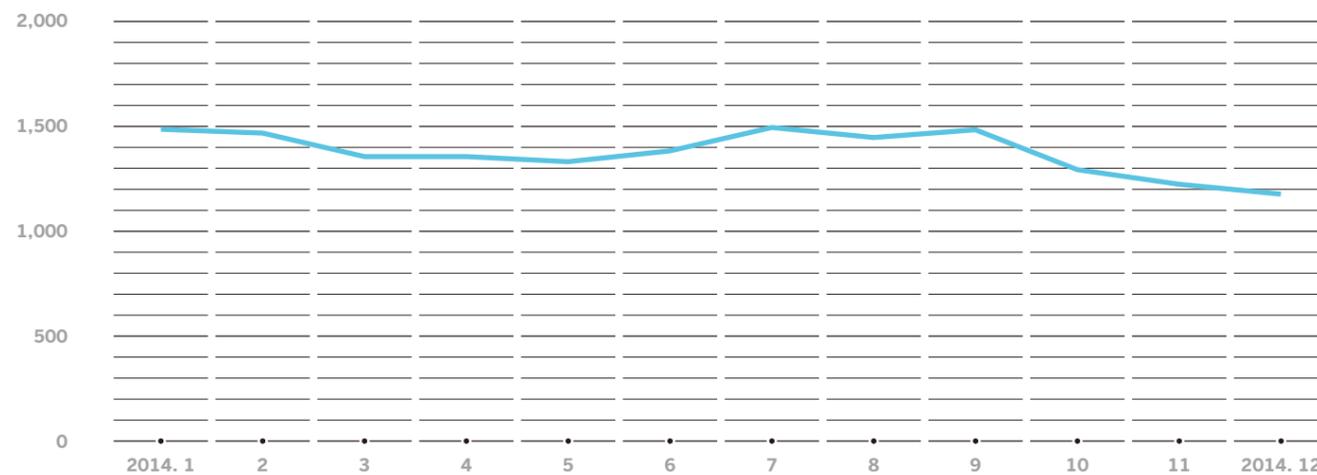


Risk Management

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



Butadiene Price Movement in 2014
USD/ton, CFR China, Source: Platts



Currency Risk // When setting our business plans for 2015, we adopted a conservative exchange rate for our projections. Given that the average exchange rate in December 2014 stood at KRW 1,104 to USD 1, we believe that the exchange rate will not be a significant barrier to achieving our targets as we pursue our strategy for the coming year.

In 2014, approximately 74% of total sales was in foreign currencies, primarily the US dollar. Although our foreign-currency income is slightly higher than our expenses due to the high proportion of exports, our slightly long cash position between the two means that exchange rate fluctuations will have a minimal impact on overall profitability.

Market Risk // Falling feedstock prices in the wake of the steep decline in oil prices combined with rising oversupply in the synthetic rubbers market led to lower selling prices for our products in 2014. This market oversupply situation is projected to continue through 2015 and for least 2~3 years in the synthetic rubbers market. Given the situation, the volatility of feedstock prices is expected to increase.

Our response will be to bolster our inventory management capabilities to minimize inventory risk from market price fluctuations as we focus on keeping our order volume stable. To achieve these objectives, we will strive to increase the portion of long-term supply contracts with our customers as we continue to pursue new opportunities to grow our customer base. We will adjust our regional sales quotas to reflect the changing market conditions in the pursuit of greater profitability. We will also be focusing on expanding sales of value-added products as we work to smooth out sales and improve profitability in today's fluctuating markets.

Raw Materials Risk // BD (butadiene) is a key feedstock used to produce synthetic rubbers such as SBR and BR as well as synthetic resins such as ABS. In 2014, the sluggish global economy contributed to falling demand for synthetic rubbers, ultimately impacting BD prices. Increased oil production in Saudi Arabia played a major role in the 40% year-on-year decline in oil prices, sending BD prices down to under USD 1,000 per metric ton at year end.

Looking ahead, low oil prices and demand are expected to continue in the first-half of 2015. Oversupply in the synthetic and natural rubbers markets is projected to continue throughout the year, making price recovery unlikely. The speed of China's economic recovery will be a significant factor in the direction of the global economy.

In the near term, we will be working to expand our BD supply contracts with existing domestic and international suppliers as well as seeking new suppliers in the Middle East and Europe to ensure our BD feedstock requirements are met. In the longer term, we will continue to actively commercialize new, more efficient BD production processes and strategically invest to increase our BD self-supply ratio.

Financial Risk // Since we graduated from our MOU with creditor banks at the end of 2012, our strong cash-generation ability has enabled us to steadily improve our financial soundness. We closed 2014 with total debt of KRW 1.9 trillion and a debt-to-equity ratio of 170%.

Although our ongoing Yeosu Energy II expansion project makes it unlikely that debt will decrease in 2015, we do plan to leverage our healthy cash flow to gradually reduce borrowings in the coming year. Once Yeosu Energy II is completed in 2016, we expect to see a significant improvement in our financial structure. If necessary, we are prepared to sell our available-for-sale securities in Daewoo Engineering & Construction and Asiana Airlines as well as treasury stock to secure additional liquidity.