PRESIDENTS' MESSAGE

Dear valued shareholder, customer, or partner,

When our core businesses underperformed in 2009 due to the global economic downturn and significant losses on valuation of equity-method investments from unprofitable consolidated subsidiaries led to our largest net loss to date, markets and investors raised their voices in alarm. A year later, we achieved far more than a turnaround as we delivered our best sales, operating income, and net profit in our history in 2010. Our share prices—the barometer of our market value—soared 338% during the year to reach an all-time-high of KRW 90,400, dispelling market concerns and raising expectations to the next level.

The economic recovery that began in emerging markets is now gradually spreading to the US, Europe, and other developed markets. That said, sharply rising oil and other raw materials prices, democracy movements in Egypt, Libya, and elsewhere, and the general state of affairs in Africa and the Middle East are all growing sources of uncertainty and reminders that we cannot take future growth for granted. Let us backtrack for a moment to report our 2010 performance before I talk about our goals and major strategies for the future.

The Year in Review

From an operational perspective, sales rose 38.7% to KRW 3,886.3 billion and operating income soared 209.5% to KRW 359.6 billion. These figures substantially exceeded our respective targets of KRW 3,600 billion and KRW 260 billion, setting new highs in the process. The sale of our equity stake in Kumho Life Insurance and capital reduction and debt-equity swap at Kumho Tires and Kumho Industrial led to the effective disposal of those investment assets. This, as well as improved performances at our major chemical subsidiaries, enabled us to record a gain on valuation of equity investments, helping propel net profit to a record KRW 471.4 billion.

From a financial perspective, our debt-to-equity ratio fell from 498% to 290.3% due to our efforts to reduce borrowings and an increase in the value of investment securities. The increased operating income pushed our interest coverage ratio—a key metric of our ability to repay outstanding debt—from 1.1 to 3.1.

In addition to achieving a record quantitative performance in terms of growth, profitability, and stability in 2010, we continued to systematically elevate the competitiveness of our existing businesses and secure engines to drive future growth. We gradually sold off investment assets in non-core fields as we continued to strengthen our financial soundness and build a chemical industry-centric group structure, methodically eliminating all sources of uncertainty.

From a business perspective, our synthetic rubbers business completed and started up a 120,000-mpty BR expansion project at the Yeosu plant, expanding our lead over the No. 2 maker in the global industry. Our synthetic resins business steadily improved profitability by strengthening cost competitiveness and optimizing processes. Our electronic chemicals business expanded its ArF photoresist sales base, while our energy business increased profitability as it completed debottlenecking at Yeosu Energy II. We also began to see results from our building material and nanotube businesses as well as our ongoing investment in China aimed at positioning us as a local market leader.

The Year Ahead

The record-setting performance we delivered in 2010 is just the beginning as we aim for the next level. We are targeting an 8% increase in sales to KRW 4,200 billion as we target sound, stable growth. Our management focus for 2011 will be on our JUMP—Joyful, United, Motivated, Positive—initiative as we strive to foster a proactive, dynamic organizational culture.

Major Initiatives

Our synthetic rubbers business will focus on consolidating its global No. 1 market position. We are not satisfied with simply having the world's largest production capacity. We aim to lead in production volume, sales, and research as we strengthen our leadership in quality, technology, and price to extend our lead over our nearest competitor.

Our synthetic resins business will focus on generating stable profitability. We will improve our cost competitiveness through process innovation as we strategically shift our product mix toward value-added, specialized products. We will also upgrade our marketing capabilities in China—our largest export market—as we cultivate new captive users in the home appliances field to secure a solid sales base as we steadily diversify into new export markets across East and Southwest Asia.

Our specialty chemicals business will focus on feedstock supply stability and product diversification. We will continue to diversify our supply channels to secure a stable supply of 4-ADPA feedstock. We will aggressively expand North American exports and sales to major tiremakers worldwide as we steadily grow both sales and profitability. In China, we plan to commission an insoluble sulfur plant in Chongqing, paving the way for us to maximize product bundling opportunities in that major market.

Our energy business will focus on operational stability to maximize profitability. We aim to generate consistent profitability through operational optimization and ongoing cost-reduction initiatives. We also plan to steadily expand our use of tire-derived fuel at Yeosu Energy II help conserve resources and protect the environment as well as improve cost competitiveness.

Our electronic chemicals business will focus on growing market share and expanding product categories. We will strengthen collaboration with Hynix and other existing ArF photoresist customers as we accelerate our advance into the global market to expand our customer base. We will also strive to bring new products such as PSPI, LCD sealants, and conductive pastes to market.

Our building materials business will focus on bolstering awareness of our Hugreen eco-friendly materials. We will continue to advertise on TV and radio as well as promote the "Hu Leaders Club"—one of our prosumer group initiatives that actively seeks consumer feedback from product development to launch—as we strive to create attractive, eco-friendly products that will grow market share.

Overall, we will focus on securing a healthy financial structure and stable growth. As we reorganize our business with a focus on the chemical industry, we will be paving the way for greater synergy as well as stable, profitable growth. We will reduce net borrowings by selling off equity stake holdings in non-core businesses as well as prioritizing investment for efficiency as we build a more stable financial structure.

In 2011, our "JUMP" management focus will unite each member of the KKPC family as we pour ourselves into creating a progressive, dynamic organizational culture that will take us to the next level. We will be a partner for success to our customers with innovative products and services as we do our part to protect the environment and fulfill our responsibilities to the community to ensure sustainable growth. Your continued support and encouragement are greatly appreciated as we redouble our efforts to create even greater value for all our stakeholders in the year ahead.

Suh-Hyung Lee
President & CEO
Kumho Petrochemical

Seong-Chae Kim
President & CEO
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