

Presidents' Message

Suh-Hyung Lee
President & CEO
Kumho Petrochemical



Dear Valued Shareholder, Customer, or Partner,

The year 2011 was a very meaningful year for Kumho Petrochemical as we announced our Vision 2020 roadmap for the next decade. We started the year by announcing our intention to, along with our affiliates, become a global leading chemical group with combined sales of KRW 20 trillion and 20 world-class products. We finished it with the best results in our 41-year history as well as a new high for our stock of KRW 167,500, a market cap of over KRW 5 trillion, and a place among Korea's top companies on the KOSPI 50 Index.

That said, the business environment in 2012 is projected to be anything but easy. As a company that relies on exports for a large portion of sales, the ongoing Eurozone financial crisis and economic belt-tightening measures in China are significant threats. Volatile raw materials prices, political instability in North Korea, and other fast-changing factors at home and abroad leave no room for error. Before moving on to our goals and major strategies for 2012, let us backtrack for a moment to report on our 2011 performance.

The Year in Review

From an operational perspective, consolidated sales rose 30.3% to KRW 6,457.4 billion and operating income rose 47.5% to KRW 842.2 billion, both setting new highs. Our chemical affiliates generating valuation gains as they delivered solid performances, while our disposal of holdings in Kumho Industries and Kumho Tire held as available-for-sale securities enabled us to post a record net income based on controlling interest of KRW 505.6 billion for the year.

Seong-Chae Kim
President & CEO
Kumho Petrochemical



From a financial perspective, our debt-to-equity ratio dropped 158.6 percentage points to 202.8% as our increased cash-generation ability enabled us to reduce debt and the redemption of convertible bonds increased equity. Our rising operating income also pushed our interest coverage ratio—a key metric of our ability to repay outstanding debt—from 3.96 to 6.01.

Beyond these record-setting growth, profitability, and stability figures, we diligently worked to take the competitiveness of our existing businesses to the next level and secure a sound foundation for continued growth. We also completed our restructuring as a chemical group and eliminated uncertainty by improving our financial soundness through the gradual disposal of investment assets in non-core businesses.

From a business perspective, our synthetic rubbers business completed and started up a 120,000-mtpy HBR expansion project at the Yeosu plant, taking our cost competitiveness and market leadership to the next level. Our synthetic resins business steadily improved both productivity and profitability, achieving its third-straight operating income. Our specialty chemicals business saw our K-13 antioxidant earn the "World Class Product of Korea" designation in recognition of its top-5 global market share. Our energy business saw both sales and operating income rise significantly due to efficient operations at Yeosu Energy I and II. Our electronic materials business surpassed monthly sales of 1,000 gallons for the first time, while our building materials business put in place a solid foundation for growth with the completion of the new Yesan plant in March.



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The Year Ahead

Despite the challenging business environment ahead, we have set a more ambitious sales growth target for 2012. Our management focus will be “Think Next” as we come together with a progressive, future-oriented attitude to surpass everything we’ve done before to take the next step toward becoming a truly global leading player in all our businesses.

Major Initiatives

Our synthetic rubbers business will further strengthen its market leadership. We will increase our self-supply ratio for butadiene—a key feedstock that is essential to our continued solid growth—by accelerating development of new production methods and sources. We will also be working to expand the productivity of strategic products such as SSBR and Nd-BR to prepare for rising demand as a new tire labeling system comes into effect later this year in the EU.

Our synthetic resins business will lay the foundation for greater profitability. We will continue to increase our competitiveness and lower production costs through ongoing process innovation as well as expanding development and sales of value-added specialty products. As we upgrade our sales force and marketing in China, we will pursue new market opportunities in Europe and the United States following ratification of free trade agreements. We will also focus on growth opportunities in Latin America and Southeast Asia to diversify our export markets.

Our phenol derivatives business will focus on strengthening global competitiveness. We will secure an absolute competitive edge in the phenol and bisphenol A markets by focusing on cost reduction. We will also be moving into the acetone derivatives field to deal with the current oversupply issue as we strengthen vertical integration in these related fields.

Our specialty chemicals business will focus on securing raw materials and expanding our product portfolio. We will continue to diversify our 4-ADPA supply channels to secure a stable supply of this feedstock as we work to increase our self-production capacity over the long term. We will also continue to actively market our K-13 antioxidant to grow sales and work closely with our new insoluble sulfur plant in China to boost product bundling opportunities.

Our energy business will focus on operational efficiency to maximize profitability. We will continue to optimize operations at our Yeosu Energy I and II combined heat and power plants as we proceed with a capacity upgrade of Energy II to ensure that we are



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ready to supply power and steam for capacity expansion projects now underway at our chemical affiliates. We will also be securing additional supplies of tire-derived fuel to make our generating costs more competitive.

Our electronic materials will focus on growing market share and bringing new products to market. We will secure our position as a top-tier ArF photoresist supplier to Hynix Semiconductor as well as pursuing additional business from Samsung Electronics and Taiwanese semiconductor makers.

Our building materials business will focus on generating its first operating income. We will enhance our cost competitiveness and aggressively expand our sales network. We will also pursue business in China and other overseas markets as we expand our portfolio with interior materials and other new products.

Overall, we will focus on strengthening our financial structure and upgrading our core capabilities. We will be restructuring our product portfolio and streamlining our organization to bolster our overall operational efficiency and core capabilities. We will also elevate our financial soundness to the next level by selling investment assets to reduce debt and maximizing investment efficiency with a select-and-focus strategy.

Our 2012 management focus of “Think Next” emphasizes that today is the starting point for a better tomorrow and the importance of always being prepared for the future. Today, the entire KKPC family is united and committed to achieving the direction and goals outlined in Vision 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.

Suh-Hyung Lee
President & CEO, Kumho Petrochemical

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