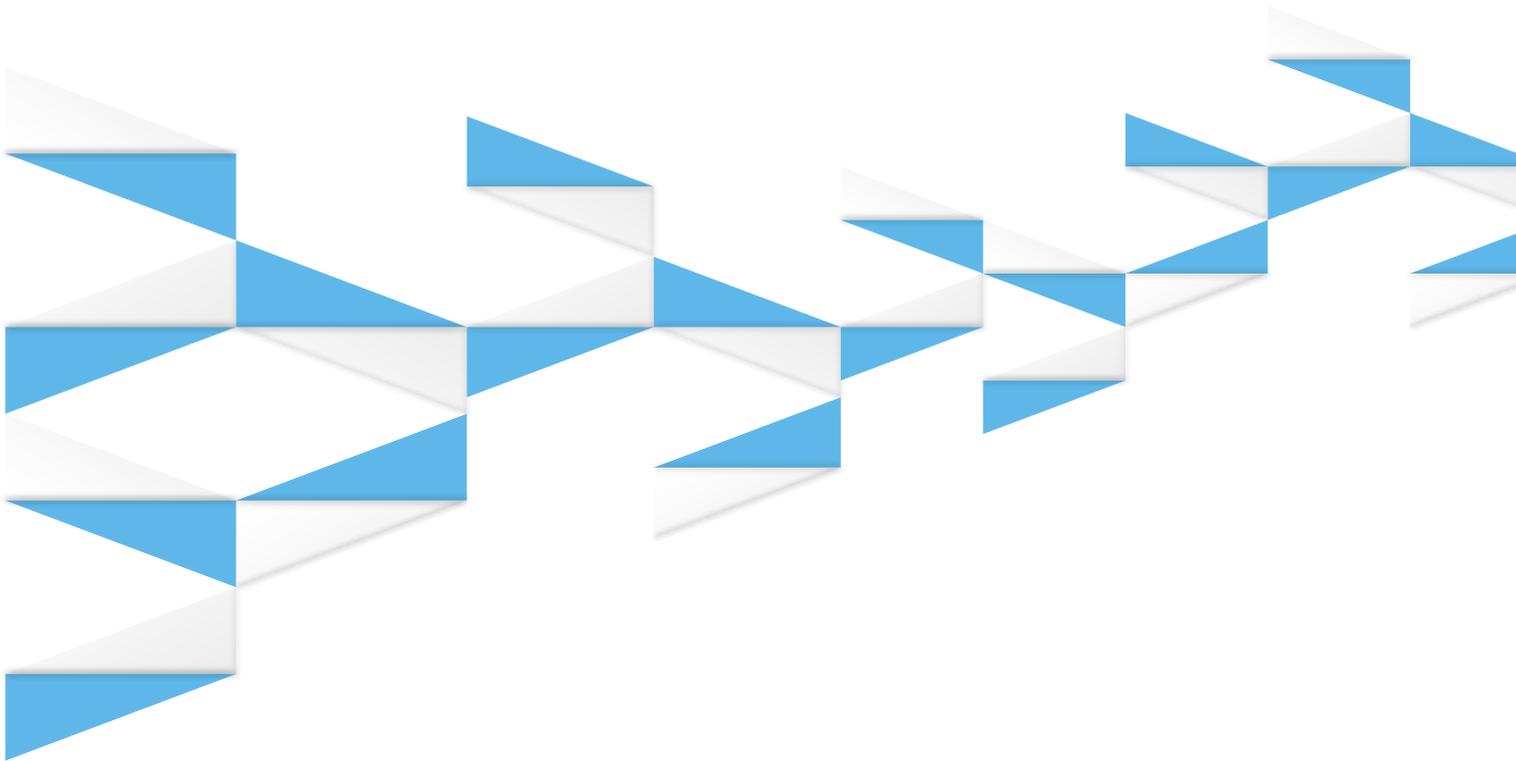


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# We know leadership

Kumho Petrochemical Annual Report 2011



*beyond*  
the best

KUMHO PETROCHEMICAL

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# We know leadership

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

# 01

## We know leadership

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In our 2010 annual report entitled "Great Expectations", we shared the reasons why we expected 2011 to be an even better year than our record-breaking 2010 performance. And we proved it by delivering our best performance to date by a large margin.

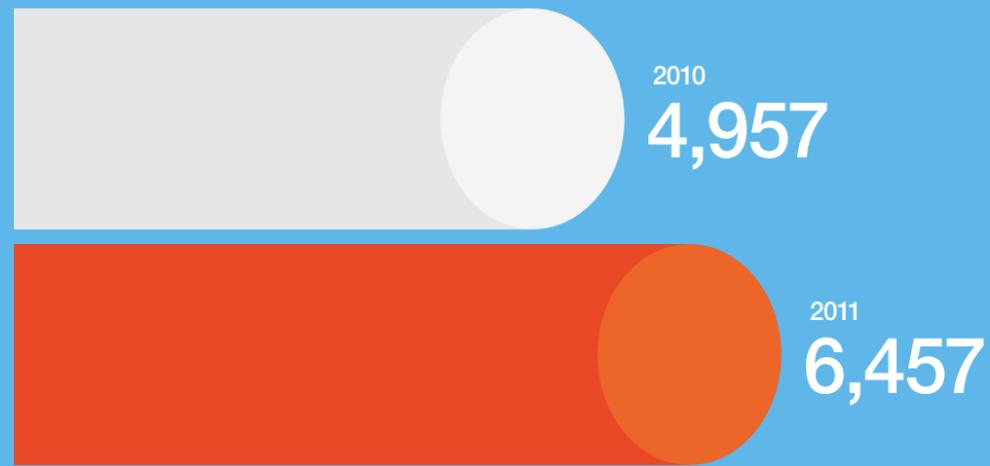
The global economy is becoming more organically connected, and volatility and uncertainty are greater than ever before. In 2011, sovereign credit rating downgrades in the United States and major countries across Europe elevated that uncertainty to a new level, chilling already weak consumer confidence and putting a damper on economic recovery. In developed markets, growth continued to be slow, while even developing markets experienced notably slower growth.

In the midst of this bleak news, the aggressive investments we have made in capacity expansion over the past few years began to bear fruit one-by-one, making us the world's undisputed largest producer of synthetic rubbers in terms of production capacity. The timing was perfect as rising demand from the downstream automobile and tire industries dovetailed with our expanded productivity, producing greater growth and profits. Organizationally, we focused on strengthening our managerial independence from the Kumho Asiana Group and consolidated our core capabilities as we laid a firm foundation for our emergence as a global leading chemical group. We also used our enhanced cash generation abilities to steadily reduce debt and take our financial soundness to a higher level.

From a growth perspective, our sales rose 30.3% to a record KRW 6,457 billion in 2011, far outpacing the previous year.

Sales Revenue

In KRW Billions



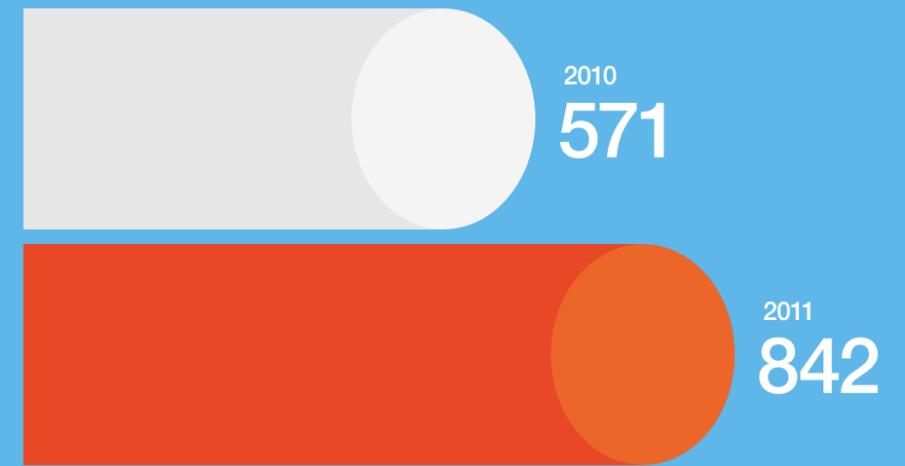
Sales Revenue Growth

+30.3%

From a profitability perspective, our higher operating margin boosted operating income by 47.5% to a new high of KRW 842 billion.

Operating Income

In KRW Billions



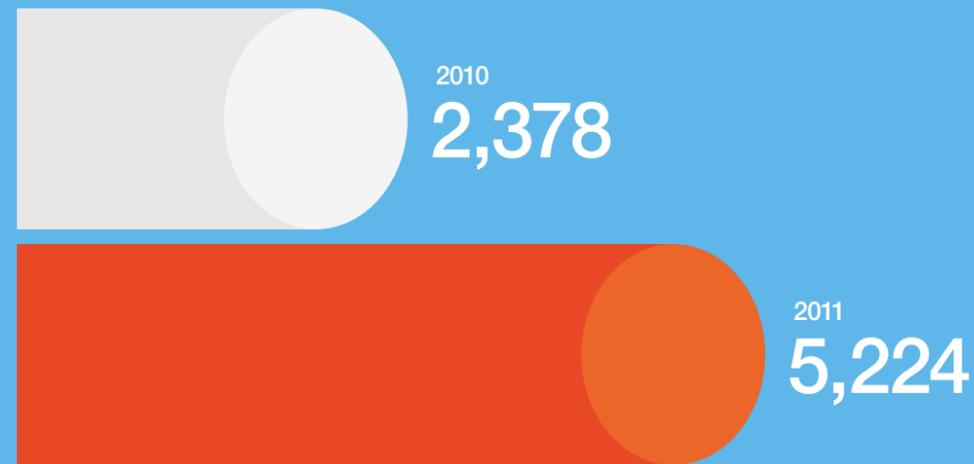
Operating Income Growth

+47.5%

From a corporate value perspective, a rapid re-evaluation of our intrinsic value by the market helped our market cap grow 119.7% in 2011 to KRW 5,224 billion at year-end.

Market Capitalization

In KRW Billions

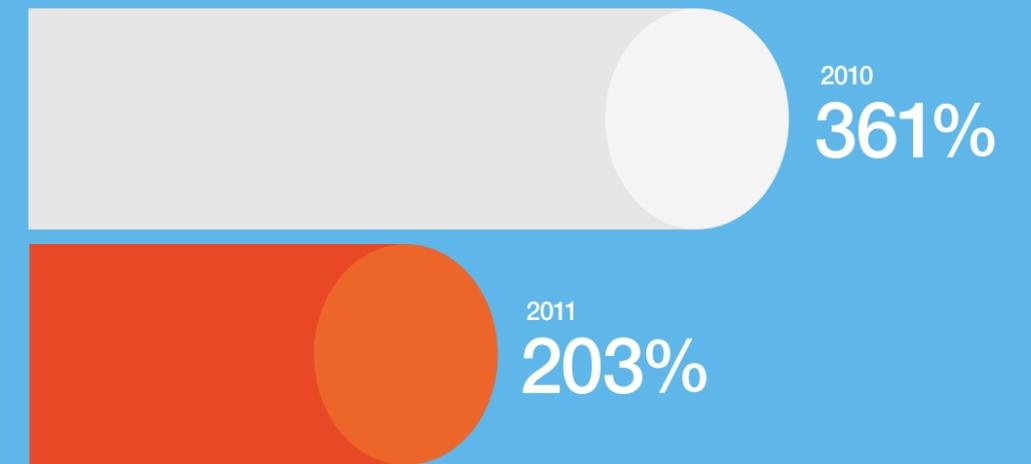


Market Capitalization Growth

+119.7%

From a financial soundness perspective, debt declined and equity rose as our debt-to-equity ratio fell 158 percentage points to 203%.

Debt-to-Equity Ratio

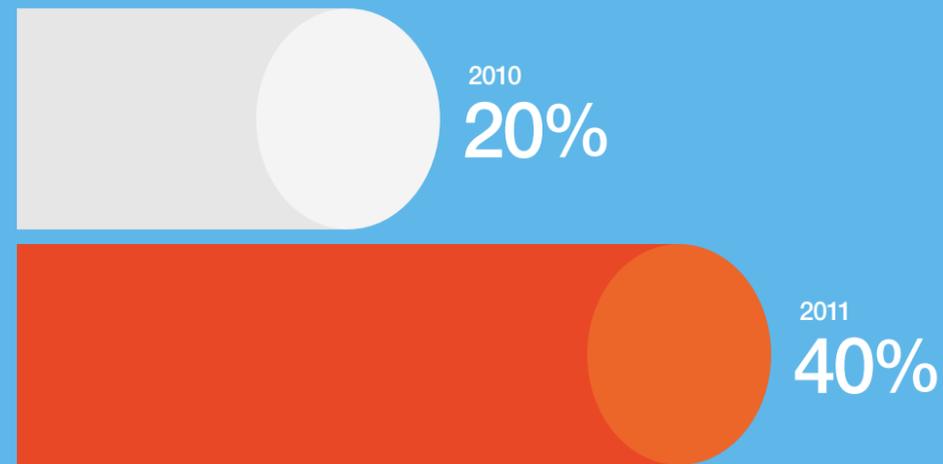


Debt-to-Equity Ratio Change

-158 pp

From a shareholder value perspective, we declared a cash dividend of KRW 2,000-per-share for a face-value yield of 40%, 20 percentage points higher than the previous year.

#### Dividend



#### Dividend Change

+20 pp

So, what enabled this amazing performance?

Was it the world's top production capacity and market leadership in synthetic rubbers? Superior product competitiveness? A focus on the customer? A favorable market environment? Enhanced financial soundness? Resolved uncertainty? Of course, all of these things have laid the foundation for today's KKPC. But even with all these positives, there's one thing that without which this remarkable growth would have been impossible.

That one, indispensable thing is our passionate, united, and dedicated employees. It's been said that without great people, it's impossible to achieve great things. Sometimes the things that you can't see are a greater force for change and growth than the things you can. That's because every miracle ultimately starts in the heart.



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**Customer-Centric Management** Every customer has unique needs. That's where everything we do starts. There's no one-size-fits-all solution because the success of each project or business is directly impacted by different requirements and circumstances. That's why building a relationship of trust with customers is our first rule in business.



**Long-Term Perspective** Only people who know where they're going can focus on how they're going to get there. For us, leadership isn't about coercive management. It's about sharing a vision and helping others achieve it by themselves.



**Continuous Improvement** We're fired up about finding ways to make KKPC more efficient and effective. Continuous growth isn't just something we talk about. It's about everything we do.





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**Entrepreneurial Spirit** Everybody asks why I enjoy my job so much. And I always give the same answer. It's because I have a great team to work with on challenging things, and I'm immersed in a work environment that fosters professional growth.

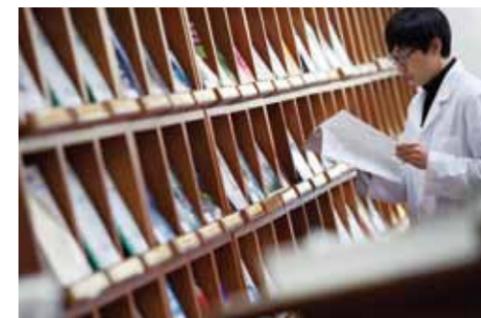




**Ceaseless Innovation** Is innovation only for cutting-edge high-tech businesses? Absolutely not. I think that the petrochemical sector is where innovation is most needed. The reason is because it takes ceaseless innovation to produce the tens of different raw materials that are converted through special processes into completely different substances, which are then used as materials in other industries.



**True Leadership** We're not satisfied with simply being the world leader in synthetic rubbers. Our goal is to be No. 1 in every product and every market. That's how we will become an industry-leading company in the truest sense.





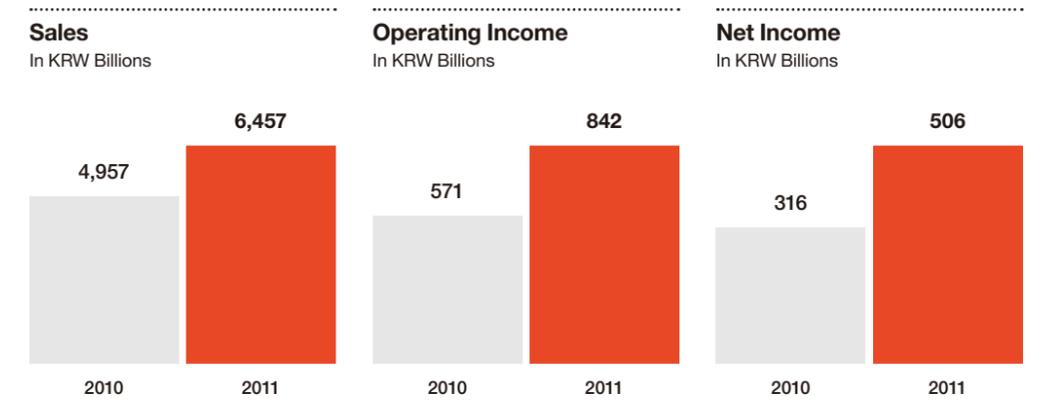
**Balanced Growth** Our strategic goal at KKPC is to maintain the balance between two priorities—generating greater short-term profits for shareholders while steadily expanding investment in the future. These strategic action principles guide us at every stage, from managing capital and selling non-core assets, to deciding how our surplus earnings are allocated, enhancing our capabilities in our core businesses.





# Financial Highlights

In KRW Billions	2011	2010
<b>Income Statements</b>		
Sales	6,457.4	4,957.0
Operating Income	842.2	571.0
Income before Income Tax	758.4	483.2
Net Income	505.6	316.0
<b>Balance Sheets</b>		
Total Assets	4,714.2	4,120.9
Total Liabilities	3,157.2	3,227.8
Total Equity	1,557.1	893.1
Net Financing Cost	156.6	126.8
<b>Key Figures</b>		
Operating Margin	13.0%	11.5%
Debt-to-Equity Ratio	202.8%	361.4%
Earnings per Share in KRW	24,723	15,775
Return on Equity	41.3%	44.9%
Interest Coverage Ratio	6.01x	3.96x
Dividend per Ordinary Share in KRW	2,000	1,000
Capital Expenditures	277.2	191.2



# Chairman's Message

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



## Dear Valued Stakeholder,

It gives me great pleasure to announce that KKPC achieved the best business performance in its 41-year history in 2011. While we had a remarkable year for sales, operating income, market share, and other benchmarks, the transformation in the mindset and attitudes of our employees to reflect our growing leadership made the year even more meaningful. Over the past few years, we have learned many things and changed just as much. When we faced the biggest crisis of our history in 2009, the strong solidarity and unwavering determination of our employees enabled us to overcome those challenges and push forward. As we were emerging as the world's largest synthetic rubbers producer, instead of conceit, there was a growing confidence that we could also become a global leader in other fields as well. Joined by the conviction that, rather than simply being "ordinary" like other companies, we should as a leader pursue excellence, these ideas began to take root in our corporate culture.

Becoming a leading company is more than just coming up with innovative products and services. It also comes with big social responsibilities. As the scope and number of our stakeholder groups grows, that responsibility gets even bigger. We're now past the time when we can succeed by just doing well ourselves. Without the trust and support of our customers, shareholders, partners, and local communities, we would have achieved nowhere near the success we have to date. Our stakeholders aren't someone that we need to "pass"; they are someone that we need to grow and collaborate with. It is win-win leadership focused on the success of all our stakeholders that will ensure our continued growth.

We are living in an age where volatility and uncertainty are greater than ever before. Today's successes may turn into tomorrow's failures, and companies that lead markets today may be out of business tomorrow. The only certain thing is that nothing is certain any more. But the principles of fair and ethical management that we have inherited from our founding chairman—the late In-Cheon Park—are an immense asset. As difficulties and uncertainty grow bigger and bigger, we know that the best way forward is to follow the right way, one step at a time.

Thank you once again for your interest in and support of KKPC. We invite you to join us as we continue to grow from a good and upright company into a global chemical leader.

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

# Presidents' Message

**Suh-Hyung Lee**  
President & CEO  
Kumho Petrochemical



## Dear Valued Shareholder, Customer, or Partner,

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

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

### The Year in Review

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

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



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

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

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



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**The Year Ahead**

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

**Major Initiatives**

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

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

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

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

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



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

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

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

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

Our 2012 management focus of “Think Next” emphasizes that today is the starting point for a better tomorrow and the importance of always being prepared for the future. Today, the entire KKPC family is united and committed to achieving the direction and goals outlined in Vision 2020. Your continued support and encouragement are greatly appreciated as our experienced and capable team sets its sights on creating greater value for all our stakeholders in the year ahead.

**Suh-Hyung Lee**  
President & CEO, Kumho Petrochemical

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

# Vision 2020

## Vision 2020

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

## Mission

<p><b>01</b> <b>For Our Customers</b></p> <p>We create customer value with the best.</p>	<p><b>02</b> <b>For Our Shareholders</b></p> <p>We deliver shareholder value by selecting and focusing to maximize profits.</p>	<p><b>03</b> <b>For Our Employees</b></p> <p>We work to create a virtuous cycle of growth where both company and employees grow.</p>	<p><b>04</b> <b>For Humanity &amp; The Environment</b></p> <p>We will create green chemicals that coexist in harmony with people and nature.</p>
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## Core values

<p><b>01</b> <b>Passion For Excellence</b></p> <p>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.</p>	<p><b>02</b> <b>Innovation For Satisfaction</b></p> <p>We embrace change as we proactively strive to deliver increasingly greater value to our customers, unencumbered by conventional practices and success formulas.</p>	<p><b>03</b> <b>Collaboration For Unity</b></p> <p>We build personal and professional trust through respect for diversity, open communication, and mutual collaboration.</p>	<p><b>04</b> <b>Responsibility For Integrity</b></p> <p>Our commitment to social and corporate responsibility is built on a commitment to the basics that puts environmental safety and corporate ethics first.</p>
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## Slogan

*beyond*  
the best

Success isn't the place you're standing right now. It's the direction you're facing. If you clearly and earnestly know where you want to go, you can go anywhere. That's because success is more a matter of attitude than aptitude. Russian writer Anton Chekhov put it this way, "Man is what he believes." The same holds true for companies. When you add big goals and the appropriate effort to achieve them, anything is possible.

At KKPC, we've set an ambitious vision of becoming a global leading chemical group by 2020 with sales of KRW 20 trillion and 20 world-class products. While these are by no means easy objectives to achieve, they aren't some impossible dream either. Leadership is the driving force that's made us the world leader in the synthetic rubbers business. It's not something that's innate. It's something that's cultivated and built.

So, what does it take to be a leader? Here are a few of the attributes that we believe define leadership.

# leadership knows focus

Leaders focus on what they know best. No matter how strong sunlight may be, unless it's focused into a single point, it will never ignite a fire. Leaders are people who know their strengths and never deviate from them. At KKPC, in the four decades than have passed in our journey to become the world's top synthetic rubbers maker, chemicals have been our sole focus. Since our effective managerial separation from the Kumho Asiana Group in 2010, we have elevated managerial efficiency and focus, taking our competitiveness to the next level.

Launched terminal operation business (2009)

Launched building materials business (2008)

Launched specialty chemicals business (2002)



Launched synthetic resins business (2001)

Launched electronic materials business (1998)



Launched energy business (1997)



Launched synthetic rubbers business (1973)

# leadership knows dedication

**Leaders never give up.** The only thing that's harder than becoming a leader is staying a leader. Only through ceaseless work and sacrifice can the best stay on top. At KKPC, we never settle for present success. We're always investing and growing our capabilities. We're not satisfied with simply having the world's No. 1 synthetic rubbers capacity of 1,045,000 metric tons. In 2012, we plan to increase that capacity by 170,000 metric tons with projects to add 110,000 metric tons of SBR and 60,000 metric tons of SSBR, further strengthening our market leadership.



Commission Yeosu SSBR (60,000 mtpy, 2012)

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

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



Commission Ulsan SBR expansion (110,000 mtpy, 2012)

# leadership knows collaboration

**Leaders build winning teams.** Things that are impossible alone are often possible together. Leaders know the amazing results that teamwork can produce. At KKPC, we partnered with Shell in 1987 to establish phenol and acetone maker Kumho P&B Chemicals. Since 2000, we have expanded in China by forming a number of joint ventures with local partners. In 2011, we signed a memorandum of understanding with JG Summit Petrochemical Corporation of the Philippines to establish a 50:50 joint venture to produce butadiene, increasing our self-supply ratio of this important feedstock essential to the continued growth of our synthetic rubbers business.



Kumho Polychem (50.0%)

Kumho Petrochemical Chongqing (77.0%)

Shanghai Kumho Sunny Plastics (50.0%)



Kumho P&B Chemicals (78.2%)

Nanjing Kumho GPRO Chemical (50.0%)



Kumho Mitsui Chemicals (50.0%)

Kumho Petrochemical Shenyang (80.0%)

Rizhao Kumho Jinma Chemical (50.0%)

• Figures in parentheses indicate KKPC's ownership stake.

# leadership knows no limits

Leaders don't see borders or limits. Leaders don't spend time worrying about limits. They push and challenge them. That's because they know that limitations only exist in our minds. At KKPC, we have developed products for the global market rather than our limited domestic market from the very beginning. Today, we operate sales offices in China, the United States, Germany, and Indonesia, selling our products to customers in over 160 countries on six continents. Since passing the USD 1 billion export milestone in 2005, we've gone on to surpass USD 2 billion in 2008 and USD 3 billion in 2011, steadily expanding our presence in the global marketplace.

Southwest Asia (18.8%)

Europe (9.3%)

Southeast Asia (21.9%)

Latin America (1.9%)

North America (8.9%)

China (36.2%)

Rest of World (2.5%)

• Figures in parentheses indicate portion of overall exports.

# leadership knows balance

Leaders never lose their footing. Having a perfect sense of balance is essential in a rapidly-changing environment where you can't always see what's coming. Leaders know how to deliver results today while preparing for tomorrow. At KKPC, we're working hard to build a balanced business portfolio that will enable us to generate solid growth and profits regardless of economic cycles. As we continue to strengthen our global leadership in the synthetic rubbers field, we're also diversifying and investing in synthetic resins, specialty chemicals, energy, and building materials as well as new fields that will drive future growth.



Antioxidants, Vulcanization Accelerators



ABS, PS, EPS, EP, ENEPOR, SAN, PPG

Phenol, Acetone, BPA, Epoxy Resin, MIBK

Steam and Electricity

Window Systems, Interior Materials

MDI, Aniline

Photoresist, BARC, PAG, PSPI, Sealant

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

EPDM, TPV

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# leadership knows ambition

**Leaders have big goals.** Leaders always set challenging goals. That's because they know that ordinary goals deliver ordinary results, and big goals deliver big results. At KKPC, we're setting and achieving ambitious goals while others are just happy to settle for stable single-digit growth. In 2011, we announced Vision 2020 with four major missions, setting our sights on generating sales of KRW 20 trillion and having 20 world-class products by 2020 as we took the next step toward our vision of becoming a global leading chemical group.

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We create customer value with the best solutions and synergy.

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



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

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

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

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## Corporate Governance

At KKPC, our modern, board-centric governance structure enables us to practice responsible, ethical, and transparent management. We are committed to earning the trust of all our stakeholders—from shareholders and employees to customers and communities.

### Board of Directors

Our board is composed of a total of seven 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 has the objective of maximizing corporate value from a long-term perspective. To enhance the independence of the board and professional knowledge, over half of the board seats are held by outside directors. The board has three committees: the Audit Committee, Outside Director Nominating Committee, and Management Advisory Committee. The board met a total of 11 times in 2011 to decide a number of major agenda items, including the approval of additional investments to expand the production capacity of our synthetic rubbers business.

### Audit Committee

The Audit Committee plays a key role in elevating transparency in management and credibility in financial disclosures. Composed entirely of outside directors to ensure independence, the committee can, if necessary convene an extraordinary shareholders' meeting and request a business report from the board. The committee also has the authority to investigate and review the status of major assets and work in progress.

### Board of Directors

Inside Directors		
<b>Chan-Koo Park</b> Chairman & CEO Kumho Petrochemical Co., Ltd.	<b>Suh-Hyung Lee</b> President & CEO Kumho Petrochemical Co., Ltd.	<b>Seong-Chae Kim</b> President & CEO Kumho Petrochemical Co., Ltd.
Outside Directors		
<b>Ki-Ro Pan</b> Director, Audit Committee Former CEO, Korea Infrastructure Investments Asset Management	<b>Jun-Bo Lee</b> Director, Audit Committee Attorney, Kim Chang & Lee	<b>Yong-Man Rhee</b> Director, Audit Committee Member, President's Senior Advisory Council
<b>Yong-Whan Kim</b> Director Attorney, Kim Yong Whan		

# Key Executives



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



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



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



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



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



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



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



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



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



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



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



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



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



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



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



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



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



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



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



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



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



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

# Shareholder Value

The spread of financial crises in developed markets, stagnation of the real economy, and sharply rising oil and raw materials prices raised the volatility and uncertainty in global financial markets to a new level in 2011. Despite this difficult environment, we once again achieved our best business performance to date, seeing our market cap more than double to over KRW 5 trillion.

## Capital Market Overview

Global stock markets started 2011 with the expectation that coordinated global economic stimulus measures would help markets pick up speed, sparking a broad-based recovery in the real economy. Unfortunately, those expectations were quickly crushed by events. The earthquake and tsunami that hit northeast Japan, political instability in Africa and the Middle East, and financial crises in the United States and major European markets spurred anxiety and uncertainty, sending global bourses once again on a downward path.

Although the decline was particularly steep in the Eurozone, Korea's KOSPI Index did not escape untouched. The KOSPI hit a new high of 2,228 points in May on expectations that Japan's setback would be an opportunity for Korean firms, eclipsing the previous high set back in 2008. As the market moved into the second half of the year, the US sovereign credit rating downgrade and the spreading Eurozone financial crisis hit the KOSPI hard, causing it shed more than 100 points in a single day during a decline that saw it hit a low of 1,652 points in September. Despite continued unfavorable factors, the market gradually regained its footing, finishing 2011 at 1,825 points, 11% lower than where it started.

## Share Performance

Starting the year at KRW 90,400, our shares began a steady climb as we recorded the best first-half business performance in our history, hitting a peak of KRW 253,000 in July. Unfortunately, growing financial crises in the United States and Europe and concerns about slowing profitability in our core synthetic rubbers business caused our shares to lose ground in the second half. They finished the year at KRW 167,500, up 85.3% for the year but 34% off their high. This was a remarkable performance given that the KOSPI Index closed the year down 11% overall and 6.2% for the chemical sector. We expect our shares to enjoy similar growth in 2012.

## IR Initiatives

We worked strategically in 2011 to lay the groundwork for the steady appreciation of our shares and attract quality, long-term investors. We succeeded on both counts by forming a consensus with the market regarding our operating results and major pending issues, regaining our credibility in global markets as we cultivated favorable market opinion and relationships.



We held quarterly earnings conferences and stepped up our one-on-one meetings with both local and overseas investors to help the market better understand how we were executing our company normalization plan in accordance with our MOUs with creditor banks, resolving risk associated with the Kumho Asiana Group, and improving our business performance in cooperation with our chemical affiliates. We made it a practice to visit domestic institutional investors after our earnings conferences as well as holding domestic non-deal roadshows and small group meetings. We actively courted overseas investors through non-deal roadshows and other channels, helping boost their portion of total share holdings to 9.94% at year-end.

In addition to the above, we participated in an active calendar of conferences and corporate days for domestic and overseas brokerage firms as well as frequent conference calls with overseas investors. We conducted plant tours for sell-side analysts to help them better understand our operations and major processes. In the interest of providing fair, transparent, and timely disclosure to all investors, we also continued to expand the scope of information available on our IR website.

## Share Dividend

It is our policy to consistently return a fair and reasonable portion of our profits to our investors. We determine this dividend based on a number of factors, including profit size, future investment plans, and current financial structure. For fiscal 2011, the board declared a cash dividend of KRW 2,000 per share—double our 2010 dividend—to share the fruits of our record-setting business performance with our shareholders.

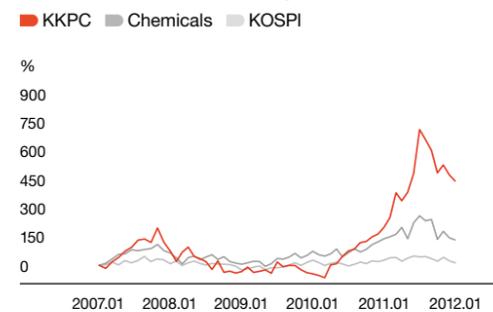
## Annual Report Recognition

Our 2010 annual report was recognized by a number of prestigious awards competitions in 2011. We took Silver and Bronze at the 2011 ARC Awards hosted by MerComm. We also took Platinum and Gold at the 2010 Vision Awards and Silver at the 2011 Spotlight Awards, both hosted by the League of American Communications Professionals (LACP). Our consistently strong showing at the industry's top annual report awards year after year continues to raise our profile in global capital markets, enhancing our credibility with the international investment community.



Key Figures	2011	2010
<b>Share Data</b>		
Number of Shares	33,491,177	28,447,933
Common Shares	30,467,691	25,424,447
Preferred Shares	3,023,486	3,023,486
Market Capitalization in KRW Millions	5,223,522	2,378,190
Credit Rating from Korea Information Service	BBB+	BBB0
<b>Per Share Data (in KRW)</b>		
Net Income	24,723	15,775
Book Value	58,199	41,625
Dividend	2,000	1,000
<b>Share Price</b>		
Year-End	167,500	90,400
High	253,000	91,100
Low	90,200	16,100
<b>Shareholder Structure</b>		
Major Shareholders	23.65%	40.12%
Free Float	41.45%	37.89%

**KKPC Stock Price vs. Key Indexes**



**KKPC Stock Performance in 2011**



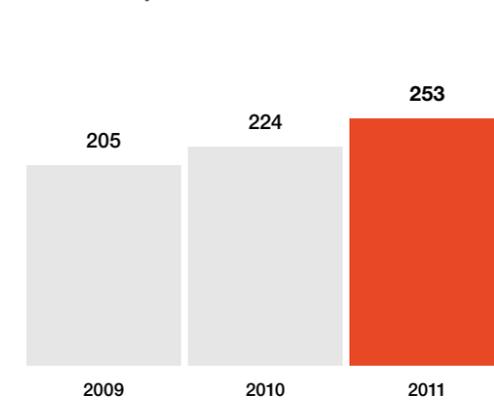
# Research & Business Development

Research and development is a crucial determiner of corporate competitiveness, enabling companies to satisfy fast-changing market and customer needs through technical and process advances that increase productivity and lower production costs. At KKPC, we are working hard to ensure that our R&D advances benefit the bottom line through organic collaboration between production, research, marketing, and all other areas.

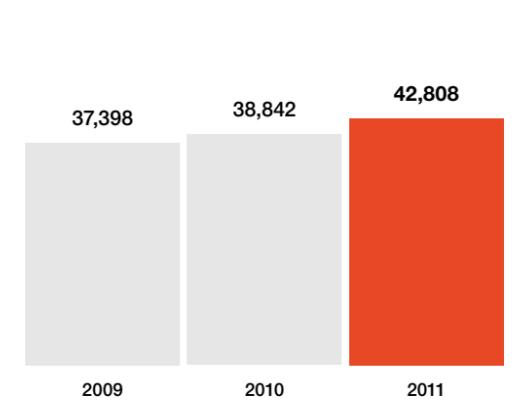
## R&BD Organization

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

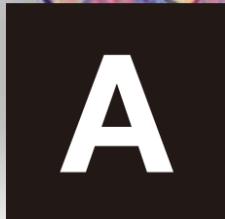
**R&BD Manpower**



**R&BD Investments**



# Major Innovations



Photoresist, BARC, PSPI

## Seeded Latex

We have independently developed a new latex production process based on the seeded emulsion polymerization process. In addition to enabling a variety of grades to be produced with consistent quality, the seeded latex process also improves productivity, reducing production costs. In 2011, we utilized this process to successfully develop a paper latex that is superior to anything produced by our Chinese competitors and exported the technology to joint-venture Rizhao Kumho Jinma Chemical. In 2012, we plan to offer this technology as a license package to international manufacturers as well as adopting it in our own latex product line.

## Butadiene Production Process

We have developed a new production process that uses a new catalyst to produce 1,3-butadiene from n-butane. Our current process extracts butadiene from crude C4 produced by our naphtha cracking center. Benefits of the new process include the production of byproduct C4 raffinate and lower energy consumption since it works at a lower temperature. We plan to commercialize this process as soon as possible as we continue to steadily increase our self-supply ratio of this core feedstock.

## ASA Resin for Co-Extrusion with PVC

We have developed an acrylic-styrene-acrylonitrile (ASA) resin with unique weather resistance, colorfastness, and luster properties designed to be co-extruded with PVC. This resin is ideal for window profile, roofing, fencing, and other building applications that are expected to see steadily increasing demand in China and North America.

## Low-Viscosity MSP Paint Binder

Used to enhance the binding and viscosity properties of paint and ink, nonylphenol has been restricted to less than 0.1% of product volume since 2010 because of its connection with hormone disruption and cancer. We have developed a low-viscosity mono-styrenated phenol (MSP) product based on our existing Kumanox-SP antioxidant and acquired government approval for use as a paint additive. Unlike nonylphenol, our MSP binder is a non-alkylphenol compound, bring the benefits of non-toxicity as well as production efficiency and product quality.

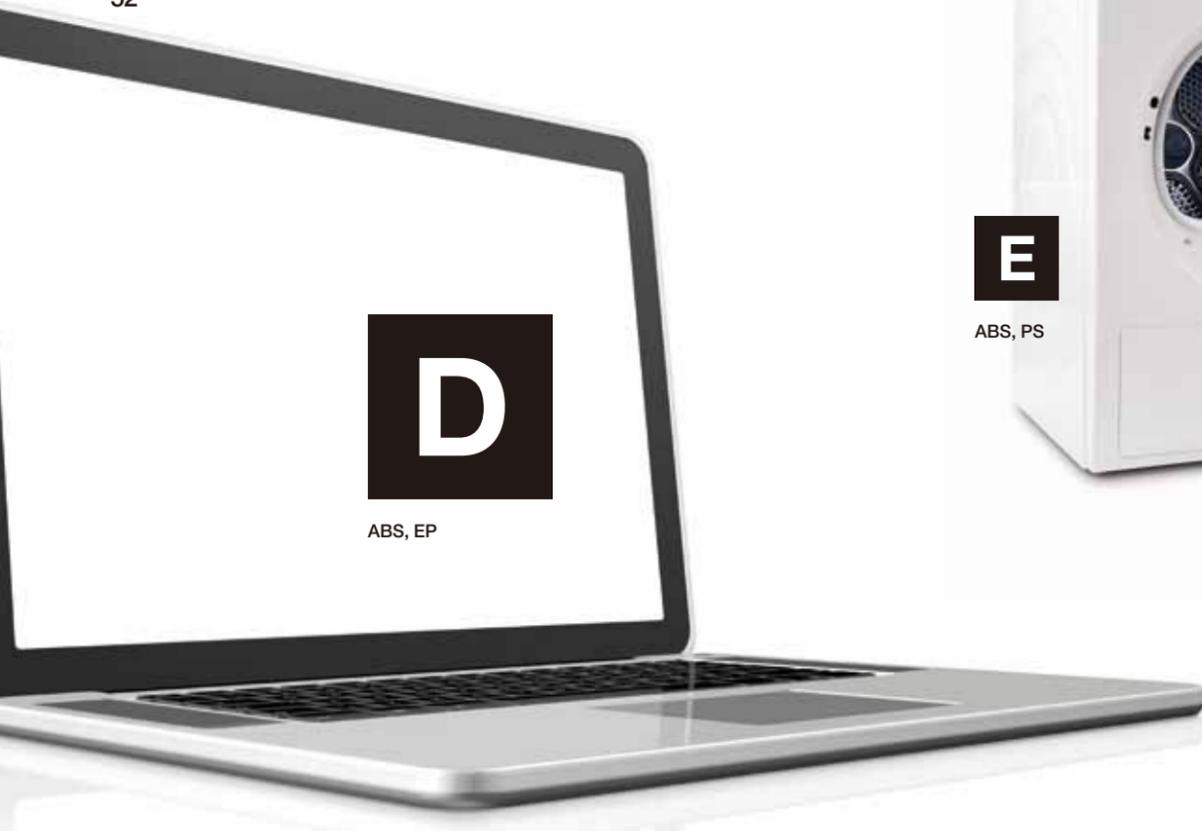


SBR, SSBR, BR, NBR, HSR, SBS, STE



SBR, SSBR, BR, HSR, Nd-BR





ABS, EP



ABS, PS

.....

**Nd-BR Productivity Improvements**

Our neodymium catalyst-based butadiene rubbers (Nd-BR) are ultra-high cis polybutadiene rubbers that offer superior resistance to abrasion, fatigue, and heat build-up than standard high cis BR grades, making them ideal for use in energy-saving high-mileage tires, premium golf balls, shoes, hose, and belts. We expect growing demand for high-mileage tires and the new tire labeling system entering effect in the EU in 2012 to further boost demand for our Nd-BR grades. The one disadvantage that Nd-BR has had versus Ni-BR and Co-BR grades to date has been lower productivity. We have developed a process that dramatically upgrades Nd-BR productivity to the same level of those competing materials.

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**ArF Photoresist**

Argon fluoride (ArF) photoresist is a value-added material for making extremely small nanometer-scale patterns in the semiconductor photolithography process for semiconductor memory ranging from 256 MB to 16 GB. Close customer involvement from the development phase is important due to the technical performance requirements. Since beginning mass production of our in-house developed ArF photoresist in 2007, we have steadily expanded our customer list and range of product applications for this high-tech material.

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**BARC Materials**

Bottom anti-reflective coatings (BARC) are applied as an underlayer for photoresist to suppress scattering and standing waves, improving manufacturing productivity by making it easier to create the nanometer-scale patterns used in photolithography. We completed development of high-n BARC materials for the advanced ArF immersion process in 2011 and are now focusing on bringing them to market in 2012.

.....

**Coating Materials for Display Films**

These UV-cured transparent liquid coating materials are used in the display and electronic materials fields. We are now preparing to bring to market touchscreen and industrial hardcoating solutions we developed in 2011 as we push forward with the development of coatings for the rapidly-growing OLED display industry.

.....

**LCD Sealant**

These sealants are used in the LCD panel manufacturing process to join the TFT and color filter panels, forming and protecting the cells that hold the liquid crystal material. We developed our first prototype large-panel sealant in 2009. We are now focusing on the development of a small-panel sealant as we target new business in the fast-growing tablet PC and smartphone segments.



PS



Antioxidants

# Risk Management

Times of crisis have a way of separating healthy companies from the not-so-healthy ones. While every company experiences crises at one time or another, the important thing is how they respond and overcome them. At KKPC, our rigorous risk management system enables us to effectively prevent as well as actively respond to challenges when they arise.

## Currency Risk

The Korean won continued to appreciate in 2011 until the second half of the year, when the downgrade of United States sovereign credit rating and worsening financial difficulties in the Eurozone started a downward trend, increasing volatility. In 2011, approximately 84% of total sales were in foreign currencies, including 67% from direct exports and 17% from local sales. About 89% of all overseas sales were in US dollars.

In 2012, we plan to take a long cash position of roughly USD 190 million based on our feedstock import requirements and foreign-denominated assets and liabilities. In this scenario, each KRW 10 change in the exchange rate will impact profitability by roughly KRW 1.9 billion. Our 2012 business plans and targets are based on an average exchange rate of KRW 1,050 to the US dollar. With the average rate holding above KRW 1,131 at the end of the first quarter of 2012, we expect the rate to have little or no impact on our ability to achieve our business targets.

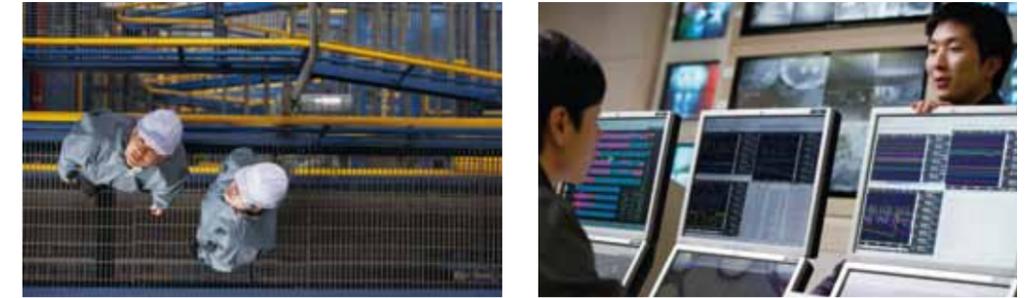
## Market Risk

The aftershock of the global financial crisis hit with full force in the second half of 2011. While China, India, and other emerging markets tightened their fiscal policies to dampen inflation, leading to slower growth, key developed markets like North America and Europe faced major financial crises, raising uncertainty to a higher level.

In the second half of 2012, emerging markets are expected to steadily recover, gradually lifting the global economy with them. On the other hand, there are a number of areas of concern. There is still considerable external risk due to the ongoing Eurozone financial crisis and the possibility of an oil shock due to political instability in the Middle East and Africa as well as fluctuation risk for both product pricing and profitability as raw materials prices rise. Our proactive response to these rapidly changing market conditions includes reallocating regional sales quotas and maintaining pricing flexibility.

## Raw Materials Risk

An unprecedented jump in natural rubber prices sparked a sharp increase in demand for butadiene (BD), the key feedstock used to produce synthetic rubbers. This, combined with production issues in Taiwan and Singapore, pushed BD prices sharply higher through the first three quarters of the year. The worsening of the Eurozone financial crisis in the final quarter



caused the overall global economy to contract, lowering demand and sending BD prices downward to close the year at around USD 1,700 per metric ton. In the first half of 2012, scheduled maintenance shutdowns by both Korean and other Asian producers are expected to tighten supply, pushing BD prices higher. The average BD price in 2012 is projected to be around USD 3,000 per metric ton.

As our synthetic rubbers production volume increases, BD supply is becoming an increasingly crucial issue. Over the short term, we are increasing sourcing from both domestic and international suppliers as well as seeking new suppliers to ensure our BD feedstock needs are met. Over the long term, we will continue to increase our BD self-supply ratio through a joint-venture BD plant in the Philippines as well as commercialization of new, more-efficient BD production processes.

## Financial Risk

We dramatically reduced our debt-to-equity ratio from 361% at the end of 2010 to 203% at the end of 2011 as we paid off a portion of our long-term borrowings and convertible bonds were exercised. Growth in both sales and operating income translated into higher asset turnover and times interest earned ratios as our financial structure continued to steadily improve.

In 2012, we plan to use our operating cash flow to cut net borrowings to around KRW 1,400 billion, reducing our debt-to-equity ratio to under 170%. If necessary, we will gradually sell off equity stakes in affiliates such as Asiana Airlines and Daewoo Engineering & Construction that have been designated as investment securities. We plan to increase our investment plan to around KRW 400 billion as we invest in projects to expand the capacity of our SBR and SSBR plants and Yeosu Energy II as well as the bisphenol A plant of affiliate Kumho P&B Chemicals. Although we plan to increase investment to drive growth, we will efficiently execute our investment priorities to the extent that our operating cash flow allows as we step up management-by-objective to achieve our financial stability targets and wrap up our MOUs with creditor banks related to the company normalization plan as quickly as possible.

# 03 Corporate Citizenship

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## Business Ethics

When it comes to being trusted and respected by customers and communities, high corporate ethics must come before big business results. At KKPC, ethics are an integral part of the way we do business. Each member of our family shares and upholds the same high ethical standards, empowering us to decide and act responsibly .

### Stakeholder Trust

In 2002, we initiated the creation of an ethics management system designed to enable us to fulfill our social responsibility and earn the trust and respect of our stakeholders. Today, that system is the theoretical and practical foundation that makes integrity our first and foremost practice in the workplace. Enshrined in our code of conduct, this system is supervised by the Committee for Ethical Management and encompasses evaluation teams, councils at each plant location, and the KKPC Loving Helpers service organization.

### Win-Win Relationships

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

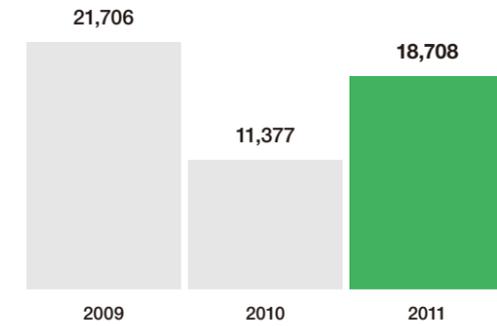
# Environmental Management

Climate change and environmental destruction are issues that require a global response. At KKPC, our environmental vision is to be a company that partners with humanity and the environment to create tomorrow. Through rigorous environmental management and ongoing environmental preservation initiatives, we aim to do our part for the sustainable growth of the planet and leave a cleaner world for the next generation.

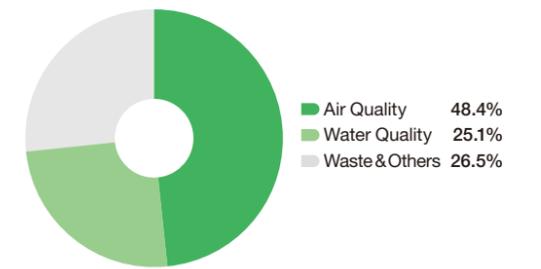


## Environmental Investment

In KRW Millions



## Environmental Investment by Area



## EHS Initiatives

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

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

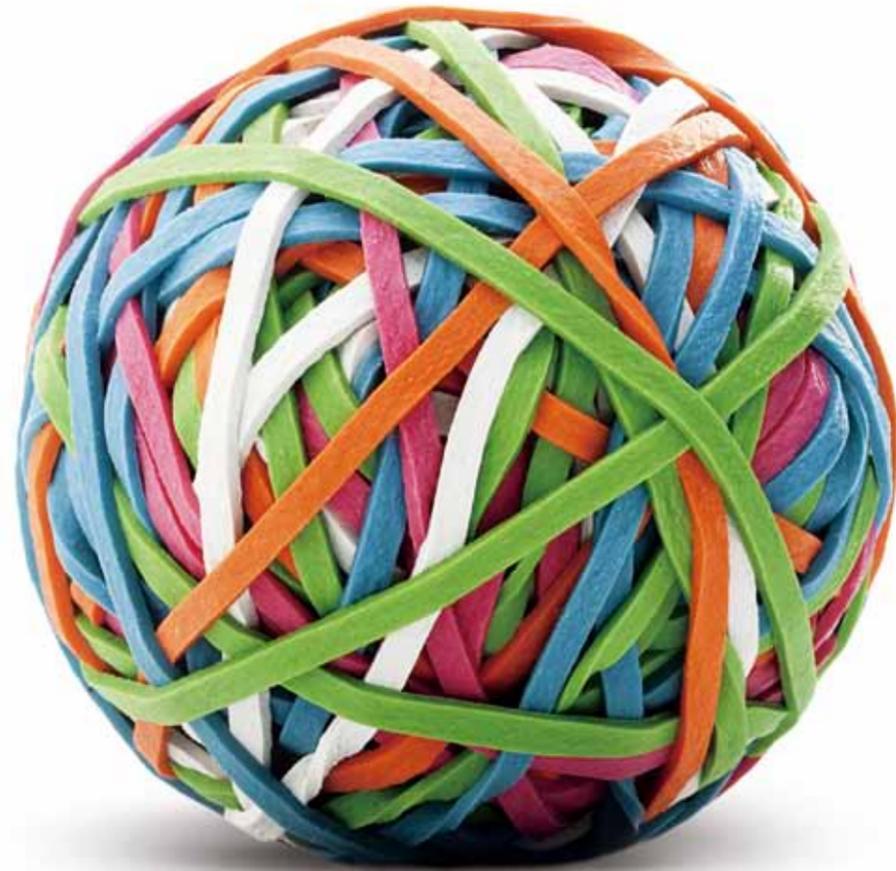
## Climate Change Mitigation

Climate change has become the world's most talked about environmental issue in recent years. Efforts to address this issue such as the greenhouse gas energy target setting program launched in Korea in 2011 are steadily becoming obligations rather than options for both governments and corporations around the world. We are now putting in place an enterprise-wide response framework as we push forward with energy management system, clean development mechanism (CDM), emissions reduction incentive, and other projects.

We have set up a taskforce team to oversee our energy target setting program, setting medium and long-term reduction strategies. We are now moving forward with emissions reduction projects, bringing our technology planning and production technology teams together with outside consultants to calculate present emissions volumes, analyze potential reductions, and determine the marginal cost of potential projects. To date, we have completed greenhouse gas inventories for each of our business locations and set reduction targets, putting in place an integrated management system that will enable us to analyze emissions by type and volume.

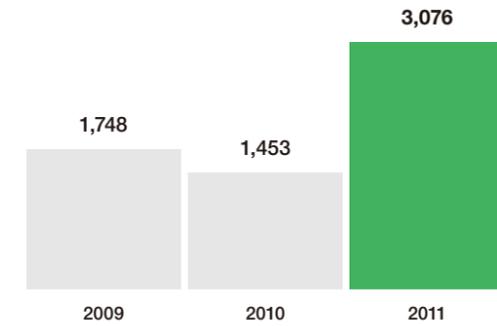
# Social Responsibility

Today's companies are expected to create both economic and social value. At KKPC, we are fully committed to fulfilling our responsibility to society based on respect for people and a win-win philosophy, supporting culture and the arts, social welfare, and education as well as actively volunteering and serving in our local communities.

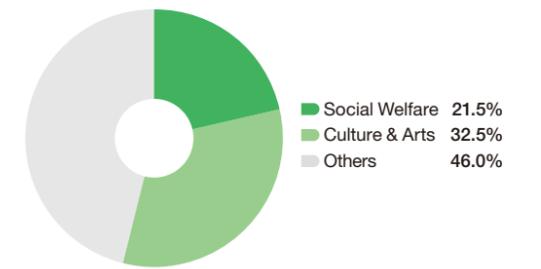


## Social Investment

In KRW Millions



## Social Investment by Area



## Community Initiatives

KKPC Chairman Chan-Koo Park places equal value on the objectives of local community development and corporate growth. He has asked our entire family to work together to make KKPC a company that faithfully fulfills its social responsibilities and makes a difference in society. This is why we are involved in such a wide range of activities in local communities.

We are expanding hiring of the disabled and other disadvantaged persons to help them become financially independent. We are also using our products in a variety of ways to serve the needy in our local communities. In 2011, we donated window systems to a rehabilitation center serving the mentally and physically disabled as well as custom-designed wheelchairs to centers serving the severely disabled. We also promoted blood donations through corporate blood drives with the Korean Red Cross as well as donating a blood donation bus equipped with the latest equipment. We aim to progressively expand the scope of our activities to new areas as we strive to find unique and specialized community service projects that reflect our corporate DNA.

## Volunteer Service

As the awareness of the social role of companies has changed, the face of community service is changing as well. Responding to changing times, we are shifting our focus from passive donations to active win-win involvement as we work to make community service a pillar of our corporate culture. Enthusiastic, voluntary employee participation is the secret behind the success of our active community service efforts. Our KKPC Loving Helpers service organization brings our people together to make a difference for the underprivileged in our local communities. In addition to annual blood drives, we actively participate in fundraising, donating the "spare change"—amounts under KRW 1,000—from our paychecks as well as making set monthly donations to charity which are matched by the company to double our impact for good.

# 04 Review of Operations

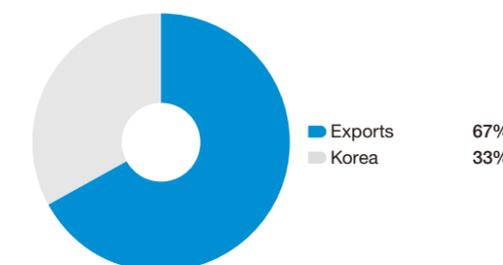
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## 2011 Overview

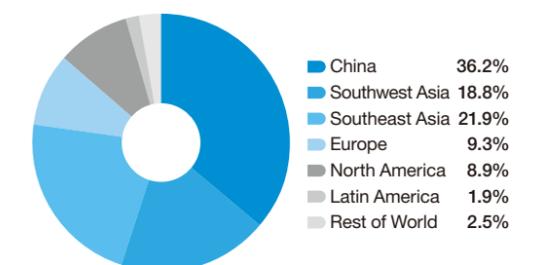
At KKPC, we once again recorded our best operating performance in our 41-year history in 2011 with sales of KRW 6,457.4 billion and an operating income of KRW 842.2 billion. There were several primary drivers behind this performance. Our synthetic rubbers business had a record-setting year due to significantly higher sales volume as new capacity came online, tight market supply, and a favorable margin spread despite higher butadiene (BD) prices. Our chemical affiliates delivered solid performances for the year, generating valuation gains, while our disposal of holdings in Kumho Industries and Kumho Tire held as available-for-sale securities enabled us to post a record net income based on controlling interest of KRW 505.6 billion for the year.

In 2011, we resolved all remaining risk associated with the Kumho Asiana Group as we executed our company normalization plan in accordance with our MOUs with creditor banks. Both we and our chemical affiliates delivered outstanding business performances. This led capital markets to re-evaluate our shares, helping them climb 85% to close the year at a record KRW 167,500. This rise also pushed our market cap above KRW 5 trillion as we entered the KOSPI 50 for the first time. In May 2011, this share performance earned us a place on the Morgan Stanley Capital International (MSCI) Korea Index. At year-end, 9.94% of our shares were held by investors outside of Korea.

### Sales by Market



### Exports by Region



# Synthetic Rubbers

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



Sales Revenue

In KRW Billions

# 3,535.9

Synthetic Rubbers

# 54.8%

of total sales

Synthetic Resins

Other Businesses



### Main Products

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

### Key Applications

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

### Major Customers

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

# 2011 Review

Our synthetic rubbers business grew sales 58.3% to KRW 3,535.9 billion during the year, accounting for 54.8% of overall sales as it once again played a leading role in our record-setting performance. There were two primary factors behind these impressive results. First, our sales volume dramatically increased as a new 120,000-mtpy polybutadiene rubber (BR) line began commercial production in January. Second, while prices of butadiene (BD) feedstock rose, strong demand for synthetic rubbers from both tire and other manufacturers pushed up selling prices even higher, creating a favorable margin spread that boosted profitability.

With the ongoing expansion of our synthetic rubbers production capacity, securing a steady supply of BD feedstock has become one the key factors in the competitiveness of this business. Toward this end, we are increasing our self-supply ratio as we undertake a broad range of efforts to further strengthen our market leadership in this field. In March 2011, we signed an MOU with the JG Summit Petrochemical Corporation of the Philippines to establish a 50:50 joint venture to produce BD. Our Kumho Petrochemical R&BD Center in Daejeon is also actively involved in bringing new BD production processes to market.



# 2012 Outlook

Although the global auto industry has seen a slowdown due the ongoing Eurozone financial crisis, demand for replacement tires in China will continue to drive growth in the global tire market. The enforcement of a new EU tire labeling requirement is also expected to increase demand for eco-friendly tires, primarily in Europe and the United States. For these reasons, we expect to see continued growth in the synthetic rubbers industry. We also expect BD prices to stay strong as supply remains tight in Asia due to the startup of new SBR and BR producers as well as rising oil and naphtha prices.

Looking at the demand side, global synthetic rubbers makers are focusing investment on expanding production capacity in key Asian markets like China and India, together which account for a large portion of global demand, setting the stage for tougher competition. Keeping a close eye on these market developments, we are now flexibly shifting inventory and pricing policies to improve the profitability of our commodity BR and SBR products. We also plan to launch production at a new 60,000-mtpy SSBR production line at our Yeosu plant in response to demand for more eco-friendly tires with the introduction of a new tire labeling system in Europe in 2012, seizing the market initiative for this strategic product with aggressive marketing as we diversify our revenue base.



# Synthetic Resins

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



Sales Revenue

In KRW Billions

# 1,246.4

Synthetic Rubbers



### Main Products

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

### Key Applications

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

### Major Customers

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

Synthetic Resins

# 19.3%

of total sales

Other Businesses

# 2011 Review

Our synthetic resins business grew sales 2.2% to KRW 1,246.4 billion during the year, accounting for 19.3% of overall sales as it marked its third straight year in the black. This performance benefitted from improved profitability due to increased sales of higher margin products as well as improved productivity through process improvements and facility revamping. It also benefitted from upgraded marketing capabilities that enabled us win business in the booming Chinese market and make inroads into emerging markets.

The second-half of 2011 saw a striking decrease in demand for acrylonitrile butadiene styrene (ABS) as China responded to growing concerns about inflation by instituting belt-tightening measures and the unfolding Eurozone financial crisis rapidly weakened consumer confidence in that region. This caused sales volumes to decline, resulting in slightly lower profitability for the year.



# 2012 Outlook

Downstream industries like home appliances and automobiles are expected to steadily recover in 2012, gradually lifting demand and selling prices of synthetic resins in the process. Costs for styrene monomer (SM) feedstock are likely to rise as oil and naphtha prices continue to climb and Chinese SBR and BR producers increase their operating rates. While the SM supply will continue to be tight across Asia, imports from the Middle East are expected to keep market prices stable.

As we continue to expand our local sales force in China, we will also be focusing on making inroads into new markets such the United States, Europe, Latin America, and Southwest Asia to reduce our reliance on the world's largest market. On the production side, we will continue to pursue innovations that will enhance our manufacturing cost competitiveness and shift from commodities to specialty products as we diversify our product portfolio with higher margin products that will enable us to consistently generate stable profitability regardless of the external business environment.



# Other Businesses

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

**Sales Revenue** In KRW Billions

# 1,675.1

Synthetic Rubbers

Synthetic Resins

Other Businesses

# 25.9%

of total sales

### Specialty Chemicals

**Main Products**

Vulcanization Accelerators, Antioxidants

**Key Applications**

Tires, Belts, Hoses, Electric Wire, Shoes, Paint for Ships

### Electronic Materials

**Main Products**

Photoresist, BARC, PAG, PSPI, Sealant

**Key Applications**

Displays, Semiconductors

### Building Materials

**Main Products**

Window Systems, Interior Materials

### Energy

**Main Products**

Steam and Electricity

## 2011 Review

Our other businesses—phenol derivatives, specialty chemicals, energy, electronic materials, and building materials—grew sales 11.4% to KRW 1,675.1 billion, accounting for 25.9% of overall sales. With the exception of building materials, each of these businesses generated solid gains for the year. The addition of the phenol derivatives business of Kumho P&B Chemicals under the new Korean International Financial Reporting Standards (K-IFRS) also contributed to these results.

Our phenol derivatives business enjoyed higher profitability in the first-half of the year, benefitting from tight supply in the wake of Japan’s earthquake and operational issues at certain competitors. In the second-half, belt-tightening in China combined with an intensifying of the Eurozone financial crisis led polycarbonate manufacturers to cut production to balance supply and demand, reducing profitability. Our specialty chemicals business saw our K-13 antioxidant earn the “World Class Product of Korea” designation in recognition of its top-5 global market share. Our energy business once again achieved strong growth in both sales and operating income through efficient operation of our Energy I and II cogeneration utilities at our Yeosu plant. Our electronic materials business continued to gain momentum, surpassing monthly sales of 1,000 gallons for the first time. Our building materials business put in place a solid foundation for growth with the completion of the new Yesan plant in March 2011. Overall, we pushed ahead with investment in improving our butadiene self-supply ratio, a carbon nanotube plant, and other areas that will help drive future growth.



## 2012 Outlook

With the adoption of K-IFRS, we believe that our other businesses will continue to steadily generate sales growth, becoming new engines of growth for the company. Our phenol derivatives business will be focusing on cost reduction to secure an absolute competitive edge in phenol and bisphenol A. We will also be moving into the acetone derivatives field to deal with the current oversupply issue in the acetone marketplace as we strengthen vertical integration in these related fields.

Our specialty chemicals business will be focusing on diversifying purchasing channels to secure a stable supply of raw materials as we aggressively target major tiremakers and customers we were previously unable to sell to due to patent litigation with Flexsys to expand our customer base. We will also step up cross-marketing with our insoluble sulfur plant in China. Our energy business will continue to streamline operations at both Yeosu Energy plants, securing additional supplies of tire-derived fuel to make our generating costs more competitive. Our electronic materials business will focus on securing our position as a top-tier ArF photoresist supplier to Hynix Semiconductor as well as pursuing additional business from Samsung Electronics and Taiwanese semiconductor makers. Our building materials business will focus on generating its first operating income as we optimize and expand operations at our new Yesan plant.



## The Year Ahead

Uncertainty in global financial markets driven by the unfolding Eurozone financial crisis and weak consumer confidence is expected to prevail through the first half of 2012. Economic belt-tightening measures in China, our main export market, are expected to continue for the time being, resulting in an unfavorable export market outlook. Closer to home, instability in North Korea and domestic political changes on the horizon with the upcoming general and presidential elections are raising concerns that may amplify economic uncertainty. Given this outlook, we expect overall petrochemical industry growth to be flat. At the same time, a weaker US dollar and supply instability will continue to drive oil and raw material prices upward, increasing pressure on production costs.

Despite this challenging business environment, we have set a more ambitious sales target for 2012. We will be strengthening our management of key financial soundness indicators as we set our sights on graduating as soon as possible from our MOUs with creditor banks related to the company normalization plan. Toward this end, we will be reinforcing financial stability and our core capabilities as we realign our business portfolio and organization to put in place the foundation for continued growth. We will also sell off assets to lower net debt and push forward with efficient investment that will elevate our financial stability to the next level.



# 05 Financial Review

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# Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying consolidated statement of financial position of Kumho Petrochemical Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2011, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated statement of financial position of the Group as of December 31, 2010, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, which are not presented in the accompanying financial statements, were prepared in accordance with previous Generally Accepted Accounting Principles in the Republic of Korea ("previous K-GAAP") and our opinion dated March 30, 2011 expressed an unqualified opinion on those consolidated financial statements. The accompanying consolidated statement of financial position of the Group as of December 31 and January 1, 2010, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year ended December 31, 2010, which are presented for comparative purpose, were not included in our audit scope.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

*KPMG Samjung Accounting Corp.*

Seoul, Korea  
March 13, 2012

This report is effective as of March 13, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

# Consolidated Statements of Financial Position

As of December 31, 2011, 2010 and January 1, 2010

In millions of won	December 31, 2011	December 31, 2010 (Unaudited)	January 1, 2010 (Unaudited)
<b>Assets</b>			
Property, plant and equipment	₩ 1,922,407	1,774,417	1,696,448
Investment property	823	21,426	21,516
Intangible assets	35,168	45,925	56,318
Investments in equity-accounted investees	270,466	202,856	228,247
Deferred tax assets	-	82,515	135,640
Available-for-sale financial assets	392,548	551,944	544,894
Financial assets held to maturity	6	6	6
Derivative financial assets	-	-	3,162
Loans and other receivables	19,687	22,591	19,605
Other assets	14,997	16,142	16,101
<b>Non-current assets</b>	<b>2,656,102</b>	<b>2,717,822</b>	<b>2,721,937</b>
Inventories	581,567	450,402	383,865
Available-for-sale financial assets	21,802	22,236	-
Derivative financial assets	-	5,304	16,826
Trade receivables	887,129	702,744	617,488
Loans and other receivables	44,741	59,507	49,670
Other assets	17,802	12,122	18,686
Tax refund receivable	-	-	350
Cash and cash equivalents	505,090	150,761	106,091
<b>Current assets</b>	<b>2,058,131</b>	<b>1,403,076</b>	<b>1,192,976</b>
<b>Total assets</b>	<b>₩ 4,714,233</b>	<b>4,120,898</b>	<b>3,914,913</b>

In millions of won	December 31, 2011	December 31, 2010 (Unaudited)	January 1, 2010 (Unaudited)
<b>Equity</b>			
Capital	₩ 167,456	142,240	142,240
Capital surplus	265,303	79,049	295,651
Capital adjustment	(40,234)	(40,082)	(40,066)
Accumulated other comprehensive income	8,310	71,839	45,704
Retained earnings	1,046,865	572,463	31,444
<b>Equity attributable to owners of the Company</b>	<b>1,447,700</b>	<b>825,509</b>	<b>474,973</b>
<b>Non-controlling interests</b>	<b>109,378</b>	<b>67,621</b>	<b>40,068</b>
<b>Total equity</b>	<b>1,557,078</b>	<b>893,130</b>	<b>515,041</b>
<b>Liabilities</b>			
Other payables	6,750	7,574	831
Long-term accrued expenses	6,717	3,576	3,432
Borrowings	364,756	952,281	720,571
Derivative financial liabilities	-	-	55,367
Deferred tax liabilities	39,359	-	-
Liabilities for defined benefit plans	19,711	17,605	42,928
Other liabilities	4,887	4,864	4,957
Financial guarantee liabilities	1,771	2,321	3,891
<b>Non-current liabilities</b>	<b>443,951</b>	<b>988,221</b>	<b>831,977</b>
Trade payables	428,091	356,674	366,096
Financial instruments at fair value through profit or loss	-	-	1,522
Other payables	292,006	201,235	166,300
Borrowings	1,934,706	1,536,721	2,022,226
Derivative financial liabilities	-	62,353	-
Income tax payables	45,875	68,658	-
Other liabilities	12,526	13,906	11,751
<b>Current liabilities</b>	<b>2,713,204</b>	<b>2,239,547</b>	<b>2,567,895</b>
<b>Total liabilities</b>	<b>3,157,155</b>	<b>3,227,768</b>	<b>3,399,872</b>
<b>Total equity and liabilities</b>	<b>₩ 4,714,233</b>	<b>4,120,898</b>	<b>3,914,913</b>

## Consolidated Statements of Income

For the years ended December 31, 2011 and 2010

In millions of won, except earnings per share information	2011	2010 (Unaudited)
Revenue	₩ 6,457,354	4,957,000
Cost of sales	5,410,343	4,233,705
<b>Gross profit</b>	<b>1,047,011</b>	<b>723,295</b>
Selling, general and administrative expenses	207,962	162,946
Other income	201,016	129,157
Other expenses	(197,911)	(118,506)
<b>Results from operating activities</b>	<b>842,154</b>	<b>571,000</b>
Finance income	61,664	68,008
Finance costs	(218,232)	(194,778)
Share of profit of equity-accounted investees	72,792	38,982
<b>Profit before income tax</b>	<b>758,378</b>	<b>483,212</b>
Income tax expense	214,609	137,243
<b>Profit for the year</b>	<b>543,769</b>	<b>345,969</b>
<b>Profit attributable to:</b>		
Owners of the Company	505,629	316,021
Non-controlling interests	38,140	29,948
<b>Profit for the year</b>	<b>₩ 543,769</b>	<b>345,969</b>
<b>Earnings per share (In won)</b>		
Basic earnings per share	₩ 24,723	15,775
Diluted earnings per share	₩ 20,652	13,909

## Consolidated Statements of Comprehensive Income

For the years ended December 31, 2011 and 2010

In millions of won	2011	2010 (Unaudited)
<b>Profit for the year</b>	<b>₩ 543,769</b>	<b>345,969</b>
Net change in fair value of available-for-sale financial assets	(71,660)	26,228
Foreign currency translation differences for foreign operations	3,968	236
Effective portion of changes in fair value of cash flow hedges	1,855	184
Change in unrealized gain on valuation of equity method accounted investments	1,003	52
Change in retained earnings of equity-method-accounted investments	(742)	(417)
Defined benefit plan actuarial losses	(7,726)	(1,308)
<b>Other comprehensive income (loss) for the year, net of income tax</b>	<b>(73,302)</b>	<b>24,975</b>
<b>Total comprehensive income for the year</b>	<b>₩ 470,467</b>	<b>370,944</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	433,880	340,472
Non-controlling interests	36,587	30,472
<b>Total comprehensive income for the year</b>	<b>₩ 470,467</b>	<b>370,944</b>

# Consolidated Statements of Changes in Equity

For the years ended December 31, 2011 and 2010

In millions of won	Capital	Capital surplus	Capital adjustment	Accumulated other comprehensive income	Retained earnings	Non-controlling interests	Total equity
Balance at January 1, 2010 (Unaudited)	₩ 142,240	295,651	(40,066)	45,704	31,444	40,068	515,041
<b>Total comprehensive income for the year</b>							
Profit for the year	-	-	-	-	316,021	29,948	345,969
Change in fair value of available-for-sale financial assets	-	-	-	25,731	-	497	26,228
Foreign currency translation differences for foreign operations	-	-	-	168	-	68	236
Effective portion of changes in fair value of cash flow hedges	-	-	-	184	-	-	184
Change in unrealized gain on valuation of equity-method-accounted investments	-	-	-	52	-	-	52
Change in retained earnings of equity-method-accounted investments	-	-	-	-	(417)	-	(417)
Defined benefit plan actuarial losses	-	-	-	-	(1,265)	(43)	(1,308)
<b>Transactions with owners of the Company, recognized directly in equity</b>							
Deficit recovery by additional paid-in capital	-	(62,173)	-	-	62,173	-	-
Deficit recovery by asset revaluation surplus	-	(161,393)	-	-	161,393	-	-
Deficit recovery by other capital surplus	-	(3,114)	-	-	3,114	-	-
Capital increase of non-controlling interests involved	-	-	-	-	-	525	525
Other capital adjustment (payment of transaction costs related to shares)	-	-	(16)	-	-	(2)	(18)
Additional acquisition of shares from subsidiaries	-	(3,106)	-	-	-	(3,440)	(6,546)
Issuance of convertible bond issue - consideration for conversion rights	-	13,184	-	-	-	-	13,184
Balance at December 31, 2010 (Unaudited)	₩ 142,240	79,049	(40,082)	71,839	572,463	67,621	893,130

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

## Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010

In millions of won	2011	2010 (Unaudited)
<b>Cash flows from operating activities</b>		
Cash generated from operating activities	₩ 861,329	588,048
Interest received	8,638	5,319
Interest paid	(124,533)	(132,352)
Dividends received	19,154	9,847
Income tax paid	(95,075)	(25,826)
<b>Net cash provided by operating activities</b>	<b>669,513</b>	<b>445,036</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales of long-term financial instruments	-	2
Cash from sales of short-term loans	10,114	405
Cash from sales of long-term loans	551	837
Proceeds from sales of long-term deposits	1,129	220
Proceeds from sales of available-for-sale financial assets	51,928	2,633
Proceeds from sales of investments in associates	-	183,595
Proceeds from sales of property, plant and equipment	275	29
Proceeds from sales of intangible assets	368	5,718
Increase in sales of short-term financial instruments	(5,000)	-
Increase in sales of long-term financial instruments	-	(1,142)
Increase in short-term loans	(9)	(3,488)
Increase in long-term loans	(666)	(1,240)
Increase in long-term deposits	(2,231)	(1,438)
Acquisition of available-for-sale financial assets	(61)	(62,609)
Acquisition of investments in associates	(6,963)	(1,444)
Acquisition of property, plant and equipment	(291,083)	(230,306)
Acquisition of intangible assets	(4,368)	(7,178)
<b>Net cash used in investing activities</b>	<b>₩ (246,016)</b>	<b>(115,406)</b>

In millions of won	2011	2010 (Unaudited)
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	₩ 1,833,786	1,891,387
Proceeds from long-term borrowings	255	211,131
Proceeds from issuance of bonds	99,568	532,947
Repayments of short-term borrowings	(1,731,712)	(2,033,230)
Repayments of long-term borrowings	(5,850)	(8,589)
Repayments of bonds	(36,129)	(174,820)
Repayments of current portion of long-term borrowings	(211,249)	(704,591)
Dividends paid	(23,006)	-
Capital increase of non-controlling interests involved	5,196	525
Payment of transaction costs related to issuance of shares	178	19
<b>Net cash from (used) in financing activities</b>	<b>(68,963)</b>	<b>(285,221)</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<b>(205)</b>	<b>261</b>
<b>Net increase in cash and cash equivalents</b>	<b>354,329</b>	<b>44,670</b>
<b>Cash and cash equivalents at 1 January</b>	<b>150,761</b>	<b>106,091</b>
<b>Cash and cash equivalents at 31 December</b>	<b>₩ 505,090</b>	<b>150,761</b>

# Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying separate statement of financial position of Kumho Petrochemical Co., Ltd (the "Company") as of December 31, 2011, and the related separate statements of income, comprehensive income, changes in equity and cash flows for the year then ended. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these separate financial statements based on our audit. The non-consolidated statement of financial position of the Company as of December 31, 2010, and the related separate statements of income, comprehensive income, changes in equity and cash flows for the years then ended, which are not presented in the accompanying financial statements, were prepared in accordance with previous Generally Accepted Accounting Principles in the Republic of Korea ("previous K-GAAP") and our opinion dated February 17, 2011 expressed an unqualified opinion on those non-consolidated financial statements. The accompanying separate statement of financial position of the Company as of December 31 and January 1, 2010, and the related separate statements of income, comprehensive income, changes in equity and cash flows for the year ended December 31, 2010, which are presented for comparative purpose, were not included in our audit scope.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

*KPMG Samjung Accounting Corp.*

Seoul, Korea  
March 13, 2012

This report is effective as of March 13, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

## Separate Statements of Financial Position

As of December 31, 2011, 2010 and January 1, 2010

In millions of won	December 31, 2011	December 31, 2010 (Unaudited)	January 1, 2010 (Unaudited)
<b>Assets</b>			
Property, plant and equipment	₩ 1,473,147	1,401,920	1,335,308
Investment property	652	21,254	21,342
Intangible assets	26,084	36,277	46,587
Investments in subsidiaries and associates	377,206	346,200	401,955
Deferred tax assets	-	85,528	115,515
Available-for-sale financial assets	361,810	509,692	484,477
Derivative financial assets	-	-	3,164
Loans and other receivables	16,382	19,359	17,603
Other assets	1,712	2,709	2,709
<b>Non-current assets</b>	<b>2,256,993</b>	<b>2,422,939</b>	<b>2,428,660</b>
Inventories	491,585	370,573	321,291
Derivative financial assets	-	5,304	16,808
Trade receivables	742,420	552,768	449,020
Loans and other receivables	27,694	34,536	31,359
Other assets	8,632	6,794	14,463
Tax refund receivable	-	-	367
Cash and cash equivalents	414,579	106,808	77,237
<b>Current assets</b>	<b>1,684,910</b>	<b>1,076,783</b>	<b>910,545</b>
<b>Total assets</b>	<b>₩ 3,941,903</b>	<b>3,499,722</b>	<b>3,339,205</b>

In millions of won	December 31, 2011	December 31, 2010 (Unaudited)	January 1, 2010 (Unaudited)
<b>Equity</b>			
Capital	₩ 167,456	142,240	142,240
Capital surplus	276,206	89,952	303,449
Accumulated other comprehensive income	22,616	85,624	61,103
Retained earnings	780,366	466,725	46,776
Capital adjustment	(40,066)	(40,066)	(40,066)
<b>Total equity</b>	<b>1,206,578</b>	<b>744,475</b>	<b>513,502</b>
<b>Liabilities</b>			
Other payables	6,592	7,408	750
Long-term accrued expenses	5,029	2,817	2,745
Borrowings	289,310	851,199	585,126
Deferred tax liabilities	10,107	-	-
Liabilities for defined benefit plans	14,723	7,546	28,796
Financial guarantee liabilities	4,226	3,223	5,410
<b>Non-current liabilities</b>	<b>329,987</b>	<b>872,193</b>	<b>622,827</b>
Trade payables	348,007	276,370	262,547
Financial instruments at fair value through profit or loss	-	-	1,522
Other payables	235,071	169,963	141,469
Borrowings	1,805,437	1,385,984	1,794,171
Derivative financial liabilities	-	1,780	-
Income tax payables	11,779	45,727	-
Other liabilities	5,044	3,230	3,167
<b>Current liabilities</b>	<b>2,405,338</b>	<b>1,883,054</b>	<b>2,202,876</b>
<b>Total liabilities</b>	<b>2,735,325</b>	<b>2,755,247</b>	<b>2,825,703</b>
<b>Total equity and liabilities</b>	<b>₩ 3,941,903</b>	<b>3,499,722</b>	<b>3,339,205</b>

## Separate Statements of Income

For the years ended December 31, 2011 and 2010

In millions of won, except earning per share information	2011	2010 (Unaudited)
Revenue	₩ 5,292,119	3,886,337
Cost of sales	4,458,998	3,393,668
<b>Gross profit</b>	<b>833,121</b>	<b>492,669</b>
Selling, general and administrative expenses	167,333	131,204
Other income	131,109	117,009
Other expenses	(173,351)	(91,130)
<b>Results from operating activities</b>	<b>623,546</b>	<b>387,344</b>
Finance income	53,253	61,644
Finance costs	(203,664)	(174,075)
<b>Profit before income tax</b>	<b>473,135</b>	<b>274,913</b>
Income tax expense	129,815	80,529
<b>Profit for the year</b>	<b>₩ 343,320</b>	<b>194,384</b>
<b>Earnings per share (in won)</b>		
Basic earnings per share	₩ 16,688	9,642
Diluted earnings per share	₩ 14,127	8,664

## Separate Statements of Comprehensive Income

For the years ended December 31, 2011 and 2010

In millions of won	2011	2010 (Unaudited)
<b>Profit for the year</b>	<b>₩ 343,320</b>	<b>194,384</b>
Net change in fair value of available-for-sale financial assets	(64,863)	24,337
Effective portion of changes in fair value of cash flow hedges	1,855	184
Defined benefit plan actuarial losses	(6,672)	(1,116)
<b>Other comprehensive income (loss) for the year, net of income tax</b>	<b>(69,680)</b>	<b>23,405</b>
<b>Total comprehensive income for the year</b>	<b>₩ 273,640</b>	<b>217,789</b>

## Separate Statements of Changes in Equity

For the years ended December 31, 2011 and 2010

In millions of won	Capital	Capital surplus	Capital adjustment	Accumulated other comprehensive income	Retained earnings	Total equity
Balance at January 1, 2010 (Unaudited)	₩ 142,240	303,449	(40,066)	61,103	46,776	513,502
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	194,384	194,384
Change in fair value of available-for-sale financial assets	-	-	-	24,337	-	24,337
Effective portion of changes in fair value of cash flow hedges	-	-	-	184	-	184
Defined benefit plan actuarial losses	-	-	-	-	(1,116)	(1,116)
<b>Disposition of deficit carried forward</b>						
Deficit recovery by additional paid-in capital	-	(62,173)	-	-	62,173	-
Deficit recovery by other capital surplus	-	(3,114)	-	-	3,114	-
Deficit recovery by asset revaluation surplus	-	(161,394)	-	-	161,394	-
Issuance of convertible bond issue - consideration for conversion rights	-	13,184	-	-	-	13,184
Balance at December 31, 2010 (Unaudited)	₩ 142,240	89,952	(40,066)	85,624	466,725	744,475

In millions of won	Capital	Capital surplus	Capital adjustment	Accumulated other comprehensive income	Retained earnings	Total equity
Balance at January 1, 2011	₩ 142,240	89,952	(40,066)	85,624	466,725	744,475
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	343,320	343,320
Change in fair value of available-for-sale financial assets	-	-	-	(64,863)	-	(64,863)
Effective portion of changes in fair value of cash flow hedges	-	-	-	1,855	-	1,855
Defined benefit plan actuarial losses	-	-	-	-	(6,672)	(6,672)
<b>Transactions with owners of the Company, recognized directly in equity</b>						
Conversion of convertible bond	25,216	186,254	-	-	-	211,470
Dividends	-	-	-	-	(23,007)	(23,007)
Balance at December 31, 2011	₩ 167,456	276,206	(40,066)	22,616	780,366	1,206,578

## Separate Statements of Cash Flows

For the years ended December 31, 2011 and 2010

In millions of won	2011	2010 (Unaudited)
<b>Cash flows from operating activities</b>		
Cash generated from operating activities	₩ 649,316	369,457
Interest received	6,421	4,145
Interest paid	(115,999)	(116,046)
Dividends received	18,429	9,550
Income tax paid	(45,377)	(15,684)
<b>Net cash provided by operating activities</b>	<b>512,790</b>	<b>251,422</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales of short-term financial instruments	-	2,632
Cash from sales of short-term loans	63	405
Cash from sales of long-term loans	286	461
Proceeds from sales of available-for-sale financial assets	45,342	-
Proceeds from sales of investments in associates	-	187,975
Proceeds from sales of property, plant and equipment	6	10
Proceeds from sales of intangible assets	368	2,633
Increase in sales of long-term financial instruments	-	(3)
Increase in short-term loans	-	(257)
Increase in long-term loans	(665)	(1,240)
Acquisition of available-for-sale financial assets	-	(61,848)
Acquisition of investments in subsidiaries	(31,006)	(2,975)
Acquisition of property, plant and equipment	(174,951)	(174,874)
Acquisition of intangible assets	(4,266)	(3,811)
<b>Net cash used in investing activities</b>	<b>₩ (164,823)</b>	<b>(50,892)</b>

In millions of won	2011	2010 (Unaudited)
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	₩ 1,339,320	1,394,706
Proceeds from issuance of bonds	99,568	532,947
Proceeds from long-term borrowings	255	199,867
Repayments of short-term borrowings	(1,231,039)	(1,510,082)
Repayments of current portion of long-term borrowings	(183,162)	(616,577)
Repayments of bonds	(36,129)	(171,820)
Repayments of long-term borrowings	(5,850)	-
Dividends paid	(23,007)	-
Payment of transaction costs related to issuance of shares	(130)	-
<b>Net cash from (used) in financing activities</b>	<b>(40,174)</b>	<b>(170,959)</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<b>(22)</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>	<b>307,771</b>	<b>29,571</b>
<b>Cash and cash equivalents at 1 January</b>	<b>106,808</b>	<b>77,237</b>
<b>Cash and cash equivalents at 31 December</b>	<b>₩ 414,579</b>	<b>106,808</b>

# Corporate History

## 1970 >>

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

**April 1973**  
Commissioned Ulsan SBR plant

**June 1973**  
Launched SBR sales

**October 1979**  
Commissioned Yeosu BD plant

**March 1980**  
Commissioned Yeosu BR plant

**August 1982**  
Launched HSR production

**December 1983**  
Launched NBR production

**March 1984**  
Commissioned Ulsan SB latex plant

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

**June 1985**  
Established Kumho Petrochemical Research Center

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

**November 1987**  
Established Kumho Monsanto Inc.

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

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

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

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

**August 1990**  
Commissioned Yeosu UC plant

**May 1992**  
Commissioned Ulsan BD plant

**December 1993**  
Acquired ISO 9001 certification

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

**May 1994**  
Acquired ISO 9002 certification

**August 1994**  
Launched SBS production

**August 1995**  
Acquired ISO 14000 certification

**January 1996**  
Acquired ISO 14004 certification

**September 1996**  
Acquired ISO 14001 certification

**July 1997**  
Commissioned Yeosu Energy I

**November 1998**  
Commissioned Asan electronic materials plant

## 2000 >>

**August 2000**  
Acquired OHSAS 18001 certification

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

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

**June 2003**  
Received National Environmental Management Award for Yeosu plant from the Ministry of Environment

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

**June 2004**  
Received National Eco-Friendly Management Award for Clean Production from the Ministry of Commerce, Industry & Energy

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

**December 2005**  
Received Korea Management Grand Award for Value Management from KMAC

**January 2006**  
Designated an "Environmentally Friendly Company" by the Ministry of Environment

**June 2006**  
Received National Environmental Management Excellence Award for GHG Reduction from the Ministry of Environment

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

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

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

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

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

**September 2008**  
Received National Productivity Award from the Ministry of Knowledge Economy

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

**November 2008**  
Received the Korea Safety Award from the Safety & Certificate Association of Korea

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

**April 2009**  
Commissioned Yeosu Energy II

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

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

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

**September 2009**  
Established Kumho Terminal Operation Company

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

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

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

# Chemical Affiliates

## KKPC Ownership

# 78.2%

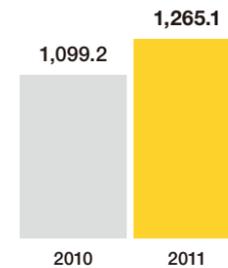
### Kumho P&B Chemicals

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

 [www.kpb.co.kr](http://www.kpb.co.kr)

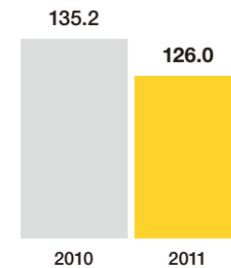
#### Sales

In KRW Billions



#### Net Income

In KRW Billions



## KKPC Ownership

# 50.0%

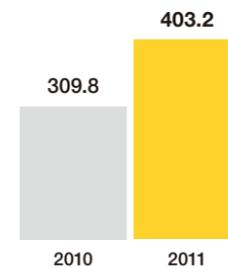
### Kumho Polychem

Found in 1985, Kumho Polychem is a major Korean manufacturer of ethylene propylene diene monomer (EPDM), a synthetic rubber commonly used in automotive parts and industrial goods. Kumho Polychem has played a crucial role in stabilizing the supply and demand of EP rubbers in Korea and in the growth of the domestic automotive industry. A successful plant expansion in July 2007 has equipped the Kumho Polychem production facility with a proprietary ultra-low polymerization technology, the very first in the world. On the strength of this plant expansion, Kumho Polychem has become the eighth largest EPDM producer with an 85,000-mtpy annual production capacity. Kumho Polychem maintains its growth momentum through persistent investment in qualitative growth and continued efforts to raise the efficiency of its production system.

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

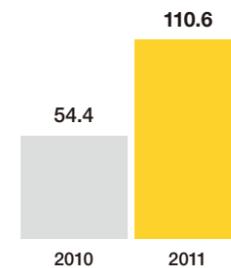
#### Sales

In KRW Billions



#### Net Income

In KRW Billions



## KKPC Ownership

# 50.0%

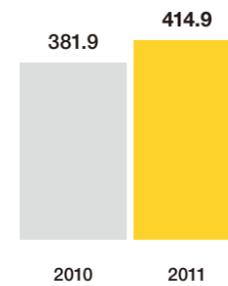
### Kumho Mitsui Chemicals

Since its founding in 1989, Kumho Mitsui Chemicals has grown into a leading manufacturer of methylene diphenyl diisocyanate (MDI), the main feedstock used to produce polyurethane. MDI is a cutting-edge chemical product with wide-ranging applications in a diverse array of product types, including car seats and dashboards, refrigerator insulating material, construction panels, synthetic wood, synthetic leather, spandex, and sneaker soles. The demand for MDI has been increasing steadily. In April 2009, Kumho Mitsui Chemicals completed the expansion of its production facility, raising its production capacity by 140,000 mtpy, a two-fold increase. It has actively expanded to overseas markets and continues its growth toward becoming a global MDI producer.

 [www.kmci.co.kr](http://www.kmci.co.kr)

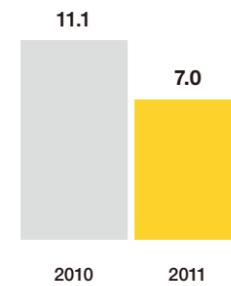
#### Sales

In KRW Billions



#### Net Income

In KRW Billions



# Global Partnerships



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

<b>Purpose</b>	<ul style="list-style-type: none"> <li>Secure local production/sales/distribution base in China</li> <li>Increase sales of colors and specialized products that meet the changing demands of the ABS market</li> <li>Increase sales of base resin</li> </ul>
<b>Key Products</b>	Heat-resistant automotive ABS, heat-resistant ABS for electrical and electronic products
<b>Location</b>	Shanghai, China
<b>Establishment</b>	October 26, 2000
<b>2011 Sales</b>	RMB 885,998,000
<b>KKPC Ownership</b>	50%

### Kumho Petrochemical Chongqing Co., Ltd.

<b>Purpose</b>	Maximize synergy effect by linking the sales of antioxidants and vulcanization accelerators
<b>Key Products</b>	Insoluble Sulfur
<b>Location</b>	Chongqing, China
<b>Establishment</b>	January 24, 2008
<b>2011 Sales</b>	RMB 12,199,000
<b>KKPC Ownership</b>	77%

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

<b>Purpose</b>	Early entry for market dominance in the Chinese polyurethane market
<b>Key Products</b>	PO (Propylene Oxide), PPG (Polypropylene Glycol), CS (Caustic Soda)
<b>Location</b>	Nanjing, China
<b>Establishment</b>	September 28, 2006
<b>2011 Sales</b>	RMB 1,757,080,000
<b>KKPC Ownership</b>	50%

### Kumho Petrochemical Shenyang Co., Ltd.

<b>Purpose</b>	Early entry for market dominance in the Chinese building insulation materials market
<b>Key Products</b>	XPS (Extruded Polystyrene Foam) and other building materials
<b>Location</b>	Shenyang, China
<b>Establishment</b>	October 9, 2008
<b>2011 Sales</b>	RMB 21,801,000
<b>KKPC Ownership</b>	80%

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

<b>Purpose</b>	Early entry for market dominance in the Chinese paper latex market
<b>Key Products</b>	SB Latex
<b>Location</b>	Rizhao, Shandong, China
<b>Establishment</b>	June 8, 2007
<b>2011 Sales</b>	RMB 378,357,000
<b>KKPC Ownership</b>	50%

### Kumho Petrochemical Shanghai Co., Ltd.

<b>Purpose</b>	Maximize sales and profitability by expanding KKPC product distribution in the Chinese market
<b>Key Products</b>	Synthetic rubbers, synthetic resins, overseas affiliate chemical products, Chinese affiliate products
<b>Location</b>	Shanghai, China
<b>Establishment</b>	June 1, 2008
<b>2011 Sales</b>	RMB 20,985,313 (commission base)
<b>KKPC Ownership</b>	100%

# Global Network



## Overseas

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**08 Shenzhen Office**

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

**09 Guangzhou Office**

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

**10 Qingdao Office**

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

**11 San Diego Office**

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

**12 Charlotte Office**

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

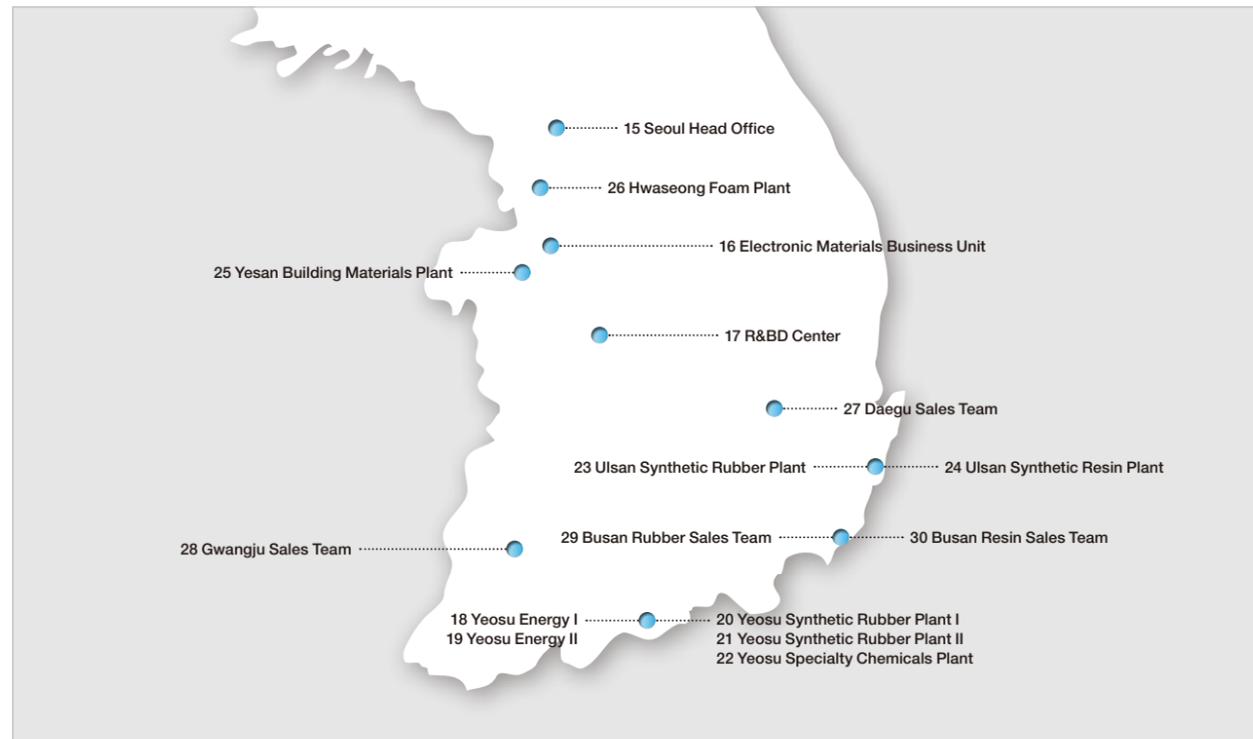
**13 Jakarta Office**

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

**14 Frankfurt Office**

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

# Global Network



## Domestic

### 15 Seoul Head Office

Kumho Asiana Main Tower, 76, Saemunan-ro  
Jongno-gu, Seoul, Korea  
TEL +82-2-6961-1114 FAX +82-2-6961-1449

### 16 Electronic Materials Business Unit

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

### 17 R&BD Center

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

### 18 Yeosu Energy I

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

### 19 Yeosu Energy II

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

### 20 Yeosu Synthetic Rubber Plant I

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

### 21 Yeosu Synthetic Rubber Plant II

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

### 22 Yeosu Specialty Chemicals Plant

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

### 23 Ulsan Synthetic Rubber Plant

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

### 24 Ulsan Synthetic Resin Plant

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

### 25 Yesan Building Materials Plant

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

### 26 Hwaseong Foam Plant

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

### 27 Daegu Sales Team

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

### 28 Gwangju Sales Team

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

### 29 Busan Rubber Sales Team

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

### 30 Busan Resin Sales Team

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