

KINNOVATION At Kumho

Petrochemical, we are stepping up the pace of innovation in our quest to become a global leading chemical group. Our innovation is expanding opportunities in core businesses, pursuing new possibilities in promising new fields, raising the bar for environmental, health, and safety performance, and cultivating greater professionalism and leadership in our people to drive future growth.

Since 1970, Kumho Petrochemical Co., Ltd. (KKPC) has grown and prospered with industry by providing innovative petrochemical solutions and customer-focused service.

Today as a trusted partner and one of the world's largest and most competitive producers of synthetic rubbers with world-class technology and products in the fields of synthetic resins, phenol derivatives, and specialty chemicals, we are expanding our business portfolio into the fields of energy, electronic materials, and building materials to drive future growth.

Together, we and our 9 affiliates aim to generate consolidated sales of KRW 20 trillion annually with 20 products that rank in the global top-5 in their respective categories by 2020 as we pursue our vision of becoming a global leading chemical group.

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Performance Overview

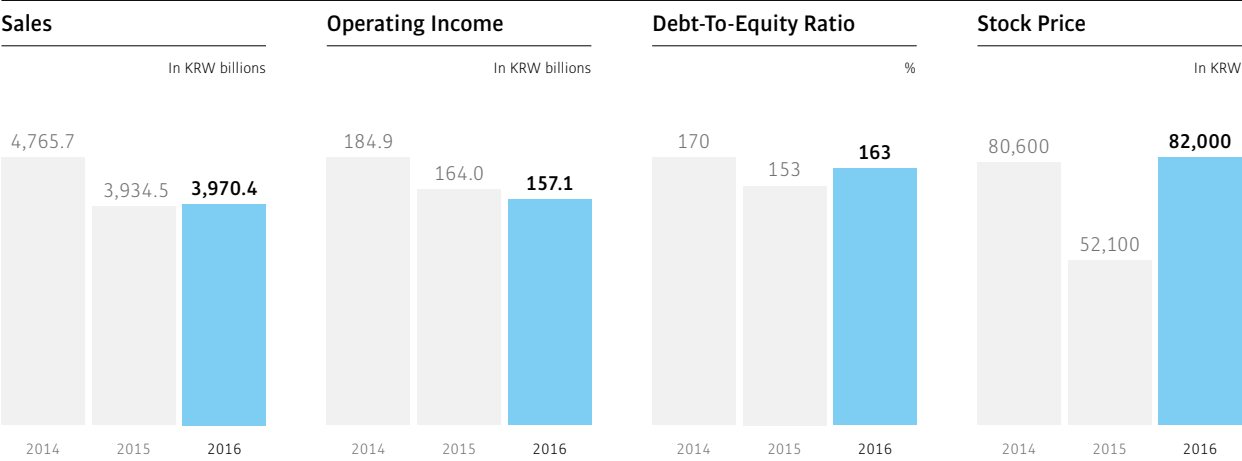
Financial Highlights

| | 2016 | 2015 | Change |
|------------------------------------|---------|---------|--------|
| Income Statements | | | |
| Sales | 3,970.4 | 3,934.5 | 35.9 |
| Operating Income | 157.1 | 164.0 | -6.9 |
| Income before Income Tax | 112.9 | 169.6 | -56.7 |
| Net Income | 80.8 | 121.9 | -41.1 |
| Net Financing Cost | 67.2 | 67.4 | -0.2 |
| Balance Sheets | | | |
| Total Assets | 4,546.1 | 4,210.6 | 335.5 |
| Total Liabilities | 2,818.2 | 2,546.8 | 271.4 |
| Total Equity | 1,727.9 | 1,663.7 | 64.2 |
| Key Figures | | | |
| Operating Margin | 4.0% | 4.2% | -0.2%p |
| Debt-to-Equity Ratio | 163% | 153% | 10%p |
| Earnings per Share in KRW | 2,618 | 4,257 | -1,639 |
| Return on Equity | 4.8% | 7.4% | -2.6%p |
| Interest Coverage Ratio | 2.67 | 3.19 | -0.52 |
| Dividend per Ordinary Share in KRW | 800 | 800 | 0 |

CONSOLIDATED DATA BASED ON K-IFRS

In KRW billions

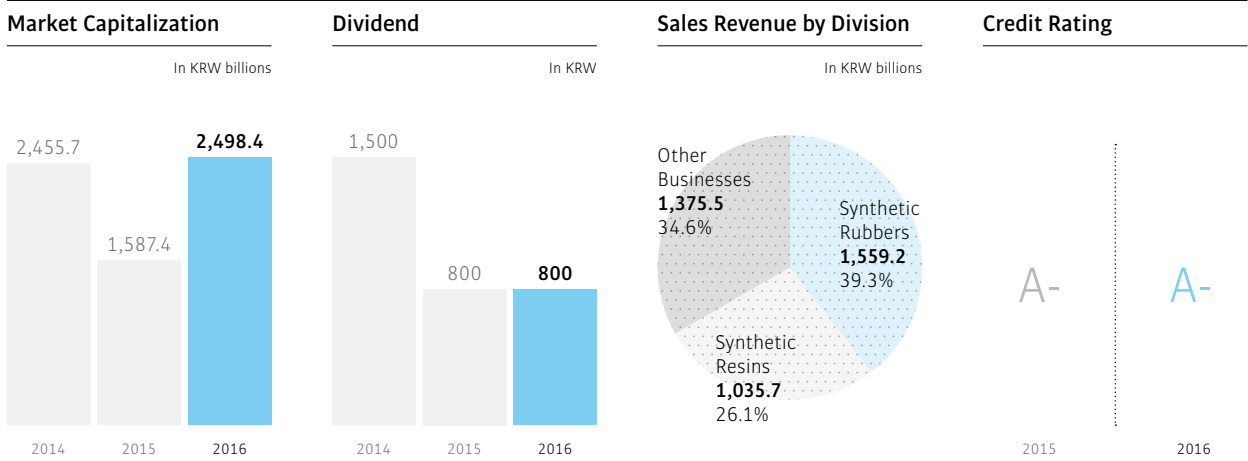
Key Figures



Stock Information

| | 2016 | 2015 |
|--|------------|------------|
| Share Data | | |
| 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 | 2,586,939 | 1,691,072 |
| Credit Rating from Korea Information Service | A- | A- |
| Per Share Data in KRW | | |
| Net Income | 2,618 | 4,257 |
| Book Value | 65,115 | 62,572 |
| Dividend | 800 | 800 |
| Share Price Year-End | 82,000 | 52,100 |
| High | 83,000 | 93,000 |
| Low | 47,850 | 49,900 |
| Shareholder Structure | | |
| Major Shareholders | 24.61% | 24.52% |
| Free Float | 44.38% | 47.41% |

CONSOLIDATED DATA BASED ON K-IFRS



A Message from the Chairman

INNOVATION IS CHANGING THE FACE OF KUMHO PETROCHEMICAL. AT A TIME WHEN THE GLOBAL ECONOMY IS FACING INCREASING UNCERTAINTY, WE ARE COMMITTED TO RAISING OUR COMPETITIVENESS BY PURSUING INNOVATION ACROSS ALL OUR BUSINESSES AS WE MOVE CONFIDENTLY FORWARD TOWARD OUR GOAL OF BEING A GLOBAL LEADING CHEMICAL GROUP.



Dear Valued Stakeholders,

KKPC has experienced an extremely challenging period over the past few years. The global synthetic rubbers market has faced chronic oversupply primarily due to capacity expansion in Asian markets. The ensuing fierce competition in the commodity rubber market in particular has been the primary source of our business difficulties over the past 5 years. Beyond that, ongoing crises in global economic blocs such as the EU and general political unrest worldwide have also contributed to uncertainty in the global economy. Responding to this volatile business climate, we have continued to aggressively optimize inventories and reduce costs across our operations. Despite these efforts, we came up short of our financial targets, closing the year with consolidated sales of KRW 3,970.4 billion and operating income of KRW 157.1 billion.

Although we fell short of our 2016 targets, we did have a number of notable successes that have prepared us for greater success in the future. Our synthetic rubbers business completed the NB latex plant expansion project, boosting annual production capacity to 400,000 metric tons. A focus on process optimization to boost quality now means our quality ranks with the best in the industry. Our energy business completed the Yeosu Energy II expansion project and began commercial operations. We expect that plant to significantly boost the cost competitiveness of our operations as well as generating additional revenues from power and steam sales going forward. Our phenol derivatives business also completed a major expansion project in the first half of the year, bolstering our vertical integration with expanded production capacity for phenol, acetone, and cumene.

»The completion of major capacity expansion projects in our synthetic rubbers, energy, and phenol derivatives businesses will significantly enhance our competitiveness going forward.«

Major Initiatives

The outlook for 2017 indicates that we will continue to face considerable headwinds and challenges in the year ahead. A sluggish global economy combined with increasing trade protectionism and widespread political uncertainty due to events such as the United Kingdom's exit from the EU are all issues of great concern given our reliance on global markets. With these challenges in mind, we have launched the following four initiatives to achieve our business targets and demonstrate our potential as we pursue our vision of being an industry leader in our core business fields.

We will aggressively push forward with a survival strategy in our core businesses.

Our core synthetic rubbers and synthetic resins businesses deal largely in commodity petrochemical products. For these businesses to survive and ultimately thrive, we must step up our efforts to differentiate our products as we work to secure a stable supply of the key feedstocks needed to produce them. Building on this foundation, we must step up our efforts to actively build stronger relationships with our major customers as we continue to improve and strengthen these businesses.

We will strengthen our core competencies to prepare for the future.

We will review our business structure and evaluate the competitiveness of each business as we take the next step toward our vision of becoming a global leading chemical group. This is key to identifying and executing the strategies that will enhance our competitiveness. At the same time, we will also be looking for ways to generate greater synergy between our businesses.

We will review our business portfolio to identify new business opportunities.

We must continue to expand our business scope, leveraging a streamlined business structure to generate revenue growth in the face of continued sluggish markets. These changes will focus on expanding the proportion of high value-added products in our portfolio through strategic business ventures and technical development based on in-depth market analysis.

We will promote a can-do corporate culture based on action and communication.

In challenging times, organizational capabilities become increasingly important. Here, communication is key to breaking through the status quo. By creating an environment conducive to constructive conversation that will foster a culture equipped to generate positive synergy, we will create new opportunities to rise above the challenges and difficulties we face. This will in turn enable us to lay the solid foundation that will ultimately elevate our businesses to the top of their industries.



As we move into 2017, I would liken our situation to traveling through a long tunnel. Our task in this new year is to make the changes that will help us exit the tunnel sooner rather than later. We are eliminating unproductive practices, turning challenges into opportunities, and aggressively charting a new course to ensure we are among the world's best in our core businesses. At a time when the global economy is facing increasing uncertainty, we are committed to raising our competitiveness as we move confidently forward toward our goal of being a global leading chemical group. Your continued support and encouragement are greatly appreciated as our talented, experienced teams focus on creating greater value for all our stakeholders in the coming year.

Chan-koo Park
Chairman & CEO
Kumho Petrochemical

Vision 2020

AT KKPC, WE HAVE A VERY CLEAR VISION FOR THE FUTURE. AS WE CREATE NEW MARKETS AND HELP OUR CUSTOMERS SUCCEED, OUR AMBITIOUS GOAL IS TO BECOME A GLOBAL LEADING CHEMICAL GROUP BY 2020 WITH SALES OF KRW 20 TRILLION AND AT LEAST 20 PRODUCTS WITH A TOP-5 GLOBAL MARKET SHARE. DRIVEN BY OUR CORE VALUES—A PASSION FOR EXCELLENCE, INNOVATION TO DELIVER CUSTOMER SATISFACTION, COLLABORATION TO EARN TRUST, AND SOCIAL AND CORPORATE RESPONSIBILITY BASED ON INTEGRITY—EACH MEMBER OF OUR TEAM IS 100% FOCUSED ON MAKING THIS VISION A REALITY.

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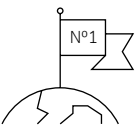
Sales in KRW trillions



We aim to be a global leading chemical group with sales of KRW 20 trillion by 2020.

20

World-class products



We aim to be a global leading chemical group with 20 world-class products by 2020.





- › SBR: Styrene butadiene rubber
- › HBR: High-cis polybutadiene rubber
- › NBR: Acrylonitrile butadiene rubber
- › LBR: Low-cis polybutadiene rubber
- › NB Latex: Acrylonitrile butadiene latex
- › KSL-341 foam latex
- › EPDM: Ethylene propylene diene monomer
- › KUMANOX 13 antioxidant
- › KUMANOX 5010L antioxidant
- › PA: Phenolic additives
- › MIBK: Methyl isobutyl ketone
- › BPA: Bisphenol-A



Mission

- 1 For Our Customers
We create customer value with the best solutions and synergy.
- 2 For Our Shareholders
We deliver shareholder value by selecting and focusing to maximize profits.
- 3 For Our Employees
We work to create a virtuous cycle of growth where both company and employees grow.
- 4 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



Our commitment to delivering value to our customers that goes beyond the best is reflected in our group slogan.



Synthetic Rubbers
Never Far Away from You

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Carbon Nanotubes,
OLED Panel Sealant
Focusing on What Comes Next

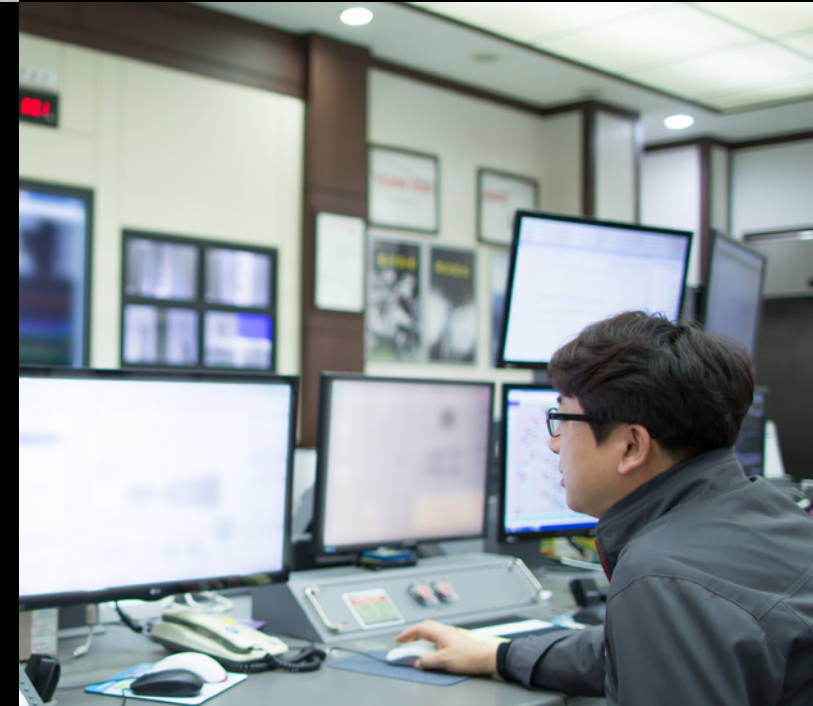
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KINNOVATION



EHS Excellence
Making the Future Safer and Greener

—
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Synthetic Resins
Leading vs. Winning

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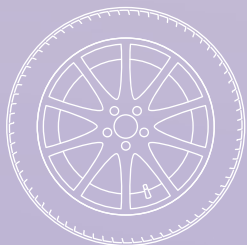


Workplace Excellence
Cultivating an Innovative Future

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Synthetic Rubbers

Starting out as Korea's first producer of synthetic rubbers, we have grown to become one of the world's largest producers of BR (butadiene rubber) and SBR (styrene butadiene rubber). Today, we continue to improve the key properties of our products as we work to expand their range of industrial applications. Our completion of an NB (acrylonitrile butadiene) latex capacity expansion project in 2016 will further cement our position as an industry leader, enhancing our competitiveness as we boost sales of more profitable NB latex and expand our product portfolio in areas such as SSBR (solution styrene butadiene rubber) and NdBR (ultra high-cis polybutadiene rubber).



Our high-performance synthetic rubber products are used by major tiremakers around the globe.

Our innovation is steadily expanding our scope of business through ongoing investments focused on strengthening our product portfolio.

@ Yeosu Synthetic Rubber Plant I

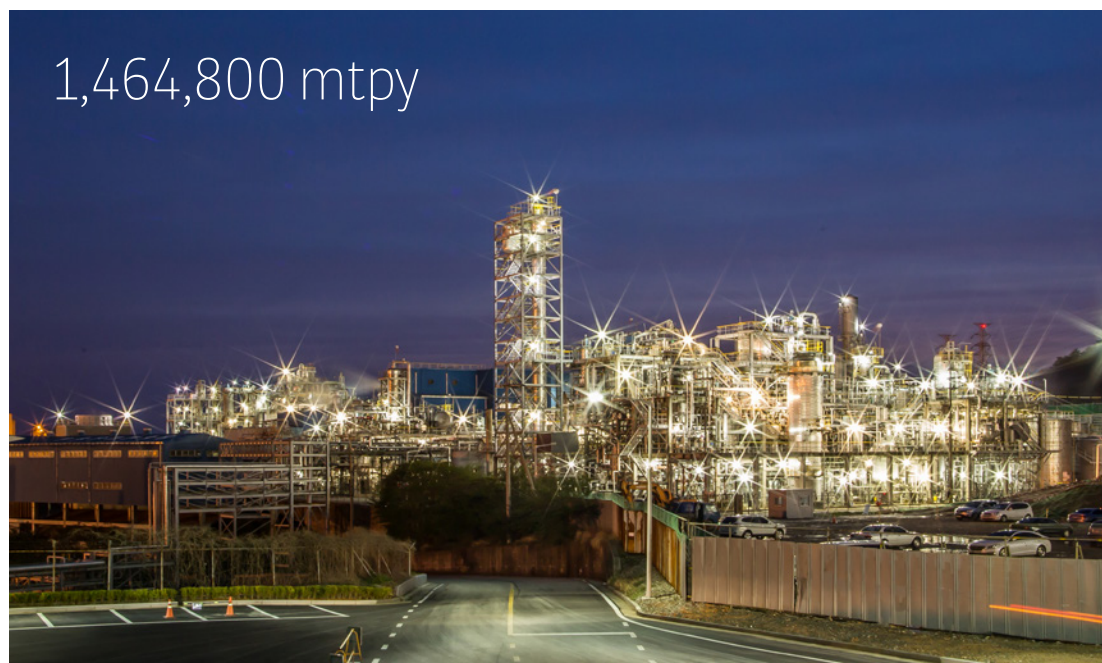


Never Far Away from You

How much do you know about KKPC? Do you know what we make? How about what technologies we have or what our major products are? You may not know that much about us, but if you are like most people, you will be surprised when you realize how frequently our paths cross. That's because you never have to look far to find us in everyday life.



We strive to consistently deliver the highest quality synthetic rubber products to our customers.



We are a top-tier global synthetic rubbers maker with a production capacity of 1,464,800 mtpy.

Our innovation is about using technology to continually elevate the quality of life, bringing greater convenience and safety to your world.



Spending more time with you

Imagine yourself driving to a country club to play a round of golf with some business associates on the weekend. You might not realize it now, but you will be spending more time today with us than with anyone else. Take your car for instance. You'll find KKPC synthetic rubber products in a large number of components, from the tires to engine hoses and belts. The same goes for the golf shoes that help you navigate the course and even the golf ball that you send flying toward the cup.



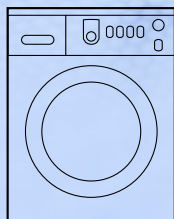
Paving the way for progress

Our diverse range of synthetic rubbers is used in far more places than you might imagine. For instance, you'll find our technology inside the asphalt roads you drive on. Over the years, we've improved the properties of our SBS (styrene butadiene styrene) thermoplastic elastomer, enhancing the strength and service life of asphalt roads for safer driving. That's just another example of how our synthetic rubbers are enhancing the quality of life, making every part of life more convenient and safer.



Synthetic Resins

Becoming a global player in the synthetic resins industry is another one of our key objectives. Aiming for a larger share of the Chinese market, we recently invested KRW 53 billion to expand our ABS (acrylonitrile butadiene styrene) production capacity, completing our third plant in that major market. As Korea's leader in resin production technology, we have developed Enerpor EPS (expandable polystyrene) resin, a high-performance product that delivers energy savings that will significantly reduce CO₂ emissions. Through these and other ongoing efforts, we continue to strategically diversify investment to strengthen both product and corporate competitiveness.



Our high-quality synthetic resins enable designers to create home appliances that have both exceptional form and functionality.



Our innovation is creating new markets by anticipating the needs of our customers and developing highly competitive products to meet them.

@ Ulsan Synthetic Resin Plant

Leading vs. Winning

At KKPC, we are more interested in being a leader than simply being a winner. A winner might be the best for a moment, but a leader gives 100% all the time. A winner may have a huge lead, but a leader brings everyone along with them. A winner is satisfied with today's successes, but a leader thinks about long-term value. Over the years, we have played a leading role in Korea's industrial development by producing commodity resins for industrial and consumer applications. This is the kind of leadership model we intend to build on globally going forward.



Our ABS resins are available in a wide selection of grades for a diverse spectrum of products ranging from automobile parts and home electronics and appliances to everyday items.

846,000 mtpy

We are a global synthetic resins maker with a production capacity of 846,000 mtpy.



Our leadership is focused on the development of the global chemical industry, driven by a commitment to excellence and mutual growth.



Bringing more convenience and comfort to life

Our broad synthetic resins product portfolio continues to grow year by year. Our ABS is used in automobiles and home appliances. Our PS is used in everyday goods and electronic components. Our EPS is used in packaging and construction materials. Our PPG is used to produce polyurethane for use in a variety of cushioning and cold insulation materials. In short, our growing family of resins is a key part of the essential products that are bringing more convenience and comfort to life.

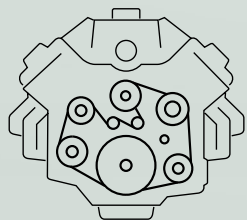
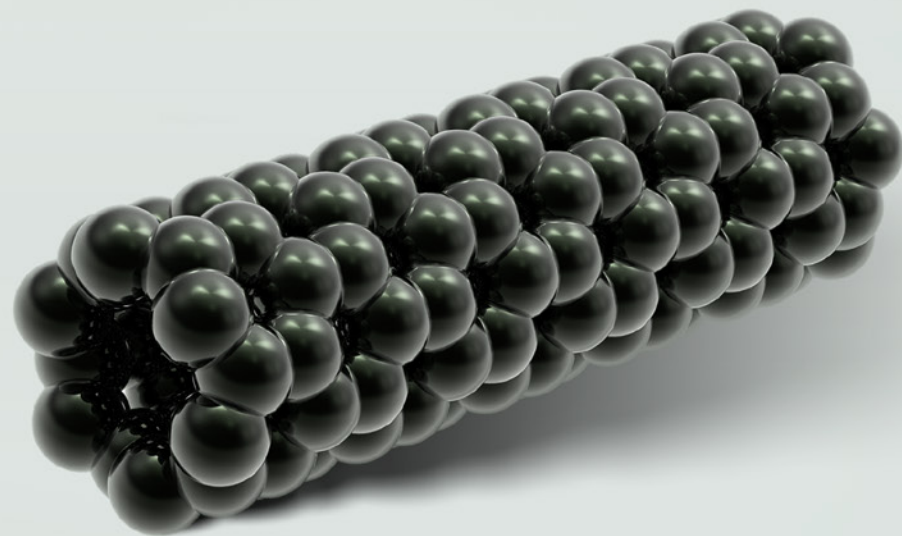
Creating a lasting legacy

While the theme of the chairman's 2016 corporate new year's address focused on making a new start, his comments about leaving a legacy made a particularly strong impression. He was talking about the value of sharing with all and passing that on to the next generation, echoing the founder's counsel to live with integrity to others. This leader's mindset is why we are committed to leaving a great legacy for tomorrow's industries built on a dedication to ceaseless research and innovative product development.



Carbon Nanotubes

CNT (carbon nanotubes) are one of the most promising innovations in nanomaterials development, boasting 100 times the tensile strength of steel and 1,000 times the electrical conductivity of copper. Our successful commercialization of CNT technology puts us on the cutting edge of industrial materials innovation. We are now hard at work developing next-generation materials that will exceed customer expectations, opening the door to new markets and driving growth.



Our carbon nanotube technology has the potential to deliver major performance improvements for our synthetic rubbers and synthetic resins in the coming years.

Our innovation is actively driving the development of growth engines through ongoing R&D aimed at perfecting the products customers want.

@ Asan Electronic Materials Plant



OLED Panel Sealant

Without exception, each and every one of our products takes the same path from concept to reality. That difficult and challenging path can be summarized as never-ending research and never-satisfied development. In 2016, our electronic materials business became the first in Korea to commercialize production of an OLED panel sealant, a success made possible by taking a greater, more innovative path than the rest.



We are developing and delivering high-quality sealants to meet the evolving needs of the OLED panel industry.

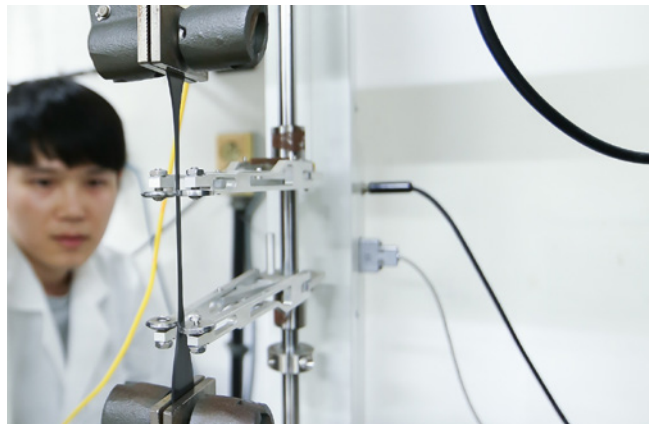
Our innovation is moving forward toward change and growth, driven by an enterprising research mindset and a passionate commitment to development.

@ Asan Electronic Materials Laboratory



Focusing on What Comes Next

At KKPC, the reason we exist today is because of the research and development that has enabled us to upgrade our core products and diversify our portfolio over the years. Talking about R&D is easy, but actually doing it is another matter. Our success here is what differentiates us and makes us strong as we pursue and deliver innovation across our organization.

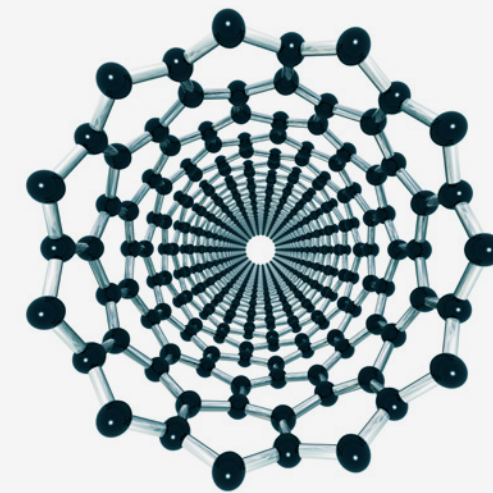


Our research and business development efforts are driven by a staff of approximately 200 specialists spanning the fields of chemicals and materials.



We invested over KRW 34 billion in 2016 to improve the performance of existing products and develop new value-added products with the potential to drive future growth.

Our R&D efforts are helping bring dazzling OLED displays to life.



Taking product performance to the next level

Carbon nanotubes are extremely versatile materials. Although they have outstanding properties of their own, when combined with other materials, their strength can double. When our existing synthetic rubbers and synthetic resins products and CNT technology come together, dramatic improvements in durability, thermal conductivity, electrical conductivity, and other properties are possible. We continue to explore the vast range of possibilities as we systematically identify opportunities to drive future growth.

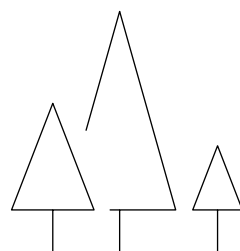


Making Korean display makers more competitive

Our greatest achievement in the electronic materials field in 2016 was the development of a sealant for OLED panels. Since developing Korea's first commercial sealant for the small and medium OLED panel market in 2012, we have strategically expanded our sealant lineup to include products for the latest OLED panel segments. By leveraging our expertise to deliver Korea's first OLED panel sealant, we have once again reaffirmed our leadership in the display sealant field.

EHS Excellence

Putting the environment first is the heart of our environmental, health, and safety philosophy, anchored by our vision to be a company that creates the future by meeting the needs of humanity and the environment. In recent years we have put in place an independent environmental management system, upgraded our safety management system and training, and implemented an emergency response system that aims to minimize our environmental impact and reduce safety accidents to zero.



KCMS

Our new chemical management system (KCMS) significantly enhances our ability to systematically monitor and manage chemical substances at our production sites across Korea.

Our innovation is creating a sustainable world where humanity protects the environment and the environment preserves humanity.



Making the future safer and greener

In our unwavering pursuit to make the chemical industry more eco-friendly, we have set mid- and long-term goals and are now moving forward with a number of focused initiatives. In 2016, we upgraded our EHS (environmental, health, and safety) policies as we implemented a new chemical management system that has upgraded our review and monitoring of chemical substances to the next level. As part of our carbon emissions and energy consumption reduction targets, we also replaced all lighting fixtures at all worksites with energy-efficient LED fixtures as we continued to do our part to create a safer, greener future.

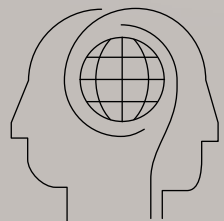


Putting safety first

As evidenced by our steadily rising investment in safety, we believe that safety is something that can never be emphasized enough. Our CEO-led organization-wide safety management system plays the lead role in creating an accident-free workplace. In March 2016, our Yeosu plant set a new internal corporate record for safety performance, a record it continues to extend to this day. This is the kind of safety performance that we strive for across our organization every day of every year.

Workplace Excellence

In our quest to become a global leading chemical company, we are looking for people who aspire to be global leaders. We want people who are open to collaboration. People who take responsibility. People with passion who never give up. And people who innovate as they pursue creative change. These are the kind of people that will help us lead the way in global markets in the coming years.



Our human resources strategy focuses on hiring and cultivating global-minded people as we pursue our vision of being a global leading chemical company.



Our innovation is cultivating global leaders who are team players, responsible, passionate, and innovative.

@ Seoul Headquarters

Cultivating an Innovative Future

Behind every successful organization you'll find successful people. That's why we value our people and actively invest large amounts of both time and money to help them achieve their full potential. Our human resources management program is a case in point. We believe that cultivating professionalism and leadership across our workforce will enable us to reach higher and further both today and tomorrow. For us, the ultimate, most forward-looking innovation is people.



We encourage our people to enhance their skills and capabilities by covering costs related to earning government-recognized professional certifications.



Our in-house lecturer development program is helping us tap into the wealth of expertise we already have to boost institutional know-how.

We're looking for global leaders
who demonstrate workplace
professionalism and
communication-centric leadership.



Raising the standard for professionalism

One of the HR initiatives we have operated since 2010 to cultivate entrepreneurial global leaders is a program designed to encourage our people to acquire government-recognized certifications in professional fields. During the past five years, they have earned a wide range of certifications such as certified US public accountant, financial risk manager, certified financial analyst, production and inventory management specialist, and project management specialist. We also operate an in-house lecturer development program that helps grow institutional know-how by tapping the expertise of employees with more than five years of experience in 14 core job positions spanning the production, quality, and the environmental fields.

Mentoring the future

We operate a mentoring program for new employees to help them successfully settle into company life. Each new employee has two mentors during their first year on the job. During the first six months, they have an assigned mentor. For the latter six months, they have the opportunity to choose their own mentor. We also hold mentoring workshops to help mentors and mentees build rapport and ensure that the mentoring experience meets its objectives. In these and many other ways, we are empowering our people to expand their individual skills and capabilities, ultimately enhancing our organizational capabilities in the process.

Fostering leadership skills

"Leadership" is another key word in our HR management strategy. We support a variety of experiences to help our people develop their communication, thinking, and decision-making skills. The best example is our Wink Talk program, which invites outside experts such as artists, writers, and academics to talk about current issues from culture and the arts to the latest topics in management such as "big data". We also operate a number of programs for managers at the team leader level and above that actively support proactive self-development through annual goal-setting, daily self-study, and book reading relays.

Kumho Petrochemical Personnel System



ABILITY
Salaries reflect employee
ability

PERFORMANCE
Incentive system rewards
both individual and corporate
performance

ROTATION
Job rotation provides career
development opportunities

MANAGEMENT REVIEW

| | | | | |
|----------------------|----------------|-------------------|-----------------|-----------------|
| <u>36</u> | <u>40</u> | <u>42</u> | <u>44</u> | <u>46</u> |
| Corporate Governance | Key Executives | Shareholder Value | Risk Management | Business Ethics |



| | | | |
|--------------------------|-----------------------|---------------------------------|-------------------|
| <u>48</u> | <u>50</u> | <u>52</u> | <u>54</u> |
| Environmental Management | Social Responsibility | Research & Business Development | Major Innovations |



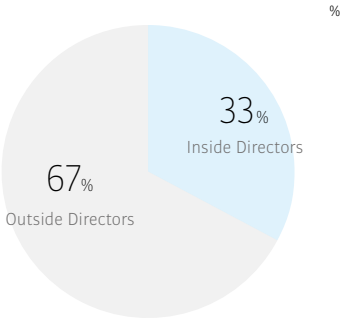
Corporate Governance

WE ARE COMMITTED TO EARNING THE TRUST OF ALL OUR STAKEHOLDERS—FROM SHAREHOLDERS AND CUSTOMERS TO EMPLOYEES, PARTNERS, AND COMMUNITIES. OUR GOVERNANCE STRUCTURE GIVES US A SOLID FOUNDATION FROM WHICH TO EARN THAT TRUST AND GENERATE GREATER VALUE AS WE AIM FOR A HIGHER LEVEL OF PERFORMANCE.

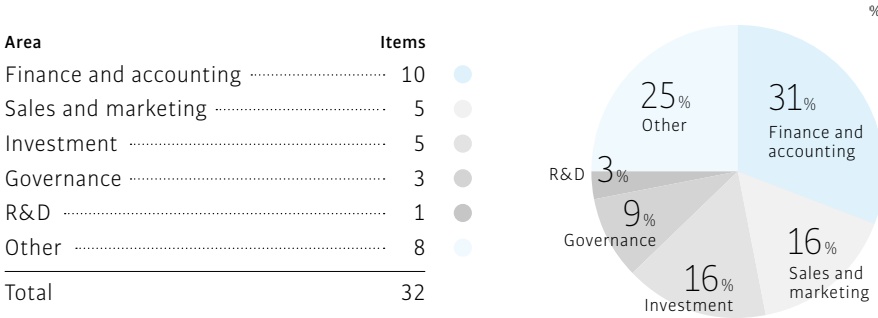
Board of Directors

Our board is comprised of six directors, four 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’s objective is to maximize corporate value from a long-term perspective. In 2016, the board met 10 times to decide on a total of 32 major agenda items.

Board Structure



Board Agenda Overview



Governance Structure

| Chairman | | | |
|---|--|---|--|
| Chan-koo Park | | | |
| Board of Directors | | | |
| 2 Inside Directors | | 4 Outside Directors | |
| Chan-koo Park · Seong-chaе Kim | | Yong-man Rhee · Jin-ho Chung · Ok-rial Song · Myoung-kee Jang | |
| Audit Committee | | Outside Director Nominating Committee | |
| 3 Outside Directors | | 2 Outside Directors | |
| Yong-man Rhee · Jin-ho Chung · Ok-rial Song | | Yong-man Rhee · Jin-ho Chung | |

Outside Director Attendance

| | Yong-man Rhee | Jin-ho Chung | Ok-rial Song | Myoung-kee Jang |
|--|---------------|--------------|--------------|-----------------|
| Board Meetings | 80% | 90% | 90% | 100% |
| Audit Committee Meetings | 100% | 100% | 67% | |
| Outside Director Nominating Committee Meetings | 100% | 100% | | |



Inside Director

Chan-koo Park

Chairman & CEO
Kumho Petrochemical

Chairman and CEO Chan-koo Park chairs the board. He graduated from Iowa State University in the United States with a degree in statistics and began his career at KKPC. He has previously served as CEO of several KKPC group companies, including KKPC and Kumho Mitsui Chemicals. During his more than four decades at KKPC, he has played a key decision-making role while contributing to company growth. He also served as chair of the International Institute of Synthetic Rubber Producers from 2010 to 2011.

Inside Director

Seong-chaе Kim

President & CEO
Kumho Petrochemical

President Seong-chaе Kim graduated from Yonsei University in Korea with a degree in chemical engineering and began his career at KKPC. During his career, he has accumulated a vast amount of experience and expertise in the synthetic rubbers industry while serving in a variety of sales and management positions at home and abroad. He has served as president and CEO since 2010.

Outside Director

Yong-man Rhee

Chair, Outside Director Nominating Committee
Member, Audit Committee
Former Minister, Korean Ministry of Strategy & Finance

Director Yong-man Rhee previously served as a secretary in Korea’s presidential secretariat as well as minister of the Korean Ministry of Strategy & Finance, gaining extensive experience in the fields of finance and policy. In his outside director role, he also serves on both the Audit Committee and the Outside Director Nominating Committee.

Outside Director

Ok-rial Song

Member, Audit Committee
Professor, Seoul National University School of Law

Director Ok-rial Song has an extensive career in the legal field. An LL.D. graduate of Harvard Law School, he has previously worked as an attorney at Korea’s largest law firm. He currently teaches law at the Seoul National University School of Law. In his outside director role, he also serves on the Audit Committee.

Outside Director

Jin-ho Chung

Chair, Audit Committee
Member, Outside Director Nominating Committee
Chairman & CEO, The Wells Investment

Director Jin-ho Chung has had an extensive career in the financial and investment industries, including stints at Nomura Securities and as CEO of Prudential Investment & Securities. He is currently chairman and CEO of The Wells Investment. In his outside director role, he also serves on both the Audit Committee and Outside Director Nominating Committee.

Outside Director

Myoung-kee Jang

Former Director, Korea Exchange Bank
Chairman &CEO, Fidelis Partners

Director Myoung-kee Jang has an extensive career in the banking industry. He has served as a deputy director of major Korean financial institutions including Shinhan Bank and Korea Exchange Bank. He is currently chairman of Fidelis Partners. In his outside director role, he provides valuable insights and guidance on decisions related to fund management policy.

Key Executives

OUR TALENTED MANAGEMENT TEAM IS LAYING A FIRM FOUNDATION FOR GROWTH, TAPPING THE CREATIVITY AND SYNERGY OF OUR PEOPLE AND BUSINESSES TO SET THE STAGE FOR OUR EMERGENCE AS A GLOBAL LEADING CHEMICAL GROUP IN THE COMING DECADE.



Seong-chaе Kim
• President & CEO



Seok-geun Song
• Senior Executive Vice President
• Production Division



Chang-soo Jung
• Executive Vice President
• Ulsan Synthetic Rubber Plant



Jong-hoon Baek
• Executive Vice President
• Sales Division



Jin-yong Park
• Executive Vice President
• Chairman's Administrative Support Office



Young-hoon Ko
• Vice President
• Kumho Petrochemical R&BD Center & Synthetic Rubber Research



Dong-kook Kim
• Vice President
• Synthetic Resin Sales & Electronic Materials Plant



Young-do Ko
• Vice President
• Purchasing & Accounting



Kab-jong Chang
• Vice President
• Yeosu Synthetic Rubber Plant



Chul-wan Park
• Vice President
• Synthetic Rubber Overseas Sales



Jun-kyung Park
• Vice President
• Synthetic Resin Overseas Sales



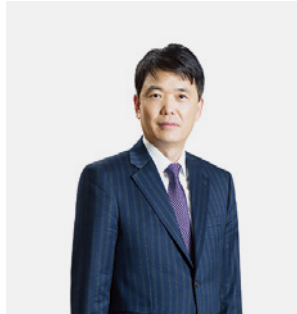
Jeong-hwan Kim
• Vice President
• Yeosu Plant Administration & Management



Kwun-wook Heo
• Vice President
• Building Materials Business Unit



You-sun Song
• Vice President
• Technology & Energy Business Unit



Wang-geun Oh
• Vice President
• Administration & Management



Joo-hyung Park
• Vice President
• Purchasing & Finance



Jung-chan Lee
• Vice President
• Yeosu Specialty Chemicals Plant



Min-ho Kim
• Vice President
• Strategic Planning



Young-chan Jang
• Vice President
• Research Planning



Jong-sub Byun
• Vice President
• Yeosu Energy Plant



Young-ho Chun
• Vice President
• Synthetic Resin Research



Taek-young Lee
• Vice President
• Ulsan Synthetic Resin Plant



Han-won Hong
• Vice President
• IT Strategic Center

Shareholder Value

WE NEVER STOP WORKING ON WAYS TO CREATE GREATER VALUE FOR OUR SHAREHOLDERS. DESPITE UNFAVORABLE INDUSTRY TRENDS AND A CHALLENGING GLOBAL ECONOMY, OUR SHARE PRICE CLIMBED 57% IN 2016, A PERFORMANCE DUE IN LARGE PART TO OUR MULTIFACETED IR STRATEGY. WE WILL CONTINUE TO EXPAND THESE EFFORTS TO DELIVER GREATER SHAREHOLDER RETURNS IN THE COMING YEAR.

Capital Market Overview

As the global economy continued to struggle in 2016, ongoing political and policy issues had a major impact on stock markets. Contrary to market expectations, the UK decided to exit the EU. Uncertainty about trade policy following the US presidential election also added to market volatility. In China, the government launched structural reforms aimed at mid- to long-term growth. As major European markets saw growth stagnate, China continued to grow in the 6% range. This continued economic slowdown in both advanced and emerging economies alike resulted in another challenging year for the global economy.

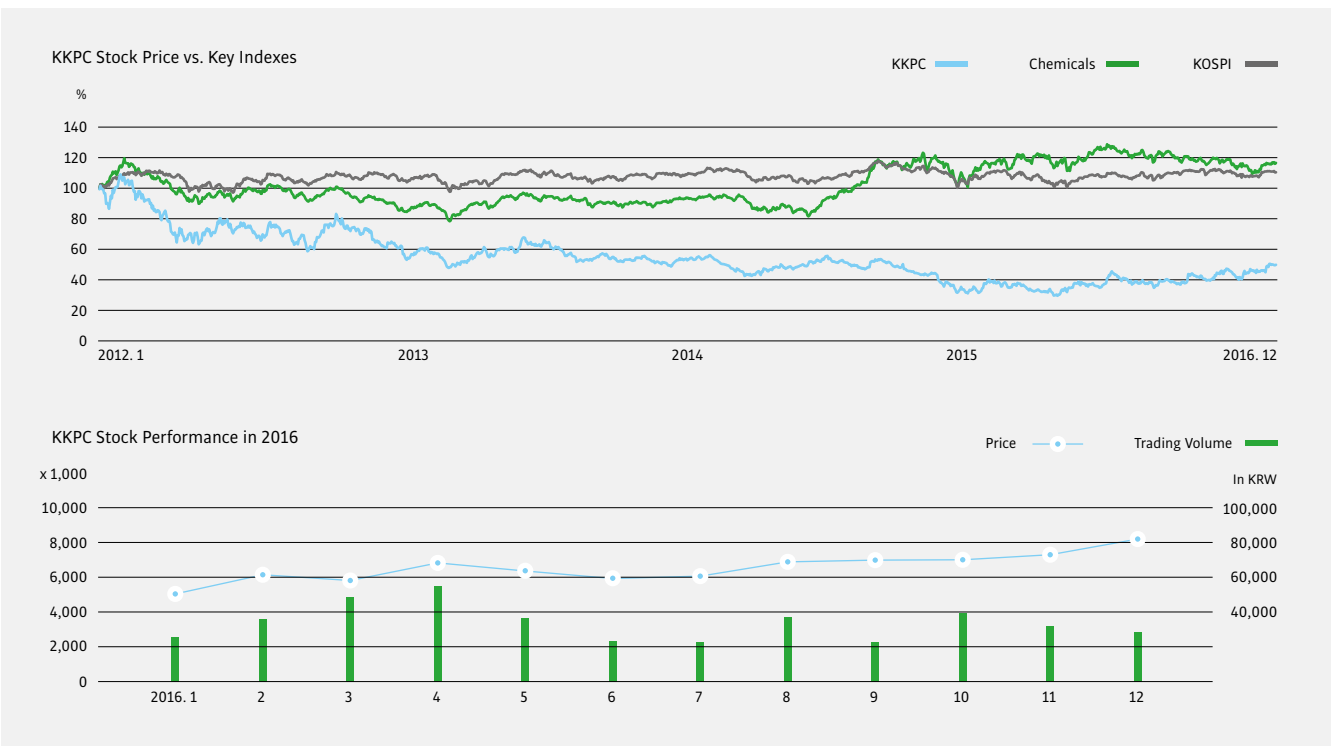
The Korean financial market was also impacted by the above factors, dampening investor sentiment. Despite efforts to stimulate the market such as the increase of the bid-ask price spread to ±30% in 2015 and the lengthening of trading hours by 30 minutes daily to 3:30 pm in 2016, total trading value fell approximately 16% during the year. The KOSPI Index closed the year at 2,026.46 points, up just over 3% from 1,961.31 points at the start of the year.

Share Performance

In 2016, our shares followed an upward trajectory throughout the year. While our core synthetic rubbers business continued to face a challenging marketplace, improving profitability and high expectations for an overall improvement in the rubber industry going forward helped boost our share price from KRW 52,100 at the start of the year to KRW 82,000 at the close, a 57% increase for the year. In 2017, we will be focusing on improving our performance to meet market expectations and lay a solid foundation for future stock price appreciation.

IR Initiatives

Our ongoing, coordinated investor relations initiatives span the range from the disclosure of key business developments and financial information via our website and DART (<http://dart.fss.or.kr>) to regular meetings with both domestic and international institutional investors. These efforts continue to earn us credibility in the market and a fair market valuation for our shares as we focus on our strategic goal of attracting quality, long-term investors.



In addition to timely disclosure of board decisions and other major business information, we focused on expanding the information available through our IR website in conjunction with our earnings releases in 2016. We continued to hold regular small group meetings with investors on a weekly basis, including in-depth discussions that went beyond simple information sharing. We also held one-on-one meetings and conference calls for investors unable to participate in regularly scheduled meetings due to language, timing, or geographic constraints.

Together, these efforts helped our stock price rise by a remarkable 57% in 2016 as we continued to attract quality long-term investors from global markets. The portion of our shares held by foreign investors rose from 14.96% at the beginning of the year to 18.97% at the end, the highest level recorded during the past 10 years, as we increased meetings with foreign investors by approximately 70%.

Share Dividend

It is our policy to consistently return a fair and reasonable portion of our profits to our investors. This policy has led us to continue to declare a basic dividend each year despite the continued market challenges we have had over the past few years.

As we were wrapping up major investments in a number of capacity expansion projects designed to position the company for future growth in 2016, we also faced a difficult business environment that hampered our efforts to improve our performance. Given these constraints, we declared a cash dividend of KRW 800 per common share and KRW 850 per preferred share, representing 16% and 17% of the KRW 5,000 par value, respectively, matching the 2015 dividend. We declared a reduced dividend of 15% of par value or KRW 750 per common share for the controlling shareholder as a gesture of responsibility for failing to meet business targets for the year.

Although the business environment is expected to remain challenging in 2017 due to ongoing oversupply and intensifying competition in our core businesses, we will continue to strive to improve our performance to enable us to increase our dividend payout going forward.



Annual Report Recognition — Our 2015 annual report was recognized at a number of prestigious awards competitions in 2016. We took Platinum in the Chemical class at the 2015 Vision Awards hosted by the League of American Communications Professionals (LACP). We also took Bronze in the LACP's Most Engaging category for the Asia region. At the 2016 ARC Awards hosted by MerComm, we took Silver in the traditional annual report category. We intend to continue to raise the bar for excellence in communications as we engage shareholders, investors, and stakeholders around the world in creative and memorable ways through our annual report.

Risk Management

WE PROACTIVELY MONITOR AND MANAGE THE WIDE RANGE OF RISKS THAT WE FACE ACROSS OUR OPERATIONS. OUR COMPREHENSIVE RISK MANAGEMENT SYSTEM CLOSELY FOLLOWS THE RAPIDLY CHANGING GLOBAL MARKETPLACE, ENABLING US TO STRATEGICALLY MINIMIZE OUR EXPOSURE TO FINANCIAL, CURRENCY, AND RAW MATERIALS RISK.

Financial Risk

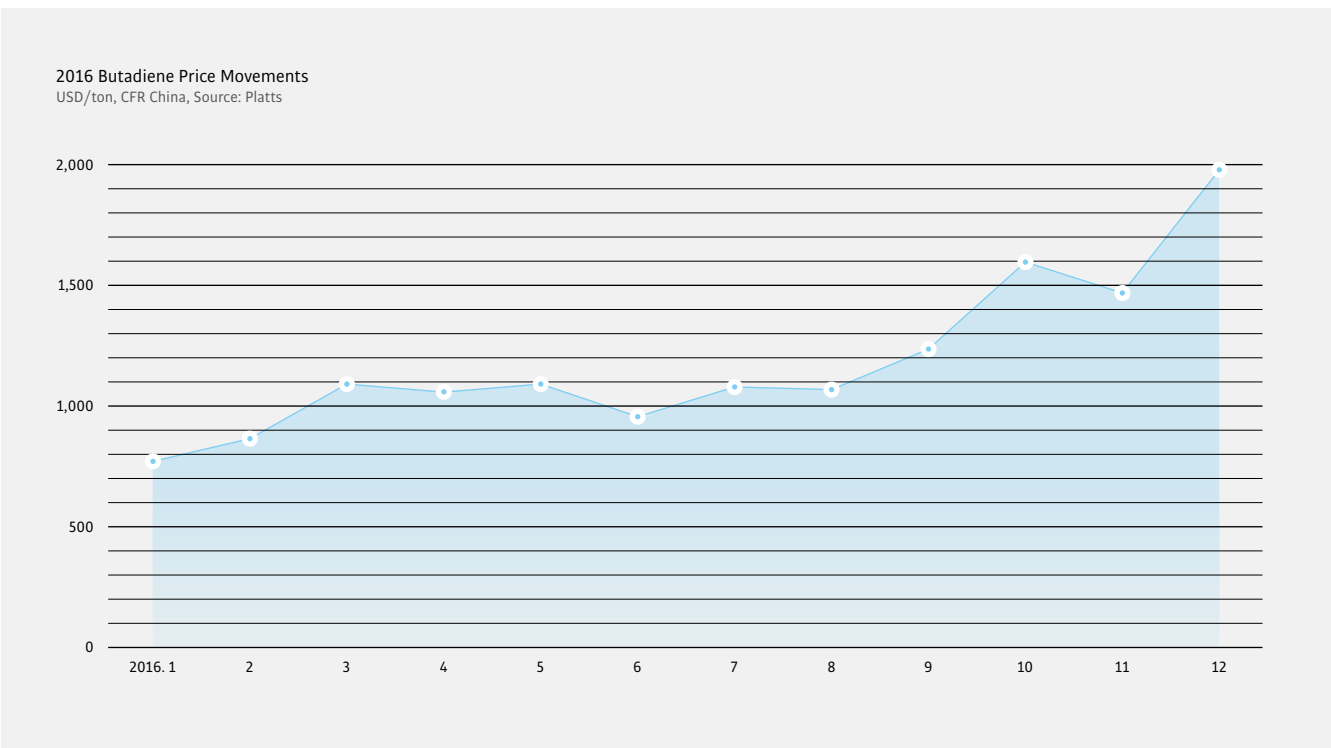
In 2016, total debt remained steady at KRW 1,870 billion. Our debt-to-equity ratio rose 10 percentage points from 153% to 163%.

With the completion of a number of major capacity expansion projects in 2016, our investment capital needs will ease in 2017. Now positioned to steadily pay down debt, we expect our debt-to-equity ratio to decline going forward as we continue to improve our liquidity ratio, which is relatively weighted toward mid- and long-term debt. This is projected to lower our financing costs and reduce related risk. We expect to secure additional funding from the sale of available-for-sale securities in Daewoo Engineering & Construction. Considering the value of our available-for-sale securities in Daewoo Engineering & Construction and Asiana Airlines as well as the treasury shares and other marketable securities we hold, we believe our financial liquidity position is satisfactory.

Currency Risk

When finalizing our business plans for 2017, we adopted a conservative exchange rate of KRW 1,110 to USD 1 for our projections. Given that the US dollar continues to maintain its strength against global currencies with the average exchange rate holding above KRW 1,190 in early 2017, we believe that the exchange rate will not be a significant obstacle to achieving our targets for the coming year.

In 2016, exports accounted for approximately 63% of total sales. Including the 10% portion of domestic local sales, approximately 73% of sales was in foreign currencies, 96% of which was in US dollars. Although our foreign-currency income is slightly higher than our expenses due to the high proportion of exports, our slightly long cash position of within 20% between the two indicates that exchange rate fluctuations will have a minimal impact on overall profitability.



Market Risk

Looking at the market outlook for our core synthetic rubbers business, global tire production is projected to rise by approximately 3% in 2017. Structural oversupply is expected to continue to be a key factor for this business. Feedstock prices began rising in the fourth quarter of 2016 and are expected to remain strong through the first half of the year. Accordingly, we will be closely monitoring prices to minimize inventory risk related to price volatility. We will also be building out our NB latex sales network to expand sales following the completion of a capacity expansion project in 2016.

Our synthetic resins business will also continue to face structural oversupply in the market in 2017. The situation is expected to be somewhat mitigated by the scrapping of a number of older facilities during the year. We plan to aggressively expand sales by targeting niche markets as we tailor our portfolio to match market conditions and maximize profitability.

Raw Materials Risk

In late January 2017, BD (butadiene) demand began to rise as buyers built up inventories before the lunar new year holiday period in China, sending Asian BD prices higher. Concerns about tighter supply as BD suppliers proceed with their regular maintenance schedules in the first half of the year make it likely that prices will continue to rise.

In the first half of 2017, we expect to see a temporary period of correction. However, supply shortages due to scheduled maintenance are expected to keep prices strong. In the third quarter, the peak period for the synthetic rubber market will keep BD prices strong before weakening in the fourth quarter as demand falls and scheduled maintenance by BD suppliers declines.

To ensure a smooth supply of BD in these market conditions, we will continue purchases from outside Asia in addition to existing contracts with regional suppliers. We will also actively pursue new C4 and BD contracts with regional suppliers to boost our utilization rate as we continue to strategically increase our self-sufficiency in BD over the long term.

Business Ethics

INTEGRITY AND SHARED GROWTH ARE OUR HIGHEST MANAGEMENT VALUES. MORE THAN SIMPLY DECLARING A COMMITMENT TO ETHICAL MANAGEMENT AND CODE OF CONDUCT, WE ARE BUILDING AN INFRASTRUCTURE FOR PRACTICING INTEGRITY THAT WILL PROVIDE PROPER GUIDANCE TO OUR PEOPLE. CONCURRENTLY, WE ARE WORKING TO BUILD A SOUND CORPORATE CULTURE THAT FOSTERS TRANSPARENT, WIN-WIN RELATIONSHIPS WITH OUR SUPPLIERS.

Stakeholder Trust

We operate a dedicated channel for reporting violations of our code of conduct and rules as we continue to foster a rational and clean corporate culture. Our online ethics site provides a convenient way for employees, suppliers, and other parties to report unethical behavior. We also run specific campaigns during major national holidays to discourage gift giving. These include sending notices to suppliers that gifts will not be accepted as part of our efforts to maintain fair and transparent business relationships. We also operate a special call center to facilitate the return of gifts as we work to foster a healthy corporate culture free of corruption and influence peddling.



Win-Win Relationships

We operate a number of support programs to help us build win-win relationships with our suppliers. We pay small and medium-size suppliers in cash, offer financial assistance, provide training and technical support, share information, and undertake joint technical development projects. We also take supplier survey feedback into account when making major operational decisions. Following the enactment of Korea’s Improper Solicitation and Graft Act, we are now providing our people with specific guidance on how to comply in regards to common courtesies such as sending flowers and providing financial congratulatory or condolence gifts.

1

Trust
We strive to be a trusted and respected company by practicing transparency.

2

Win-Win
We are creating a culture of shared growth with our stakeholders.

3

Social Responsibility
We are making the world a brighter, warmer place by caring for the disabled and underprivileged.

4

Environment & Safety
We strive for harmony with nature and to create a safe and pleasant work environment.



Environmental Management

THE IMPORTANCE OF ENVIRONMENTAL ISSUES CONTINUES TO INCREASE WITH INDUSTRIAL DEVELOPMENT. WE BELIEVE THAT ENVIRONMENTAL ISSUES ARE NOT ISSUES LIMITED TO A SPECIFIC REGION OR COUNTRY. THEY ARE GLOBAL ISSUES THAT REQUIRE A COORDINATED GLOBAL RESPONSE. SINCE WE ANNOUNCED OUR ENVIRONMENTAL VISION IN 2008, ENVIRONMENTAL, HEALTH, AND SAFETY (EHS) HAVE BEEN KEY AREAS OF FOCUS FOR US. IN STEP WITH DOMESTIC AND INTERNATIONAL TRENDS, WE CONTINUE TO UPGRADE OUR COMPLIANCE, CLIMATE CHANGE RESPONSE, AND EHS SYSTEMS AND MANAGEMENT.

EHS Initiatives

Our vision is to be a company that creates the future by meeting the needs of humanity and the environment. Toward this end, we have updated our environmental, health, and safety policies and established a long-term strategy and action plan that we are now making concrete progress on. We continued to update our policies in 2016 in response to our changing environment and business direction.

Our environmental initiatives cover a wide range of areas including air quality, water quality, and waste generation. In each of these areas, we have set performance targets that we continually monitor and manage to ensure they are met. We strictly comply with all legal standards regarding the discharge of harmful substances and voluntarily participate in off-site environmental clean-up efforts. These ongoing efforts have enabled us to maintain the highest possible certification level for our environmental management system.

Reducing energy consumption was a key focus in 2016. During the year, we replaced approximately 16,000 light fixtures with LED equivalents. Beyond the environmental benefits, the project reduced fixed costs and boosted work efficiency. We will continue to identify other win-win projects that benefit both the company and environment going forward.

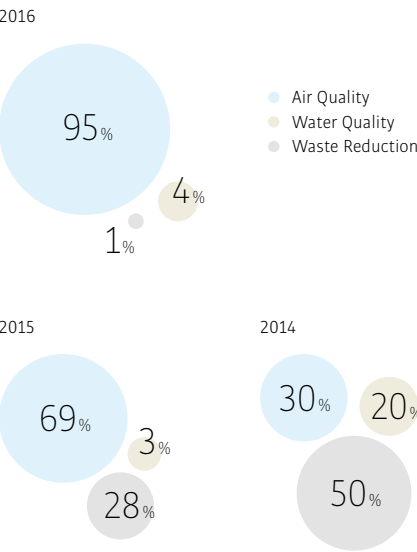


Regulatory Compliance

We continually monitor and adapt to laws and regulations that affect the chemical industry. We have implemented a chemical management system (KCMS) that enables us to respond to and comply with both the letter and intent of Korea’s Act on the Registration and Evaluation of Chemicals (K-REACH) and the recently enacted Clean Air Conservation Act.

The Clean Air Conservation Act sets clearer standards targeting the reduction of hazardous air pollutant emissions. These pollutant emissions are measured once annually. Facilities that fail to meet the standard must be upgraded and monitored to ensure they do so. We are currently in the process of putting in place the necessary facilities to ensure we are able to meet our responsibility to manage emissions and comply with legal mandates. Once the facilities are in place, we will be installing an integrated leak detection and repair system (LDAR) that will monitor components prone to leaking such as valves, connectors, and pumps. We have also upgraded all pumps to either dual mechanical seal or sealless equipment to meet target standards for all chemicals subject to control.





Environmental Investment



Environmental Vision

We aspire to be a company that creates the future by meeting the needs of humanity and the environment.

Long-term strategy

- 1  Develop eco-friendly products
- 2  Reduce energy consumption and emissions
- 3  Play a leading role globally in EHS
- 4  Strengthen system capabilities

System Overview

Our corporate-wide EHS system starts with the CEO and extends all the way down to the environmental and safety teams at each plant site. Each site operates an integrated management system covering all aspects of the environment, safety, and health for effective oversight.

In addition to the corporate safety and environment committee, which takes up major issues, plant management presides over regular meetings to focus on local issues. Beyond upgrading our emergency response system, we continue to focus on accident prevention, initial accident response, and post-accident measures as we work to ensure we are capable of providing a comprehensive, timely response to any situation.

Investment & Oversight

In addition to ongoing initiatives to replace facilities that have reached the end of their service life, we are actively increasing investment in facilities designed to prevent environmental and safety accidents. Augmenting comprehensive inspections encompassing the machinery, piping, electrical, and instrumentation areas, we hold monthly safety inspection days to give both us and our suppliers time to conduct internal safety inspections. We also highlight local safety issues on bulletin boards at each plant as well as arranging regular third-party inspections to further enhance safety awareness.

Social Responsibility

DRIVEN BY A STRONG COMMITMENT TO SOCIAL RESPONSIBILITY, WE ACTIVELY PARTICIPATE IN A BROAD RANGE OF ACTIVITIES TO BENEFIT THE MOST-NEEDY IN OUR LOCAL COMMUNITIES. THESE RANGE FROM DONATIONS OF SPECIAL EQUIPMENT FOR THE PHYSICALLY AND VISUALLY DISABLED TO THE INSTALLATION OF HIGH-QUALITY WINDOW SYSTEMS FOR WELFARE CENTERS IN NEED OF REPAIR. WE ALSO ENCOURAGE OUR PEOPLE TO GET INVOLVED IN WORTHY PROJECTS AS PART OF OUR ONGOING EFFORTS TO MAKE COMMUNITY SERVICE AN INTEGRAL PART OF OUR CORPORATE DNA.



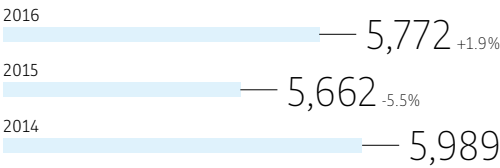
Special Initiatives

We have a special place in our heart for the disabled and disadvantaged. In 2008, we began donating special wheelchairs for the severely physically disabled that are customized to the specific needs of each recipient. In 2016, we donated 33 wheelchairs to benefit 38 needy residents at 9 rehabilitation centers in the greater Seoul region.

Another initiative we started back in 2008 was a window replacement program for welfare centers in need of repair. In 2016, we donated and installed our premium Hugreen window systems at the “Peaceful Home” center for the disabled in Seoul, creating a more comfortable and attractive living and working environment for residents and staff.

We also operate a variety of programs to help the visually disabled. We distribute easy-to-use telescoping canes, tactile ground surface indicators, and braille keyboards to schools for the blind and welfare centers serving the disabled nationwide. In 2016, we donated funds to produce 1,650 telescoping canes to the Korea Welfare Foundation for the Visually Handicapped.

Volunteer Participation Across all Programs



Community Initiatives

Our focus on community service doesn’t end with corporate donations. We encourage our people to actively participate in serving their local communities in a variety of ways. We also recognize outstanding service each year by both individuals and teams through an internal awards program as we continue to promote an ethos of service across our organization.

Our entire family contributes to the less fortunate by voluntarily choosing to round off their paycheck to the nearest KRW 1,000 and donate the rounded sum to a general welfare fund. Many also choose to make monthly fixed-amount charitable donations. All of these employee donations are matched by the company, doubling their impact for good. In 2016, these funds benefited the Eastern Social Welfare Society and 9 other welfare facilities and organizations across Korea.

Beyond these charitable contributions, we are also involved in numerous community service projects and organizations. We enjoy making baby care kits, corn sock dolls, and other toys to help brighten the lives of less-fortunate children at home and abroad. We also partner with the Korean Red Cross to sponsor annual in-house blood drives, gathering the blood donation cards for donation to places where they are urgently needed.

Special Initiatives

- 1  Custom wheelchairs for the severely disabled
- 2  Hugreen window systems for welfare centers
- 3  Assistance devices for the visually disabled

Community Initiatives

- 1  Employee donations and matching grants
- 2  Volunteer service activities
- 3  Annual blood drives



Research & Business Development

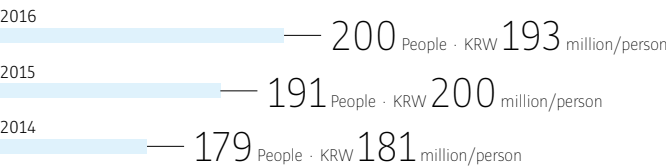
OUR SOLID, LONG-TERM FOUNDATION FOR COMPETITIVENESS AND GROWTH IS BUILT ON A TIRELESS COMMITMENT TO RESEARCH AND DEVELOPMENT. OUR TWO RESEARCH CENTERS SPECIALIZING IN CHEMICALS AND ELECTRONIC MATERIALS PLAY A KEY ROLE IN KEEPING US ON THE LEADING EDGE OF TECHNOLOGY IN THOSE RESPECTIVE FIELDS, ENABLING US TO RAPIDLY RESPOND TO CUSTOMER NEEDS TO DELIVER PRODUCTS WITH THE POTENTIAL TO LEAD THE INDUSTRY.

R&BD Organization

Since 2005, we have referred to our R&D activities as “R&BD” or research and business development. This reflects the common sense idea that business strategy as well as marketing and commercialization considerations must be taken into account from the R&D planning phase to ensure that each project makes a concrete contribution to the bottom line.

Our R&BD activities revolve around two main centers—the Kumho Petrochemical R&BD Center in Daejeon and the Kumho Electronic Materials Laboratory in Asan. Looking beyond past and present successes, these centers are tasked with developing the next generation of technologies and materials that will define our future.

R&BD Manpower & Investment



Kumho Petrochemical R&BD Center

Our R&BD organization dates back to 1985 when we opened our first R&D center at our Yeosu plant. In 1994, we opened the Kumho Petrochemical R&BD Center in Daejeon. In 2003, we relocated our Icheon R&D center and Ulsan latex R&D center to the present Daejeon campus, completing the integration of our R&BD operations.

In addition to its primary mission of securing technical and cost competitiveness for our synthetic rubbers and other existing businesses, the center focuses on developing the products and businesses that will drive future growth. The center is tasked with making the technical breakthroughs that will make us a top-tier player in product categories where we are a latecomer as well as creating first-to-market products that meet specific customer needs.

The center was the Korean chemical industry’s first to adopt a comprehensive R&D project management system. This system plays a key role in maximizing the effectiveness of project execution, involving the entire organization from the project selection stage through feasibility analysis, basic research, development, and commercialization.

Kumho Electronic Materials Laboratory

Opened in 1998, this laboratory conducts research in a broad range of fields from semiconductor processing materials such as photoresist, BARC (bottom anti-reflective coatings), and PSPI (photosensitive polyimide) to LCD sealants and other materials for the display industry. Its ceaseless efforts are key to improving the quality of existing products and developing and bringing new ones to market.

Among the lab’s notable achievements in recent years is the development of technology to produce ArF (argon fluoride) photoresist for 193-nm lithography, the advanced process used to create nanometer-scale semiconductor circuits. We continue to work closely with major global semiconductor makers to develop products that meet their specific needs. Building on synergy with other existing product areas, our research in the display field is aimed at fostering economies of scale in this growing industry.

In the display field, research on sealants for OLED and LCD panels continues to be the focus of our efforts. Since becoming Korea’s first commercial manufacturer of sealant for the small and medium panel market in 2012, we have continued to expand our sealant lineup to include products for the large LCD and OLED panel segments. For LCD panels, sealant is used as an adhesive in the LCD cell assembly process to join the color filter and TFT substrates together, containing and protecting the liquid crystal. For OLED panels, sealant blocks moisture and oxygen so the OLED cells are able to work properly. We are also developing sealants for narrow bezel displays and an encapsulation solution for flexible OLED displays as we keep pace with the evolution of the industry.

Major Innovations



High-Performance SSBR Grades

With rising demand for eco-friendly tires and tire labeling requirements becoming increasingly common, demand for SSBR (solution styrene butadiene rubber), a material recognized for its superior silica filler dispersion characteristics, is growing rapidly. We produce a variety of SSBR grades that are expected to generate steady sales growth in the coming years. Through ongoing R&D, we have acquired proprietary manufacturing technologies for synthetic rubber denaturant, polymer structure control, and new compounds that enable us to develop and produce unique SSBR grades with superior properties.

We continue to work closely with major tiremakers on joint projects. These technical exchanges with both customers and universities at home and abroad position us to quickly respond to changing customer requirements and develop market-leading products. We aim to sharpen our technical capabilities in the years ahead through ongoing investment.



MSP Epoxy Paint Additive

Mono-styrenated phenol is a low-viscosity phenol chemical compound developed as a replacement for hormone-altering phthalates commonly used as plasticizers and hardeners in epoxy paint coatings. In addition to its eco-friendly properties, our MSP eliminates several shortcomings of existing products and is the industry's first to offer enhanced hardener storage stability and quality.

This technical leadership enabled our phenolic additives products to win the “World-Class Product of Korea” designation in 2015 for achieving a global top-5 market share as well as Korea’s prestigious IR52 Jang Young-sil Award for innovation in 2016.

We continued to expand our MSP lineup in 2016 with our new MSP500 product. This non-reactive diluent for epoxy paints is now opening new market and profit opportunities for us in the specialty chemicals field.



Industrial NB Latex

Recognized for its excellent tensile strength and processability characteristics, our NB latex has enjoyed steadily rising sales since introduction. In the medical glove market, our NB latex continues to maintain an edge on the competition and we are continually developing new grades to meet the specific needs of our customers. We are also expanding our product portfolio by developing NB latex grades for high-quality industrial-use gloves as we expand our customer base and grow sales.

Expected to enjoy strong growth in the coming years, industrial-use latex gloves are highly resistant to wear and chemicals, making them essential safety wear in the automobile, metal, and chemical industries.

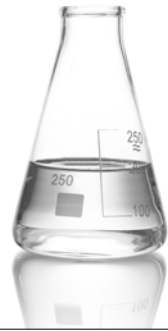


Enerpor EPS Resin

We have an exclusive manufacturing patent for this EPS resin, which has all the properties and strength of existing EPS resins with the added benefit of significantly improved thermal conductivity. Adopting the concept of radiant heat absorption through the crystal structure of conventional polystyrene foam, Enerpor offers 30% better insulation performance than standard white EPS foam insulation, setting a new standard for energy savings and eco-friendliness.

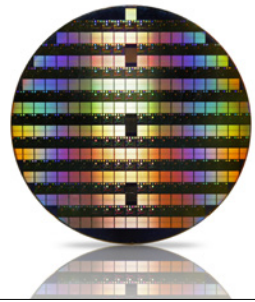
Enerpor has a high market share in Korea and we have received patents for the manufacturing technology in a number of major global markets including the United States, Canada, Russia, China, and the European Union.

In 2016, we developed a new manufacturing technology capable of producing the sub-1-millimeter resin bead size preferred by customers, taking product competitiveness to the next level.



Butadiene Production

1,3-butadiene (BD) is a widely used industrial chemical feedstock. In our operations, we use it to produce synthetic rubbers and resins. Tight supply in the industry in recent years has led us to increase our captive BD production capacity. Our R&DB teams have developed optimized process technologies that will enable us to do that, contributing to stable manufacturing costs and improved profitability for our core businesses.



ArF Immersion BARC

BARC (bottom anti-reflective coatings) are polymer coatings used on the lower layer of photoresist to control light reflectivity in high-resolution lithography. Since launching commercial production in 2015, we have upgraded the performance of our KrF immersion BARC product. In addition to attaining a higher refractive index than the original product, the new product also features improved etching performance.

We expect continued development of new materials like this designed for next-generation semiconductor production to drive sales growth in the coming years.



3D NAND Photoresist

Although NAND flash memory manufacturing is structurally simple, volatile pricing has kept it out of the semiconductor industry spotlight. That has rapidly changed with the recent development of 3D NAND flash memory and its accompanying increases in memory density, boosting margins and industry interest. Resist manufacturers around the world are now focusing their development efforts on thick KrF (krypton fluoride) photoresist for 3D NAND production.

In 2016, we moved a step closer to completing development of a photoresist that meets the performance requirements of our global customer base and expect to complete commercialization during 2017.



OLED Panel Sealant

In 2016, we continued to improve the properties of our OLED panel sealant during the ongoing development process. Having completed reliability testing with customers, the installation and optimization of production facilities, and the final audit, we are now awaiting final customer qualification. In 2017, we expect to further improve sealant properties as we work to wrap up commercialization and begin product deliveries during the year, becoming Korea’s first domestic supplier in the process.

BUSINESS REVIEW

| | | | | |
|---------------|-------------------|------------------|------------------|--------------|
| <u>58</u> | <u>60</u> | <u>62</u> | <u>64</u> | <u>66</u> |
| 2016 Overview | Synthetic Rubbers | Synthetic Resins | Other Businesses | 2017 Outlook |



2016 Overview

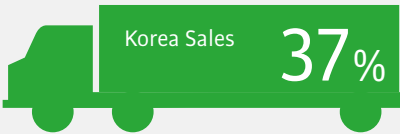
THE GLOBAL ECONOMY CONTINUED TO BE VERY CHALLENGING IN 2016. FEW IF ANY COULD HAVE PREDICTED THE DRAMATIC POLITICAL AND ECONOMIC DEVELOPMENTS OF OIL HITTING ITS LOWEST PRICE IN A DECADE, THE UNITED KINGDOM VOTING TO LEAVE THE EUROPEAN UNION, AND THE OUTCOME OF THE UNITED STATES PRESIDENTIAL ELECTION. IN A SITUATION WHERE THE GLOBAL ECONOMY WAS ALREADY LIMPING ALONG, THIS POLICY UNCERTAINTY BROUGHT ON A SENSE OF CRISIS THAT SPREAD BEYOND THOSE ECONOMIC BLOCS TO TOUCH THE ENTIRE GLOBAL ECONOMY.

This uncertainty was certainly felt in the synthetic rubbers market, one of our core businesses. Here, the structural oversupply situation combined with tight feedstock supplies made it once again difficult to pass on rising costs to customers. Fortunately, rising selling prices in the first half of the year helped temporarily boost demand and margins, enabling us to stay profitable amid the challenging market situation.

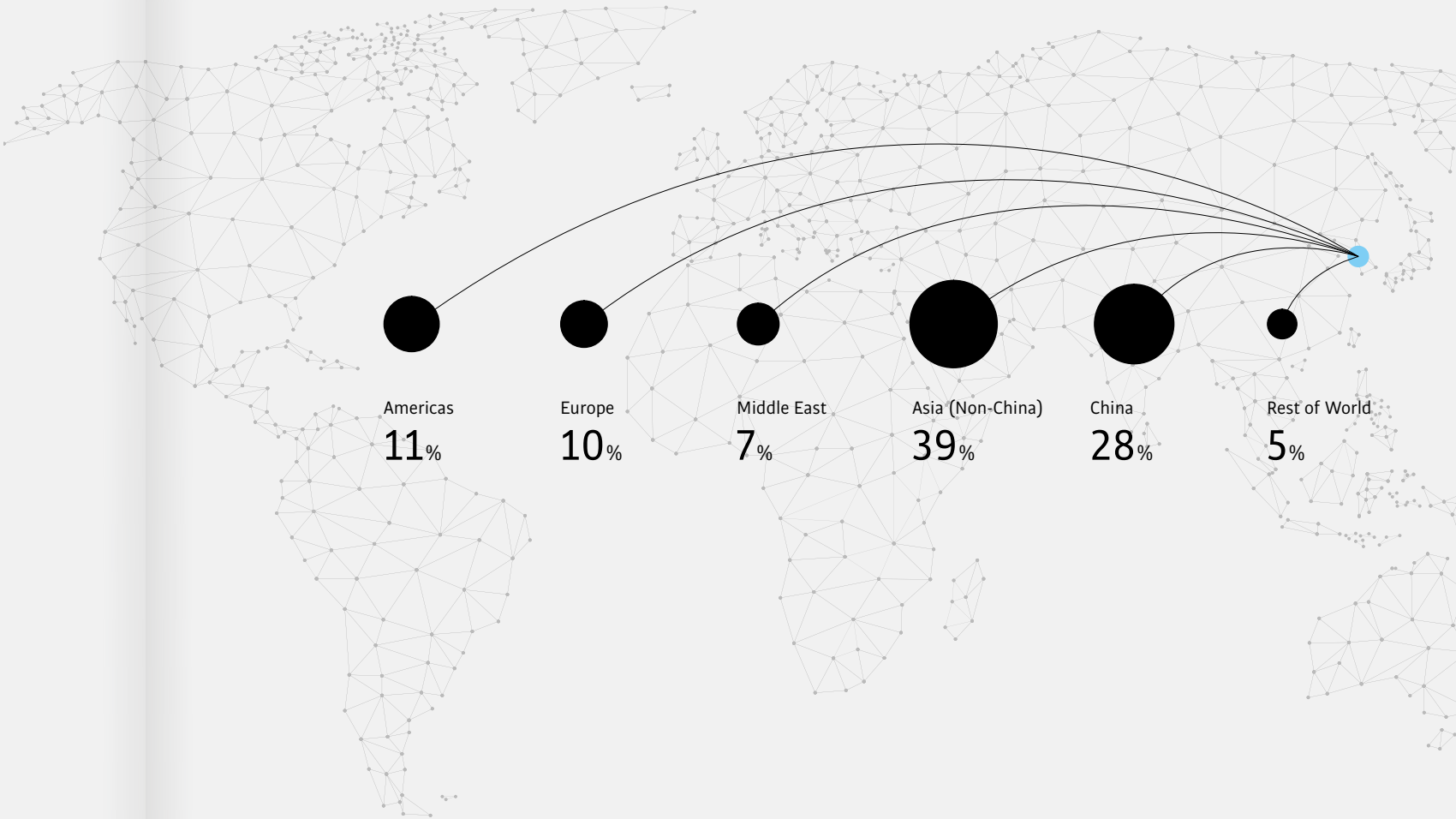
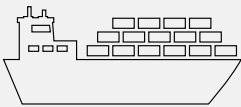
In our synthetic resins business, improved margins in certain product categories enabled us to maintain overall profitability at 2015 levels. The completion of a capacity expansion project in our phenol derivatives business was instrumental in helping us maintain profitability there. Our energy business saw profits drop as selling prices fell in the face of continued low oil prices and plentiful supply in the electricity market.

Overall, our business performance was similar to 2015. We closed 2016 with consolidated sales of KRW 3,970.4 billion, a 0.9% year-on-year increase. Operating income declined 4.2% to KRW 157.1 billion. In terms of financial structure, our debt-to-equity ratio rose slightly from 153% to 163% as we wrapped up several major capacity expansion projects. We expect this ratio to improve in 2017 as investment spending declines and we pay down debt with revenues generated by these new facilities.

Sales by Market



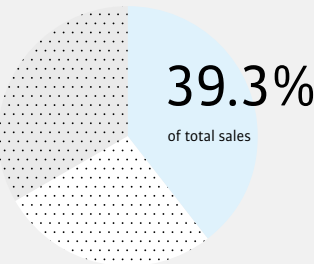
Exports by Region



Synthetic Rubbers

2016 Sales Revenue

KRW 1,559.2 billion



Main Products

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

Key Applications

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

Major Customers

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



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

2016 Review

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

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

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

2017 Outlook

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

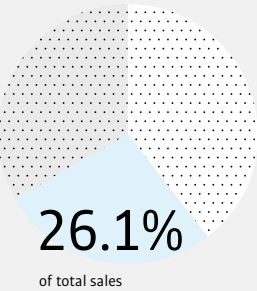
We continue to work tirelessly to improve our performance in the synthetic rubbers business, a field beset by structural oversupply that has worsened with the addition of new capacity over the past few years. We will improve the profitability of major product categories such as BR and SBR by pursuing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

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

Synthetic Resins

2016 Sales Revenue

KRW 1,035.7 billion



Main Products

PS, ABS, EP, SAN, EPS,
ENERPOR, PPG

Key Applications

Automobile Parts
Home Appliances
Food and Beverage Containers
Office Supplies
Building Materials

Major Customers

Hyundai Motors, Kia Motors,
GM Korea, Korea Yakult,
Namyang Dairy Products,
Samsung Electronics,
LG Electronics,
Dongbu Daewoo Electronics,
Kingfa, Sabic, Haier,
Arcelik, Vestel, KCC,
Noroo Paint & Coatings



SALES IN OUR SYNTHETIC RESINS BUSINESS DECLINED SLIGHTLY TO KRW 1,035.7 BILLION. OUR FOCUS IN 2017 WILL BE ON MAINTAINING PROFITABILITY WITH AN EMPHASIS ON HIGHER-MARGIN PRODUCT SALES AND UPGRADING QUALITY ACROSS-THE-BOARD.

2016 Review

Synthetic resins accounted for 26.1% of total consolidated sales in 2016. We recorded sales of KRW 1,035.7 billion, a decline of approximately 4% from the previous year.

As international oil prices remained lower overall than 2015, synthetic resin prices similarly trended lower, leading to a slight decline in sales for the year. Although international oil prices began to rebound in 2016 and feedstock prices rose, the market situation made it difficult to pass on these costs to customers, limiting our ability to improve profitability. On a positive note, our flexible response to markets and stronger sales to major customers enabled us to improve the profitability of products that underperformed in 2015, allowing us to maintain profitability amid concerns about weakening market demand in the second half of the year.

2017 Outlook

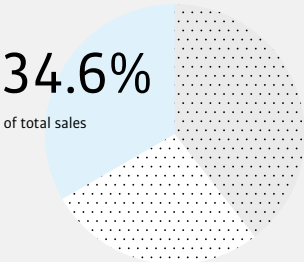
Global production capacity in the synthetic resins market is projected to stay flat in 2017 with no concerns about significant new capacity coming online. The supply situation is not expected to change significantly as manufacturers appear set to maintain utilization at appropriate levels. Regarding SM (styrene monomer) feedstock supplies, new capacity is projected to come online this year, steadily easing the supply imbalance and setting the stage for prices to stabilize in the second half of the year.

Maintaining profitability will be the focus of our efforts in 2017. We will focus on growing sales of higher-margin products as we expand our market focus to boost market share. We will strive to improve the quality of our existing products through intensive R&D. We will also be partnering more closely with competitive feedstock suppliers to ensure our supply needs are met and sharpen our cost competitiveness.

Other Businesses

2016 Sales Revenue

KRW 1,375.5 billion



PHENOL DERIVATIVES

Main Products
Phenol, Acetone, BPA, MIBK, Epoxy Resin

Key Applications
Chemical Intermediates, Home Appliances, Automobile Parts, Solvents, Paint

SPECIALTY CHEMICALS

Main Products
Antioxidants, Vulcanization Accelerators, Paint Additives

Key Applications
Tires, Belts, Hoses, Electric Wire, Shoes, Marine Paint

ENERGY

Main Products
Steam and Electricity

ELECTRONIC MATERIALS

Main Products
Photoresist, BARC, PSPI, Sealant, CNT

Key Applications
Semiconductors, Displays, Rechargeable Batteries, Plastic Composites

BUILDING MATERIALS

Main Products
Window Systems, Interior Materials



2016 Review

Other businesses accounted for 34.6% of total consolidated sales in 2016. Consisting of phenol derivatives, specialty chemicals, energy, electronic materials, and building materials, these businesses recorded sales of KRW 1,375.5 billion, a 5.7% increase for the year. Although the energy business saw performance weaken due to lower international oil prices and lower-than-expected demand from customers as they ran at lower utilization rates, the phenol derivatives business recorded a modest increase following the completion of a capacity expansion project, helping offset lower profits by other businesses.

Our phenol derivatives business wrapped up a multi-year vertical integration project with the completion of major capacity expansion projects to increase production of phenol, acetone, and cumene. Despite concerns about the steady stream of new capacity coming online, we successfully ramped up production and grew our business in a challenging environment. We did this by entering new markets to boost sales volume and reducing costs through improved productivity, increasing profitability in the process.

Our specialty chemicals business faced the same market oversupply challenge that many chemical makers are experiencing, but to a slightly greater extent. Although additional increases in supply during the year were not major, they did add to the oversupply situation, leading to tougher competition and lower performance.

Our energy business completed its Yeosu Energy II expansion project in the first half of the year and began commercial production. However, continued low international oil prices led to weaker market prices for steam and electricity. This, combined with lower-than-expected sales as customers ran their operations at lower utilization rates prevented us from improving profitability.

Our electronic materials business faced difficulties advancing into new markets. Despite this performance setback, we were able to stay profitable for the year.

Our building materials business delivered its best performance to date, continuing to steadily improve in line with its rising utilization rate.

Beyond the above businesses, we continued to move forward with investments in a number of energy-related businesses and vertical integration as we continued to lay the foundation for sustainable long-term growth.

2017 Outlook

Our phenol derivatives business expects to ramp up production at its recently expanded facilities in 2017, further intensifying competition in the Asia region. We aim to take maximum advantage of this expansion by growing our market base, strengthening customer relationships, and tapping opportunities in niche markets. We will also continue to focus on cost reduction, securing a stable supply of feedstocks, and optimizing our utilization rate to further enhance competitiveness.

Our specialty chemicals business is expected to face a continued supply imbalance, although the situation is projected to steadily improve with no new capacity scheduled to come online. With the oversupply situation not anticipated to improve substantially in the short-term, we will be focusing on improving our sales organization to better respond to market realities. Here, we will focus on sales to global tiremakers as we cultivate stable, long-term customer relationships with them.

Our energy business is expected to face a stable pricing environment as international oil prices and demand remain flat. Fuel prices are expected to rise, leaving limited opportunities to improve performance. Accordingly, we will focus on boosting operational efficiencies to improve profitability.

Our electronic materials business will focus on growing sales across-the-board as we carefully evaluate the fast-changing market and aggressively move into areas with growth potential.

Our building materials business will focus on extending its growth trajectory with an emphasis on both qualitative and quantitative growth built on cost reduction and distribution network expansion.

2017 Outlook

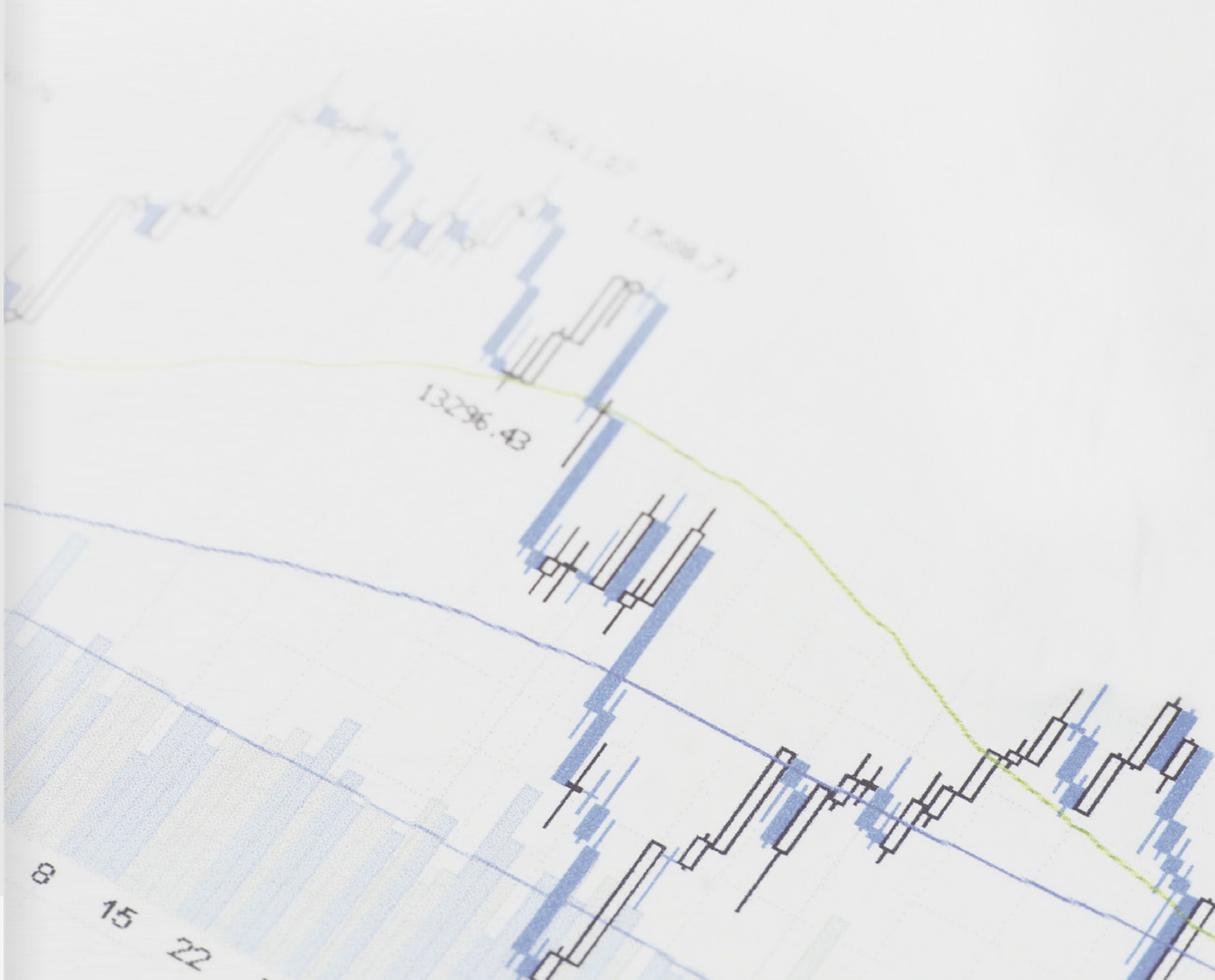
UNFOLDING POLITICAL AND ECONOMIC DEVELOPMENTS IN THE UNITED STATES AND EUROPE WILL PLAY A MAJOR ROLE IN THE DIRECTION OF THE GLOBAL ECONOMY IN 2017. OUR FOCUS WILL BE ON FINDING THE OPPORTUNITIES THAT THE CHALLENGES AHEAD WILL INEVITABLY BRING.

Political issues are likely to contribute to continued global economic uncertainty in 2017. Presidential elections are scheduled to be held in France and other countries in the Eurozone, and there are growing concerns about a hard landing as the United Kingdom exits the European Union. Policy uncertainty also remains regarding trade protectionism in the wake of last year’s US presidential election, raising concerns about possible exchange rate volatility and a US interest rate hike, visibly weakening the global economic outlook. In China, the current main driver of global economic growth, the market is undergoing restructuring for long-term growth, necessarily limiting it to medium-speed growth for the foreseeable future.

We are committed to upgrading our competitiveness across the board in 2017. In every business field, we will eliminate unproductive practices and focus on turning challenges into opportunities. In our core chemicals fields, we are aiming for all-around stable growth for our existing products. Here, ensuring a stable supply of key feedstocks and strategically strengthening ties with our customers are essential. At the same time, we will be looking for new businesses with the potential to drive future growth, focusing on areas closely related to existing businesses. In these ways, we will take the next step toward our vision of becoming a global leading chemical group.

FINANCIAL REVIEW

| | | | |
|---------------------------------|--------------------------------------|---------------------------------|----------------------------------|
| <u>68</u> | <u>70</u> | <u>78</u> | <u>80</u> |
| Independent Auditors’ Report | Consolidated Financial Statements | Independent Auditors’ Report | Separate Financial Statements |



KUMHO PETROCHEMICAL CO., LTD. AND SUBSIDIARIES

Independent Auditors’ Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders Kumho Petrochemical Co., Ltd.

Audited financial statements

We have audited the accompanying consolidated financial statements of Kumho Petrochemical Co., Ltd. and its subsidiaries (the “Group”), which comprise the consolidated statements of financial position of at December 31, 2016, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards(“K-IFRS”), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2015, presented for comparative purposes, were audited by BDO Daejoo LLC whose report dated February 25, 2016, expressed an unqualified opinion on those consolidated financial statements

Seoul, Korea
March 6, 2017

This report is effective as of March 6, 2017, 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.

Letter of Confirmation

To whom it may concern

We have audited the accompanying consolidated financial statements of Kumho Petrochemical Co., Ltd. and its subsidiaries (the “Group”), which comprise the consolidated statements of financial position as of December 31, 2016, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We expressed an unqualified opinion on those consolidated financial statements dated March 6, 2017 in accordance with Korean International Financial Reporting Standards.

We confirm those accompanying consolidated financial statements of the Group, translated into English, accord with the consolidated financial statements of the Group originally issued in Korean.

Please note that the accompanying consolidated financial statements do not include notes to the consolidated financial statements which are an integral part of consolidated financial statements.


March 6, 2017

KUMHO PETROCHEMICAL CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position

As of December 31, 2016 and 2015

| In millions of won | 2016 | 2015 |
|--|--------------------|------------------|
| Assets | | |
| Non-current assets | | |
| Property, plant and equipment | ₩ 2,564,778 | 2,505,694 |
| Investment property | 5,600 | 5,601 |
| Intangible assets | 17,264 | 16,151 |
| Investments in associates and joint ventures | 417,770 | 395,841 |
| Available-for-sale financial assets | 231,968 | 251,298 |
| Derivative financial assets | 2,224 | 2,417 |
| Loans and other receivables | 14,563 | 16,946 |
| Deferred tax assets | 26,827 | 30,213 |
| Other non-current assets | 9,797 | 18,818 |
| | 3,290,791 | 3,242,979 |
| Current assets | | |
| Inventories | 445,542 | 394,695 |
| Held-for-trading financial assets | 271 | - |
| Available-for-sale financial assets | - | 1 |
| Derivative financial assets | 7,566 | 5,924 |
| Trade receivables | 520,901 | 435,348 |
| Loans and other receivables | 73,632 | 40,853 |
| Cash and cash equivalents | 196,977 | 47,292 |
| Other current assets | 10,431 | 15,338 |
| Non-current assets held for sale | - | 28,000 |
| Current tax assets | 3 | 125 |
| | 1,255,323 | 967,576 |
| Total assets | ₩ 4,546,114 | 4,210,555 |

| In millions of won | 2016 | 2015 |
|--|-------------|-----------|
| Equity | | |
| Equity attributable to owners of the Group | | |
| Capital | ₩ 167,456 | 167,456 |
| Capital surplus | 266,517 | 267,824 |
| Capital adjustment | (40,358) | (40,323) |
| Accumulated other comprehensive income | 18,198 | 15,802 |
| Retained earnings | 1,207,923 | 1,145,722 |
| | 1,619,736 | 1,556,481 |
| Non-controlling interests | 108,165 | 107,267 |
| Total equity | 1,727,901 | 1,663,748 |
| Liabilities | | |
| Non-current liabilities | | |
| Other payables | 1,546 | 50 |
| Long-term accrued expenses | 3,960 | 4,396 |
| Borrowings | 559,536 | 882,265 |
| Liabilities for defined benefit plans | 48,749 | 64,093 |
| Deferred tax liabilities | 54,493 | 49,319 |
| Financial guarantee liabilities | 120 | 545 |
| Derivative financial Liabilities | 808 | 1,073 |
| Other non-current liabilities | 3,441 | 3,809 |
| | 672,653 | 1,005,550 |
| Current liabilities | | |
| Trade payables | 373,698 | 219,197 |
| Other payables | 220,532 | 261,432 |
| Borrowings | 1,521,119 | 1,032,326 |
| Current tax liabilities | 10,669 | 13,011 |
| Provision | 5,302 | 7,326 |
| Other current liabilities | 14,240 | 7,965 |
| | 2,145,560 | 1,541,257 |
| Total liabilities | 2,818,213 | 2,546,807 |
| Total equity and liabilities | ₩ 4,546,114 | 4,210,555 |

KUMHO PETROCHEMICAL CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Income

For the years ended December 31, 2016 and 2015

| In millions of won, except earning per share information | 2016 | | 2015 |
|--|------|-----------|-----------|
| | | | |
| Sales | ₩ | 3,970,435 | 3,934,509 |
| Cost of sales | | 3,637,513 | 3,600,583 |
| Gross profit | | 332,922 | 333,926 |
| | | | |
| Selling, general and administrative expenses | | 175,846 | 169,976 |
| Operating income | | 157,076 | 163,950 |
| | | | |
| Other income | | 96,758 | 78,483 |
| Other expenses | | 101,354 | 48,611 |
| Financial income | | 37,401 | 42,488 |
| Financial expenses | | 104,641 | 109,842 |
| Share of profit of equity accounted investees | | 27,636 | 43,163 |
| Net profit before income tax | | 112,876 | 169,631 |
| | | | |
| Income tax expense | | 32,112 | 47,765 |
| Net profit for the year | ₩ | 80,764 | 121,866 |
| | | | |
| Profit attributable to: | | | |
| Owners of the Group | | 73,246 | 118,904 |
| Non-controlling interests | | 7,518 | 2,962 |
| Net profit for the year | | 80,764 | 121,866 |
| | | | |
| Earnings per share (In Korean won) | | | |
| Basic and Diluted earnings per share(class1) | ₩ | 2,618 | 4,257 |
| Basic and Diluted earnings per share(class2) | ₩ | 2,683 | 4,307 |

KUMHO PETROCHEMICAL CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

| In millions of won | 2016 | | 2015 |
|---|------|--------|----------|
| | | | |
| Net profit for the year | ₩ | 80,764 | 121,866 |
| | | | |
| Other comprehensive income (loss) for the year, net of income tax | | 11,165 | (63,589) |
| 1. Items that will not be reclassified subsequently to profit or loss | | 10,305 | (13,903) |
| Defined benefit plan actuarial income(losses) | | 10,305 | (13,903) |
| | | | |
| 2. Items that will be reclassified subsequently to profit or loss | | 860 | (49,686) |
| Net change in fair value of available-for-sale financial assets | | 1,291 | (48,858) |
| Foreign currency translation differences for foreign operations | | (818) | 94 |
| Net change in unrealized gain on valuation of investments in associates | | 457 | (581) |
| Net change in retained earnings of investments in associates | | (995) | 455 |
| Effective portion of changes in fair value of cash flow hedges | | 925 | (796) |
| | | | |
| Total comprehensive income for the year | ₩ | 91,929 | 58,277 |
| | | | |
| Total comprehensive income attributable to: | | | |
| Owners of the Group | | 87,066 | 56,033 |
| Non-controlling interests | | 4,863 | 2,244 |
| Total comprehensive income for the year | ₩ | 91,929 | 58,277 |

KUMHO PETROCHEMICAL CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

| In millions of won | Capital | Capital surplus | Capital adjustment | Accumulated other compre- hensive income | Retained earnings | Non- controlling interests | Total equity |
|--|-----------|--------------------|-----------------------|--|----------------------|----------------------------------|-----------------|
| Balance at January 1, 2015 | ₩ 167,456 | 265,199 | (40,285) | 64,445 | 1,102,565 | 82,202 | 1,641,582 |
| Total comprehensive income for the year | | | | | | | |
| Net profit for the year | - | - | - | - | 118,904 | 2,962 | 121,866 |
| Net change in fair value of available-for-sale financial assets | - | - | - | (48,387) | - | (471) | (48,858) |
| Foreign currency translation differences for foreign operations | - | - | - | 297 | - | (203) | 94 |
| Effective portion of changes in fair value of cash flow hedges | - | - | - | (581) | - | - | (581) |
| Net change in unrealized gain on valuation of investments in associates | - | - | - | 410 | - | 45 | 455 |
| Net change in retained earnings of investments in associates | - | - | - | - | (796) | - | (796) |
| Defined benefit plan actuarial losses | - | - | - | - | (13,814) | (89) | (13,903) |
| Transactions with owners of the Group, recognized directly in equity | | | | | | | |
| Capital increase from non-controlling interests | - | (14) | - | - | - | 309 | 295 |
| Other capital adjustment | - | 2,639 | (38) | - | - | (6) | 2,595 |
| Additional acquisition of shares of subsidiaries | - | - | - | - | - | 1 | 1 |
| Loss of control of a subsidiary | - | - | - | (382) | (19,138) | 22,517 | 2,997 |
| Dividends | - | - | - | - | (41,999) | - | (41,999) |
| Balance at December 31, 2015 | ₩ 167,456 | 267,824 | (40,323) | 15,802 | 1,145,722 | 107,267 | 1,663,748 |

| In millions of won | Capital | Capital surplus | Capital adjustment | Accumulated other compre- hensive income | Retained earnings | Non- controlling interests | Total equity |
|--|-----------|--------------------|-----------------------|--|----------------------|----------------------------------|-----------------|
| Balance at January 1, 2016 | ₩ 167,456 | 267,824 | (40,323) | 15,802 | 1,145,722 | 107,267 | 1,663,748 |
| Total comprehensive income for the year | | | | | | | |
| Net profit for the year | - | - | - | - | 73,246 | 7,518 | 80,764 |
| Net change in fair value of available-for-sale financial assets | - | - | - | 3,670 | - | (2,379) | 1,291 |
| Foreign currency translation differences for foreign operations | - | - | - | (881) | - | 63 | (818) |
| Effective portion of changes in fair value of cash flow hedges | - | - | - | 457 | - | - | 457 |
| Net change in unrealized gain on valuation of investments in associates | - | - | - | (850) | - | (145) | (995) |
| Net change in retained earnings of investments in associates | - | - | - | - | 925 | - | 925 |
| Defined benefit plan actuarial income(losses) | - | - | - | - | 10,500 | (195) | 10,305 |
| Transactions with owners of the Group, recognized directly in equity | | | | | | | |
| Changes in a parent's ownership interest in subsidiaries | - | (1,307) | (23) | - | - | (3,964) | (5,294) |
| Other capital adjustment | - | - | (12) | - | - | - | (12) |
| Dividends | - | - | - | - | (22,470) | - | (22,470) |
| Balance at December 31, 2016 | ₩ 167,456 | 266,517 | (40,358) | 18,198 | 1,207,923 | 108,165 | 1,727,901 |

KUMHO PETROCHEMICAL CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

As of December 31, 2016 and 2015

| In millions of won | 2016 | 2015 |
|---|-----------|-----------|
| Cash flows from operation activities: | | |
| Cash generated from operation activities | ₩ 370,541 | 568,929 |
| Interest received | 1,056 | 5,776 |
| Interest paid | (63,629) | (68,304) |
| Dividends received | 14,422 | 14,276 |
| Income tax paid | (25,634) | (37,486) |
| Net cash provided by operating activities | 296,756 | 483,191 |
| Cash flows from investing activities: | | |
| Increase in short-term financial instruments | (23,000) | (2,500) |
| Proceeds from sales of short-term financial instruments | 5,000 | - |
| Increase in long-term financial instruments | - | (5,000) |
| Proceeds from sales of long-term financial instruments | - | 1 |
| Increase in short-term loans | - | (6,000) |
| Collection of short-term loans | - | 6,000 |
| Increase in long-term loans | (608) | (864) |
| Collection of long-term loans | 286 | 9,395 |
| Acquisition of property, plant and equipment | (272,707) | (389,767) |
| Proceeds from sales of property, plant and equipment | 1,640 | 842 |
| Acquisition of intangible assets | (1,648) | (1,774) |
| Proceeds from sales of intangible assets | 120 | 202 |
| Acquisition of investments in associates and joint ventures | - | (7,020) |
| Acquisition of investments in subsidiaries | (1,880) | - |
| Acquisition of held-for-trading financial assets | (252) | - |
| Acquisition of available-for-sale financial assets | (7) | (2) |
| Proceeds from sales of available-for-sale financial assets | 31,336 | 4,134 |
| Proceeds from sales of non-current assets held for sale | 4,187 | - |
| Proceeds from sales of other investments | 28 | 605 |
| Increase in cash due to change in scope of consolidation | 6,828 | 400 |
| Net cash used in investing activities | (250,677) | (391,348) |

| In millions of won | 2016 | 2015 |
|---|-----------|-----------|
| Cash flows from financing activities: | | |
| Net proceeds(repaysments) of short-term borrowings | 258,640 | (42,130) |
| Proceeds from issuance of bonds | 111,706 | - |
| Proceeds from long-term borrowings | 84,480 | 330,192 |
| Repayments of current portion of long-term borrowings | (310,760) | (428,609) |
| Repayments of long-term borrowings | (12,270) | (76,101) |
| Dividends paid | (22,470) | (41,998) |
| Capital increase from non-controlling interests | - | 300 |
| Increase of parent’s ownership interests | (5,686) | - |
| Proceeds from sales of parent’s ownership interests | 1 | - |
| Payment for share issuance costs | (53) | (55) |
| Net cash provided by(used in) financing activities | 103,588 | (258,401) |
| Effect of exchange rate fluctuations on cash held | 18 | 207 |
| Net increase(decrease) in cash and cash equivalents | 149,685 | (166,351) |
| Cash and cash equivalents at beginning of year | 47,292 | 213,643 |
| Cash and cash equivalents at end of year | ₩ 196,977 | 47,292 |

KUMHO PETROCHEMICAL CO., LTD.

Independent Auditors’ Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders
Kumho Petrochemical Co., Ltd.

Audited financial statements

We have audited the accompanying separate financial statements of Kumho Petrochemical Co., Ltd.(the “Company”), which comprise the separate statements of financial position as of December 31, 2016, the separate statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards(“K-IFRS”), and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

The separate financial statements of the Company for the year ended December 31, 2015, presented for comparative purposes, were audited by BDO Daejoo LLC whose report dated February 25, 2016, expressed an unqualified opinion on those separate financial statements

Seoul, Korea
March 6, 2017

This report is effective as of March 6, 2017, 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.

Letter of Confirmation

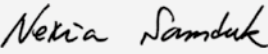
To whom it may concern

We have audited the accompanying separate financial statements of Kumho Petrochemical Co., Ltd.(the “Company”), which comprise the separate statements of financial position as of December 31, 2016, the separate statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We expressed an unqualified opinion on those separate financial statements dated March 6, 2017 in accordance with Korean International Financial Reporting Standards.

We confirm those accompanying separate financial statements of the Company, translated into English, accord with the separate financial statements of the Company originally issued in Korean.

Please note that the accompanying separate financial statements do not include notes to the separate financial statements which are an integral part of separate financial statements.


March 6, 2017

KUMHO PETROCHEMICAL CO., LTD.

Separate Statements of Financial Position

As of December 31, 2016 and 2015

| In millions of won | 2016 | 2015 |
|--|--------------------|------------------|
| Assets | | |
| Non-current assets | | |
| Property, plant and equipment | ₩ 1,786,488 | 1,760,932 |
| Intangible assets | 12,814 | 11,595 |
| Investments in subsidiaries, associates and joint ventures | 413,534 | 397,663 |
| Available-for-sale financial assets | 216,050 | 207,426 |
| Derivative financial assets | 2,224 | 2,417 |
| Loans and other receivables | 12,615 | 15,143 |
| Deferred tax assets | 18,963 | 19,951 |
| Other non-current assets | 786 | 8,223 |
| | 2,463,474 | 2,423,350 |
| Current assets | | |
| Inventories | 356,945 | 299,458 |
| Derivative financial assets | 7,565 | 5,924 |
| Trade receivables | 384,761 | 338,185 |
| Loans and other receivables | 45,466 | 25,921 |
| Cash and cash equivalents | 166,412 | 2,922 |
| Non-current assets held for sale | - | 28,000 |
| Other current assets | 4,499 | 9,436 |
| | 965,648 | 709,846 |
| Total assets | ₩ 3,429,122 | 3,133,196 |

| In millions of won | 2016 | 2015 |
|--|--------------------|------------------|
| Equity | | |
| Capital | ₩ 167,456 | 167,456 |
| Capital surplus | 276,206 | 276,206 |
| Capital adjustment | (40,066) | (40,066) |
| Accumulated other comprehensive income | 17,020 | 6,424 |
| Retained earnings | 815,749 | 797,696 |
| Total equity | 1,236,365 | 1,207,716 |
| Liabilities | | |
| Non-current liabilities | | |
| Other payables | 1,563 | 68 |
| Borrowings | 309,480 | 574,088 |
| Long-term accrued expenses | 2,868 | 3,322 |
| Liabilities for defined benefit plans | 31,712 | 45,796 |
| Financial guarantee liabilities | 120 | 756 |
| Derivative financial Liabilities | 808 | 1,073 |
| | 346,551 | 625,103 |
| Current liabilities | | |
| Trade payables | 310,733 | 166,342 |
| Other payables | 177,316 | 191,078 |
| Borrowings | 1,335,676 | 918,056 |
| Current tax liabilities | 10,147 | 12,150 |
| Provision | - | 6,474 |
| Other current liabilities | 12,334 | 6,277 |
| | 1,846,206 | 1,300,377 |
| Total liabilities | 2,192,757 | 1,925,480 |
| Total equity and liabilities | ₩ 3,429,122 | 3,133,196 |

KUMHO PETROCHEMICAL CO., LTD.
Separate Statements of Income

For the years ended December 31, 2016 and 2015

| In millions of won, except earning per share information | | 2016 | 2015 |
|--|---|-----------|-----------|
| | | | |
| Sales | ₩ | 3,138,617 | 3,159,552 |
| Cost of sales | | 2,858,105 | 2,867,846 |
| Gross profit | | 280,512 | 291,706 |
| | | | |
| Selling, general and administrative expenses | | 147,262 | 147,407 |
| Operating income | | 133,250 | 144,299 |
| | | | |
| Other income | | 60,641 | 49,183 |
| Other expenses | | 94,674 | 39,520 |
| Financial income | | 32,858 | 37,844 |
| Financial expenses | | 86,047 | 92,443 |
| Net profit before income tax | | 46,028 | 99,363 |
| | | | |
| Income tax expense | | 16,612 | 21,894 |
| Net profit for the year | ₩ | 29,416 | 77,469 |
| | | | |
| Earnings per share (In Korean won) | | | |
| Basic and Diluted earnings per share(class1) | ₩ | 1,047 | 2,771 |
| Basic and Diluted earnings per share(class2) | ₩ | 1,112 | 2,821 |

KUMHO PETROCHEMICAL CO., LTD.
Separate Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

| In millions of won | | 2016 | 2015 |
|---|---|--------|----------|
| | | | |
| Net profit for the year | ₩ | 29,416 | 77,469 |
| | | | |
| Other comprehensive income (loss) for the year, net of income tax | | 21,703 | (61,183) |
| 1. Items that will not be reclassified subsequently to profit or loss | | 11,107 | (13,495) |
| Defined benefit plan actuarial income(losses) | | 11,107 | (13,495) |
| | | | |
| 2. Items that will be reclassified subsequently to profit or loss | | 10,596 | (47,688) |
| Net change in fair value of available-for-sale financial assets | | 10,139 | (47,107) |
| Effective portion of changes in fair value of cash flow hedges | | 457 | (581) |
| | | | |
| Total comprehensive income for the year | ₩ | 51,119 | 16,286 |

KUMHO PETROCHEMICAL CO., LTD.

Separate Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

| In millions of won | | Capital | Capital surplus | Capital adjustment | Accumulated other compre- hensive income | Retained earnings | Total equity |
|---|---|---------|--------------------|-----------------------|--|----------------------|-----------------|
| Balance at January 1, 2015 | ₩ | 167,456 | 276,206 | (40,066) | 54,112 | 775,721 | 1,233,429 |
| Total comprehensive income for the year | | | | | | | |
| Net profit for the year | | - | - | - | - | 77,469 | 77,469 |
| Net change in fair value of available-for-sale financial assets | | - | - | - | (47,107) | - | (47,107) |
| Effective portion of changes in fair value of cash flow hedges | | - | - | - | (581) | - | (581) |
| Defined benefit plan actuarial losses | | - | - | - | - | (13,495) | (13,495) |
| Transactions with owners of the Company, recognized directly in equity | | | | | | | |
| Dividends | | - | - | - | - | (41,999) | (41,999) |
| Balance at December 31, 2015 | ₩ | 167,456 | 276,206 | (40,066) | 6,424 | 797,696 | 1,207,716 |

| In millions of won | | Capital | Capital surplus | Capital adjustment | Accumulated other compre- hensive income | Retained earnings | Total equity |
|---|---|---------|--------------------|-----------------------|--|----------------------|-----------------|
| Balance at January 1, 2016 | ₩ | 167,456 | 276,206 | (40,066) | 6,424 | 797,696 | 1,207,716 |
| Total comprehensive income for the year | | | | | | | |
| Net profit for the year | | - | - | - | - | 29,416 | 29,416 |
| Net change in fair value of available-for-sale financial assets | | - | - | - | 10,139 | - | 10,139 |
| Effective portion of changes in fair value of cash flow hedges | | - | - | - | 457 | - | 457 |
| Defined benefit plan actuarial income | | - | - | - | - | 11,107 | 11,107 |
| Transactions with owners of the Company, recognized directly in equity | | | | | | | |
| Dividends | | - | - | - | - | (22,470) | (22,470) |
| Balance at December 31, 2016 | ₩ | 167,456 | 276,206 | (40,066) | 17,020 | 815,749 | 1,236,365 |

KUMHO PETROCHEMICAL CO., LTD.
Separate Statements of Cash Flows

For the years ended December 31, 2016 and 2015

| In millions of won | 2016 | 2015 |
|--|-----------|-----------|
| Cash flows from operation activities | | |
| Cash generated from operation activities | w 291,457 | 435,059 |
| Interest received | 604 | 1,996 |
| Interest paid | (46,838) | (52,562) |
| Dividends received | 12,091 | 10,481 |
| Income tax paid | (24,558) | (37,335) |
| Net cash provided by operating activities | 232,756 | 357,639 |
| Cash flows from investing activities | | |
| Increase in short-term loans | (6,189) | - |
| Increase in long-term loans | (454) | (664) |
| Cash from decrease of long-term loans | 266 | 350 |
| Increase in short-term financial instruments | (1,500) | - |
| Cash from sales of short-term financial instruments | 5,000 | - |
| Increase in long-term financial instruments | - | (5,000) |
| Cash from sales of long-term financial instruments | - | 1 |
| Acquisition of property, plant and equipment | (176,592) | (227,129) |
| Proceeds from sales of property, plant and equipment | 1,428 | 237 |
| Acquisition of intangible assets | (1,648) | (1,730) |
| Proceeds from sales of intangible assets | 32 | 202 |
| Acquisition of investments in subsidiaries and associates | (5,686) | (16,855) |
| Proceeds from sales of available-for-sale financial assets | 1 | - |
| Proceeds from sales of other investments | 4,187 | - |
| Net cash used in investing activities | (181,155) | (250,588) |

| In millions of won | 2016 | 2015 |
|---|-----------|-----------|
| Cash flows from financing activities | | |
| Net proceeds(repaysments) of short-term borrowings | 247,302 | (3,871) |
| Proceeds from long-term borrowings | 50,000 | 142,300 |
| Repayments of current portion of long-term borrowings | (254,719) | (359,990) |
| Proceeds from issuance of bonds | 91,726 | - |
| Dividends paid | (22,470) | (41,998) |
| Net cash provided by(used in) financing activities | 111,839 | (263,559) |
| Effect of exchange rate fluctuations on cash held | 50 | (4) |
| Net increase(decrease) in cash and cash equivalents | 163,490 | (156,512) |
| Cash and cash equivalents at beginning of year | 2,922 | 159,434 |
| Cash and cash equivalents at end of year | w 166,412 | 2,922 |

Corporate History

1970s

DECEMBER 1970
Established as Korea Synthetic Rubber Industries Co., Ltd.

JUNE 1973
Commissioned Ulsan SBR plant

OCTOBER 1979
Commissioned Yeosu BD plant

1980s

JUNE 1980
Commissioned Yeosu BR plant

DECEMBER 1983
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

JANUARY 1988
Listed on the Korea Stock Exchange

NOVEMBER 1988
Commissioned Yeosu multi-purpose BR plant

1990s

APRIL 1992
Commissioned Ulsan BD plant

JULY 1993
Opened office in Jakarta, Indonesia

APRIL 1994
Opened Kumho Chemical Laboratories in Daejeon, Korea

AUGUST 1994
Launched SBS production

MAY 1997
Changed Miwon Petrochemical Co., Ltd. name to Kumho Chemicals, Inc.

JULY 1997
Commissioned Yeosu Energy I cogeneration plant

SEPTEMBER 1997
Opened office in Shanghai, China

DECEMBER 1997
Opened office in San Diego, USA

APRIL 1998
Commissioned Yeosu SBS plant

OCTOBER 1998
Commissioned Asan electronic materials plant

2000s

OCTOBER 2000
Established Shanghai Kumho-Sunny Plastics, China

JANUARY 2001
Merged with Kumho Chemicals, Inc. (Synthetic resins)

JANUARY 2002
Merged with Kumho Monsanto Co., Ltd. (Specialty chemicals)

FEBRUARY 2002
Opened office in Frankfurt, Germany

OCTOBER 2004
Launched commercial production at Yeosu SSBR plant

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

OCTOBER 2006
Established Nanjing Kumho GPRO Chemical, China

JUNE 2007
Established Rizhao Kumho Jinma Chemical, China

JUNE 2007
Opened office in Qingdao, China

JULY 2007
Opened office in Charlotte, USA

2010s

OCTOBER 2008
Established Kumho Petrochemical Shenyang, China

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

MAY 2009
Commissioned Yeosu Energy II cogeneration plant

SEPTEMBER 2009
Established Kumho Terminal & Logistics

FEBRUARY 2011
Commissioned second Yeosu synthetic rubbers plant

MARCH 2011
Commissioned Yesan building materials plant

DECEMBER 2011
Received USD 3 billion Export Tower Award from the Ministry of Knowledge Economy

SEPTEMBER 2012
Relocated Seoul headquarters

MAY 2013
Purchased equity stake in Korea Energy Power in Sacheon, Korea (Solar power)

OCTOBER 2013
Commissioned carbon nanotube plant in Asan, Korea

DECEMBER 2013
Launched commercial production at Asan carbon nanotube plant

JULY 2014
Completed 55,000 mtpy expansion of Ulsan PPG plant

MAY 2015
Participated in Korea Energy Power capital increase (92.6% equity stake)

JUNE 2015
Yeonggwang Baeksu wind farm begins commercial operations

JULY 2015
Korea Energy Power wind turbines 3, 4 and 5 begin commercial operations

JULY 2015
Acquired Korea Energy Power wind turbine 6

OCTOBER 2015
Acquired 32.5% equity stake in Yeonggwang Baeksu wind farm

OCTOBER 2015
Completed Shanghai Kumho-Sunny Plastics Minhang plant

APRIL 2016
Recognized as a major business conglomerate by the Korean government

APRIL 2016
Commissioned Yeosu Energy II cogeneration plant expansion

AUGUST 2016
Completed 200,000 mtpy expansion of the Ulsan NB latex plant

AUGUST 2016
Acquired 100% equity stake in Kangwon School Solar Power through subsidiary Korea Energy Power

Chemical Affiliates

Kumho P&B Chemicals, Inc.

Established in 1976, Kumho P&B Chemicals is a joint venture with Nippon Steel Chemical Company of Japan that produces a broad range of basic petrochemical products used in the construction, shipbuilding, automobile, electric, electronics, pharmaceutical, and paint industries including BPA (bisphenol A), phenol, acetone, epoxy resin, and MIBK (methyl isobutyl ketone). Since starting out in the phenol and acetone businesses in the mid-1970s, the company has continued to innovate and grow by providing customers both in Korea and abroad with high-quality products.

Continuous expansion over the years has made the company the world's No. 5 producer of BPA and No. 1 producer of MIBK, driving its rapid growth. With investment focused on continuous high-tech development, the environmental and safety fields, and capacity expansion to achieve economies of scale, the company aims to be a global leader in the phenol and phenol derivatives field, delivering greater customer value with the industry's highest quality.

897.8 KRW billion
78.2 %

kpb.co.kr

Kumho Mitsui Chemicals, Inc.

Established in 1989, Kumho Mitsui Chemicals is a leading manufacturer of MDI (methylene diphenyl diisocyanate), the main feedstock used to produce polyurethane. MDI is an advanced chemical product in growing demand in a diverse and growing array of applications ranging from car seats and dashboards, refrigerator insulation, construction panels, and synthetic wood to synthetic leather, spandex, and sneaker soles.

The company completed a 140,000 mtpy expansion project in 2009 and an additional 50,000 mtpy expansion in 2012. A new 100,000 mtpy expansion project currently on track for completion by the end of 2017 will make it Korea's No. 1 MDI maker. With an emphasis on customer satisfaction, the company is now refocusing on quality and environmental safety as it aims to aggressively enter overseas markets in its quest to become a global polyurethane maker.

519.6 KRW billion
50.0 %

kmci.co.kr

Kumho Polychem Co., Ltd.

Established in 1985, Kumho Polychem is Korea's No. 1 producer of EPDM (ethylene propylene diene monomer), a synthetic rubber widely used in auto parts and industrial goods, as well as TPV (thermoplastic vulcanizate) and KEPA (modified EPDM).

In July 2007, the company completed a plant expansion that adopted a proprietary ultra-low temperature polymerization process, an industry first. The company became the global industry's No. 3 EPDM producer in June 2015 when it commissioned its second plant, raising production capacity to 220,000 mtpy as it took a step closer to being the world's No. 1 EPDM maker.

389.0 KRW billion
50.0 %

kumhopolychem.co.kr

Kumho Terminal & Logistics Co., Ltd.

Established in 2009, Kumho T&L operates a logistics terminal in the Yeosu National Industrial Complex focused on reducing logistics costs and ensuring a stable supply of bituminous coal and other fuel sources to serve the needs of KKPC's Yeosu Energy cogeneration plants as well as plants owned by Korea South-East Power and Korea East-West Power.

The company operates a sealed system to handle and store bituminous coal to reduce costs and protect the environment. In addition to port logistics and storage, the company provides coastal and inland transportation services. The company aspires to become a total logistics provider, providing reliable, cost-effective, one-stop solutions to meet any logistics need.

50.8 KRW billion
95.0 %

ktnl.co.kr

Korea Energy Power Co., Ltd.

Korea Energy Power was established to operate solar PV generation facilities. In July 2013, the company commissioned a solar PV plant in Sacheon, Korea. The company is now generating revenue through sales of both electricity and renewable energy certificates (REC).

Today, the company's Sacheon plant, which was considered the largest regional rooftop solar project in Korea when it was completed in 2013, and its affiliates now have a total installed capacity of 27.2 MWh. The company's plants are capable of generating 34,000 MWh of electricity annually, enough to meet the needs of roughly 8,200 homes while reducing CO₂ emissions by over 14,000 metric tons.

KKPC plans to expand beyond solar into wind and other renewable energy businesses in Korea and beyond in the coming years.

3.1 KRW billion
96.1 %

2016 Sales

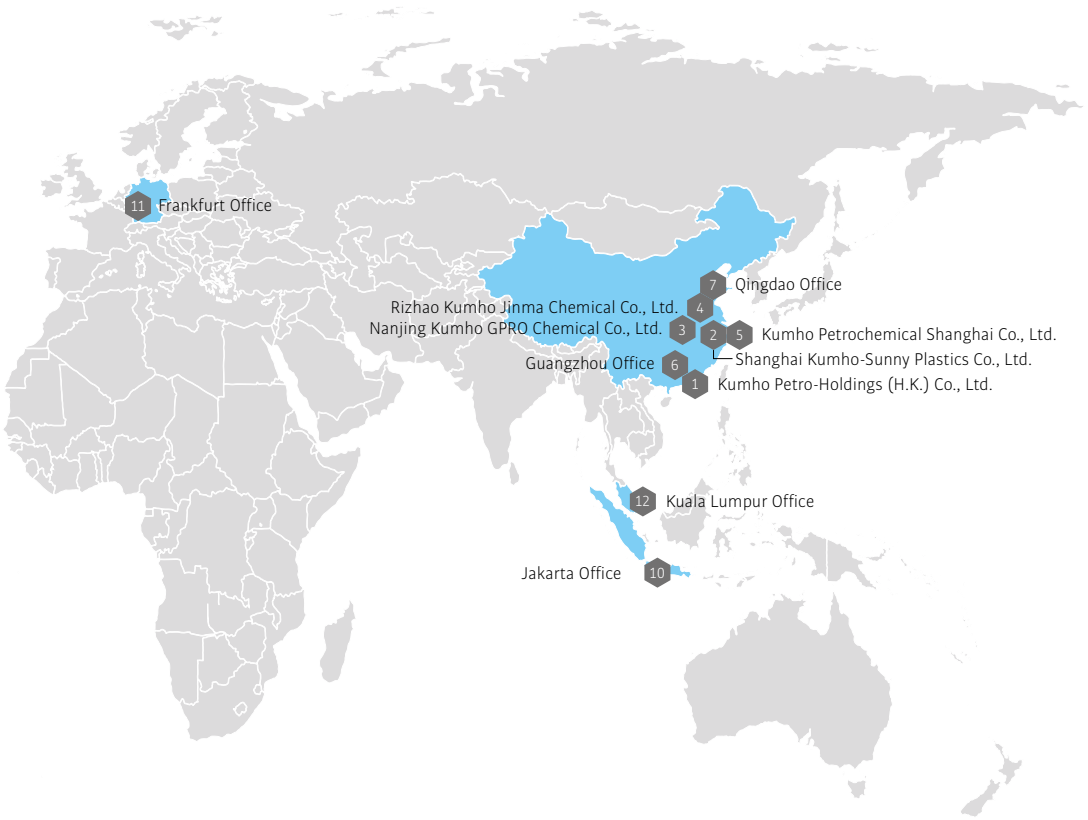
KKPC Ownership

Global Partnerships

| | | |
|--|---|--|
| | Shanghai Kumho Sunny Plastics Co., Ltd. | Nanjing Kumho GPRO Chemical Co., Ltd. |
| SINCE THE EARLY 2000S, WE HAVE BEEN BUILDING PARTNERSHIPS IN CHINA, ASIA’S LARGEST GROWTH MARKET. TODAY, WE CONTINUE TO BUILD A BUSINESS PORTFOLIO THAT WILL MAXIMIZE SYNERGY WITH OUR EXISTING BUSINESSES IN THIS KEY MARKET. | <p>Purpose</p> <ul style="list-style-type: none">•Secure local production, sales, and distribution base in China•Increase sales of colored and specialized products that meet the changing demands of the ABS market•Increase sales of base resin <p>Key Products</p> <p>Heat-resistant automotive ABS, heat-resistant ABS for electrical and electronic products</p> <p>Location</p> <p>Shanghai, China</p> <p>Establishment</p> <p>October 19, 2000</p> | <p>Purpose</p> <p>Achieve dominance in Chinese polyurethane market through early entry</p> <p>Key Products</p> <p>PO (propylene oxide), PPG (polypropylene glycol), CS (caustic soda)</p> <p>Location</p> <p>Nanjing, China</p> <p>Establishment</p> <p>September 28, 2006</p> |
| | 1.64 RMB billion 50 % | 1.12 RMB billion 50 % through Kumho Petro-Holdings |

| | | |
|--|---|---|
| | Rizhao Kumho Jinma Chemical Co., Ltd. | Kumho Petrochemical Shanghai Co., Ltd. |
| | <p>Purpose</p> <p>Achieve dominance in Chinese paper latex market through early entry</p> <p>Key Products</p> <p>SB latex</p> <p>Location</p> <p>Rizhao, China</p> <p>Establishment</p> <p>June 8, 2007</p> | <p>Purpose</p> <p>Maximize sales and profitability by expanding KKPC product distribution in the Chinese market</p> <p>Key Products</p> <p>Synthetic rubbers (SBR, BR), synthetic resins (ABS, PS), affiliate chemical products(EPDM, MDI, epoxy resin), Chinese affiliate products (PPG, IS)</p> <p>Location</p> <p>Shanghai, China</p> <p>Establishment</p> <p>June 1, 2008</p> |
| | 480 RMB million 50 % through Kumho Petro-Holdings | 22.6 RMB million (commission) 100 % through Kumho Petro-Holdings |
| | | 2016 Sales KKPC Ownership |

Global Network



Overseas

- 1 **Kumho Petro-Holdings (H.K.) Co., Ltd.**
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2 **Shanghai Kumho-Sunny Plastics Co., Ltd.**
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FAX +86-21-6296-9611

3 **Nanjing Kumho GPRO Chemical Co., Ltd.**
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4 **Rizhao Kumho Jinma Chemical Co., Ltd.**
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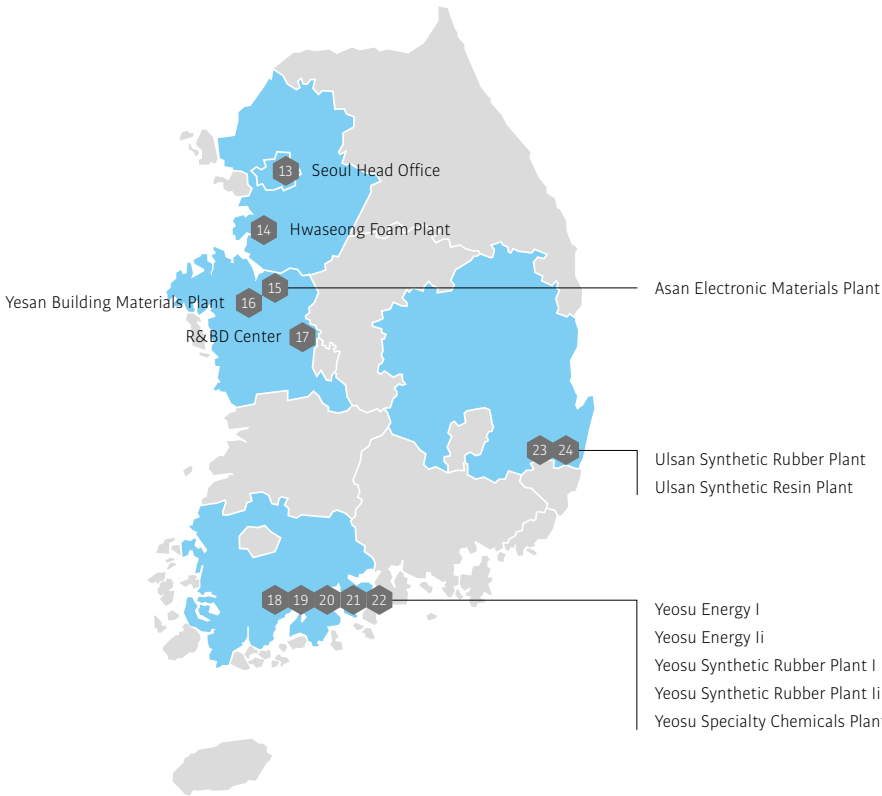
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Domestic

13 **Seoul Head Office**
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