

# Korea Equity Fund, Inc.

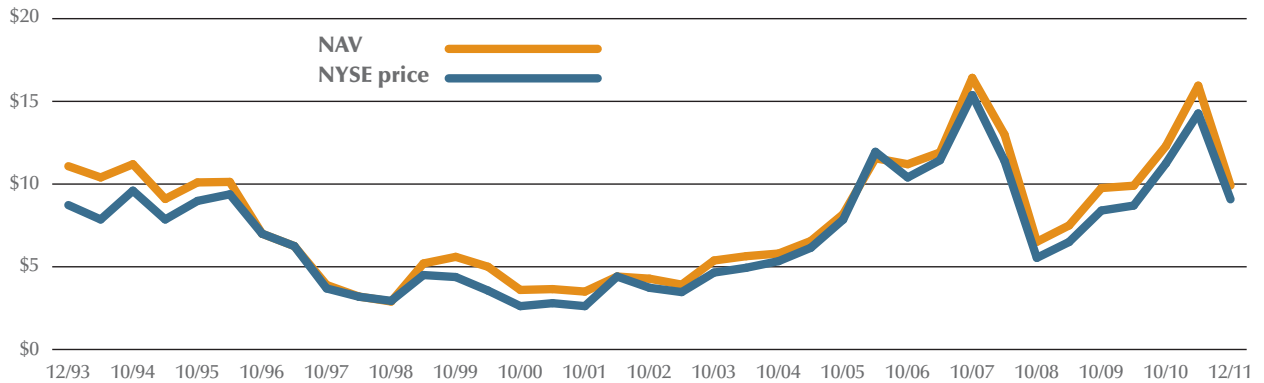
as of 12/31/11

## Fund Objective

**Korea Equity Fund, Inc. ("KEF" or the "Fund")** seeks long-term capital appreciation through investments primarily in equity securities of Korean companies. Under normal circumstances, the Fund will invest at least 80% of its total assets in such securities. KEF is a non-diversified, closed-end management investment company listed on the New York Stock Exchange and the Osaka Securities

Exchange. Nomura Asset Management U.S.A. Inc. has served as the Fund's Manager since the Fund's inception in 1993. Nomura Asset Management Co., Ltd. has served as the Fund's Investment Adviser since the Fund's inception. The Manager and Investment Adviser are subsidiaries of Nomura Holdings, Inc. and affiliates of Nomura Securities Co., Ltd., Tokyo, Japan.

## Net Asset Value Since Inception (December 3, 1993) vs. NYSE Closing Price



## Fund Facts

• **Net Assets:**  
\$103,492,358

• **Net Asset Value:**  
\$9.91

• **NYSE Close:**  
\$9.08

• **Premium/Discount:**  
-8.40%

• **NYSE Ticker Symbol:**  
KEF

• **Equity Portfolio Holdings:**  
39

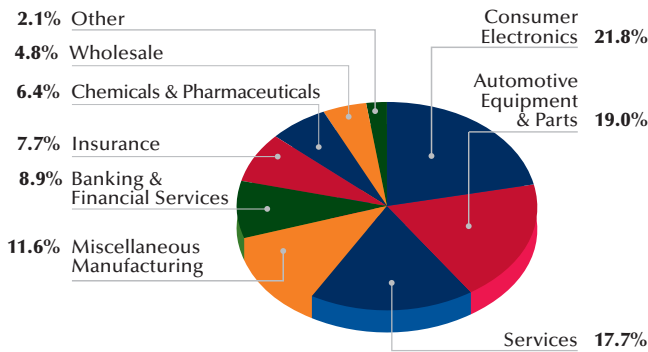
• **CUSIP:**  
50063B104

• **Inception Date:**  
12/3/93

• **Automatic Reinvestment Option**

## Sector Weightings

As of 12/31/11. Sector weightings may vary over time.



## Top Ten Holdings

As of 12/31/11. Holdings may vary over time.

|                               | Percentage of Net Assets |
|-------------------------------|--------------------------|
| Samsung Electronics Co., Ltd. | 19.5%                    |
| Hyundai Mobis                 | 14.0%                    |
| Samsung Engineering Co., Ltd. | 6.5%                     |
| Dongbu Insurance Co., Ltd.    | 4.4%                     |
| Korea Zinc Co., Ltd.          | 4.2%                     |
| LG Chem Ltd.                  | 4.2%                     |
| NCsoft Corporation            | 3.5%                     |
| Samsung Card Co., Ltd.        | 3.4%                     |
| Lock&Lock Co., Ltd.           | 3.2%                     |
| Hyundai Motor Company         | 3.1%                     |

## Performance Overview

Period ending 12/31/11.

|                | Calendar YTD <sup>1</sup> | 1 Yr   | 3 Yr  | 5 Yr | 10 Yr | Since Inception <sup>1</sup> |
|----------------|---------------------------|--------|-------|------|-------|------------------------------|
| KEF NAV        | -6.4%                     | -6.4%  | 24.5% | 1.2% | 11.9% | 0.9%                         |
| KEF NYSE Price | -5.7%                     | -5.7%  | 26.5% | 0.2% | 13.2% | 0.1%                         |
| KOSPI          | -13.9%                    | -13.9% | 20.9% | 0.4% | 11.6% | 2.4%                         |

Past performance is not indicative of future results.

<sup>1</sup>Inception date: December 3, 1993. <sup>2</sup>Based on NAV price, adjusted for reinvestment of income dividends and capital gain distributions. <sup>3</sup>Based on New York Stock Exchange's closing market price, adjusted for reinvestment of income dividends and capital gain distributions. KEF's performance does not represent sales commissions. <sup>4</sup>Korea Composite Stock Price Index ("KOSPI") in U.S. dollars.

Performance in excess of one year is annualized.

Sources: Nomura Asset Management U.S.A. Inc. and Bloomberg L.P.

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## Manager's Commentary

The KOSPI recovered from its lows in October but remained range bound throughout the final quarter of the year amid Europe's debt problems. The Index closed at 1,825.74, 3.2% higher for the quarter but was 18% below its peak of 2,228.96 in May 2011. For the month of December, the KOSPI declined by 1.2% or 21.77 points. Kim Jong-Il, the leader of North Korea, died on the morning of December 17th and this news caused the Index to decline 3.4% on December 19th. The Financials and Chemical sectors weighed on the Index performance in December, while the Shipbuilding sector also underperformed as order cancellations spooked investors. Large cap Technology stocks outperformed the Index as quarterly earnings are likely to surpass consensus expectations. Internet names were sold down on reports that the Korea Communications Commission will push to include value-added common carriers (including internet portals) to its monopoly watch list from January 2012.

Bank of Korea (BOK) revised down its growth forecasts for 2011 and 2012 by 0.5% points and 0.9% points to 3.8% and 3.7%, respectively, from its July forecasts. However, the BOK expects consumption to remain resilient as household income conditions improve and construction investment looks set to recover. In the last quarter of 2011, the BOK Monetary Policy Committee kept its key interest rate steady at 3.25% despite core inflation holding stubbornly high above 4% in November and December. November export growth rebounded to +13.8% year-over-year (yoy) from +8.0% (yoy) in October, largely due to strong exports to China and the ASEAN (Association of Southeast Asian Nations) region. However, going forward, overall exports are likely to contract as Euro demand remains sluggish.

## Fund Information by Calendar Year\*

|                   | KEF<br>Performance** | KOSPI<br>Performance*** | NAV<br>At Period End | NYSE Closing Price<br>At Period End | Income<br>Dividend | Capital Gain<br>Distributions | Net Assets<br>(\$ millions) |
|-------------------|----------------------|-------------------------|----------------------|-------------------------------------|--------------------|-------------------------------|-----------------------------|
| 1994 <sup>†</sup> | -39.1%               | 21.4%                   | \$9.81               | \$8.75                              | —                  | \$0.28                        | \$87.7                      |
| 1995              | -4.3%                | -12.4%                  | \$9.06               | \$8.38                              | \$0.02             | —                             | \$76.3                      |
| 1996              | -26.9%               | -32.3%                  | \$6.07               | \$6.13                              | —                  | —                             | \$51.0                      |
| 1997              | -52.1%               | -71.2%                  | \$2.05               | \$2.94                              | —                  | —                             | \$17.3                      |
| 1998              | 17.0%                | 110.7%                  | \$3.86               | \$3.44                              | —                  | —                             | \$32.5                      |
| 1999              | 41.8%                | 94.0%                   | \$6.88               | \$4.88                              | —                  | —                             | \$57.9                      |
| 2000              | -50.0%               | -56.1%                  | \$3.13               | \$2.44                              | —                  | —                             | \$26.3                      |
| 2001              | 37.4%                | 32.9%                   | \$4.12               | \$3.35                              | —                  | —                             | \$34.6                      |
| 2002              | 8.1%                 | -0.2%                   | \$4.20               | \$3.62                              | —                  | —                             | \$35.4                      |
| 2003              | 37.6%                | 28.5%                   | \$5.72               | \$4.98                              | —                  | —                             | \$48.1                      |
| 2004              | 23.5%                | 27.3%                   | \$6.56               | \$6.15                              | —                  | —                             | \$55.2                      |
| 2005              | 50.9%                | 57.6%                   | \$10.28              | \$9.28                              | —                  | —                             | \$86.5                      |
| 2006              | 23.3%                | 13.1%                   | \$11.91              | \$11.44                             | —                  | —                             | \$100.2                     |
| 2007              | 14.5%                | 31.4%                   | \$14.57              | \$13.10                             | —                  | —                             | \$163.3                     |
| 2008              | -55.1%               | -56.1%                  | \$6.52               | \$5.69                              | \$0.03             | —                             | \$73.2                      |
| 2009              | 62.6%                | 62.1%                   | \$10.56              | \$9.25                              | —                  | —                             | \$118.4                     |
| 2010              | 32.2%                | 26.7%                   | \$13.45              | \$12.23                             | —                  | —                             | \$119.0                     |
| 2011              | -6.4%                | -13.9%                  | \$9.91               | \$9.08                              | —                  | —                             | \$103.5                     |

\*Sources: Nomura Asset Management U.S.A. Inc. and Bloomberg L.P. \*\*Based on New York Stock Exchange's closing market price, adjusted for reinvestment of income dividends and capital gain distributions. KEF's performance does not

reflect sales commissions. \*\*\*Korea Composite Stock Price Index in U.S. dollars. <sup>†</sup>The Fund's inception date was December 3, 1993.

## Additional Information

Comparisons between changes in the Fund's net asset value per share and changes in the Korea Composite Stock Price Index should be considered in light of the Fund's investment policy and objective, the characteristics and quality of the Fund's investments, the size of the Fund, and variations in the Korean won/U.S. dollar exchange rate.

This report is for informational purposes only. The financial information is taken from the records of the Fund without examination by independent accountants who do not express an opinion thereon.

It is not a prospectus, circular or representation intended for use in the sale of shares of the Fund or of any securities mentioned in this report. Past performance is not indicative of future results. Current performance may be lower or

higher than the performance presented. Investment products offered are not FDIC insured, may lose value, and are not bank guaranteed. The Korea Composite Stock Price Index is a market capitalization-weighted index. The index was developed with a base value of 100 as of January 4, 1980.

This material contains the current opinions of the Fund's manager, which are subject to change without notice. It should not be considered investment advice. Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions, and each investor should evaluate their ability to invest for the long-term.

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