Risk Management

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

Financial Risk

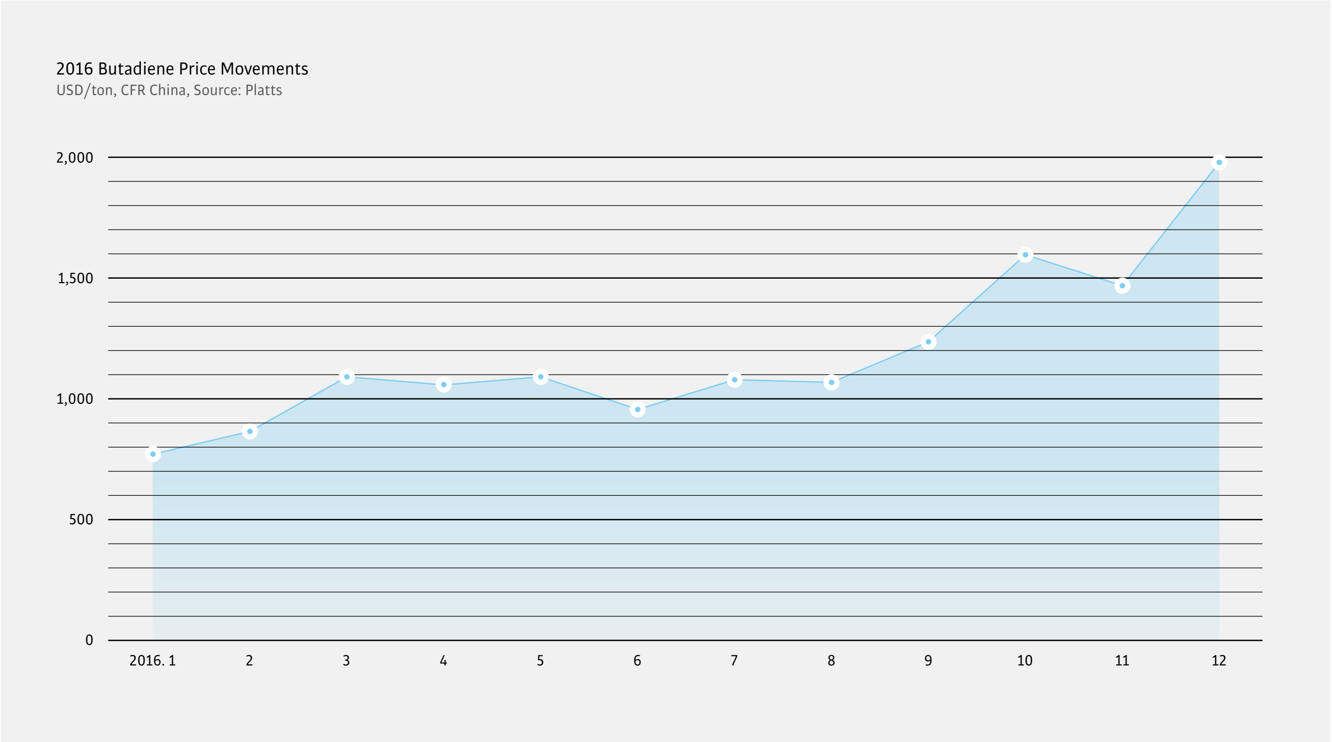
In 2016, total debt remained steady at KRW 1,870 billion. Our debt-to-equity ratio rose 10 percentage points from 153% to 163%.

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

Currency Risk

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

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



Market Risk

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

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

Raw Materials Risk

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

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

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