investments in associates	-	-	-	801	-	202	1,003
Net change in retained earnings of investments in associates	-	-	-	-	-742	-	-742
Defined benefit plan actuarial losses	-	-	-	-	-7,478	-248	-7,726
<b>Transactions with owners of the Company, recognized directly in equity</b>							
Conversion of convertible bond	25,216	186,254	-	-	-	-	211,470
Capital increase of non-controlling interests involved	-	-	-	-	-	5,196	5,196
Other capital adjustment (payment of transaction costs related to shares)	-	-	-152	-	-	-26	-178
Dividends	-	-	-	-	-23,007	-	-23,007
<b>Balance at December 31, 2011</b>	<b>₩ 167,456</b>	<b>265,303</b>	<b>-40,234</b>	<b>8,310</b>	<b>1,046,865</b>	<b>109,378</b>	<b>1,557,078</b>



# Consolidated Statements of Changes in Equity

For the year ended December 31, 2012

In millions of won	Capital	Capital surplus	Capital Adjustment	Accumulated other comprehensive income	Retained earnings	Non controlling interests	Total Equity
Balance at January 1, 2012	₩ 167,456	265,303	-40,234	8,310	1,046,865	109,378	1,557,078
Total comprehensive income for the year							
Profit for the year	-	-	-	-	129,564	-3,455	126,109
Net change in fair value of available for-sale financial assets	-	-	-	38,855	-	5,974	44,828
Foreign currency translation differences for foreign operations	-	-	-	-3,906	-	-420	-4,326
Net change in unrealized gain on valuation of investments in associates	-	-	-	-1,344	-	-201	-1,545
Net change in retained earnings of investments in associates	-	-	-	-	-476	-	-476
Defined benefit plan actuarial losses	-	-	-	-	-6,783	-585	-7,368
Transactions with owners of the Company, recognized directly in equity							
Dividends	-	-	-	-	-55,948	-	-55,948
Balance at December 31, 2012	₩ 167,456	265,303	-40,234	41,916	1,113,221	110,690	1,658,352

# Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and 2011

In millions of won	2012	2011
Cash flows from operation activities		
Cash generated from operation activities	₩ 341,717	860,227
Interest received	11,335	8,638
Interest paid	-107,455	-124,533
Dividends received	25,757	19,154
Income tax paid	-25,874	-95,075
Net cash provided by operating activities	245,481	668,411
Cash flows from investing activities		
Cash from sales of short-term loans	-	10,113
Proceeds from sales of short-term financial instruments	22,000	-
Proceeds from sales of long-term financial instruments	1,177	-
Proceeds from sales of available-for-sale financial assets	4,966	51,928
Cash from sales of long-term loans	432	551
Proceeds from sales of property, plant and equipment	449	275
Proceeds from sales of intangible assets	1,485	368
Increase in short-term loans	-210	-9
Increase in sales of short-term financial instruments	-21,571	-5,000
Increase in sales of long-term financial instruments	-3	-
Acquisition of available-for-sale financial assets	-1,675	-61
Acquisition of investments in associates	-7,117	-6,963
Acquisition of property, plant and equipment	-368,760	-291,083
Acquisition of intangible assets	-4,296	-4,368
Increase in long-term loans	-635	-666
Increase in other assets	-17	-
Net cash used in investing activities	-373,775	-244,914

# Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and 2011

In millions of won	2012	2011
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	2,439,634	1,833,786
Proceeds from issuance of bonds	458,308	99,568
Proceeds from long-term borrowings	472,485	255
Repayments of short-term borrowings	-2,955,485	-1,731,712
Repayments of current portion of long-term borrowings	-447,279	-211,249
Repayments of bonds	-43,594	-36,129
Repayments of long-term borrowings	-	-5,850
Dividends paid	-55,947	-23,006
Capital increase of non-controlling interests involved	-	5,196
Payment of transaction costs related to issuance of shares	-	178
<b>Net cash from used in financing activities</b>	<b>-131,877</b>	<b>-68,963</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<b>1,322</b>	<b>-205</b>
<b>Net increase in cash and cash equivalents</b>	<b>-258,849</b>	<b>354,329</b>
<b>Cash and cash equivalents at 1 January</b>	<b>505,090</b>	<b>150,761</b>
<b>Cash and cash equivalents at 31 December</b>	<b>₩ 246,241</b>	<b>505,090</b>

# Independent Auditors’ Report

Based on a report originally issued in Korean

**The Board of Directors and Shareholders**  
**Kumho Petrochemical Co., Ltd.:**

We have audited the accompanying separate statement of financial position of Kumho Petrochemical Co., Ltd (the “Company”) as of December 31, 2012 and 2011 and the related separate statements of income, comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these separate financial statements based on our audit.

We conducted our audits 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 separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



# Independent Auditors’ Report

Based on a report originally issued in Korean

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

As discussed in note 2 (4) to the separate financial statements, the Company adopted the amendment to K-IFRS No. 1001, ‘Presentation of Financial Statements’ for the year ended December 31, 2012. The amendment requires operating profit (loss), which is calculated by revenue less: 1) cost of goods sold, and 2) selling, general and administrative expenses, to be separately presented on the statements of income. The Company applied this change in accounting policies retrospectively, and accordingly restated the information of the statement of income for the year ended December 31, 2011.

*KPMG Samjong Accounting Corp.*

KPMG Samjong Accounting Corp.  
Seoul, Korea  
March 11, 2013

This report is effective as of March 11, 2013, 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 the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

# Separate Statements of Financial Position

As of December 31, 2012 and 2011

In millions of won	2012	2011
<b>Assets</b>		
Property, plant and equipment	₩ 1,556,331	1,473,147
Investment property	625	652
Intangible assets	19,066	26,085
Investments in subsidiaries and associates	377,206	377,206
Available-for-sale financial assets	349,287	361,810
Loans and other receivables	27,563	16,382
Other assets	4,012	1,711
<b>Non-current assets</b>	<b>2,334,090</b>	<b>2,256,993</b>
Inventories	445,929	491,585
Trade receivables	460,636	742,420
Loans and other receivables	42,289	27,694
Cash and cash equivalents	198,202	414,579
Other assets	7,978	8,632
<b>Current assets</b>	<b>1,155,034</b>	<b>1,684,910</b>
<b>Total assets</b>	<b>₩ 3,489,124</b>	<b>3,941,903</b>

# Separate Statements of Financial Position

As of December 31, 2012 and 2011

In millions of won	2012	2011
<b>Equity</b>		
Capital	₩ 167,456	167,456
Capital surplus	276,206	276,206
Capital adjustment	-40,066	-40,066
Accumulated other comprehensive income	45,231	22,617
Retained earnings	815,664	780,366
<b>Total equity</b>	<b>1,264,491</b>	<b>1,206,579</b>
<b>Liabilities</b>		
Other payables	3,912	6,592
Long-term accrued expenses	4,139	5,029
Borrowings	1,032,298	289,310
Deferred tax liabilities	8,415	10,107
Liabilities for defined benefit plans	18,092	14,723
Financial guarantee liabilities	2,979	4,226
<b>Non-current liabilities</b>	<b>1,069,835</b>	<b>329,987</b>
Trade payables	214,703	348,007
Other payables	164,605	235,071
Borrowings	744,228	1,805,437
Income tax payables	26,886	11,779
Other liabilities	4,376	5,043
<b>Current liabilities</b>	<b>1,154,798</b>	<b>2,405,337</b>
<b>Total liabilities</b>	<b>2,224,633</b>	<b>2,735,324</b>
<b>Total equity and liabilities</b>	<b>₩ 3,489,124</b>	<b>3,941,903</b>

# Separate Statements of Income

For the years ended December 31, 2012 and 2011

In millions of won, except earning per share information	2012	2011 Restated
Revenue	₩ 4,872,725	5,292,119
Cost of sales	4,505,385	4,458,998
<b>Gross profit</b>	<b>367,340</b>	<b>833,121</b>
Selling, general and administrative expenses	152,556	167,333
<b>Results from operating activities</b>	<b>214,784</b>	<b>665,788</b>
Other income	65,433	131,109
Other expenses	108,700	173,351
Finance income	62,397	53,253
Finance costs	133,583	203,664
<b>Profit before income tax</b>	<b>100,331</b>	<b>473,135</b>
Income tax expense	4,215	129,815
<b>Profit for the year</b>	<b>₩ 96,116</b>	<b>343,320</b>
<b>Earnings per share (In won)</b>		
Basic earnings per share	₩ 3,615	16,688
Diluted earnings per share	₩ 3,615	14,127



# Separate Statements of Comprehensive Income

For the years ended December 31, 2012 and 2011

In millions of won	2012	2011
Profit for the year	₩ 96,116	343,320
Net change in fair value of available-for-sale financial assets	22,614	-64,862
Effective portion of changes in fair value of cash flow hedges	-	1,855
Defined benefit plan actuarial losses	-4,869	-6,673
Other comprehensive income (loss) for the year, net of income tax	17,745	-69,680
Total comprehensive income for the year	₩ 113,861	273,640

# Separate Statements of Changes in Equity

For the years ended December 31, 2012 and 2011

In millions of won	Capital	Capital surplus	Capital Adjustment	Accumulated other comprehensive income	Retained earnings	Total Equity
Balance at January 1, 2011	₩ 142,240	89,952	-40,066	85,624	466,725	744,475
Total comprehensive income for the year						
Profit for the year	-		-	-	343,320	343,320
Change in fair value of available-for-sale financial assets	-		-	-64,862	-	-64,862
Effective portion of changes in fair value of cash flow hedges	-		-	1,855	-	1,855
Defined benefit plan actuarial losses	-		-	-	-6,673	-6,673
Transactions with owners of the Company, recognized directly in equity						
Conversion of convertible bond	25,216	186,254	-	-	-	211,470
Dividends	-	-	-	-	-23,007	-23,007
Balance at December 31, 2011	₩ 167,456	276,206	-40,066	22,617	780,366	1,206,579
Balance at January 1, 2012	₩ 167,456	276,206	-40,066	22,617	780,366	1,206,579
Total comprehensive income for the year						
Profit for the year	-	-	-	-	96,116	96,116
Change in fair value of available for-sale financial assets	-	-	-	22,614	-	22,614
Defined benefit plan actuarial losses	-	-	-	-	-4,869	-4,869
Transactions with owners of the Company, recognized directly in equity						
Dividends	-	-	-	-	-55,949	-55,949
Balance at December 31, 2012	₩ 167,456	276,206	-40,066	45,231	815,664	1,264,491

# Separate Statements of Cash Flows

For the years ended December 31, 2012 and 2011

In millions of won	2012	2011
<b>Cash flows from operation activities</b>		
Cash generated from operation activities	₩ 309,846	649,316
Interest received	9,294	6,421
Interest paid	-100,689	-115,999
Dividends received	17,552	18,429
Income tax paid	3,535	-45,377
<b>Net cash provided by operating activities</b>	<b>239,538</b>	<b>512,790</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales of short-term loans	-	63
Proceeds from sales of short-term financial instruments	10,000	-
Proceeds from sales of available-for-sale financial assets	1,500	45,342
Proceeds from sales of long-term loans	235	286
Proceeds from sales of property, plant and equipment	244	6
Proceeds from sales of intangible assets	725	368
Increase in short-term loans	-3,637	-
Increase in sales of short-term financial instruments	-10,000	-
Acquisition of available-for-sale financial assets	-699	-
Acquisition of investments in subsidiaries	-	-31,005
Acquisition of property, plant and equipment	-195,712	-174,951
Acquisition of intangible assets	-2,551	-4,266
Increase in long-term loans	-9,675	-666
Increase in other investment	-17	-
<b>Net cash used in investing activities</b>	<b>-209,587</b>	<b>-164,823</b>

# Separate Statements of Cash Flows

For the years ended December 31, 2012 and 2011

In millions of won	2012	2011
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	1,957,242	1,339,320
Proceeds from issuance of bonds	398,308	99,568
Proceeds from long-term borrowings	402,266	255
Repayments of short-term borrowings	-2,523,926	-1,231,040
Repayments of current portion of long-term borrowings	-410,823	-183,162
Repayments of bonds	-13,400	-36,129
Repayments of long-term borrowings	-	-5,850
Dividends paid	-55,947	-23,006
Payment of transaction costs related to issuance of shares	-	-130
<b>Net cash from used in financing activities</b>	<b>-246,280</b>	<b>-40,174</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<b>-49</b>	<b>-22</b>
<b>Net increase in cash and cash equivalents</b>	<b>-216,376</b>	<b>307,771</b>
<b>Cash and cash equivalents at 1 January</b>	<b>414,579</b>	<b>106,808</b>
<b>Cash and cash equivalents at 31 December</b>	<b>₩ 198,203</b>	<b>414,579</b>



# Corporate History



## 1980 >>

**March 1980**  
Commissioned Yeosu BR plant

**August 1982**  
Launched HSR production

**December 1983**  
Launched NBR production

**March 1984**  
Commissioned Ulsan SB latex plant

**June 1985**  
Merged with Korea Kumho Chemical Co., Ltd. and changed corporate name to Kumho Petrochemical Co., Ltd.

**June 1985**  
Established Kumho Petrochemical Research Center

**June 1985**  
Established Kumho Polychem Co., Ltd.

**November 1987**  
Established Kumho Monsanto Inc.

**November 1987**  
Established Kumho P&B Chemicals Inc.

**December 1987**  
Listed on the Korea Stock Exchange

**December 1988**  
Commissioned Yeosu multi-purpose BR plant

**March 1989**  
Established Kumho Mitsui Chemicals Inc.



## 1990 >>

**August 1990**  
Commissioned Yeosu UC plant

**May 1992**  
Commissioned Ulsan BD plant

**December 1993**  
Acquired ISO 9001 certification

**February 1994**  
Opened Kumho Chemical Laboratories in Daedeok Techno Valley

**May 1994**  
Acquired ISO 9002 certification

**August 1994**  
Launched SBS production

**August 1995**  
Acquired ISO 14000 certification

**January 1996**  
Acquired ISO 14004 certification

**September 1996**  
Acquired ISO 14001 certification

**July 1997**  
Commissioned Yeosu Energy I

**November 1998**  
Commissioned Asan electronic materials plant



## 1970 >>

**December 1970**  
Established as Korea Synthetic Rubber Industries Co., Ltd.

**April 1973**  
Commissioned Ulsan SBR plant

**June 1973**  
Launched SBR sales

**October 1979**  
Commissioned Yeosu BD plant



## 2000 >>

**August 2000**  
Acquired OHSAS 18001 certification

**October 2000**  
Established Shanghai Kumho Sunny Plastics Co., Ltd.

**January 2001**  
Merged with Kumho Chemicals, Inc.

**August 2003**  
Kumho Chemical Laboratories and Yicheon Laboratory merged into Kumho Petrochemical R&BD Center

**November 2005**  
Received USD 1 billion Export Tower Award from the Ministry of Commerce, Industry, and Energy



## 2006 >>

**September 2006**  
Established Nanjing Kumho GPRO Chemical Co., Ltd.

**June 2007**  
Established Rizhao Kumho Jinma Chemical Co., Ltd.

**October 2007**  
Commissioned Ulsan SBR plant expansion (110,000 mtpy)

**January 2008**  
Established Kumho Petrochemical Chongqing Co., Ltd.

**June 2008**  
Established Kumho Petrochemical Shanghai Co., Ltd.

**October 2008**  
Established Kumho Petrochemical Shenyang Co., Ltd.

**December 2008**  
Received USD 2 billion Export Tower Award from the Ministry of Knowledge Economy

**April 2009**  
Commissioned Yeosu Energy II

**April 2009**  
Commissioned Ulsan SBR plant expansion (110,000 mtpy)

**June 2009**  
Commissioned Rizhao SB latex plant (150,000 mtpy)

**September 2009**  
Established Guangdong Kumho Sunny High Polymer Material Co., Ltd.

**September 2009**  
Established Kumho Terminal Operation Company



## 2010 >>

**September 2010**  
Commissioned Kumho Petrochemical Shenyang Co., Ltd.

**February 2011**  
Commissioned Yeosu Synthetic Rubber Plant II (120,000 mtpy)

**March 2011**  
Commissioned Yesan Building Materials Plant (16,000 mtpy)

**September 2012**  
Commissioned Ulsan SBR expansion (110,000 mtpy)

**November 2012**  
Commissioned Yeosu SSBR expansion (60,000 mtpy)

# Chemical Affiliates

## Kumho P&B Chemicals

Founded in 1976, Kumho P&B Chemicals was Korea's first local producer of phenol and acetone. In the years since, the company has assembled a vertically integrated line of petrochemical products, including bisphenol A (BPA), methyl isobutyl ketone (MIBK), and epoxy resin. In addition to the expansion of the BPA plant in 2003 and 2008 and the phenol plant 2005, the company expects to complete a major expansion of its BPA plant featuring cutting-edge technology in 2013, taking yet another step toward becoming a globally competitive petrochemicals company.

KKPC Ownership 78.2% [www.kpb.co.kr](http://www.kpb.co.kr)

## Kumho Polychem

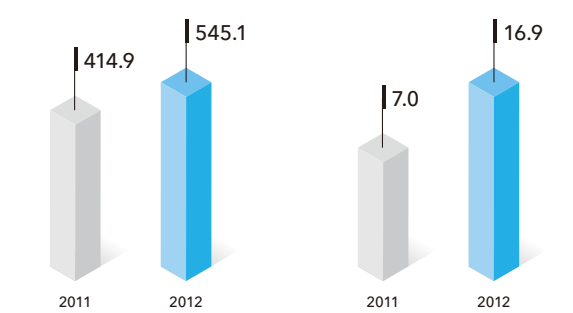
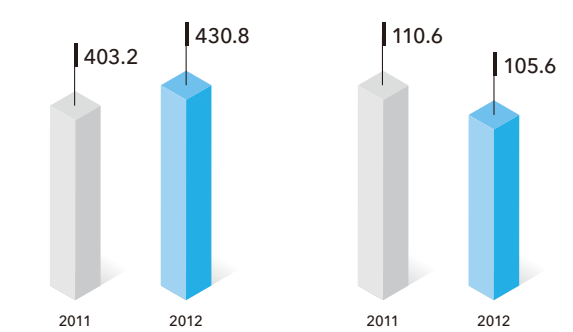
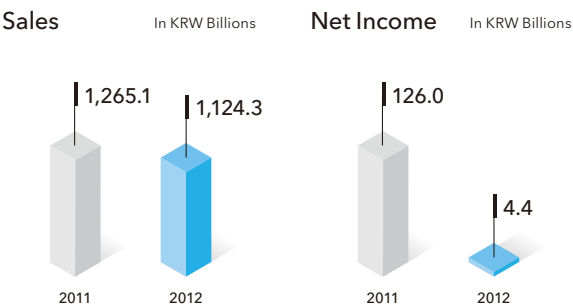
Found in 1985, Kumho Polychem is a major Korean manufacturer of ethylene propylene diene monomer (EPDM), a synthetic rubber commonly used in automotive parts and industrial goods. Kumho Polychem has played a crucial role in both stabilizing the supply and demand of EP rubbers in Korea and in the growth of the domestic automotive industry. A successful plant expansion in July 2007 gave the company a proprietary ultra-low temperature polymerization technology, the very first in the world. On the strength of this plant expansion, Kumho Polychem has become the fourth largest EPDM producer with a 100,000-mtpy annual production capacity. The company is currently on schedule to complete a second plant in 2013 as it takes the next step toward being the world's largest EPDM maker.

KKPC Ownership 50.0% [www.kumhopolychem.com](http://www.kumhopolychem.com)

## Kumho Mitsui Chemicals

Since its founding in 1989, Kumho Mitsui Chemicals has grown into a leading manufacturer of methylene diphenyl diisocyanate (MDI), the main feedstock used to produce polyurethane. MDI is a cutting-edge chemical product in growing demand with a wide-range of applications in a diverse array of product types, including car seats and dashboards, refrigerator insulating material, construction panels, synthetic wood, synthetic leather, spandex, and sneaker soles. Following the completion of 140,000-mtpy expansion in 2009, the company completed an additional 50,000-mtpy expansion in 2012. Today with a 200,000-mtpy MDI production system in place, the company is focusing on quality and environmental safety as it continues to actively expand into new overseas markets as part of its strategy to become a global MDI maker.

KKPC Ownership 50.0% [www.kmci.co.kr](http://www.kmci.co.kr)



# Global Partnerships

## Shanghai Kumho Sunny Plastics Co., Ltd.

<b>Purpose</b>	• Secure local production/sales/distribution base in China • Increase sales of colors and specialized products that meet the changing demands of the ABS market • Increase sales of base resin
<b>Key Products</b>	Heat-resistant automotive ABS, heat-resistant ABS for electrical and electronic products
<b>Location</b>	Shanghai, China
<b>Establishment</b>	October 26, 2000
<b>2012 Sales</b>	RMB 911,407,000
<b>KKPC Ownership</b>	50%

## Nanjing Kumho GPRO Chemical Co., Ltd.

<b>Purpose</b>	Early entry for market dominance in the Chinese polyurethane market
<b>Key Products</b>	PO (Propylene Oxide), PPG (Polypropylene Glycol), CS (Caustic Soda)
<b>Location</b>	Nanjing, China
<b>Establishment</b>	September 28, 2006
<b>2012 Sales</b>	RMB 1,559,241,000
<b>KKPC Ownership</b>	50%

## Rizhao Kumho Jinma Chemical Co., Ltd.

<b>Purpose</b>	Early entry for market dominance in the Chinese paper latex market
<b>Key Products</b>	SB Latex
<b>Location</b>	Rizhao, Shandong, China
<b>Establishment</b>	June 8, 2007
<b>2012 Sales</b>	RMB 383,910,000
<b>KKPC Ownership</b>	50%

## Kumho Petrochemical Chongqing Co., Ltd.

<b>Purpose</b>	Maximize synergy effect by linking the sales of antioxidants and vulcanization accelerators
<b>Key Products</b>	Insoluble Sulfur
<b>Location</b>	Chongqing, China
<b>Establishment</b>	January 24, 2008
<b>2012 Sales</b>	RMB 72,323,571
<b>KKPC Ownership</b>	77%

## Kumho Petrochemical Shenyang Co., Ltd.

<b>Purpose</b>	Early entry for market dominance in the Chinese building insulation materials market
<b>Key Products</b>	XPS (Extruded Polystyrene Foam) and other building materials
<b>Location</b>	Shenyang, China
<b>Establishment</b>	October 9, 2008
<b>2012 Sales</b>	RMB 15,457,000
<b>KKPC Ownership</b>	80%

## Kumho Petrochemical Shanghai Co., Ltd.

<b>Purpose</b>	Maximize sales and profitability by expanding KKPC product distribution in the Chinese market
<b>Key Products</b>	Synthetic rubbers, synthetic resins, overseas affiliate chemical products, Chinese affiliate products
<b>Location</b>	Shanghai, China
<b>Establishment</b>	June 1, 2008
<b>2012 Sales</b>	RMB 23,584,189 (commission base)
<b>KKPC Ownership</b>	100%



# Global Network

11 San Diego Office

12 Charlotte Office

Frankfurt Office 14

05 Kumho Petrochemical Shenyang Co., Ltd.

10 Qingdao Office

03 Rizhao Kumho Jinma Chemical Co., Ltd.

01 Shanghai Kumho Sunny Plastics Co., Ltd.

02/06 Kumho Petrochemical Shanghai Co., Ltd.

Nanjing Kumho GPRO Chemical Co., Ltd.

Kumho Petrochemical Chongqing Co., Ltd. 04

Guangzhou Office 09 08 Shenzhen Office

Kumho Petro-Holdings (H.K) Co., Ltd. 07

13 Jakarta Office

### 01 Shanghai Kumho Sunny Plastics Co., Ltd.

No. 1399, Jigao Road, Huacao Town Minhang District, Shanghai 201107, China  
TEL +86-21-6296-9609 FAX +86-21-6296-9208

### 02 Nanjing Kumho GPRO Chemical Co., Ltd.

No. 139, Fenghua Road, Nanjing Chemical Industry Park Luhe District, Nanjing 210047, China  
TEL +86-25-5830-0899 FAX +86-25-5830-0898

### 03 Rizhao Kumho Jinma Chemical Co., Ltd.

Taoluo Industrial Park, Donggang District, Rizhao Shandong 276805, China  
TEL +86-633-867-7868 FAX +86-633-867-7858

### 04 Kumho Petrochemical Chongqing Co., Ltd.

No. 1, Huanan Road, Chongqing Chemical Industry Park Yanjia Street, Chanshou District, Chongqing 401221, China  
TEL +86-23-4076-8888 FAX +86-23-4076-8333

### 05 Kumho Petrochemical Shenyang Co., Ltd.

Shenxijiudonglu 30, Shenyang Chemical Industrial Park Shenyang 110041, China  
TEL +86-24-3187-1191 FAX +86-24-3187-1194

### 06 Kumho Petrochemical Shanghai Co., Ltd.

Room 2606~2608, Tower B, City Center of Shanghai No. 100, Zun Yi Road, Shanghai 200051, China  
TEL +86-21-6237-1527 FAX +86-21-6237-1838

### 07 Kumho Petro-Holdings (H.K) Co., Ltd.

Room 1808, 18/F, Admiralty Centre, Tower II, 8 Harcourt Road, 1 Admiralty, Hong Kong  
TEL +1-852-2528-9899 FAX +1-852-2804-1440

### 08 Shenzhen Office

Room 1602, Wanxuan International Bldg. No. 7006, Shennan Road, Futian District Shenzhen, Guandong 518040, China  
TEL +86-755-8302-5175 FAX +86-755-8290-4171

### 09 Guangzhou Office

Room 4313~4314, China Shine Plaza No. 3-15, Lin He Xi Road, Guangzhou 510610, China  
TEL +86-20-3847-7265 FAX +86-20-3839-9710

### 10 Qingdao Office

No. 2809, Yihe Int'l A Building, No. 10, Hong Kong Middle Road Qingdao 266071, China  
TEL +86-532-8503-0002 (Ext.600) FAX +86-532-8503-0023

### 11 San Diego Office

910 Hale Place, Suite 205, Chula Vista, CA 91914, USA  
TEL +1-619-216-6200 FAX +1-619-216-6277

### 12 Charlotte Office

10800 Sikes Place, #120, Charlotte, NC 28277, USA  
TEL +1-704-849-2959 FAX +1-704-849-2979

### 13 Jakarta Office

Menara Jamsostek, 3rd floor Jl. Jend. Gatot Subroto Kav 38 Jakarta Selatan 12930, Indonesia  
TEL +62-21-522-8174 FAX +62-21-522-8184

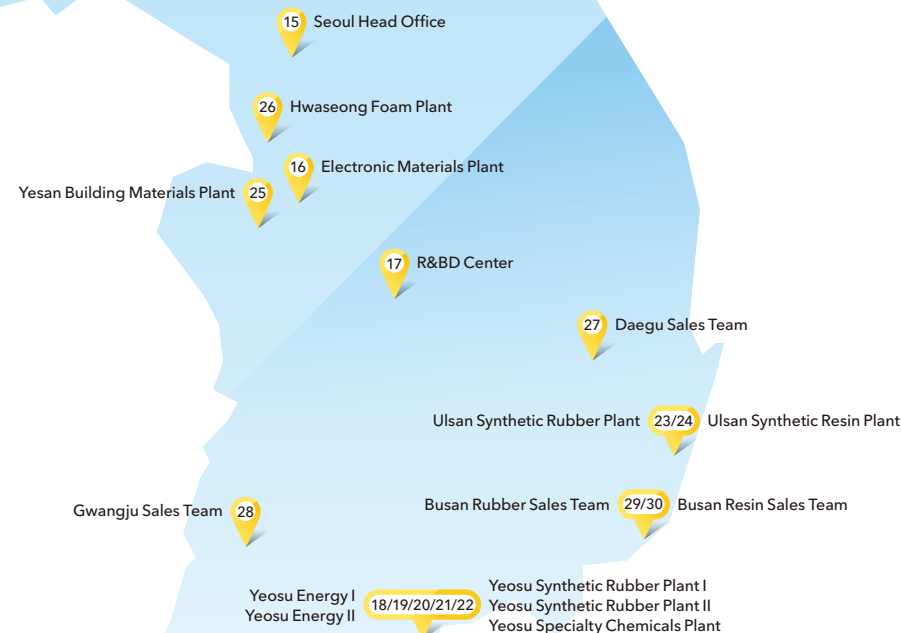
### 14 Frankfurt Office

Lyoner Strasse 34, Frankfurt am Main 60528, Germany  
TEL +49-69-6605-9985 FAX +49-69-6605-9986

# READY FOR TOMORROW



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## 15 Seoul Head Office

East Wing 10-14th Floor, Signature Towers Seoul,  
100 Cheonggyecheon-ro, Jung-gu, Seoul, Korea  
TEL +82-2-6961-1114 FAX +82-2-6961-1459

## 16 Electronic Materials Plant

958, Oncheondae-ro, Shinchang-myeon Asan, Chungnam, Korea  
TEL +82-41-423-3114 FAX +82-41-423-3199

## 17 R&BD Center

1557, Yuseongdae-ro, Yuseong-gu, Daejeon, Korea  
TEL +82-42-865-8600 FAX +82-42-862-5651

## 18 Yeosu Energy I

46-51, Yeosusandan-2-ro, Yeosu, Jeonnam, Korea  
TEL +82-61-690-8601 FAX +82-61-690-8608

## 19 Yeosu Energy II

223-84, Yeosusandan-2-ro, Yeosu, Jeonnam, Korea  
TEL +82-61-688-7101 FAX +82-61-688-7199

## 20 Yeosu Synthetic Rubber Plant I

118, Yeosusandan-3-ro, Yeosu, Jeonnam, Korea  
TEL +82-61-688-3000 FAX +82-61-688-3166

## 21 Yeosu Synthetic Rubber Plant II

331, Sandanjungang-ro, Yeosu, Jeonnam, Korea  
TEL +82-61-688-7210 FAX +82-61-688-7219

## 22 Yeosu Specialty Chemicals Plant

227, Yeosusandan-2-ro, Yeosu, Jeonnam, Korea  
TEL +82-61-688-3930 FAX +82-61-685-5806

## 23 Ulsan Synthetic Rubber Plant

64, Sanggae-ro, Nam-gu, Ulsan, Korea  
TEL +82-52-259-6114 FAX +82-52-275-6547

## 24 Ulsan Synthetic Resin Plant

260-257, Cheoyong-ro, Nam-gu, Ulsan, Korea  
TEL +82-52-279-8600 FAX +82-52-273-1148

## 25 Yesan Building Materials Plant

1033-9, Yedeok-ro, Godeok-myeon, Yesan-gun, Chungnam, Korea  
TEL +82-41-330-8610 FAX +82-41-330-8699

## 26 Hwaseong Foam Plant

1093, Balan-ro, Jungnam-myeon, Hwaseong, Gyeonggi, Korea  
TEL +82-31-831-6610 FAX +82-31-831-6619

## 27 Daegu Sales Team

4F, Leejo Bldg., 461, Chilgokjungangdae-ro, Buk-gu, Daegu, Korea  
TEL +82-53-326-6336 FAX +82-53-326-6340

## 28 Gwangju Sales Team

4F, Green Bldg., 121, Sangmuminju-ro, Seo-gu, Gwangju, Korea  
TEL +82-62-372-6865 FAX +82-62-372-6862

## 29 Busan Rubber Sales Team

12F, Geumjeong Bldg., 1925, Jungangdae-ro, Geumjeong-gu, Busan, Korea  
TEL +82-51-516-8467 FAX +82-51-516-9331

## 30 Busan Resin Sales Team

12F, Geumjeong Bldg., 1925, Jungangdae-ro, Geumjeong-gu, Busan, Korea  
TEL +82-51-518-5487 FAX +82-51-518-6577



[www.kkpc.com](http://www.kkpc.com)



**KUMHO PETROCHEMICAL**

East Wing 10-14th Floor, Signature Towers Seoul,  
100 Cheonggyecheon-ro, Jung-gu, Seoul, Korea