



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 as well as proactively handle the full spectrum of risks we face in the global marketplace.

Currency Risk

Despite unfavorable conditions in global financial markets, Korea's rising credit rating and a growing preference for won-denominated assets helped the Korean won steadily appreciate. Although quantitative easing in developed nations increased global liquidity and fueled significant appreciation, the Korean government intervened to limit further gains. The won closed 2012 at KRW 1,071.1 to the US dollar, an appreciation of just over 7% or KRW 82.2.

In 2012, approximately 76% of total sales were in foreign currencies, including 66% from direct exports and 10% from local sales. About 96% of all overseas sales were in US dollars. Although our foreign-currency income is significantly higher than our expenses due to the high proportion of exports, our long cash position of less than 10% of the difference between the two means that exchange rate fluctuations will have a minimal impact on overall profitability.

Our 2012 business plans and targets are based on a relatively conservative average exchange rate of KRW 1,050 to the US dollar. With the average rate holding above KRW 1,100 at the end of the first quarter of 2013, we expect the rate to have little or no impact on our ability to achieve our business targets.

Market Risk

In 2012, the global economy clearly slowed as the Eurozone financial crisis spread and China's economic recovery stalled. While the US and BRICs countries are showing signs of a gradual recovery in 2013, the downturn in Europe and Japan is expected to continue. Stagnant demand is expected to push down international raw materials prices, but global liquidity is on track to grow as nations relax monetary policy to stimulate their economies.

Our proactive strategy for minimizing inventory risk and securing profitability focuses on maintaining



pricing flexibility and reallocating regional sales quotas based on changing market conditions. We will also secure leadership in the increasingly in-demand eco-friendly and high-performance synthetic rubbers markets and focus on expanding sales in growing markets such as China and other emerging markets. We will also diversify exports to emerging markets in Latin America and Africa as well as step up sales in markets where we are expected to benefit under free trade agreements as we build a solid global foundation for sales.

Raw Materials Risk

The global economic downturn in 2012 saw demand shrink for major raw materials. Prices for butadiene (BD), the key feedstock used to produce synthetic rubbers, also continued to fall, closing the year at around USD 1,500 per metric ton. In the first half of 2013, scheduled maintenance shutdowns by both Korean and other Asian producers and shrinking imports from outside the region are expected to tighten supply, pushing BD prices higher. In the second half of the year, global economic recovery as well as recovery in the tire industry are forecast to push the average BD price up to around USD 2,500 per metric ton. The major unknowns are whether China's economic recovery will slow and whether the Eurozone's financial crisis will continue to drag on.

We are actively working to secure a stable supply of BD feedstock by commercializing new, more efficient BD production processes and strategically investing to increase our BD self-supply ratio. We will also increase sourcing from existing domestic and international suppliers as well as seeking new suppliers in the

Middle East and other regions to ensure our BD feedstock requirements are met.

Financial Risk

In December 2012, we graduated from our MOU with creditor banks after a three-year period. At the same time, we paid off a portion of our debt that been deferred and converted the rest to long-term debt as we proceeded with debt rescheduling. We benefitted from a credit rating upgrade during the year that cut our cost of borrowing as our financial soundness continued to improve. We finished the year with total debt of KRW 1.8 trillion and an improved debt-to-equity ratio of 166%, down from 203% at the end of 2011.

In 2013, we will be focusing on financial stability to prepare for increasing uncertainty in both domestic and global markets. With the exception of investment related to aging facilities or safety-related facilities, we will be taking a conservative approach to current investment. We will continue to strengthen our cash generating capabilities as we aim to reduce net debt to KRW 1.5 trillion and lower our debt-to-equity ratio to 140%. If necessary we are prepared to sell our available-for-sale securities in Daewoo Engineering & Construction and Asiana Airlines to secure additional liquidity.