



A Message from the President



Dear Valued Shareholder, Customer, or Partner,

The year 2012 was a challenging year for the entire global petrochemical industry as the global economy struggled. Even China, the country that had been buttressing the global economy ever since developed nations lost their growth momentum, saw its growth shrink. Our core synthetic rubbers business experienced a serious downturn that severely impacted profitability, preventing us from achieving our business targets for the year despite our best efforts.

Although our results were disappointing on the surface, we had a number of significant achievements during the year. In December 2012, we graduated from the MOU with our creditor banks, enabling us to fully regain our managerial independence. We successfully completed several capacity expansion projects during the year that strengthened the competitiveness of our existing businesses and laid a solid foundation for future growth. However, the Eurozone's inability to find a clear resolution to its unfolding financial crisis is expected to prolong the current economic sluggishness as 2013 shapes up to be another challenging year for us. In the following paragraphs, I'll review our 2012 performance and then preview our goals and major strategies for 2013.

The Year in Review

From an operational standpoint, we saw profitability fall in our synthetic rubbers and phenol derivatives businesses. Consolidated sales declined 8.9% to KRW 5,883.7 billion and operating income dropped 73.3% to KRW 223.8 billion. Although these results are disappointing following our record performance in 2011, we did have a number of notable achievements that will pave the way for solid growth going forward, including major SBR and SSBR capacity expansion projects in our synthetic rubbers business and additional investment in our energy business.

From a financial perspective, our debt-to-equity ratio fell 37 percentage points to 166% at the end of 2012. Korea Investors Service also raised our credit rating from BBB+ to A- as we continued to bolster our financial soundness. However, the most memorable moment of the year came in December when we regained our managerial independence as we graduated from our MOU with creditor banks, prepared for the next phase of growth.



From a business perspective, our synthetic rubbers business successfully wrapped up capacity expansion projects that increased SBR capacity by 110,000 mtpy in September and SSBR capacity by 60,000 mtpy in November, further enhancing our economies of scale. Our synthetic resins business rapidly responded to fast-changing market conditions to achieve its fourth-straight operating profit. Our phenol derivatives business completed a 25,000 mtpy MIBK expansion project in December and launched a 150,000 mtpy BPA expansion project. Our specialty chemicals business completed a pilot plant to produce key feedstock 4-ADPA. Our energy business had its best sales and operating income performance to date. Last but not least, our electronic materials business broke ground for a carbon nanotube plant, laying the foundation for new growth in that high-tech field.

The Year Ahead

Having graduated from our company normalization plan in 2012, the year 2013 will be the first year we are back in full control of our destiny. However, global instability due to ongoing Eurozone financial woes and friction over exchange rates indicate that the business environment will be anything but easy. Our experience in 2012 confirms that no business can expect to generate reliable returns without constant effort. Taking this lesson to heart, we are united in our determination not make the same mistakes again as we move forward with the following initiatives.

Major Initiatives

We will strengthen our business structure. With the global economic downturn expected to continue for the foreseeable future, we cannot rely on the external environment to boost our businesses. We must constantly look for ways to strengthen our competitiveness. Toward this end, we will be continually working to expand our customer base and pursue cost leadership as we focus on practical ways to improve sales and profitability.

We will strengthen our sales, production, and procurement strategies. The ability to respond to rapidly changing markets requires the smooth interchange of information between organizational units and timely decision-making. Toward this end, we will focus on inventory management and improving demand-forecasting accuracy to enable us to more flexibly respond to market uncertainty.

We will strengthen our management capabilities. We are now in the process of transforming into an organization that is capable of rapidly responding to change. In the R&D area, will evaluate and implement plans to improve the operational efficiency of our R&D operations to shorten our time-to-market for new products. In the sales area, we will actively target growth markets as we strive to bolster our leadership in existing ones.

We will secure a foundation for continued growth. We are now aggressively pushing ahead with the adoption of new technologies and products such as SSBR, which is used to make eco-friendly tires. At the same time, we will redouble our efforts to identify new business opportunities in related fields as well as entirely new ones. Another priority will be ensuring the smooth adoption of our new butadiene production process and construction of our new carbon nanotube plant now underway in Asan.

Our direction and goals outlined in Vision 2020 are clear. Armed with the confidence that we can overcome any challenge backed by our rigorously tested risk management capabilities, we will take the next step in 2013 toward our vision of becoming a global leading chemical group with sales of KRW 20 trillion and at least 20 world-class products by 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.

Seong-Chae Kim

President & CEO, Kumho Petrochemical