

GREAT EXPECTATIONS

ANNUAL REPORT 2010



beyond
the best
KUMHO PETROCHEMICAL



GREAT EXPECTATIONS

At Kumho Petrochemical Co., Ltd. (KKPC), we have grown along with our customers since our founding in 1970 by providing innovative petrochemical solutions and customer-focused service. Today as a trusted partner and the world's largest and most competitive producer of synthetic rubbers with world-class technology and products in the fields of synthetic resins, specialty chemicals, electronic chemicals, and building materials, we are now expanding into the fields of energy and advanced materials to drive future growth as we pursue our vision of being the flagship of a global leading chemical group.

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We finished the first decade of the 21st century on high note. —>



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WE FINISHED THE FIRST DECADE OF THE 21ST CENTURY ON HIGH NOTE.

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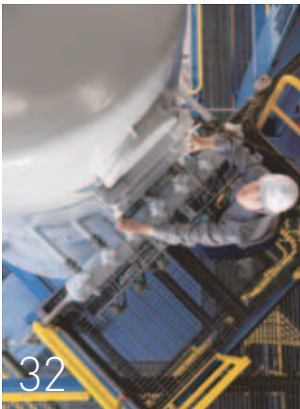
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Seven reasons why KKPC is looking forward to the future. —>



THE YEAR 2010 WILL BE REMEMBERED AS ONE OF THE MOST MEMORABLE YEARS IN OUR MORE THAN 40 YEARS IN BUSINESS.

As we shared in our 2009 annual report, “Back to basics again” was our management focus in 2010 as we concentrated on our most fundamental task of ensuring the success of our customers. By delivering superior access, tailored solutions, constant innovation, and competitive prices, our efforts to maximize the profitability of our customers have steadily borne fruit.

From a business perspective, we sharpened our focus on our core competency of chemicals. We separated ourselves from the Kumho Asiana Group and focused our resources on our core businesses as we laid a firm foundation that will support us in our new vision of becoming a truly world-class chemical group.

All of the above were instrumental in dispelling excessive market concerns based on our poor 2009 performance and internal and external uncertainties. In 2010, we delivered results that no one could have imagined, finishing the first decade of the 21st century on high note. Today, we are preparing with great expectations and confidence for the new decade ahead.

FROM A GROWTH PERSPECTIVE,
OUR SALES HAVE GROWN 294% OVER
THE PAST 10 YEARS. WE CLOSED 2010 BY
SETTING A NEW SALES RECORD OF KRW
3,886 BILLION.

SALES REVENUE
(in KRW billions)

3,886



FROM A PROFITABILITY PERSPECTIVE,
OUR OPERATING INCOME HAS GROWN 300%
OVER THE PAST DECADE, HITTING A NEW
HIGH OF KRW 360 BILLION IN 2010.

OPERATING
INCOME

(in KRW billions)

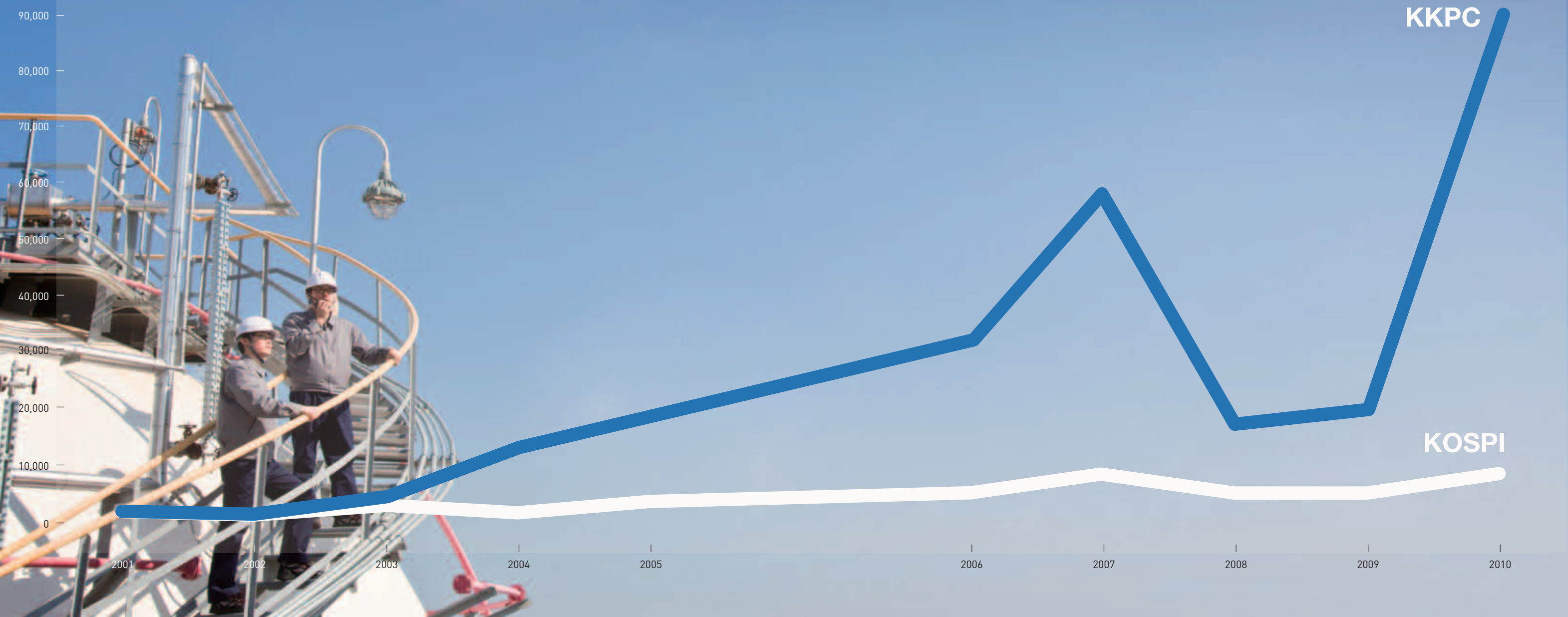
360



FROM A MARKET VALUATION PERSPECTIVE, OUR SHARES HAVE RISEN 3,324% SINCE 2001, CLOSING 2010 AT AN ALL-TIME HIGH OF KRW 90,400. IN COMPARISON, KOREA'S BENCHMARK KOSPI INDEX HAS RISEN A MERE 196% DURING THE SAME PERIOD.

STOCK PRICE
(in KRW, as of December 31, 2010)

90,400

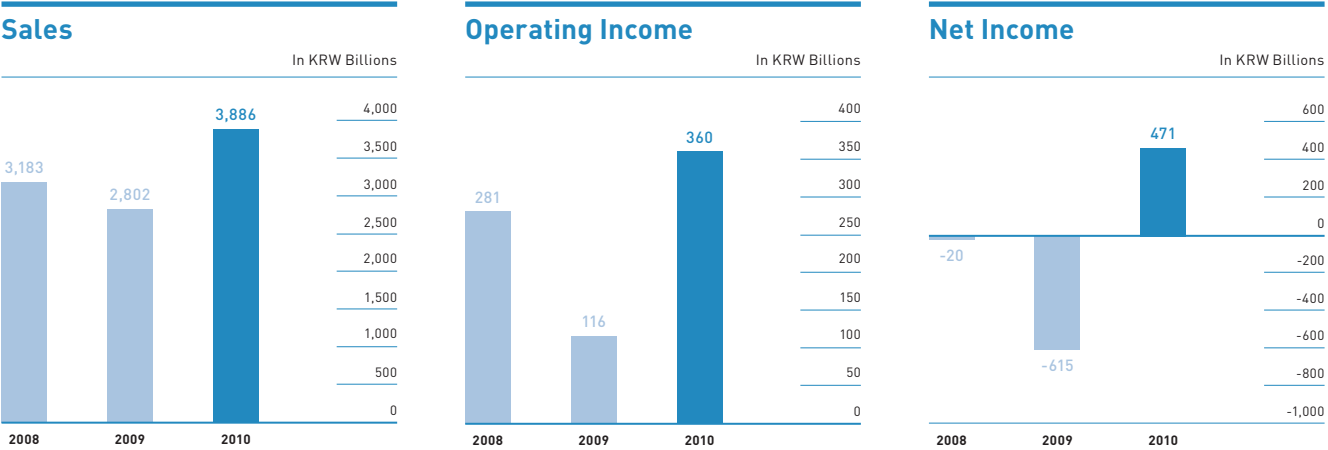


THESE RESULTS PROVE THAT OUR STRATEGY OF GETTING BACK TO THE BASICS TO FOCUS ON OUR CUSTOMERS AND OUR CORE CHEMICALS BUSINESSES WAS WITHOUT A DOUBT THE RIGHT CHOICE.

We set new records for sales and profitability as we made our strong fundamentals even stronger. More importantly, these results are just the starting point for a new beginning. While we are proud of our achievements, we believe we can do even better as we continue step-by-step toward our ambitious vision of becoming a global leading chemical group.

FINANCIAL HIGHLIGHTS

	In KRW Billions		
	2010	2009	2008
INCOME STATEMENTS			
Sales	3,886.3	2,801.7	3,182.5
Operating Income	359.6	116.2	281.3
Income before Income Tax	595.1	-841.9	-26.7
Net Income	471.4	-614.8	-19.7
BALANCE SHEETS			
Total Assets	3,435.8	3,199.9	3,714.8
Total Liabilities	2,555.4	2,664.8	2,551.7
Total Equity	880.3	535.1	1,163.1
Net Financing Cost	116.8	105.6	86.3
KEY FIGURES			
Operating Margin	9.3%	4.1%	8.8%
Debt-to-Equity Ratio	290.3%	498.0%	219.4%
Earnings per Share in KRW	23,611	-31,003	-1,118
Return on Equity	66.6%	-72.4%	-1.9%
Interest Coverage Ratio	3.1x	1.1x	3.3x
Dividend per Ordinary Share in KRW	1,000	-	750
Capital Expenditures	173.3	198.1	403.7





CHAIRMAN'S MESSAGE

Dear Stakeholder,

Change drives growth. Our remarkable growth in 2010 that no one could have predicted is proof of this. As we work to build an even stronger future, our company has transformed itself, achieving the best performance in our history in the process. In addition to recording our highest sales, operating income, and net income to date, we focused on chemicals—the industry we know best and the reason for our existence—as we set our sights on an ambitious vision of becoming a global leading chemical group by 2020.

The secret behind our success in 2010 was a combination of the right strategy and the passionate, dedicated employees who systematically executed it. I would like to take this opportunity to express my great appreciation to each member in the over 1,000-strong KKPC family. I would also like to thank our loyal customers for purchasing our products and services, our shareholders for believing in us through good times and bad, and all our partners for helping make us one of the world's most competitive chemical makers.

While we're proud of our accomplishments, we are not content rest on our laurels. As in every ecosystem, if you're standing still in the business world, you're being left behind. Step-by-step, we are now heading toward the next level. We are better prepared for the future than we have ever been before. We have the right people, resources, and market competitiveness. And as a global corporate citizen, we will do everything in our power to protect the environment and fulfill our responsibilities to society.

Thank you once again for your interest in and support of KKPC. We invite you to join us, our customers, employees, and local communities as we prosper together on our journey to become a global leading chemical group.

Chan-Koo Park
Chairman & CEO
Kumho Petrochemical

A handwritten signature in black ink, appearing to read 'C. K. Park'.

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.

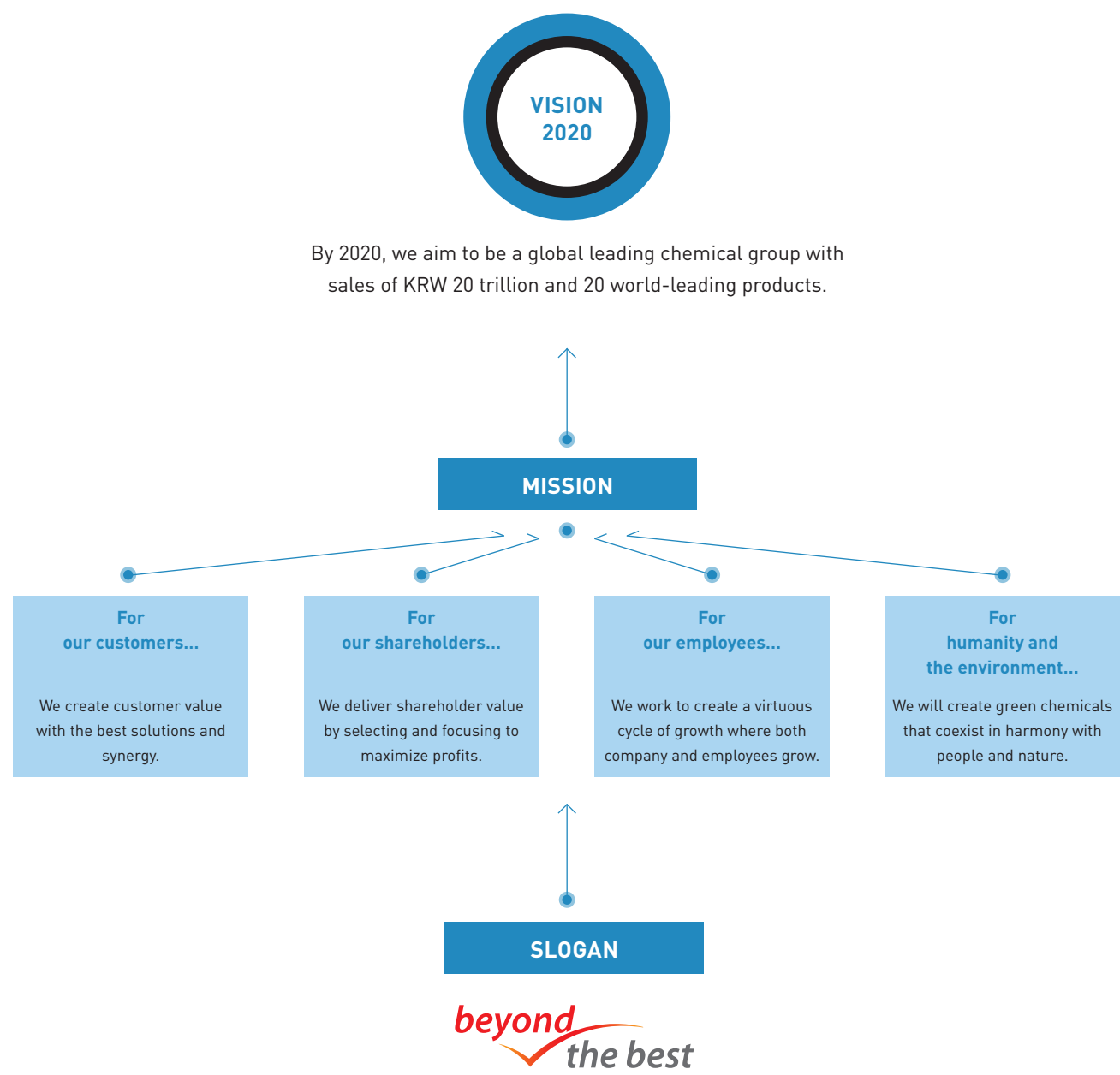
Overall, we will focus on securing a healthy financial structure and stable growth. As we reorganize our business with a focus on the chemical industry, we will be paving the way for greater synergy as well as stable, profitable growth. We will reduce net borrowings by selling off equity stake holdings 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
Kumho Petrochemical

VISION & MISSION



SEVEN REASONS WHY KKPC IS LOOKING FORWARD TO THE FUTURE.

At KKPC, we have an ambitious vision. By 2020, we aim to be a global leading chemical group with sales of KRW 20 trillion and 20 world-leading products. Our record-breaking performance in 2010 isn't the end—it's just the beginning of a new journey to what we call "Vision 2020". And we are confident that we can do even better in 2011.

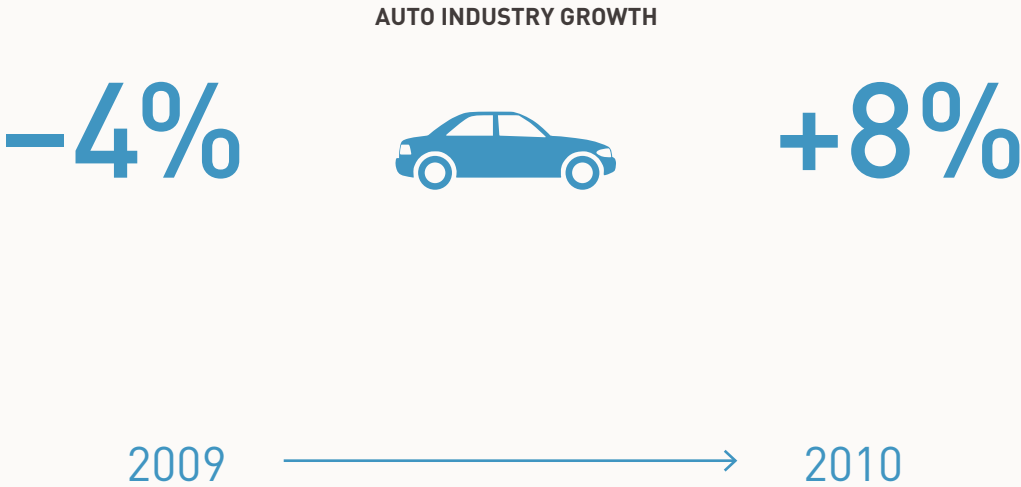
HERE ARE A FEW REASONS WHY...

01

DOWNSTREAM INDUSTRIES ARE BOOMING



Chul-Seung Kim
Latex Sales Team
Head Office
Kumho Petrochemical



The tire, home appliance, and automobile industries—the primary downstream consumers of the synthetic resins and rubbers that account for more than 80% of sales—have recovered from the serious downturn of 2009 and are on a robust growth trajectory. For example, the tire industry in China is experiencing tremendous growth along with the auto industry. The economic recovery is also driving demand for replacement tires, with demand outstripping supply. This trend appears to be with us for the foreseeable future. And as the world’s top producer of synthetic rubbers, we stand to benefit in a big way.

02 THE SYNTHETIC RUBBER PRICE SPREAD IS GROWING

Chul-Won Kim
Production Department II
Yeosu Synthetic Rubber Plant II
Kumho Petrochemical

SYNTHETIC RUBBERS BUSINESS 2010 SALES
(in KRW billions)

2,234

SYNTHETIC RUBBERS BUSINESS 2010 OPERATING INCOME
(in KRW billions)

209

SYNTHETIC RUBBERS BUSINESS 2010 OPERATING MARGIN

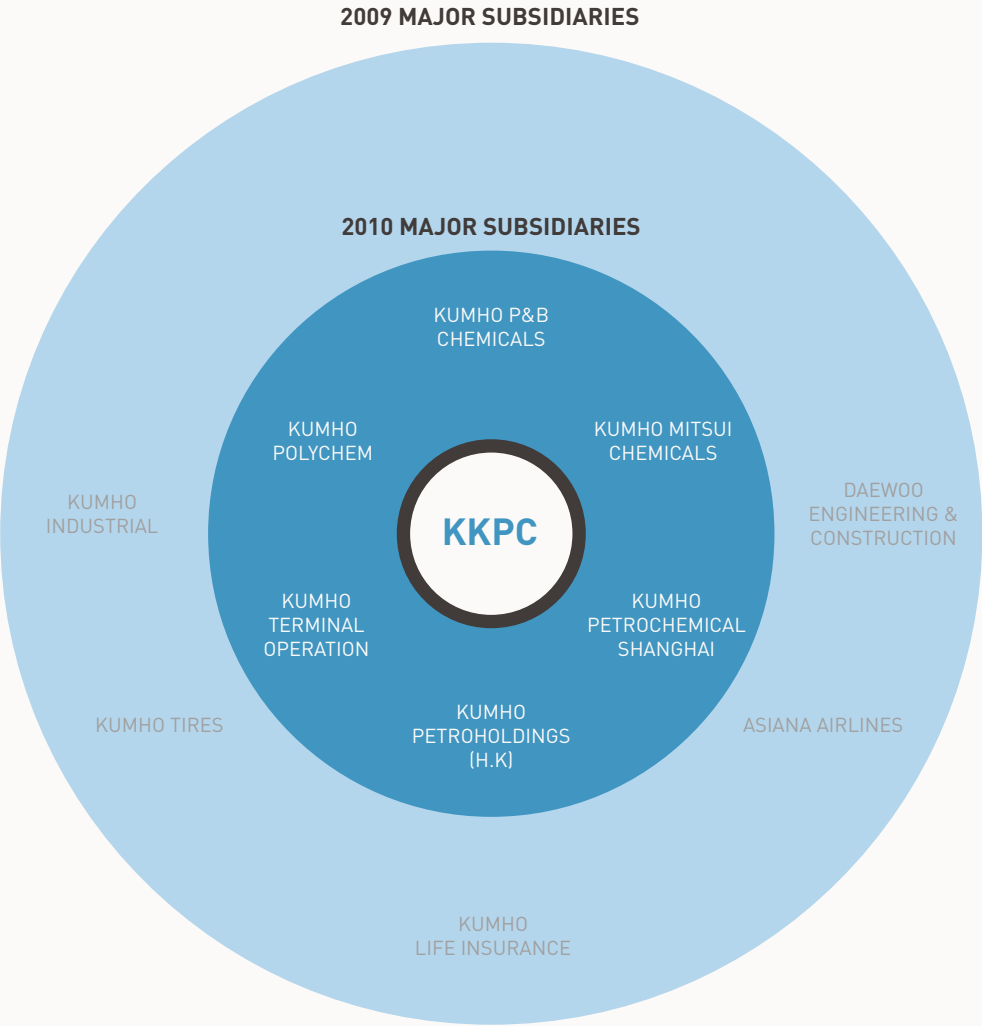
9.4%

Natural rubber and synthetic rubber—the primary materials used to make tires—can be substituted for each other to a certain degree. This is why synthetic rubber prices are partially influenced by natural rubber prices. In major natural rubber producing nations such as Thailand, Indonesia, and Malaysia, tight supply due abnormal weather and local currency appreciation have keep natural rubber prices high as of March 2011, a trend that is expected to continue through 2012. On the other hand, the price of butadiene (BD), the primary feedstock used in synthetic rubbers, has seen a relatively minor rise due to increased capacity that came online in 2010, increasing the price spread with natural rubber. Our synthetic rubbers business booked record sales and operating profit of KRW 2,234 billion and KRW 209 billion, respectively, a record-setting performance that is a sign of things to come.

03 UNCERTAINTY IS HISTORY



● **Young-Su Kim**
Strategic Planning Team
Head Office
Kumho Petrochemical



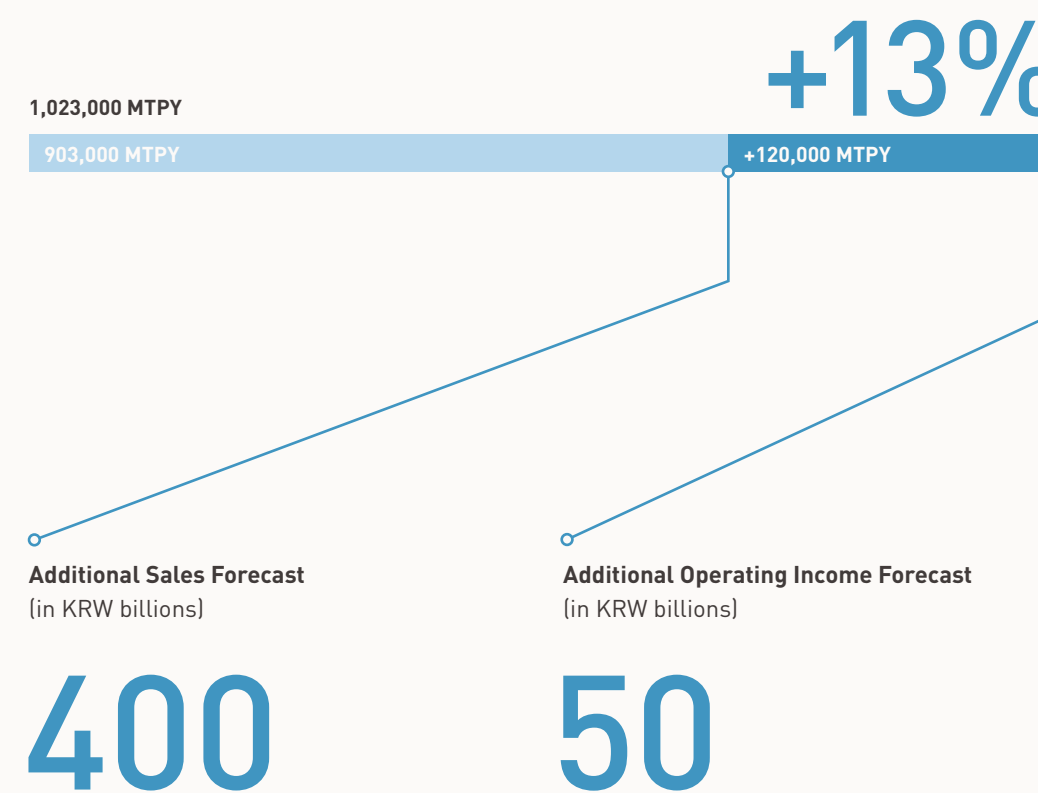
As the de facto holding company of the Kumho Asiana Group, we have in the past had to invest a considerable amount of capital in non-core businesses to support the group, increasing debt as well as our debt-to-equity ratio. In March 2010, Chan-Koo Park was re-appointed chairman and announced his firm determination to independently manage the chemicals group and gradually dispose of all equity holdings in affiliates operating in fields outside our core chemicals businesses such as Daewoo Engineering & Construction and Asiana Airlines. With a renewed focus on our core businesses and uncertainty surrounding group support commitments behind us, we are now positioned to generate stable revenue growth and strengthen synergy and competitiveness with our chemical affiliates.

04 GROWING LEADERSHIP IN SYNTHETIC RUBBERS



● **Ho-Yeon Jeon**
Production Department II
Yeosu Synthetic Rubber Plant II
Kumho Petrochemical

SYNTHETIC RUBBER PRODUCTION CAPACITY



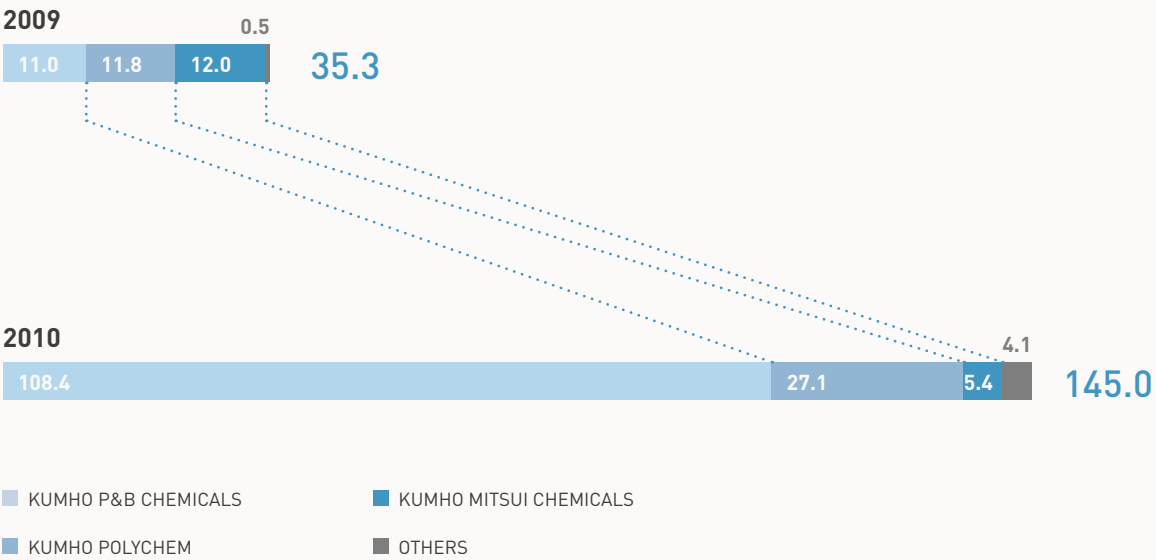
In December 2010, we completed a 120,000-mtpy BR expansion project, boosting our total combined production capacity to 1,023,000-mtpy and extending our global market leadership in this field. The plant began commercial operations after testing operation in January 2011. We expect it to generate an additional KRW 400 billion in annual sales and KRW 50 billion in operating profit.

05 RISING GAINS ON VALUATION OF EQUITY-METHOD INVESTMENTS



Hye-Min Im
General Affairs Team
Yeosu Plant
Kumho P&B Chemicals

GAINS ON VALUATION OF EQUITY-METHOD INVESTMENTS FROM CHEMICAL AFFILIATES
(in KRW billions)



In 2009, we recorded a KRW 733.5 billion loss on valuation of equity-method investments in Kumho Industrial, Kumho Tires, and Asiana Airlines, resulting in the largest net loss in our history. In 2010, we designated equity holdings in most non-chemical affiliates as available-for-sale securities, transforming ourselves into a specialized chemicals group. As a whole, our chemical affiliates—Kumho P&B Chemicals, Kumho Polychem, and Kumho Mitsui Chemicals—improved their performance during the year, increasing our gain on valuation of equity-method investments from KRW 35.3 billion in 2009 to KRW 145 billion in 2010. And we anticipate even greater gains in 2011.

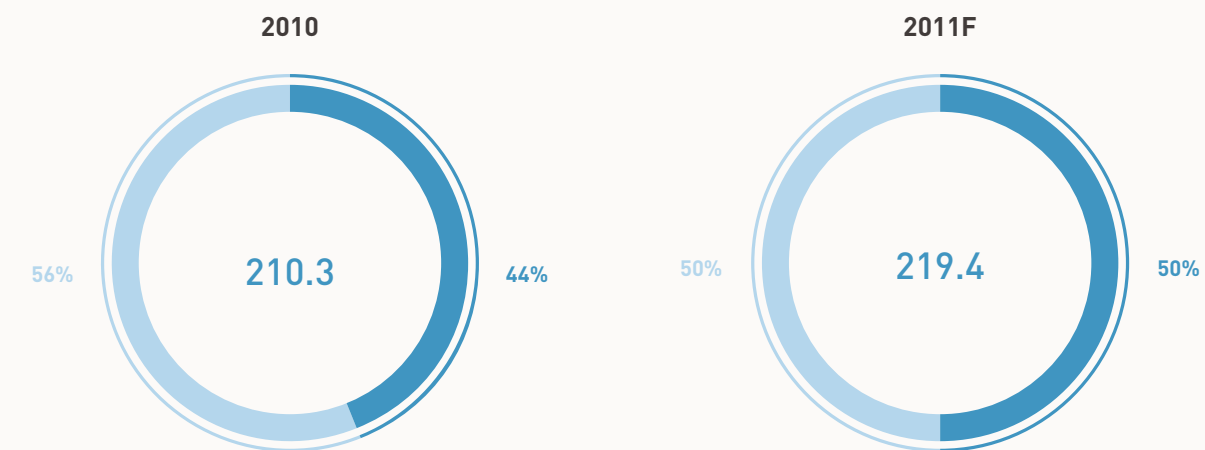
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FULL-STEAM AHEAD FOR YEOSU ENERGY II

Young-Ki Lee
Power Plant Team I
Yeosu Energy I
Kumho Petrochemical

YEOSU ENERGY SALES (COMBINED HEAT & POWER PLANTS)

(in KRW billions)



■ Steam Sales from Combined Heat & Power Generation
■ Electricity Sales from Combined Heat & Power Generation

In 2010, we completed debottlenecking of our second combined heat and power plant in Yeosu, which began operations in May 2009. While Yeosu Energy I sells steam to our chemical affiliates as well as Columbia Chemical, Yeosu Energy II allows us to sell electricity to Korea Electric Power. We plan to increase steam sales in 2011, adding KRW 50 billion in sales and KRW 20 billion in operating profit to our bottom line.

07 IMPROVING FINANCIAL SOUNDNESS

● Sang-Woo Jeon

Accounting Team
Head Office
Kumho Petrochemical

2010 LIABILITY COMPOSITION

(in KRW billions)

Reduction of current liabilities compared to 2009

-17.7%

2,555.4

860.5

1,694.9

Non-Current Liabilities

Current Liabilities

2010 EBITDA

(in KRW billions)

468.3

2010 CAPEX

(in KRW billions)

173.3

Our borrowings declined to KRW 1,745.9 billion at the end of 2010, a significant improvement over the close of 2009 when net borrowings stood at KRW 2,153.5 billion and the debt-to-equity ratio was 498%. For the most part, the major projects we have been aggressively pursuing in recent years wrapped up during the year. Our total planned investments for 2011 are expected to be around KRW 100 billion. We plan to use the estimated KRW 500 billion EBITDA earnings from the sale of our equity stakes in Asiana Airlines and Daewoo Engineering & Construction to steadily pay down our borrowings as we aim to reduce our debt-to-equity ratio to the 150% level by 2013 to secure a solid financial structure.

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CORPORATE GOVERNANCE

At KKPC, we aim to improve our long-term corporate value and earn the trust of our stakeholders through responsible and transparent corporate governance. Toward this end, we have put in place an effective internal control system with strict policies to ensure a high degree of managerial transparency.

Board of Directors

Our board is composed of a total of eight directors, five of which are outside directors who are elected at the annual general shareholders' meeting. The board provides consultation and oversight on all major business activities and has final decision-making authority and responsibility in all business matters. To enhance the independence of the board and professional knowledge, over half of the board seats are held by independent directors. In addition to the Audit Committee, we have also established the Management Advisory Committee. Meeting a total of 12 times in 2010, the board plays a key role in balancing efficiency and oversight to help ensure that each decision

benefits the majority of shareholders and maximizes long-term corporate value.

Audit Committee

The Audit Committee plays a key role in elevating transparency in management and credibility in financial disclosures. Composed entirely of outside directors to ensure independence, the committee's primary duties include oversight of the transparency and impartiality of the company's accounting and business activities. We have also implemented internal mechanisms to assist members in speedily accessing the management information they need to effectively carry out their duties.

Board of Directors

Standing Directors

Chan-Koo Park
Chairman & CEO
Kumho Petrochemical Co., Ltd.

Suh-Hyung Lee
President & CEO
Kumho Petrochemical Co., Ltd.

Seong-Chae Kim
President & CEO
Kumho Petrochemical Co., Ltd.

Non-Standing Directors

Seung-Ki Min
Director, Audit Committee
Former Chief, Gyeongnam
Provincial Police Agency

Ki-Ro Pan
Director, Audit Committee
Former CEO, Korea
Infrastructure Investments
Asset Management

Jun-Bo Lee
Director, Audit Committee
Law Firm Kim Chang & Lee

Yong-Man Rhee
Director
Member, President's Senior
Advisory Council

Yong-Whan Kim
Director
Law Firm Kim Yong Whan

Key Executives



Seok-Geun Song
Executive Vice President
Production Division



Dae-Sik Seok
Executive Vice President
Administration &
Management Division



Dong-Hwa Han
Executive Vice President
Planning Division



Sung-Kyu Lim
Executive Vice President
Sales Division



Seung-Su Kim
Executive Vice President
R&BD Center



Seung-Hee Yun
Senior Vice President
Synthetic Resin Research



Kwan-Young Lee
Senior Vice President
Electronic Chemicals
Business Unit



Chang-Soo Jung
Senior Vice President
Ulsan Synthetic Resin
Plant



Soung-Hae Ji
Senior Vice President
Building Materials
Business Unit



Ju-Woan Park
Senior Vice President
Technology Business



Young-Hoon Ko
Senior Vice President
Synthetic Rubber
Research



Jin-Uk Chung
Vice President
Yeosu Specialty
Chemicals Plant & Energy



Dong-Kook Kim
Vice President
Synthetic Resin Sales



Young-Do Ko
Vice President
Administration &
Management



Sung-Il Kim
Vice President
Synthetic Rubber Sales



Dong-Joo Seo
Vice President
Ulsan Synthetic Rubber
Plant



Kap-Jong Chang
Vice President
Yeosu Synthetic Rubber
Plant

SHAREHOLDER VALUE

With the global economic recovery in full swing in 2010, stock markets everywhere made sharp gains. KKPC shares far outperformed the KOSPI and other indexes. Our provision of transparent and impartial information on our business position and prospects enabled our shares to achieve a proper valuation during the year as we continued to strive to enhance shareholder value.

Capital Market Overview

In 2010, a gradual improvement in consumer sentiment and expansionary monetary policies in every country to stimulate economies in the wake of the 2008 global financial crisis helped accelerate the global economic recovery. Exchange rates stabilized and low-interest policies put in place to stimulate the economy continued. Although the KOSPI index fell to 1,561 points in May on fears that the financial crisis that started in Greece would spread across Europe, it recovered in the second half of the year to close up 21.9% at 2,051 points.

Share Performance

Our shares started the year at KRW 20,650 and initially headed downward as the market focused on uncertainty surrounding the Kumho Asiana Group rather than our corporate value or sales performance. That uncertainty was resolved in March 2010 when Chan-Koo Park was re-appointed chairman and announced that KKPC would separate from the Kumho Asiana Group and transform itself into a specialized chemical group. Shortly afterward,

the market focus quickly shifted to our rapidly improving business results, igniting a sharp rally that propelled our shares up 337.8% to close the year at KRW 90,400. This performance easily outperformed the KOSPI and chemicals indexes, which rose 21.9% and 55.2%, respectively. We are confident that we will once again achieve a record-setting performance in 2011 and that our share value will continue to rise as the markets re-evaluate our true corporate worth.

IR Initiatives

Our active IR focus is on earning a fair corporate valuation from the market through timely disclosure of business results and pending issues and building relationships of trust with investors to win over quality long-term investors. In 2010, a year in which we signed MOUs with creditor banks related to the company normalization plan, we focused on one-on-one meetings with both local and foreign institutional investors to improve market participant understanding of how Kumho Asiana Group risk had been resolved as well as publicize the improved



business performance of us and our chemical affiliates. In addition to a non-deal roadshow in Korea in November and quarterly conference calls for foreign investors, we participated in an active calendar of conferences and corporate days throughout the year. In the interest of providing fair, transparent, and timely disclosure to all investors, we also continued to expand the scope of information available on our IR website.

Share Dividend

It is our policy to consistently return a fair and reasonable portion of our profits to our investors. We determine this dividend based on a number of factors, including profit size, future investment plans, and current financial structure. Although the board decided to forego a cash dividend for fiscal 2009 due to a major valuation loss on equity-method investments and a temporary liquidity squeeze, our solid performance and improved outlook enabled it to declare a cash dividend of KRW 1,000 per share for fiscal 2010, 33.3% higher than our 2008 dividend.

Annual Report Recognition

Our 2009 annual report was recognized by a number of prestigious awards competitions in 2010. We took Silver at the 2010 ARC Awards and Gold at the 2010 Galaxy Awards, both hosted by MerComm. We also took Gold at the 2009 Vision Awards (28th overall) and Platinum at the 2010 Spotlight Awards (26th overall), both hosted by the League of American Communications Professionals (LACP). This strong showing with awards in the four major annual report competitions raised our profile in global capital markets, further enhancing our credibility with the investment community.

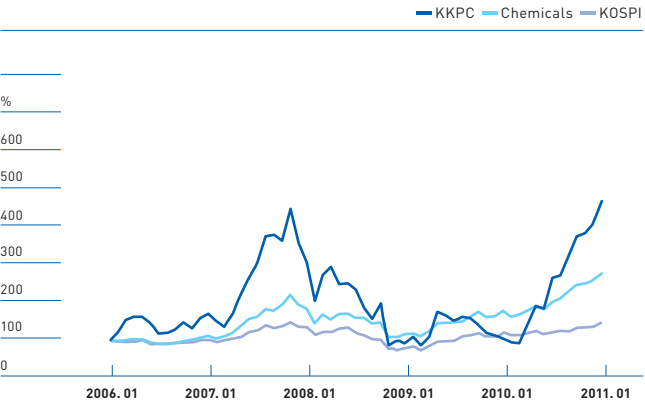
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"Our provision of transparent and impartial information on our business position and prospects enabled our shares to achieve a proper valuation during the year."
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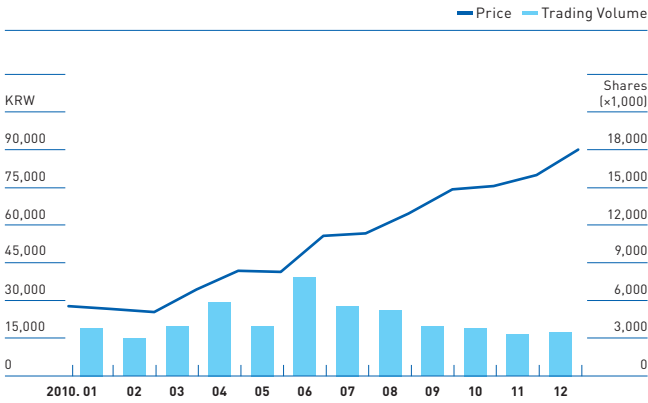
Key Figures

	2010	2009
SHARE DATA		
Number of Shares	28,447,933	28,447,933
Common Shares	25,424,447	25,424,447
Preferred Shares	3,023,486	3,023,486
Market Capitalization in KRW Millions	2,378,190	545,635
Credit Rating from Korea Information Service	BBB0	BBB-
PER SHARE DATA (IN KRW)		
Net Income	23,611	-31,003
Book Value	44,389	26,982
Dividend	1,000	-
Share Price		
Year-End	90,400	20,650
High	91,100	40,300
Low	16,100	15,500
SHAREHOLDER STRUCTURE		
Major Shareholders	40.12%	46.84%
Free Float	37.89%	31.17%

KKPC Stock Price vs. Key Indexes



KKPC Stock Performance in 2010



RESEARCH & BUSINESS DEVELOPMENT

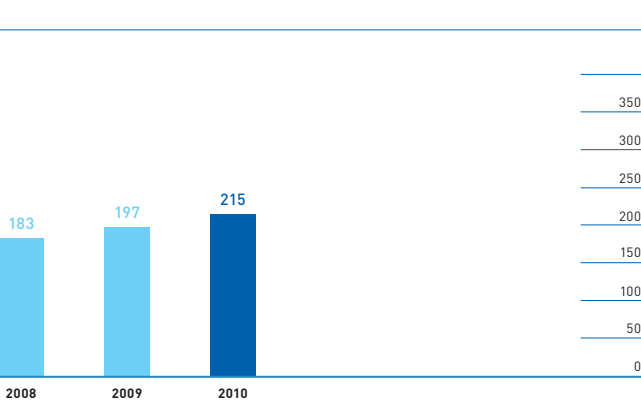
Research and development are the driving forces behind both product competitiveness and corporate growth, playing a key role in corporate sustainability. At KKPC, we renamed our R&D activities “R&BD” or research and business development in 2005 to reflect our philosophy that research should go beyond scientific results to connect with our overall business strategy.

R&BD Organization

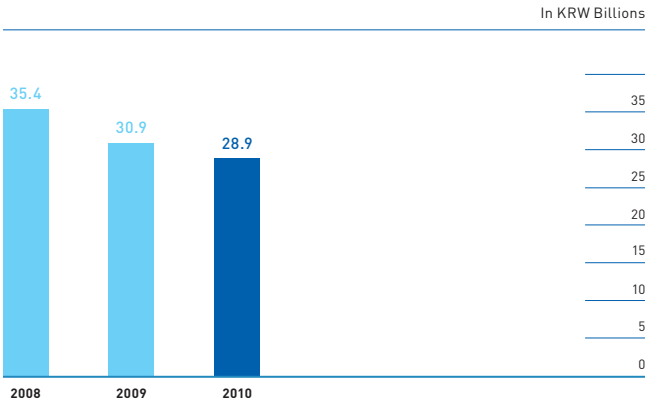
Our R&BD activities revolve around the Kumho Petrochemical R&BD Center in Daejeon, which focuses on the synthetic rubbers, synthetic resins, and next-generation materials fields, and the Kumho Electronic Chemicals Laboratory in Asan, which focuses on advanced, value-added materials for the infotech sector. We are the

first Korean company to adopt a research ERP system that is integrated with the corporate ERP system. This allows research projects to be thoroughly evaluated based on technical necessity and commercial viability from the outset, enabling our R&BD activities to make a real contribution to our business strategy and bottom line.

R&BD Manpower



R&BD Investments





Major Innovations

Solution SBR

SSBR is a value-added product that is a key component of high-performance, lower rolling resistance tires that utilizes polymer end-modification technology to improve tire physical properties. In 2010, we developed an SSBR product in conjunction with a European tiremaker using end-modification technology that improves tire physical properties by more than 10% by maximizing the affinity of the carbon black and silica reinforcement fillers. Sales of tires produced with SSBR are expected to increase when a new EU tire labeling system comes into force in 2012. We are currently in the process of building a dedicated 90,000-mtpy SSBR production line at our Yeosu plant.

Eco-Friendly PPG Production Process

Dimethy carbonate (DMC) is used as a catalyst to produce polypropylene glycol (PPG), the main feedstock used to make polyurethane. It is about 1,000-times more reactive than the commonly used potassium hydroxide (KOH) catalyst, requiring extremely small amounts to achieve the same effect. The eco-friendly DMC process reduces overall processing by 50% by eliminating the water-intensive catalyst removal process, improving productivity and reducing costs. We believe that DMC-based PPG production will grow to exceed 50% of the market over the long term.

Eco-friendly ASA Decorative Film

Decorative film is commonly used as a finishing material for interiors as well as furniture. We have developed Korea’s first ASA resin-based eco-friendly decorative film lineup that contains zero toxic heavy metals or environmental hormones and almost eliminates the generation of dioxins when incinerated. No harmful solvents are used in the printing process, and volatile organic compounds are also reduced. We plan to start using the film on our Hugreen window systems, eventually expanding it to furniture and doors.

LEADCAP Warm-Mix Asphalt Additive

We have developed and launched the LEADCAP (low-energy and low-carbon dioxide asphalt pavement) warm-mix asphalt (WMA) additive with the Korea Institute of Construction Technology (KICT). When LEADCAP is used, the production temperature of the asphalt mixture can be reduced 30~40°C, reducing fuel costs as well as the associated CO₂ and harmful gas emissions. It also improves the physical properties of the mixture and aggregate-binder adhesion to enhance road durability. Following successful field trials in Portugal, Italy, and Japan in 2010, we are preparing to aggressively target markets around the globe.



ArF Photoresist

Argon fluoride (ArF) photoresist is a value-added material for making extremely small nanometer-scale patterns in the semiconductor photolithography process when the minimum feature size is under 120 nm. Since beginning mass production of our in-house developed ArF photoresist in 2005, we have emerged as one of Korea’s major suppliers. We are currently in the process of developing next-generation products as we target new markets worldwide.

BARC Materials

Bottom anti-reflective coatings (BARC) are applied as an underlayer for photoresist to suppress scattering and standing waves. This prevents under-cut, notching, and standing wave effects, simplifying the semiconductor lithography process. Following the successful commercializing of our first BARC material in 2008, we are now focusing on developing high-n BARC materials for the advanced ArF immersion process in 2011.

Coating Materials for Display Films

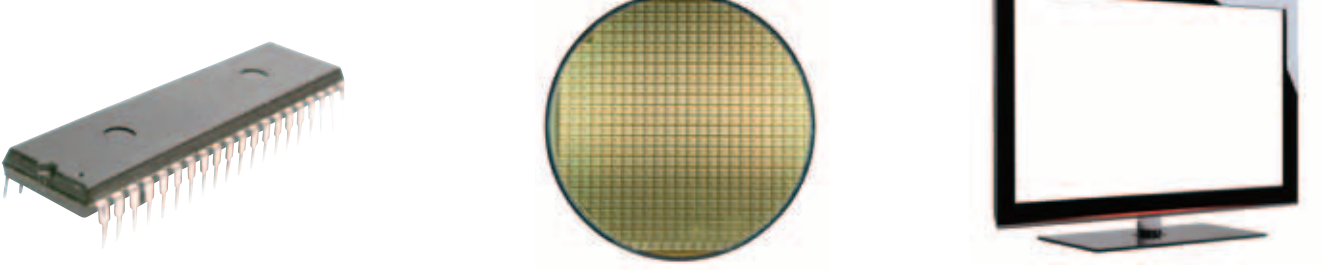
These UV-cured transparent liquid coating materials are used in the display and electronic materials fields. Starting with the launch of a hardcoating solution for plasma TV optical films in 2008, we added hardcoating solutions for the LCD and touchpanel industries in 2010. We will focus on coating materials for LCD TV backlight units in 2011.

Photosensitive Polyimide

PSPI is an exceptionally reliable protective packaging material applied in the final photolithography process of the semiconductor front-end process. We completed construction of PSPI manufacturing facilities in 2010 and are now working closely with customers to evaluate it for mass production. In 2011, we aim to expand our PSPI product lineup with solutions for semiconductor front-end and back-end processes as well as the LED and OLED industries.

LCD Sealant

LCD sealant is a key material used in LCD panel manufacturing that Korean manufacturers have relied entirely on imports for to date. We began development of this material in 2006 and sold a prototype large-panel sealant at the end of 2010. We are now conducting mass production testing for large-panel sealant as we prepare to expand into the small-panel sealant segment as well.



RISK MANAGEMENT

In business, crises and opportunities are inevitable. That is why rigorous risk management is a key factor in ensuring a company’s continued long-term success. At KKPC, our risk management system excels at identifying and analyzing risk in advance to ensure an appropriate response, enabling us to both prevent as well as effectively respond to incidents.

Currency Risk

The Korean won continued to appreciate in 2010 as volatility and uncertainty in global markets slightly increased in the wake of the financial crises in Europe and geopolitical instability. Approximately 80% of total 2010 sales was in foreign currencies, including 65% from direct exports and 15% from local sales. About 88% of overseas sales were in US dollars.

In 2011, we plan to take a long cash position of roughly USD 190 million based on our feedstock import requirements and foreign-denominated assets and liabilities. In this scenario, each KRW 10 change in the exchange rate will impact profitability by roughly KRW 1.9 billion. Our 2011 business plans and targets are based on an 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 2011, we expect the rate to have little or no impact on our ability to achieve our business targets.

Market Risk

Demand in downstream industries recovered to pre-financial crisis levels in 2010, lifted by growth in emerging markets such as China and India as well as recovering demand in developed markets in North America and Europe. With demand projected to steadily increase as tire, home appliance, and auto makers raise their operating rates in 2011, we expect to see growth in sales, sales volume, and profitability. On the other hand, there are a number of areas of concern. There is still considerable external risk due to the European financial crisis and the possibility of an oil shock due to political instability in the Middle East and Africa as well as fluctuation risk for both product pricing and profitability. Our proactive response to these rapidly changing market conditions includes reallocating regional sales quotas and maintaining pricing flexibility. As we shift our product mix toward value-added, eco-friendly products and strengthen our market leadership, we will also be aiming to establish ourselves in potential growth markets as we continue to deliver profitable growth.



Raw Materials Risk

In the first half of 2010, prices for butadiene (BD)—the primary feedstock used in synthetic rubbers (BR, SBR) and synthetic resins (ABS) moved higher as oil, naphtha, and natural rubber prices rose and exports from Asia kept regional supply tight. In the second half of the year, BD prices leveled out as new capacity came on-stream in Asia, holding steady at around the USD 2,000 per metric ton. In the first half of 2011, scheduled maintenance shutdowns by regional manufacturers and continued exports from Asia are expected to push BD prices higher. The projected average BD price for 2011 is USD 2,500 per metric ton.

As synthetic rubber production volume increases, BD supply is becoming proportionally more important. Recently, suppliers of mixed C4—the feedstock used to make BD—have started building their own BD plants to improve profitability, resulting in a partial reduction of the mixed C4 supply volume. We are currently sourcing our mixed C4 shortfall from overseas. Looking ahead, we will continue to diversify our suppliers, participate in joint-venture BD plant construction, and adopt new BD production processes as we take a comprehensive approach to increasing our BD self-supply ratio.

Financial Risk

In 2010, we continued to pay off our short-term borrowings, pushing our debt-to-equity ratio down from 498% at the end of 2009 to 290% at the end of 2010. Our sharp increase in sales and operating income improved our asset turnover and interest coverage ratios, boosting all measures of financial soundness as the company normalization process proceeded smoothly.

In 2011, we plan to use our operating cash flow to reduce net borrowings to around KRW 1,500 billion, reducing our debt-to-equity ratio to under 200%. If necessary, we will gradually sell off equity stakes in affiliates such as Asiana Airlines and Daewoo Engineering & Construction that have been designated as available-for-sale securities. In order to wrap up our MOUs with creditor banks related to the company normalization plan ahead of schedule, we have set a conservative investment plan of KRW 100 billion as we continue to focus on research and business development as well as building production facilities for promising fields such as carbon nanotube and building materials as we invest in tomorrow’s growth engines.

.....
"Our risk management system excels at identifying and analyzing risk in advance to ensure an appropriate response, enabling us to both prevent as well as effectively respond to incidents."
.....

CORPORATE CITIZENSHIP

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BUSINESS ETHICS

Ethics aren't an option in business. They're an essential element of corporate growth and development. At KKPC, ethics are an integral part of every business process. Each member of our family shares and upholds the same ethical standards, empowering them judge and act responsibly.

Stakeholder Trust

In 2002, we initiated the creation of an ethics management system designed to enable us to fulfill our social responsibility and earn the trust and respect of our stakeholders. Today, that system is the theoretical and practical foundation that makes integrity our first and foremost practice in the workplace. Enshrined in our code of conduct, this system is supervised by the Committee for Ethical Management and encompasses evaluation teams, councils at each plant location, and the KKPC Loving Helpers service organization.

Supplier Support

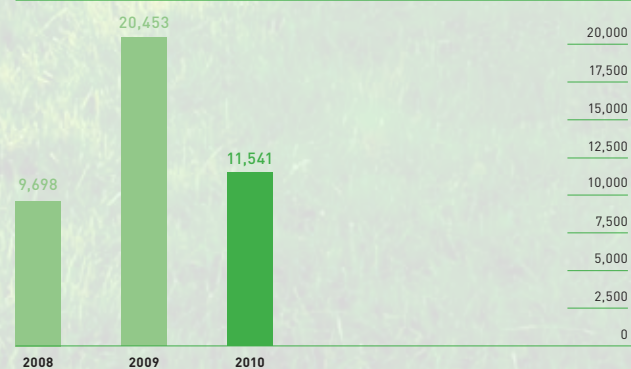
We work hard to build transparent, mutually beneficial relationships with our suppliers. Our supplier support system focuses on three general areas: competitiveness, financial stability, and fair trading practices. We help upgrade supplier competitiveness through a number of training, joint research, and technical support programs. We help improve the financial stability of our small and medium-size vendors by paying invoices in cash and providing financial assistance. We also ensure impartiality and transparency in all our supplier dealings through an online procurement system and voluntary compliance program. We operate a labor-management win-win program as well as an internal grievance processing system, using a variety of channels to actively communicate as we build a sound labor-management culture.

ENVIRONMENTAL MANAGEMENT

At KKPC, we’re making building a sustainable future a priority with our “environment comes first” philosophy and industry-leading environmental record. We have a solid ISO 14001-certified environmental management system that encompasses all production facilities at home and abroad. We conduct both internal inspections and commission third-party reviews as part of our commitment to compliance with all environmental laws and regulations. We also support our partners as we work to expand environmental excellence across the entire value chain.

Environmental Investment

In KRW Millions



Environmental Investment by Area



EHS Initiatives

Our strict and comprehensive environment, health, and safety system is designed to reduce our environmental footprint while creating greater value for our customers. Based on the global chemical industry’s Responsible Care sustainability initiative, our EHS focus is on building clean production systems, developing eco-friendly products, and ensuring we provide a healthy and safe workplace environment for our people.

We make the basic materials used by countless downstream industries to create many of the products consumers depend on in their daily lives. We are actively eliminating harmful raw materials from our products as well as using life cycle assessment to determine the true environmental impact of our products as we steadily upgrade the eco-friendliness of our portfolio. In addition to actively complying with international environmental directives and regulations such as REACH and RoHS, we actively participate in industry educational outreach programs as we continually strive to keep the areas around our production facilities clean and green.

Climate Change Mitigation

Energy conservation is one of the most effective methods of reducing both greenhouse gas emissions and operating costs. Our energy management system and a comprehensive GHG inventory of our Korean plant operations are now enabling us to systematically reduce both energy consumption and GHG emissions. We are currently involved in a number of energy saving (ESCO) and clean development mechanism (CDM) projects that are steadily enhancing the environmental performance of our operations.

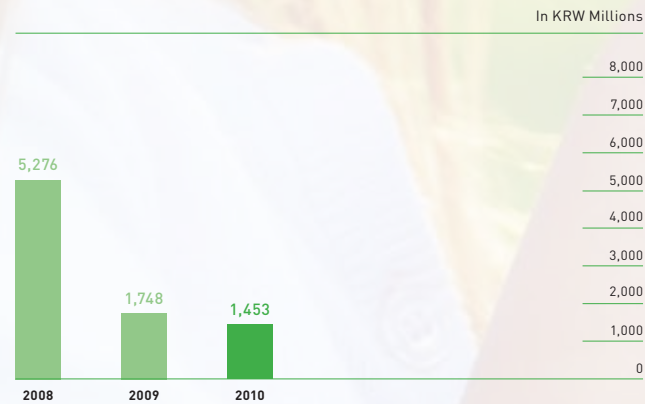
Taking care of the environment is something that is impossible for any one country or company to do on their own. Global cooperation and the participation of the entire industrial ecosystem are imperative. That’s why, in addition to our own environmental commitment, we are underwriting greenhouse gas inventories and sharing a variety of environmental technologies with our partners. Our efforts were recognized with the Minister of Environment award at the 2010 Green Company Environmental Management Case Study Presentation Competition.

"We have a solid ISO 14001-certified environmental management system that encompasses all production facilities at home and abroad."

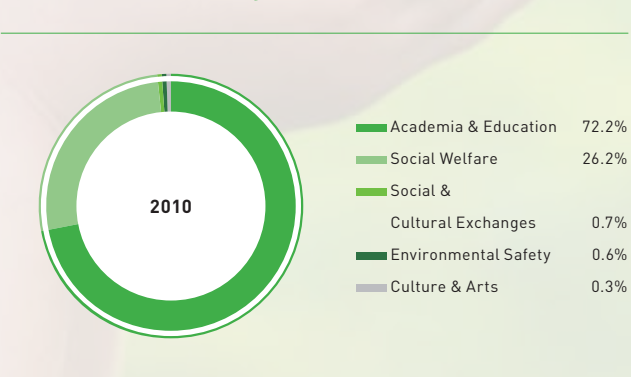
SOCIAL RESPONSIBILITY

At KKPC, we are fully committed to fulfilling our responsibility to society based on respect for people and a win-win philosophy. As we practice sustainable management, we aspire to grow with our people, customers, partners and local communities, ultimately doing our part to make the world a better place to live as we aim to instill a culture of volunteer service.

Social Investment



Social Investment by Area



Community Service

In 2008, we made “Beautiful Encounters, Beautiful Journeys” our community service slogan as we actively expanded our community service activities. After Chan-Koo Park was re-appointed chairman in March 2010, his first official meeting was to visit a home for the disabled to supervise the repair of the facilities as well as the installation of donated eco-friendly Hugreen windows. Rather than holding a special event to commemorate KKPC’s 40th anniversary in December 2010, Chairman Park joined employees in visiting and doing community service at a shelter for unwed mothers. Both of these are powerful signs of top management’s commitment to making a difference in local communities.

Since 2008, we have used our products in a variety of ways to serve our local communities. We have donated custom mobility devices and wheelchairs for the physically disabled, window systems to community welfare centers, and canes, tactile ground surface indicators, and braille keyboards for the visually impaired. We plan to actively expand the scope of our activities to new areas as we strive to provide unique and specialized community service projects that reflect our corporate DNA.

As the awareness of the social role of companies has changed, the face of community service is changing as well. Responding to changing times, we are shifting our focus from passive donations to active win-win involvement as we work to make community service a pillar of our corporate culture. Enthusiastic, voluntary employee participation is the secret behind the success of our active community service efforts. Our KKPC Loving Helpers service organization brings our people together to make a difference for the underprivileged in our local communities. In addition to annual blood drives, we actively participate in fundraising, donating the “spare change”—amounts under KRW 1,000—from our paychecks as well as making set monthly contributions to charity which are matched by the company to double our impact for good.

“As we practice sustainable management, we aspire to grow with our people, customers, partners and local communities, ultimately doing our part to make the world a better place to live.”

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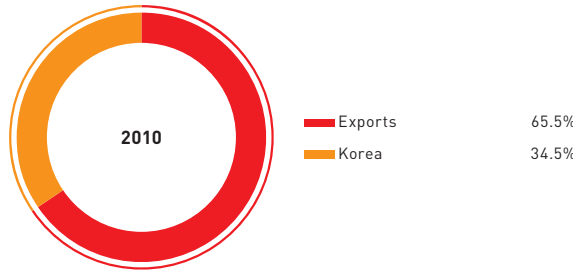
2010 OVERVIEW

At KKPC, we recorded our best operating performance of our 40-year history in 2010 with sales of KRW 3,886.3 billion and an operating profit of KRW 359.6 billion. This performance was driven by the record-setting operating results of our synthetic rubbers business, which benefitted from higher demand and prices due to tighter supply as the global tire industry increased its operating ratio. Our synthetic resins business also increased profitability by improving process efficiency and meeting increased demand as the home appliance and auto industry operating ratios rose and the 2010 World Cup in South Africa and the 2010 Guangzhou Asian Games were held. Our chemical affiliates also enjoyed an upturn, providing a valuation gain, while the sale of Kumho Life Insurance and a capital reduction and debt-equity swap at Kumho Industrial

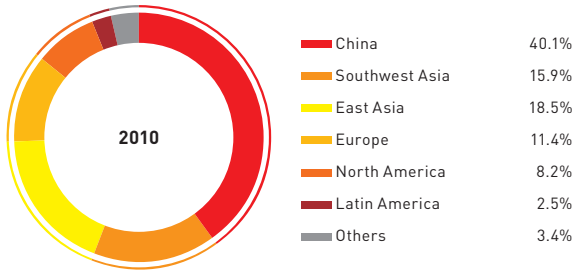
and Kumho Tires generated income from the disposal of investment assets, enabling us to post a record net income of KRW 471.4 billion for the year.

In 2010, we also accelerated improvements to our financial structure to execute our company normalization plan in accordance with MOUs signed with creditor banks and announced our intention to separate from the Kumho Asiana Group, resolving remaining group-related risk. This allowed capital markets to shift their focus to the outstanding business performances of us and our chemical affiliates, boosting our shares 338% to close the year at KRW 90,400 with a market cap of over KRW 2 trillion as we joined the KOSPI 100 for the first time.

Sales by Market



Exports by Region

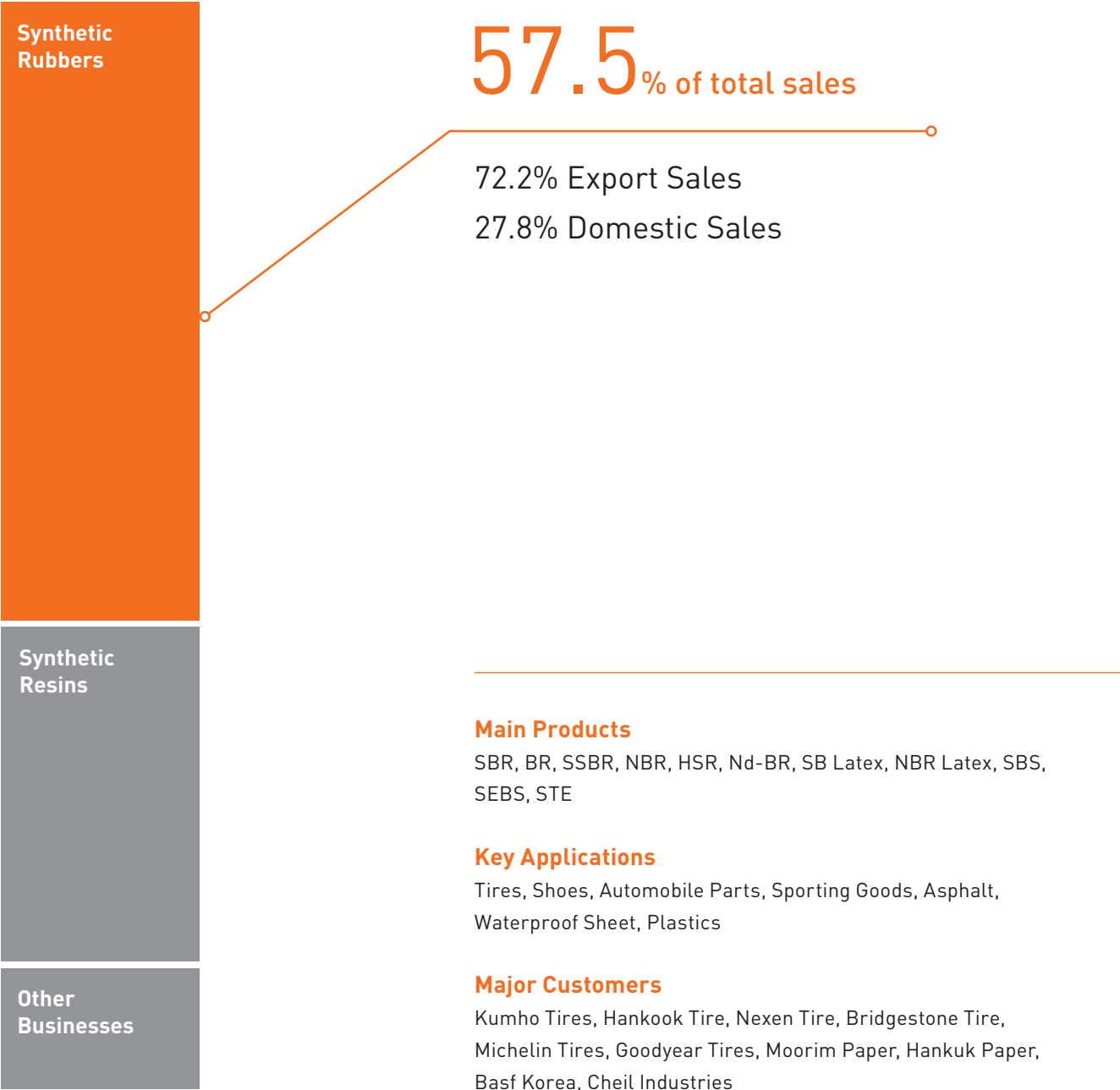


SYNTHETIC RUBBERS

Synthetic rubber is any type of artificially produced polymer material that acts as an elastomer or rubber. Elastomers are able to take much more deformation than most materials without permanent effects. The chemical properties of synthetic rubbers vary depending on the raw materials and methods used to make them. Synthetic rubbers are superior to the real thing in certain ways, including resistance to oil, heat, and ozone.



Sales Revenue
KRW 2,234.0 bn



2010 Review

Our synthetic rubbers business grew sales 51.1% to KRW 2,234.0 billion in 2010, accounting for 57.5% of overall sales as it played a leading role in our record-setting performance. There are two primary factors behind these impressive results. First, the tire industry capacity utilization rose, spiking demand for synthetic rubber. As the global No. 1 supplier, we operated at full capacity and sold everything we produced. Second, prices of substitute and complementary natural rubber soared, as did selling prices of synthetic rubbers. In contrast, prices of primary feedstock butadiene (BD) rose at a relatively lower rate, increasing the price spread and ultimately profitability.

Our multi-year capacity expansion plan to strengthen our market leadership in this field wrapped up in 2010. Our completion of a 110,000-mtpy styrene butadiene rubber (SBR) expansion project in April 2009 made us the world's No. 1 producer of synthetic rubbers. Our completion of a 120,000-mtpy polybutadiene rubber (BR) expansion project in December 2010 further expanded our lead as the industry leader in this field.



2011 Outlook

Demand for synthetic rubbers in China, the world's largest consumer with 39% of the market, is projected to continue to be solid in 2011. While the fast-growing local auto industry has recently experienced a minor downturn, growth continues to be strong, driving price increases for original equipment tires as well as replacement tires as consumer sentiment improves. Tire makers are set to steadily increase their operating rates as economic recoveries in North American and European markets continue. These factors indicate that the synthetic rubbers industry will continue to thrive in 2011.

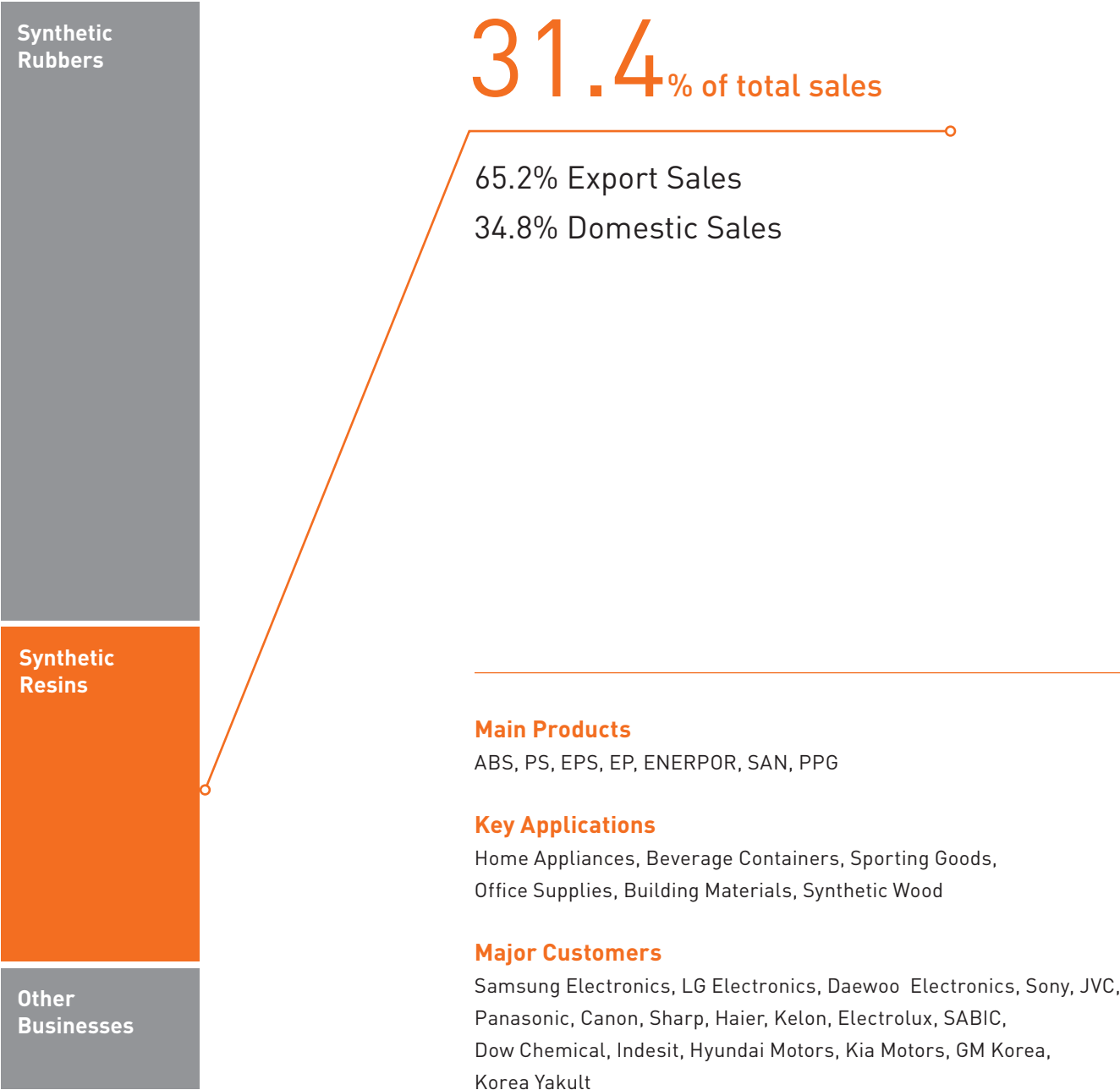
Global synthetic rubbers makers are focusing on expanding their production facilities in China, the world's leading export market, setting the stage for tougher competition. Interestingly, China's domestic BR production capacity lags significantly behind its SBR capacity. Here, we will leverage the additional capacity provided by our new 120,000-mtpy BR plant to aggressively market and grow our local sales. Our recently expanded Yeosu Synthetic Rubber Plant II also has the industry's highest single-plant employee productivity rating, paving the way for even greater profitability going forward.

SYNTHETIC RESINS

Synthetic resins are polymers whose properties have been modified by heat or pressure. Synthetic polymers are generally categorized into resins, fibers, and rubbers. Plastics—one of the most ubiquitous materials of modern life—are made with synthetic resins. Film, paint, and adhesives are also considered plastics.



Sales Revenue
KRW 1,220.4 bn



2010 Review

Our synthetic resins business grew sales 20.8% to KRW 1,220.4 billion in 2010, marking its second straight year in the black with significantly greater profitability. Our ongoing efforts to reduce costs and expand sales of higher margin products were driven by improved productivity and revamped facilities as well as an upgrade of our marketing capabilities in the booming Chinese market and entrance into emerging markets.

In September 2010, we completed commissioning of a 6,400-mtpy extruded polystyrene foam (XPS) plant in Shenyang, China. Known as Kumho Petrochemical Shenyang Co., Ltd., the plant is a USD 30 million 80:20 joint venture with a local state-owned enterprise that will play a key role in our strategy to enter the local market for high-quality building insulation materials. XPS is in increasing demand for applications such as high-quality wall and floor insulation products as well as refrigerators because of its excellent insulating properties and compressive strength.



2011 Outlook

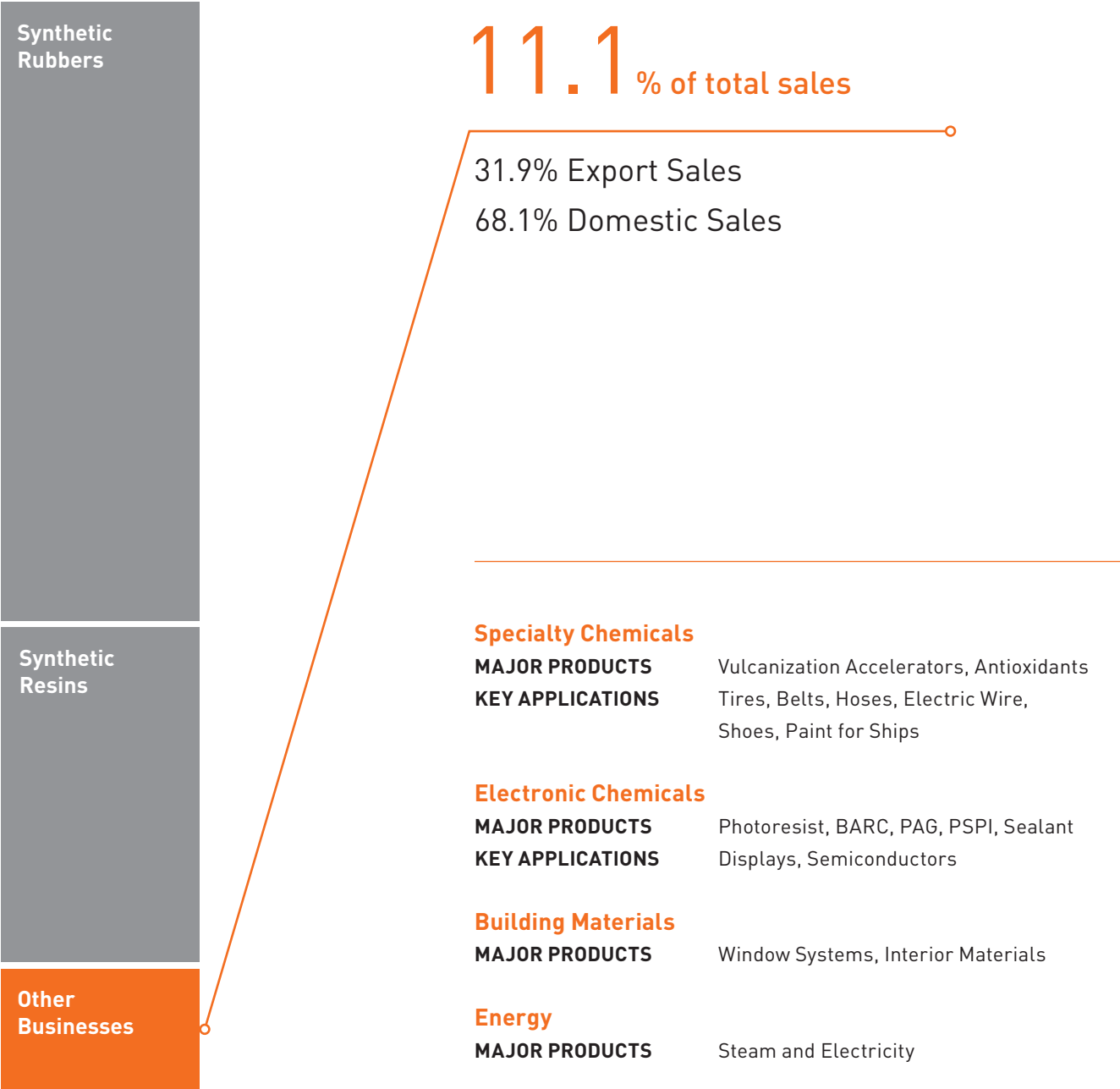
Demand for synthetic resins in China is expected to steadily grow in 2011. Acrylonitrile butadiene styrene (ABS), a product that China has a relatively low self-sufficiency in, is expected to be in short supply. Demand from emerging markets is forecast to continue to far outpace developed ones. Demand is also expected to exceed supply in India in particular for the foreseeable future. Costs for styrene monomer (SM) feedstock are likely to rise as oil and naphtha prices rise and overall industrial demand grows. The supply-demand balance will continue to be tight across Asia, but the inflow of supplies from the Middle East is expected to stabilize the overall balance. Although SM prices will rise across-the-board, tight synthetic resin supply will keep selling prices high, setting the stage for strong growth in this business.

As we continue to pursue cost reductions through process innovation, we also plan to focus on boosting price competitiveness by optimizing inventory levels and increasing sales turnover. In China, we are aiming to grow sales by stepping up sales and marketing activities as we cultivate new captive users to secure a solid sales base. We will also continue to diversify our export markets across East and Southwest Asia as well as emerging markets in Eastern Europe as we pursue solid growth going forward.

OTHER BUSINESSES

In addition to our mainstay synthetic rubbers and resins businesses, we are involved in the specialty chemicals, electronic chemicals, building materials, and energy businesses. Specialty chemicals and electronic chemicals are used to facilitate manufacturing or enhance the properties of the final product. Our Hugreen line of building materials continues to grow rapidly. And the Yeosu Energy I and II cogeneration utilities at our Yeosu plant provide power and steam for our use as well as resale.

Sales Revenue
KRW 431.9 bn



2010 Review

Approximately 89% of overall 2010 sales came from our synthetic rubbers and resins businesses. The rest came from our other businesses—specialty chemicals, energy, electronic chemicals, and building materials—which grew 38.1% in 2010 to reach KRW 431.9 billion. With the exception of building materials, all businesses enjoyed strong growth during the year, led by our energy business.

Our specialty chemicals business prevailed in a patent suit filed by Flexsys involving 6PPD, one of our primary products. This final legal victory paved the way for us to sell 6PPD to North American markets as well as a chance to win the business of major tiremakers worldwide.

Our energy business achieved strong growth in both sales and operating profit through efficient operation of its two combined heat and power plants.

Our electronic chemicals business diversified its ArF photoresist sales channels and accelerated the commercialization of new products.

Our building materials business experienced a slight downturn due to a prolonged industry slump, but still successfully raised its brand recognition with aggressive marketing.

Overall, we pushed ahead with investment focused on putting in place engines for growth by completing facilities to produce window profile and carbon nanotubes.



2011 Outlook

Our specialty chemicals business plans to diversify raw materials purchasing channels to ensure a stable supply as we aggressively target exports to North America and major tiremakers worldwide to drive sales and profitability. We plan to commission an insoluble sulfur plant in Chongqing, China as we tap into the marketing synergy potential of our product portfolio.

Our energy business will continue to reduce costs through operational improvements, operating both Yeosu Energy plants at the optimum level to maximize profitability.

Our electronic materials business will continue to diversify our product portfolio beyond current mainstays such as ArF photoresist and BARC materials to bring new products such as photosensitive polyimide (PSPI) and sealant to market as soon as possible.

Our building materials business will continue to aggressively market our Hugreen lineup of environmentally-friendly products. We will advertise on TV and radio to build brand awareness and support active prosumer groups. As we continue to develop customer-centric products, we will also step up direct marketing to core consumer groups.

THE YEAR AHEAD

As the price of oil and grain rises, concerns about inflation are rising. With emerging markets appearing to tighten monetary policy, global economic growth is expected to decline slightly in 2011. The Korean won is expected to steadily appreciate against the US dollar, worsening the profitability of exports. We will lay the foundation for the next leap forward, selecting and focusing to sharpen our business portfolio and overhauling our organization to maximize synergy. We will also be selling off assets in non-core businesses, reducing borrowings, prioritizing investment for efficiency, and solidifying our financial structure to ensure we can survive and thrive in today’s rapidly-changing business environment.

In 2011, we are aiming to grow sales 8% to KRW 4,200 billion. We will be focusing on strengthening financial soundness so that we can wrap up MOUs with creditor banks related to the company normalization plan ahead of schedule. We will also be leveraging our global network and industry-leading competitiveness in synthetic rubbers and specialty chemicals to maximize profitability in our core businesses and secure growth engines for the future. Together with our chemical group affiliates, we are committed to laying a foundation that will enable us to achieve our vision of becoming a global leading chemical company by 2020.

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INDEPENDENT AUDITORS' REPORT

Based on a report originally issued in Korean

The Board of Directors and Stockholders Kumho Petrochemical Co., Ltd.:

We have audited the accompanying non-consolidated statement of financial position of Kumho Petrochemical Co., Ltd (the "Company") as of December 31, 2010, and the related non-consolidated statements of operations, appropriation of retained earnings, changes in equity and cash flows for the year then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. The accompanying non-consolidated financial statements of the Company as of December 31, 2009, were audited by other auditors, whose report thereon dated March 22, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kumho Petrochemical Co., Ltd. as of December 31, 2010 and the results of its operations, appropriation of its retained earnings, the changes in its equity and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 2(a) to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations, changes in equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such non-consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

As discussed in note 37 to the non-consolidated financial statements, on December 30, 2009, Kumho Asiana Group, including the Company, announced a Business Restructuring Plan that (1) the Company and Asiana Airlines will be required only to make voluntary efforts to improve their financial health, and (2) Kumho Industrial and Kumho Tire will plan the workout for debt rescheduling and corporate restructuring led by their creditor banks. In relation to this plan, on June 8, 2010, the Company entered into a contract with its creditor banks and has been executing the plan such as making an effort to reduce expenses.

Seoul, Korea
February 16, 2011

KPMG Samjung Accounting Corp.

This report is effective as of February 16, 2011, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

NON-CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2010 and 2009

(IN MILLIONS OF WON, EXCEPT SHARE DATA)	2010	2009
ASSETS		
Cash and cash equivalents	₩ 108,983	₩ 77,745
Government grants	(2,175)	(508)
Short-term financial instruments	-	2,633
Accounts and notes receivable - trade, less allowance for doubtful accounts of ₩ 2,306 in 2010 and ₩ 2,582 in 2009	368,328	298,859
Short-term loans - less allowance for doubtful accounts of ₩ 2,297 in 2010 and ₩ 10,200 in 2009	3,605	15,485
Accounts and notes receivable - others, less allowance for doubtful accounts of ₩ 882 in 2010 and ₩ 286 in 2009	30,071	12,066
Current derivative instruments assets	5,304	16,808
Current deferred tax assets	2,664	22,299
Inventories	370,573	321,291
Other current assets	3,196	9,120
Total current assets	890,549	775,798
Long-term financial instruments	23	20
Available-for-sale securities	509,690	23,711
Equity method accounted investments	471,024	865,942
Property, plant and equipment, net	1,423,174	1,356,650
Intangible assets	26,366	35,642
Long-term loans	1,900	2,289
Non-current derivative instruments assets	-	3,162
Other non-current assets	30,823	29,908
Deferred tax assets	82,218	106,747
Total non-current assets	2,545,218	2,424,071
TOTAL ASSETS	₩ 3,435,767	₩ 3,199,869

NON-CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2010 and 2009

(IN MILLIONS OF WON, EXCEPT SHARE DATA)	2010	2009
LIABILITIES		
Accounts and notes payable - trade	₩ 276,370	₩ 262,547
Accounts and notes payable - other	137,072	127,693
Short-term debt	420,511	769,909
Current portion of long-term accounts and notes payable - other	205	1,553
Current portion of long-term debt	781,031	874,100
Current derivative instruments liabilities	1,780	1,522
Other current liabilities	77,958	21,432
Total current liabilities	1,694,927	2,058,756
Long-term debt	851,199	585,126
Provision for retirement and severance benefits, net	1,908	20,127
Long-term accounts and notes payable - other	7,310	652
Long-term deposit received	98	98
Total non-current liabilities	860,515	606,003
TOTAL LIABILITIES	2,555,442	2,664,759
STOCKHOLDERS' EQUITY		
Common stock of ₩ 5,000 par value	127,122	127,122
Authorized - 50,000,000 shares		
Issued and outstanding - 25,424,447 shares		
Preferred stock of ₩ 5,000 par value	15,117	15,117
Issued and outstanding - 3,023,486 shares		
Capital surplus	89,952	303,451
Capital adjustment	(51,536)	(49,086)
Accumulated other comprehensive income	228,252	365,187
Retained earnings (accumulated deficit)	471,418	(226,681)
TOTAL STOCKHOLDERS' EQUITY	880,325	535,110
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	₩ 3,435,767	₩ 3,199,869

NON-CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON, EXCEPT EARNINGS PER SHARE)	2010	2009
REVENUE:		
Goods sold	₩ 3,805,553	₩ 2,743,056
Merchandise sold	77,672	51,995
Other sales	3,112	6,611
	3,886,337	2,801,662
COST OF SALES:		
Goods sold	3,236,228	2,441,770
Merchandise sold	69,111	40,633
Other sales	603	5,115
GROSS PROFIT	580,395	314,144
Selling, general and administrative expenses	220,804	197,963
OPERATING INCOME	₩ 359,591	₩ 116,181

NON-CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON, EXCEPT EARNINGS PER SHARE)	2010	2009
Interest income	₩ 5,131	₩ 4,399
Interest expense	(121,971)	(109,991)
Reversal of allowance for doubtful accounts	3,423	-
Other bad debt expenses	(1,085)	(10,267)
Gain on foreign currency translation, net	727	9,328
Gain on foreign currency transaction, net	3,181	17,521
Dividend income	3,356	2,116
Loss on disposal of tangible assets, net	(296)	(1,339)
Loss on impairment of tangible assets	(9,286)	-
Loss on impairment of intangible assets	(2,470)	(3,807)
Loss on impairment of available-for-sale securities	(1,500)	-
Loss on impairment of equity method accounted investments	-	(93,687)
Loss on sale of accounts and notes receivable - trade	(340)	-
Loss on impairment of other non-current assets	-	(235)
Gain on disposal of available-for-sale securities	76,438	-
Gain (loss) on disposal of other assets, net	12,677	(24)
Gain (loss) on disposal of equity method accounted investments, net	135,767	(3,375)
Loss on valuation of derivatives, net	(917)	(8,920)
Loss on transactions of derivatives, net	(1,614)	(3,348)
Gain (loss) on valuation of equity method accounted investments	144,981	(733,522)
Other, net	(10,715)	(22,901)
OTHER INCOME (EXPENSE)	235,487	(958,052)
INCOME (LOSS) BEFORE INCOME TAXES	595,078	(841,871)
INCOME TAXES EXPENSE (BENEFIT)	123,660	(227,032)
NET INCOME (LOSS)	471,418	(614,839)
EARNINGS (LOSS) PER SHARE		
Basic earnings (loss) per share	23,611	(31,003)
Diluted earnings (loss) per share	₩ 20,611	₩ (31,003)

NON-CONSOLIDATED STATEMENTS OF APPROPRIATION OF RETAINED EARNINGS

For the years ended December 31, 2010 and 2009

Date of Appropriation for 2010: February 25, 2011

Date of Disposition for 2009: March 30, 2010

(IN MILLIONS OF WON)	2010	2009
UNAPPROPRIATED RETAINED EARNINGS (UNDISPOSED ACCUMULATED DEFICIT)		
Balance at beginning of year	-	₩ 1,007
Change in retained earnings of equity method accounted investments	-	(2,118)
Net Income (loss)	471,418	(614,839)
BALANCE AT END OF YEAR BEFORE APPROPRIATION (DISPOSITION)	471,418	(615,950)
TRANSFER FROM VOLUNTARY RESERVES		
Reserve for business expansion	-	129,000
Reserve for facility expansion	-	170,000
Reserve for research and human development	-	82,000
Reserve for legal reserve	-	8,269
Other capital surplus	-	3,115
Asset revaluation surplus	-	161,393
Additional paid-in capital	-	62,173
UNAPPROPRIATED RETAINED EARNINGS AVAILABLE FOR APPROPRIATION	471,418	-
APPROPRIATION OF RETAINED EARNINGS		
Legal reserve	2,310	-
Dividends	23,007	-
Common stock: 20% on par value at ₩ 1,000 per share, Preferred stock: 21% on par value at ₩ 1,050 per share		
Other voluntary reserve	444,000	-
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED OVER TO SUBSEQUENT YEAR	₩ 2,101	-

NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON)	Capital	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
BALANCE AT JANUARY 1, 2009	₩ 142,239	₩ 303,451	₩ (50,499)	₩ 360,385	₩ 407,569	₩ 1,163,145
Dividends	-	-	-	-	(17,293)	(17,293)
Net loss	-	-	-	-	(614,839)	(614,839)
Change in other capital adjustment	-	-	1,413	-	-	1,413
Change in retained earnings of equity method accounted investments	-	-	-	-	(2,118)	(2,118)
Change in unrealized gain on available-for-sale securities	-	-	-	924	-	924
Change in unrealized gain on valuation of equity method accounted investments	-	-	-	(8,602)	-	(8,602)
Change in unrealized loss on valuation of equity method accounted investments	-	-	-	9,324	-	9,324
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	3,156	-	3,156
BALANCE AT DECEMBER 31, 2009	₩ 142,239	₩ 303,451	₩ (49,086)	₩ 365,187	₩ (226,681)	₩ 535,110

NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON)	Capital	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
BALANCE AT JANUARY 1, 2010	₩ 142,239	₩ 303,451	₩ (49,086)	₩ 365,187	₩ (226,681)	₩ 535,110
Net income	-	-	-	-	471,418	471,418
Deficit recovery of additional paid-in capital	-	(62,173)	-	-	62,173	-
Deficit recovery of asset revaluation surplus	-	(161,393)	-	-	161,393	-
Deficit recovery of capital adjustment	-	(3,115)	-	-	3,115	-
Consideration for conversion rights	-	13,182	-	-	-	13,182
Change in other capital adjustment	-	-	(2,450)	-	-	(2,450)
Change in unrealized gain on available-for-sale securities	-	-	-	142,820	-	142,820
Change in unrealized loss on available-for-sale securities	-	-	-	(92,999)	-	(92,999)
Change in unrealized gain on valuation of equity method accounted investments	-	-	-	(178,599)	-	(178,599)
Change in unrealized loss on valuation of equity method accounted investments	-	-	-	(8,341)	-	(8,341)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	184	-	184
BALANCE AT DECEMBER 31, 2010	₩ 142,239	₩ 89,952	₩ (51,536)	₩ 228,252	₩ 471,418	₩ 880,325

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON)	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	₩ 471,418	₩ (614,839)
Adjustments for:		
Depreciation	98,169	88,736
Accrual for retirement and severance benefits	7,871	10,946
Bad debt expense	599	1,690
Sales warranty expense	47	-
Amortization	10,546	13,052
Interest cost	12,141	2,055
Other bad debt expense	1,085	10,267
Gain on foreign currency translation	(727)	(9,328)
Loss on disposal of accounts receivable - trade	340	-
Loss on disposal of tangible assets	296	1,339
Loss on Impairment of tangible assets	9,286	-
Loss on impairment of intangible assets	2,470	3,807
Gain (loss) on valuation of equity method accounted investments	(144,982)	733,521
Gain on disposal of available-for-sale securities	(76,438)	-
Loss on impairment of available-for-sale securities	1,500	-
Loss on valuation of derivatives	917	8,920
Loss (gain) on disposal of other non-current assets	(12,677)	24
Loss on impairment of other non-current assets	-	235
Loss (gain) on disposal of equity method accounted investments	(135,767)	3,375
Loss on impairment of equity method accounted investments	-	93,687
Reversal of allowance for doubtful accounts	(3,423)	-
Miscellaneous income	(884)	(471)
	₩ 241,787	₩ 347,016

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON)	2010	2009
Changes in assets and liabilities:		
Accounts and notes receivable - trade	₩ (70,454)	₩ 35,324
Accounts and notes receivable - other	(18,765)	5,078
Other current assets	5,923	(5,888)
Current derivative instruments assets	15,696	29,306
Current deferred tax assets	19,653	(5,931)
Inventories	(49,282)	48,009
Other non-current assets	1,006	(2,464)
Deferred tax assets	43,214	(106,747)
Accounts and notes payable - trade	995	49,476
Accounts and notes payable - other	16,470	31,515
Other current liabilities	63,044	(26,246)
Current portion of long-term accounts and notes payable - other	(1,348)	(1,217)
Long-term deposit received	-	16
Current derivative instruments	(1,522)	(10,696)
Accrual for retirement and severance benefits, net	(14,742)	1,303
Payment of retirement and severance benefits	(11,864)	(16,349)
Transfer to reserve for retirement and severance benefits	515	12
Long-term accounts and notes payable - other	6,658	652
Deferred tax liabilities	-	(110,454)
Dividends received from associates	6,194	16,420
NET CASH PROVIDED BY OPERATING ACTIVITIES	₩ 253,178	₩ 278,135

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON)	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of short-term loans	₩ 405	₩ 547
Decrease in financial instruments	4,104	-
Decrease in long-term financial instruments	-	55
Disposal of equity method accounted investments	187,975	1,641
Disposal of property, plant and equipment	10	456
Redemption of long-term loans	461	218
Increase in short-term financial instruments	(1,472)	(2,633)
Increase in short-term loans	(257)	(25,762)
Increase in long-term financial instruments	(3)	-
Acquisition of equity method accounted investments	(2,975)	(169,276)
Acquisition of property, plant and equipment	(174,874)	(264,147)
Acquisition of Intangible assets	(3,151)	(4,550)
Increase in long-term loans	(195)	(115)
Acquisition of available-for-sale securities	(61,848)	(1,560)
Increase of other non-current assets	(983)	(784)
NET CASH USED IN INVESTING ACTIVITIES	₩ (52,803)	₩ (465,910)

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON)	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	₩ 1,316,902	₩ 1,464,929
Proceeds from issuance of short-term debentures	123,104	139,734
Proceeds from issuance of debentures	440,069	50,000
Proceeds from long-term borrowings	199,867	116,389
Increase in other current liabilities	-	1
Repayment of short-term borrowings	(1,432,123)	(1,002,570)
Repayment of short-term debentures	(202,046)	-
Repayment of current portion of other non-current liabilities	-	(498,267)
Repayment of current portion of long-term borrowings	(308,951)	-
Repayment of current portion of debentures	(307,626)	-
Dividends paid	-	(17,293)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(170,804)	252,923
NET INCREASE IN CASH AND CASH EQUIVALENTS	29,571	65,148
Cash and cash equivalents at beginning of year	77,237	12,089
CASH AND CASH EQUIVALENTS AT END OF YEAR	₩ 106,808	₩ 77,237

KPMG Samjong Accounting Corp. expressed an unqualified audit opinion together with following two emphasizing paragraphs as to the consolidated financial statements of Kumho Petrochemical Co., Ltd. for the year ended December 31, 2010 in its audit report dated on March 30, 2011.

(1) Business Restructuring Plan

Kumho Asiana Group, including the Company, announced a Business Restructuring Plan that (i) the Company and Asiana Airlines will be required to make voluntary efforts to improve their financial health, and (ii) Kumho Industrial and Kumho Tire will plan the workout for debt rescheduling and corporate restructuring led by their creditor banks. In relation to this plan, on June 8, 2010, the Company entered into a contract with its creditor banks and has been executing the plan such as making efforts to reduce expenses.

(2) Change of consolidated subsidiaries

Kumho Tire and its subsidiaries have been excluded from consolidated subsidiaries, due to the work-out plan for debt rescheduling and corporate restructuring led by its creditor banks. The prior period’s statement of operations, presented comparatively, is reclassified to show the discontinued operations separately from continuing operations.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2010 and 2009

(IN MILLIONS OF WON, EXCEPT SHARE DATA)	2010	2009
ASSETS		
Cash and cash equivalents, net of government grants of ₩ 2,206 in 2010 and ₩ 567 in 2009	₩ 208,191	₩ 228,314
Short-term financial instruments	3,000	44,082
Available-for-sale securities - current	21,935	-
Accounts and notes receivable - trade, less allowance for doubtful accounts of ₩ 4,588 in 2010 and ₩ 41,634 in 2009	593,652	1,123,903
Short-term loans, less allowance for doubtful accounts of ₩ 8,719 in 2010 and ₩ 16,968 in 2009	19,965	46,495
Accounts and notes receivable - other, less allowance for doubtful accounts of ₩ 882 in 2010 and ₩ 289 in 2009	40,443	82,297
Accrued income	1,088	9,164
Advanced payments	7,438	35,321
Prepaid expenses	2,840	22,618
Prepaid taxes	2,513	20,924
Current derivative instruments assets	5,486	19,576
Current deferred tax assets	11,994	43,523
Inventories	516,867	978,588
Other current assets	-	3,691
Total current assets	1,435,412	2,658,496
Long-term financial instruments	1,209	339
Long-term accounts and notes receivable - trade, less allowance for doubtful accounts of ₩ 1,647 in 2010 and ₩ 1,058 in 2009	789	1,773
Available-for-sale securities	551,941	31,459
Held-to-maturity securities	6	6
Equity method accounted investments	57,410	970,501
Property, plant and equipment, net	2,142,472	4,828,706
Intangible assets, net	50,883	141,551
Guarantee deposits	30,759	47,064
Long-term loans	4,788	5,784
Long-term prepaid expenses	-	9,394
Non-current derivative instruments assets	13,866	22,719
Deferred tax assets	87,885	192,307
Other non-current assets	17,825	5,388
Total non-current assets	2,959,833	6,256,991
TOTAL ASSETS	₩ 4,395,245	₩ 8,915,487

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2010 and 2009

(IN MILLIONS OF WON, EXCEPT SHARE DATA)	2010	2009
LIABILITIES		
Accounts and notes payable - trade	₩ 426,811	₩ 956,726
Accounts and notes payable - other	185,649	407,306
Short-term debt	587,507	2,580,894
Advanced receipts	11,504	16,547
Accrued expenses	29,509	88,834
Income tax payable	86,311	9,142
Current portion of long-term accounts and notes payable - other	205	1,553
Current portion of long-term debts, net	869,775	2,359,425
Current portion of bonds with stock warrants	-	79,729
Current portion of exchangeable bond payable	-	4,133
Unearned income	62	593
Current derivative instruments liabilities	1,940	3,537
Other current liabilities	6,287	47,364
Total current liabilities	2,205,560	6,555,783
Long-term debts, net	830,802	1,398,318
Convertible bond payable, net	192,753	-
Long-term other account payables, net	11,152	724
Provision for retirement and severance benefits, net	13,577	155,540
Deferred tax liabilities	4,980	19,882
Provision for product warranties	-	26,496
Non-current derivative instruments liabilities	62,636	59,093
Others	5,043	24,504
Total non-current liabilities	1,120,943	1,684,557
TOTAL LIABILITIES	3,326,503	8,240,340
STOCKHOLDERS' EQUITY		
Common stock of ₩ 5,000 par value Authorized - 50,000,000 shares Issued and outstanding - 25,424,447 shares	127,122	127,122
Preferred stock of ₩ 5,000 par value Issued and outstanding - 3,023,486 shares	15,117	15,117
Capital surplus	89,952	303,449
Capital adjustment	(61,508)	(61,291)
Accumulated other comprehensive income	231,154	361,497
Retained earnings (accumulated deficit)	446,555	(283,790)
Minority Interests	220,350	213,043
TOTAL STOCKHOLDERS' EQUITY	1,068,742	675,147
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	₩ 4,395,245	₩ 8,915,487

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON, EXCEPT SHARE DATA)	2010	2009
REVENUE:		
Goods sold	₩ 5,529,165	₩ 3,960,698
Merchandise sold	138,001	170,460
Other sales	51,379	51,387
	5,718,545	4,182,545
COST OF SALES:		
Goods sold	4,579,751	3,396,771
Merchandise sold	128,435	232,786
Other sales	39,003	46,389
GROSS PROFIT	971,356	506,599
Selling, general and administrative expenses	(317,497)	(285,681)
OPERATING INCOME	653,859	220,918
Interest income	7,554	7,125
Dividend income	3,356	2,116
Interest expense	(141,735)	(138,751)
Gain on foreign currency transactions, net	3,280	10,566
Gain (Loss) on foreign currency translation, net	(1,874)	31,727
Gain (Loss) on valuation of equity method accounted investments	3,537	(473,564)
Loss on disposal of property, plant and equipment, net	(3,599)	(1,591)
Gain on disposal of equity method accounted investments, net	137,332	7,721
Loss on disposal of inventories	(817)	-
Gain on disposal of available-for-sale securities, net	76,437	-
Gain on disposal of other assets, net	13,162	414
Impairment loss on inventories	-	(62)
Impairment loss on property, plant and equipment, net	(13,987)	-
Impairment loss on intangible assets	(2,470)	(3,807)
Impairment loss on valuation of available-for-sale securities	(2,175)	(225)
Impairment loss on equity method investment securities	-	(93,688)
Loss on sale of accounts and notes receivable - trade	(440)	(17)
Gain (Loss) on transactions of derivatives, net	(1,056)	47,940
Loss on valuation of derivatives, net	(10,522)	(12,912)
Donations	(3,212)	(3,833)
Other non-operating expenses	(5,745)	(39,767)
OTHER INCOME (EXPENSE)	₩ 57,026	₩ (660,608)

CONSOLIDATED STATEMENTS OF OPERATIONS

As of December 31, 2010 and 2009

(IN MILLIONS OF WON, EXCEPT SHARE DATA)	2010	2009
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	₩ 710,885	₩ (439,690)
Income taxes expense (benefit) on continuing operations	(173,869)	214,713
INCOME (LOSS) FROM CONTINUING OPERATIONS	537,016	(224,977)
DISCONTINUED OPERATION		
Loss from discontinued operation (net of income tax of ₩ 7,958 in 2009)	-	(781,434)
NET INCOME (LOSS)	537,016	(1,006,411)
Majority interests in income consolidated subsidiaries	471,094	(623,569)
Minority interests in income consolidated subsidiaries	₩ 65,922	₩ (382,842)
EARNINGS (LOSS) PER SHARE		
Basic earnings (loss) per share from continuing operations	₩ 26,918	₩ (11,344)
Basic earnings (loss) per share	₩ 23,594	₩ (31,443)
Diluted earnings per share from continuing operations	₩ 23,439	-
Diluted earnings per share	₩ 20,596	-

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON)	Capital	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interests	Total stockholders' equity
BALANCE AT JANUARY 1, 2009	₩ 142,239	₩ 303,449	₩ (60,561)	₩ 351,961	₩ 357,071	₩ 669,657	₩ 1,763,816
Dividends	-	-	-	-	(17,292)	-	(17,292)
Net loss	-	-	-	-	(623,569)	(382,842)	(1,006,411)
Change in unrealized gain on available-for-sale securities	-	-	-	924	-	-	924
Change in unrealized gain on valuation of equity method accounted investments	-	-	-	105,493	-	-	105,493
Change in unrealized loss on valuation of equity method accounted investments	-	-	-	10,946	-	-	10,946
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	3,642	-	-	3,642
Increase in revaluation of property, plant and equipment	-	-	-	(774)	-	-	(774)
Exchange differences arising on translation of foreign operations	-	-	-	(110,695)	-	-	(110,695)
Changes in minority interest	-	-	-	-	-	(73,772)	(73,772)
Other capital adjustments	-	-	(730)	-	-	-	(730)
BALANCE AT DECEMBER 31, 2009	₩ 142,239	₩ 303,449	₩ (61,291)	₩ 361,497	₩ (283,790)	₩ 213,043	₩ 675,147

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON)	Capital	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Minority interests	Total stockholders' equity
BALANCE AT JANUARY 1, 2010	₩ 142,239	₩ 303,449	₩ (61,291)	₩ 361,497	₩ (283,790)	₩ 213,043	₩ 675,147
Deficit recovery of additional paid-in capital	-	(62,173)	-	-	62,173	-	-
Deficit recovery of asset revaluation surplus	-	(161,394)	-	-	161,394	-	-
Deficit recovery of capital adjustment	-	(3,114)	-	-	3,114	-	-
Consideration for conversion rights	-	13,184	-	-	-	-	13,184
Net income	-	-	-	-	471,094	65,922	537,016
Change in unrealized gain on available-for-sale securities	-	-	-	149,293	-	-	149,293
Change in unrealized loss on available-for-sale securities	-	-	-	(115,738)	-	-	(115,738)
Change in unrealized gain on valuation of equity method accounted investments	-	-	-	(168,368)	-	-	(168,368)
Change in unrealized loss on valuation of equity method accounted investments	-	-	-	2,343	-	-	2,343
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	208	-	-	208
Increase in revaluation of property, plant and equipment	-	-	-	207	-	-	207
Exchange differences arising on translation of foreign operations	-	-	-	83,984	-	-	83,984
Changes in minority interest	-	-	-	-	-	37,500	37,500
Other capital adjustmensts	-	-	(217)	-	-	-	(217)
Changes of consolidation scope	-	-	-	(82,272)	32,570	(96,115)	(145,817)
BALANCE AT DECEMBER 31, 2010	₩ 142,239	₩ 89,952	₩ (61,508)	₩ 231,154	₩ 446,555	₩ 220,350	₩ 1,068,742

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON)	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	₩ 537,016	₩ (1,006,411)
Adjustments for:		
Depreciation	168,197	345,283
Accrual for retirement and severance benefits	13,329	45,732
Bad debt expense	2,242	16,585
Amortization of intangible assets	11,202	33,407
Interest cost	12,137	9,902
Loss (Gain) on foreign currency translation	1,840	(21,114)
Other bad debt expense	1,115	121,454
Loss on inventory obsolescence	64	30,597
Loss on disposal of inventories	817	-
Gain (Loss) on valuation of equity method accounted investments	(3,537)	484,900
Gain on disposal of equity method accounted investments	(137,332)	(7,721)
Loss on impairment of equity method accounted investments	-	212,834
Loss on disposal of property, plant and equipment	3,599	4,352
Loss on impairment of property, plant and equipment	13,987	8,880
Loss on impairment of intangible assets	2,470	123,747
Loss on disposal of accounts receivable - trade	440	-
Gain on disposal of available-for-sale securities	(76,437)	-
Loss on impairment of available-for-sale securities	2,175	967
Loss on valuation of derivatives	10,522	12,350
Loss on disposal of other non-current assets	55	24
Loss on impairment of other non-current assets	-	235
Loss (Gain) on disposal of other investments	(12,840)	476
Reversal of allowance for doubtful accounts	(3,807)	(351)
Reversal of loss on valuation of inventories	(128)	-
Other non operation expense	697	2,138
Miscellaneous income	₩ (884)	₩ (470)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON)	2010	2009
Changes in assets and liabilities:		
Accounts and notes receivable - trade	₩ (46,308)	₩ 97,780
Accounts and notes receivable - other	(22,821)	112,414
Other current assets	8,456	(28,578)
Current derivative instruments assets	18,919	70,615
Current deferred tax assets	16,230	(5,884)
Inventories	(76,452)	483,225
Other non-current assets	328	2,060
Deferred tax assets	45,274	(123,570)
Other financial assets	-	38,914
Accounts and notes payable - trade	(26,693)	191,021
Accounts and notes payable - other	25,704	(118,660)
Other current liabilities	18,665	(37,276)
Current portion of long-term accounts and notes payable - other	(1,348)	(1,217)
Current derivative instruments liabilities	(6,639)	(78,809)
Accrual for retirement and severance benefits, net	(19,996)	(6,802)
Payment of retirement and severance benefits	(18,387)	(60,376)
Transfer to the National Pension Fund	124	454
Transfer to reserve for retirement and severance benefits	1,304	612
Long-term accounts and notes payable - other	10,428	688
Income tax payable	79,116	(27,665)
Deferred tax liabilities	388	(111,988)
Dividends received from associates	6,491	13,051
Others	-	4,294
NET CASH PROVIDED BY OPERATING ACTIVITIES	₩ 559,722	₩ 832,099

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON)	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of short-term loans	₩ 439	₩ 29,218
Decrease in financial instruments	4,104	41,203
Redemption of long-term loans	1,084	844
Decrease in long-term financial instruments	2	55
Disposal of held-to-maturity securities	-	9
Disposal of equity method accounted investments	201,496	67,542
Disposal of property, plant and equipment	164	36,123
Decrease of other non-current assets	542	4,403
Increase in short-term financial instruments	(2,472)	(27,649)
Increase in short-term loans	(3,457)	(67,819)
Increase in long-term loans	(425)	(296)
Increase in long-term financial instruments	(1,142)	(2)
Acquisition of equity method accounted investments	(25,199)	(190,517)
Acquisition of property, plant and equipment	(273,800)	(610,727)
Acquisition of Intangible assets	(4,675)	(21,443)
Acquisition of available-for-sale securities	(64,315)	(3,960)
Increase of other non-current assets	(982)	(2,981)
NET CASH USED IN INVESTING ACTIVITIES	₩ (168,636)	₩ (745,997)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010 and 2009

(IN MILLIONS OF WON)	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	₩ 1,892,574	₩ 2,240,132
Proceeds from issuance of short-term debentures	123,104	139,734
Proceeds from issuance of debentures	240,569	132,480
Issuance of bonds with stock warrants	-	77,800
Exercise of stock warrants	-	16
Proceeds from issuance of convertible bonds	199,500	-
Proceeds from long-term borrowings	213,488	591,691
Increase in other current liabilities	-	1
Inflows from capital transactions	-	2,329
Repayment of short-term borrowings	(2,012,060)	(1,667,975)
Repayment of short-term debentures	(202,046)	-
Repayment of current portion of other non-current liabilities	(124,449)	(1,045,592)
Repayment of current portion of debentures	(306,181)	(317,555)
Repayment of current portion of long-term borrowings	(318,939)	(106,561)
Repayment of exchangeable bond payable	(4,445)	-
Dividends paid	(13,217)	(25,268)
Capital reduction by cash distribution	-	(36,729)
NET CASH USED IN FINANCING ACTIVITIES	(312,102)	(15,497)
EFFECT OF EXCHANGE RATE CHANGES	2,260	6,961
EFFECT OF CHANGES IN CONSOLIDATED ENTITIES	(101,367)	6,239
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,123)	83,805
Cash and cash equivalents at beginning of year	228,314	144,509
CASH AND CASH EQUIVALENTS AT END OF YEAR	₩ 208,191	₩ 228,314

CORPORATE HISTORY

	March 1980 Commissioned Yeosu BR plant	
	August 1982 Launched HSR production	August 1990 Commissioned Yeosu UC plant
	December 1983 Launched NBR production	May 1992 Commissioned Ulsan BD plant
	March 1984 Commissioned Ulsan SB latex plant	December 1993 Acquired ISO 9001 certification
December 1970 Established as Korea Synthetic Rubber Industries Co., Ltd.	June 1985 Merged with Korea Kumho Chemical Co., Ltd. and changed corporate name to Kumho Petrochemical Co., Ltd.	February 1994 Opened Kumho Chemical Laboratories in Daedeok Techno Valley
April 1973 Commissioned Ulsan SBR plant	June 1985 Established Kumho Petrochemical Research Center	May 1994 Acquired ISO 9002 certification
June 1973 Launched SBR sales	June 1985 Established Kumho Polychem Co., Ltd.	August 1994 Launched SBS production
October 1979 Commissioned Yeosu BD plant		August 1995 Acquired ISO 14000 certification

August 2000 Acquired OHSAS 18001 certification	January 2006 Designated an “Environmentally Friendly Company” by the Ministry of Environment	January 2008 Established Kumho Petrochemical Chongqing Co., Ltd.
October 2000 Established Shanghai Kumho Sunny Plastics Co., Ltd.	June 2006 Received National Environmental Management Excellence Award for GHG Reduction from the Ministry of Environment	June 2008 Established Kumho Petrochemical Shanghai Co., Ltd.
January 2001 Merged with Kumho Chemicals, Inc.	June 2006 Received National Environmental Management Award for Yeosu plant from the Ministry of Environment	September 2008 Received National Productivity Award from the Ministry of Knowledge Economy
June 2003 Received National Environmental Management Award for Yeosu plant from the Ministry of Environment	September 2006 Established Nanjing Kumho GPRO Chemical Co., Ltd.	October 2008 Established Kumho Petrochemical Shenyang Co., Ltd.
August 2003 Kumho Chemical Laboratories and Yicheon Laboratory merged into Kumho Petrochemical R&BD Center		November 2008 Received the Korea Safety Award from the Safety & Certificate Association of Korea
		December 2008 Received USD 2 billion Export Tower Award from the Ministry of Knowledge Economy

1970

1970s

1980s

1990s

2000 ~ 2005

2006 ~ 2007

2008 ~ 2011

beyond

November 1987 Established Kumho Monsanto, Inc.	January 1996 Acquired ISO 14004 certification
November 1987 Established Kumho P&B Chemicals, Inc.	September 1996 Acquired ISO 14001 certification
December 1987 Listed on the Korea Stock Exchange	July 1997 Commissioned Yeosu Energy I
December 1988 Commissioned Yeosu multi-purpose BR plant	November 1998 Commissioned Asan electronic chemicals plant
March 1989 Established Kumho Mitsui Chemicals, Inc.	

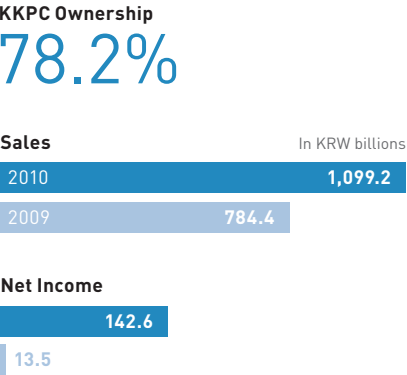
June 2004 Received National Eco-Friendly Management Award for Clean Production from the Ministry of Commerce, Industry & Energy	June 2007 Established Rizhao Kumho Jinma Chemical Co., Ltd.	April 2009 Commissioned Yeosu Energy II
November 2005 Received USD 1 billion Export Tower Award from the Ministry of Commerce, Industry, and Energy	October 2007 Commissioned Ulsan SBR plant expansion (110,000 mtpy)	April 2009 Commissioned Ulsan SBR plant expansion (110,000 mtpy)
December 2005 Received Korea Management Grand Award for Value Management from KMAC		June 2009 Commissioned Rizhao SB latex plant (150,000 mtpy)
		September 2009 Established Guangdong Kumho Sunny High Polymer Material Co., Ltd.
		September 2009 Established Kumho Terminal Operation Company
		September 2010 Commissioned Kumho Petrochemical Shenyang Co., Ltd.
		February 2011 Commissioned Yeosu Synthetic Rubber Plant II (120,000 mtpy)

CHEMICAL AFFILIATES

KUMHO P&B CHEMICALS
www.kpb.co.kr



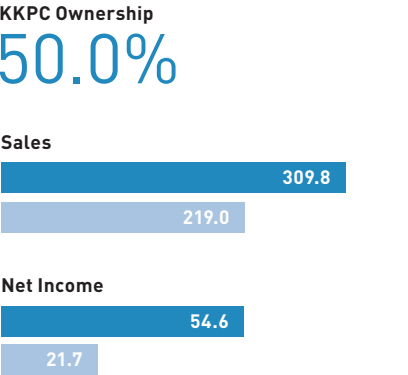
Founded in 1976, Kumho P&B Chemicals was Korea’s first local producer of phenol and acetone. In the years since, the company has come to possess a vertically integrated line of petrochemical products, including bisphenol A (BPA), methyl isobutyl ketone (MIBK), and epoxy resin. In addition to the expansion of the BPA and phenol plants in 2003 and 2005, respectively, Kumho P&B completed a massive, cutting-edge BPA plant in 2008, taking yet another step toward becoming a globally competitive petrochemicals company.



KUMHO POLYCHEM
www.kumhopolychem.com



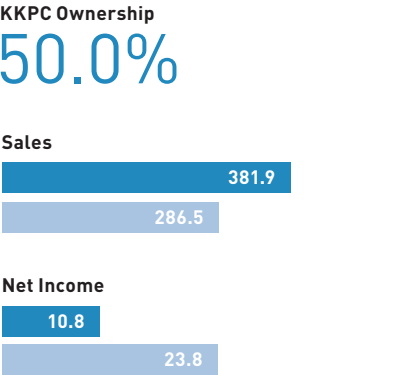
Found in 1985, Kumho Polychem is a major Korean manufacturer of ethylene propylene diene monomer (EPDM), a synthetic rubber commonly used in automotive parts and industrial goods. Kumho Polychem has played a crucial role in stabilizing the supply and demand of EP rubbers in Korea and in the growth of the domestic automotive industry. A successful plant expansion in July 2007 has equipped the Kumho Polychem production facility with a proprietary ultra-low polymerization technology, the very first in the world. On the strength of this plant expansion, Kumho Polychem has become the eighth largest EPDM producer with an 85,000-mtpy annual production capacity. Kumho Polychem maintains its growth momentum through persistent investment in qualitative growth and continued efforts to raise the efficiency of its production system.



KUMHO MITSUI CHEMICALS
www.kmci.co.kr



Since its founding in 1989, Kumho Mitsui Chemicals has grown into a leading manufacturer of methylene diphenyl diisocyanate (MDI), the main feedstock used to produce polyurethane. MDI is a cutting-edge chemical product with wide-ranging applications in a diverse array of product types, including car seats and dashboards, refrigerator insulating material, construction panels, synthetic wood, synthetic leather, spandex, and sneaker soles. The demand for MDI has been increasing steadily. In April 2009, Kumho Mitsui Chemicals completed the expansion of its production facility, raising its production capacity by 140,000 mtpy, a two-fold increase. It has actively expanded to overseas markets and continues its growth toward becoming a global MDI producer.



GLOBAL PARTNERSHIPS

SHANGHAI KUMHO SUNNY PLASTICS CO., LTD.

Purpose	· Secure local production/sales/distribution base in China · Increase sales of colors and specialized products that meet the changing demands of the ABS market · Increase sales of base resin
Key Products	Heat-resistant automotive ABS, heat-resistant ABS for electrical and electronic products
Location	Shanghai, China
Establishment	October 26, 2000
2010 Sales	RMB 786,613,000
KKPC Ownership	50%

NANJING KUMHO GPRO CHEMICAL CO., LTD.

Purpose	Early entry for market dominance in the Chinese polyurethane market
Key Products	PO (propylene oxide), PPG (polypropylene glycol), CS (caustic soda)
Location	Nanjing, China
Establishment	September 28, 2006
2010 Sales	RMB 1,376,204,000
KKPC Ownership	50%

RIZHAO KUMHO JINMA CHEMICAL CO., LTD.

Purpose	Early entry for market dominance in the Chinese paper latex market
Key Products	SB latex
Location	Rizhao, Shandong, China
Establishment	June 8, 2007
2010 Sales	RMB 216,030,000
KKPC Ownership	50%

KUMHO PETROCHEMICAL CHONGQING CO., LTD.

Purpose	Maximize synergy effect by linking the sales of antioxidants and vulcanization accelerators
Key Products	Insoluble sulfur
Location	Chongqing, China
Establishment	January 24, 2008
2010 Sales	RMB 23,597,000
KKPC Ownership	65%

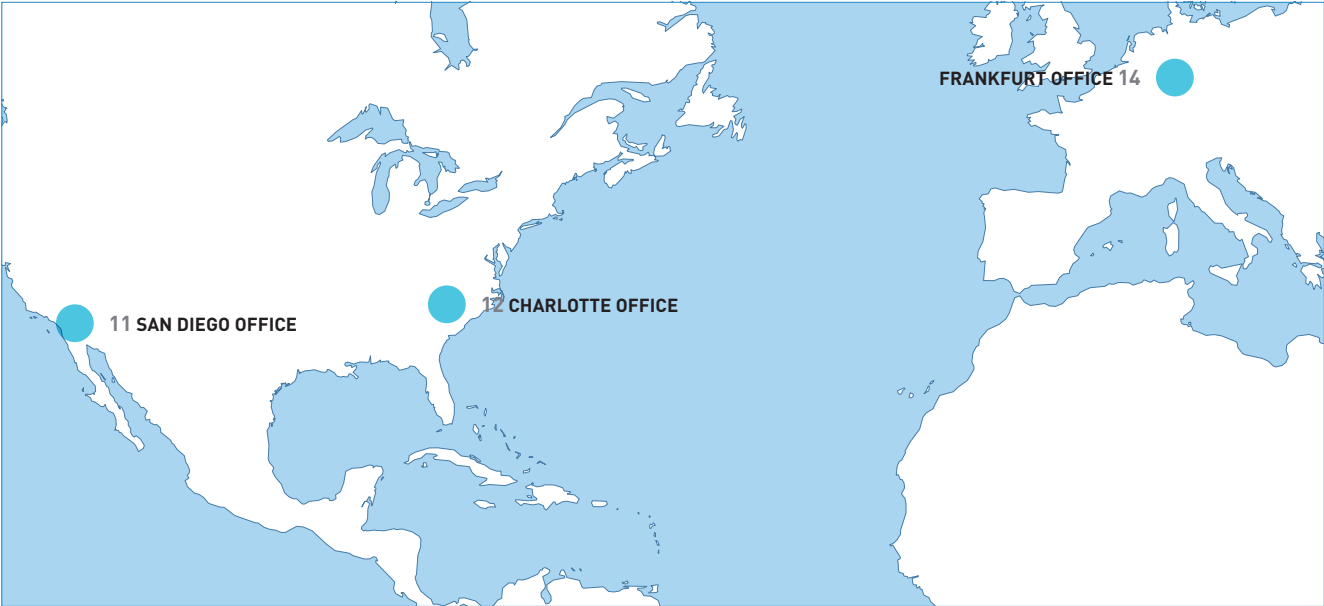
KUMHO PETROCHEMICAL SHENYANG CO., LTD.

Purpose	Early entry for market dominance in the Chinese building insulation materials market
Key Products	XPS (extruded polystyrene foam) and other building materials
Location	Shenyang, China
Establishment	October 9, 2008
2010 Sales	RMB 588,000
KKPC Ownership	80%

KUMHO PETROCHEMICAL SHANGHAI CO., LTD.

Purpose	Maximize sales and profitability by expanding KKPC product distribution in the Chinese market
Key Products	Synthetic rubbers, synthetic resins, overseas affiliate chemical products, Chinese affiliate products
Location	Shanghai, China
Establishment	June 1, 2008
2010 Sales	RMB 18,718,096 (commission base)
KKPC Ownership	100%

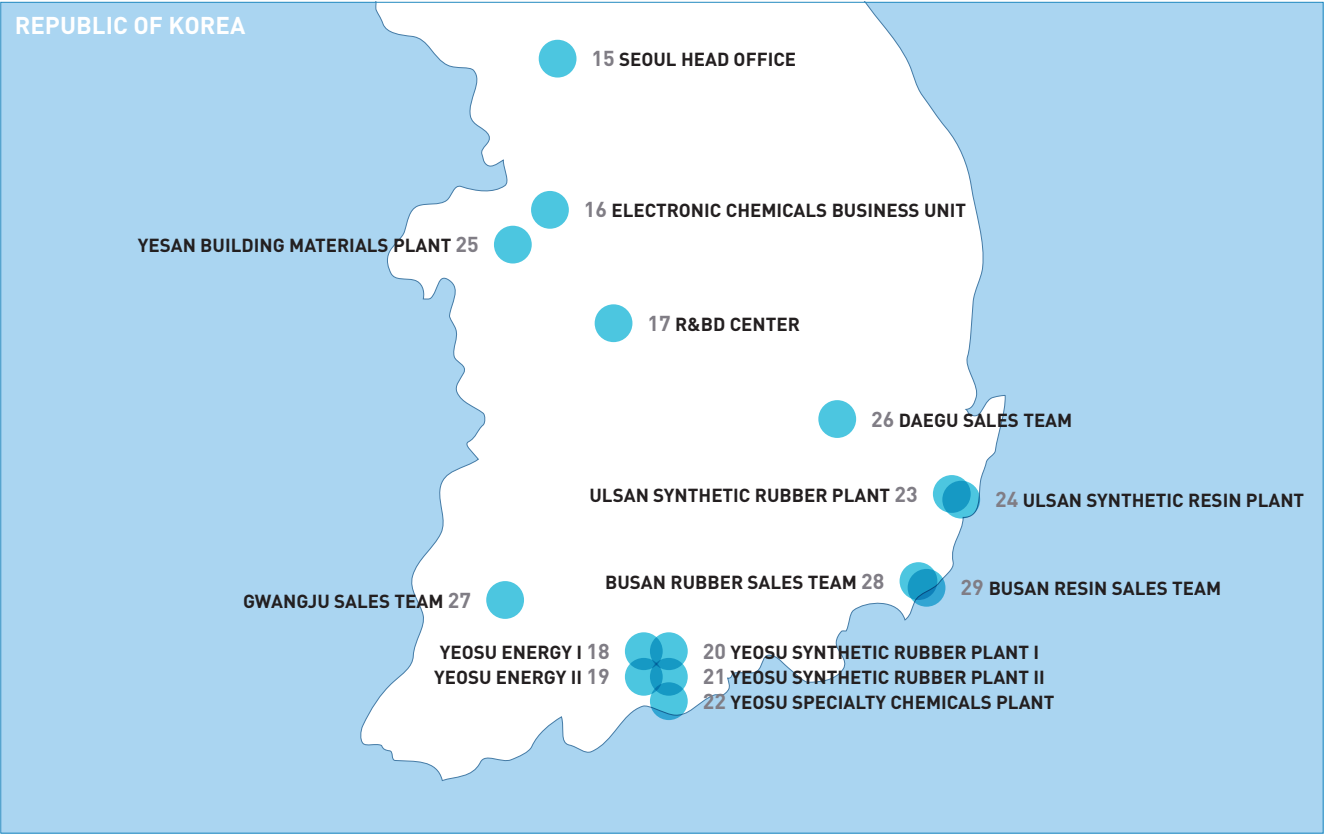
GLOBAL NETWORK



OVERSEAS NETWORK

01 Shanghai Kumho Sunny Plastics Co., Ltd. No. 1399, Jigao Road, Huacao Town Minhang District, Shanghai 201107, China TEL +86-21-6296-9609 FAX +86-21-6296-9208	07 Kumho Petro-Holdings (H.K) Co., Ltd. Room 1808, 18/F, Tower II, Admiralty Centre 8 Harcourt Road, 1 Admiralty, Hong Kong TEL +1-852-2528-9899 FAX +1-852-2804-1440	13 Jakarta Office Menara Jamsostek, 3rd floor Jl. Jend. Gatot Subroto Kav, 38 Jakarta Selatan 12930, Indonesia TEL +62-21-522-8174 FAX +62-21-522-8184
02 Nanjing Kumho GPRO Chemical Co., Ltd. No. 139, Fenghua Road, Nanjing Chemical Indus- try Park, Luhe District, Nanjing 210047, China TEL +86-25-5830-0899 FAX +86-25-5830-0898	08 Shenzhen Office Room 1602, Wanxuan International Bldg. No. 7006, Shennan Road, Futian District Shenzhen, Guangdong 518040, China TEL +86-755-8302-5175 FAX +86-755-8290-4171	14 Frankfurt Office Lyoner Strasse 34, 60528 Frankfurt am Main Germany TEL +49-69-6605-9985 FAX +49-69-6605-9986
03 Rizhao Kumho Jinma Chemical Co., Ltd. Taoluo Industrial Park, Donggang District Rizhao, Shandong 276805, China TEL +86-633-867-7868 FAX +86-633-867-7858	09 Guangzhou Office Room 4313-4314, China Shine Plaza, No. 3-15 Lin He Xi Road, Guangzhou 510610, China TEL +86-20-3847-7265 FAX +86-20-3839-9710	
04 Kumho Petrochemical Chongqing Co., Ltd. No. 1, Huanan Road, Chongqing Chemical Industry Park, Yanjia Street Chanshou District Chongqing 401221, China TEL +86-23-4076-8888 FAX +86-23-4076-8333	10 Qingdao Office No. 21A, International Finance Center, Hong Kong Middle Road No. 59, Qingdao 266071, China TEL +86-532-8503-0002 FAX +86-532-8503-0023	
05 Kumho Petrochemical Shenyang Co., Ltd. Shenxijudonglu 30, Shenyang Chemical Industrial Park, Shenyang 110041, China TEL +86-24-3187-1191 FAX +86-24-3187-1194	11 San Diego Office 910 Hale Place, Suite 205 Chula Vista, CA 91914, USA TEL +1-619-216-6200 FAX +1-619-216-6277	
06 Kumho Petrochemical Shanghai Co., Ltd. Room 2606-2608, Tower B, City Center of Shang- hai, No.100, ZunYi Road, Shanghai 200051, China TEL +86-21-6237-1527 FAX +86-21-6237-1838	12 Charlotte Office 10800 Sikes Place #120 Charlotte, NC 28277, USA TEL +1-704-849-2959 FAX +1-704-849-2979	

GLOBAL NETWORK



DOMESTIC NETWORK

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21 Yeosu Synthetic Rubber Plant II

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23 Ulsan Synthetic Rubber Plant

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24 Ulsan Synthetic Resin Plant

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