

2005 2Q

# Business performance & 3Q Prospects

2005. 7. 22



KOREA KUMHO PETROCHEMICAL CO.,LTD.

# Contents

This document is written for investors while an audit by an external auditor for a performance of 2005. 2Q has not be completed.

Therefore, some of the contents put forth here might be modified throughout the course of a financial audit.

Furthermore, please be informed the prospects for 2005. 2Q are only estimates

Korea Won amounts have been translated Into U.S. Dollars at the rate of W1,009 per US\$ 1.00 [ average 2005. 2Q]

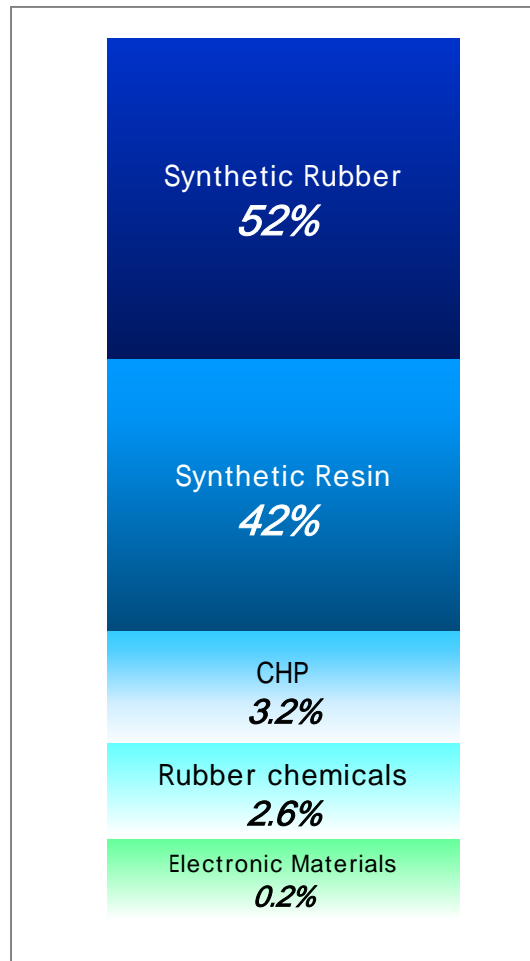
- I. Overview**
- II. 2Q business performance**
- III. 3Q prospects & plans**
- IV. APPENDIX**

# I. Overview



1. Business Portfolio
2. Synthetic Rubber
3. Synthetic Resin
4. Other Business
5. Shareholding Structure

# 1. Business Portfolio



\* Sales (2005. )

## Synthetic Rubber

- SBR, HBR, NBR, Latex, SBS, ETC
- World's 4<sup>th</sup> Production capacity(in SBR & BR]
- Production capacity : 573,000Mt/Year

## Synthetic Resin

- Styrenics(ABS, PS, EPS)ABS ,PS, EPS, PPG
- Production capacity : 533,000Mt/Year

## Combined Heat and Power

- Steam and Electricity
- Self consumption or sale to Neighboring companies
- Production capacity : 630Mt/Hr, 36MWH/Hr

## Rubber Chemicals

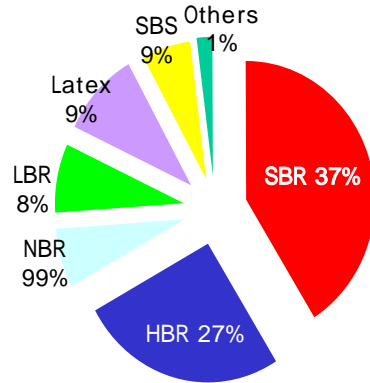
- Antioxidants and Vulcanization Accelerators
- Korea's No 1 in M/S (70%)
- Production capacity : 21,000Mt/Year

## Electronic Materials

- Developer and Stripper used in manufacturing LCD
- Next generation Photo-resist for semiconductor
- Production capacity : 2,000Mt/Year

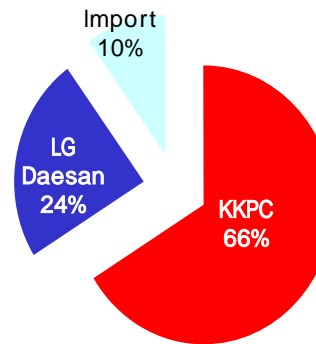
## 2. Synthetic Rubber

Sales Breakdown

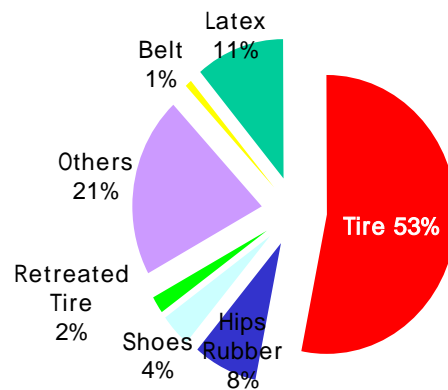


Market position

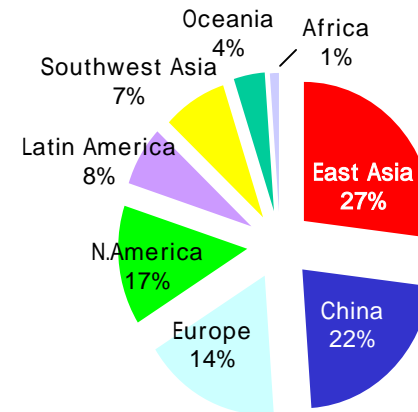
\* Basis : 1H, 2005



Sales by use



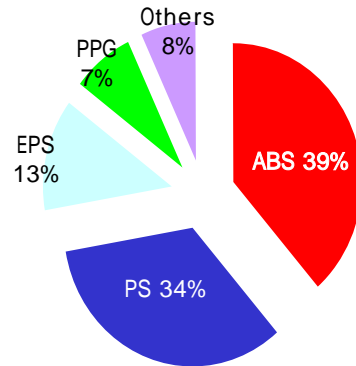
Market composition



\* Export : 56%, Domestic 44%

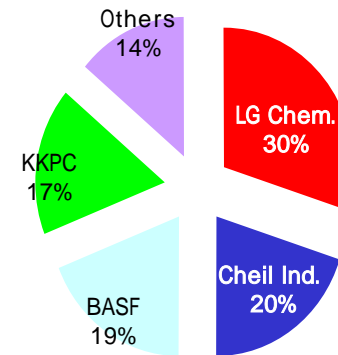
### 3. Synthetic Resin

Sales Breakdown

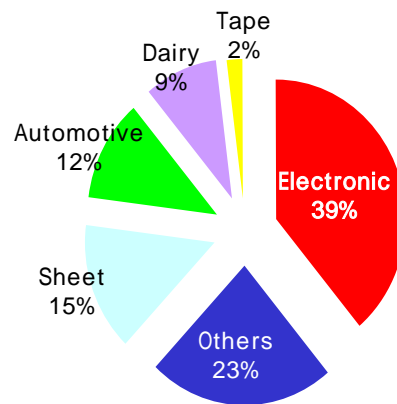


Market Position

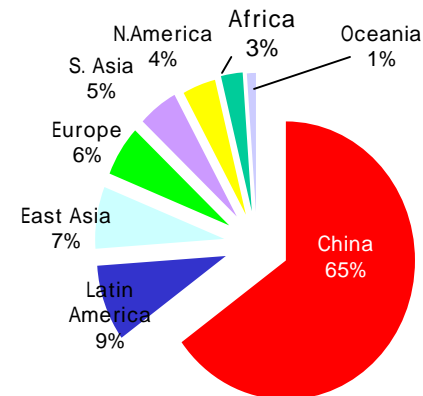
\* Basis : 1H, 2005



Sales by use



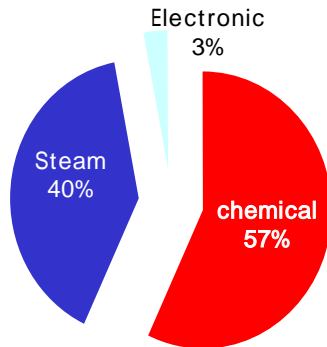
Market Composition



\* Export : 60%, Domestic 40%

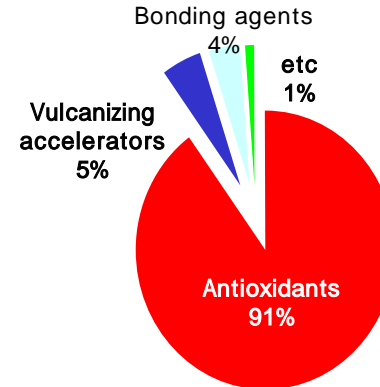
## 4. Other business

Sales breakdown

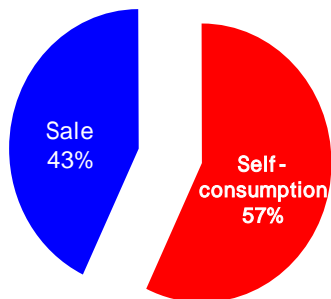


Rubber chemical sales mix

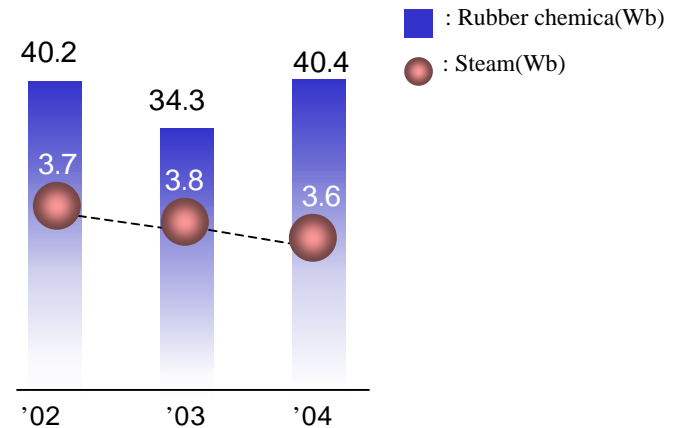
\* Basis : 1H, 2005



Steam by use

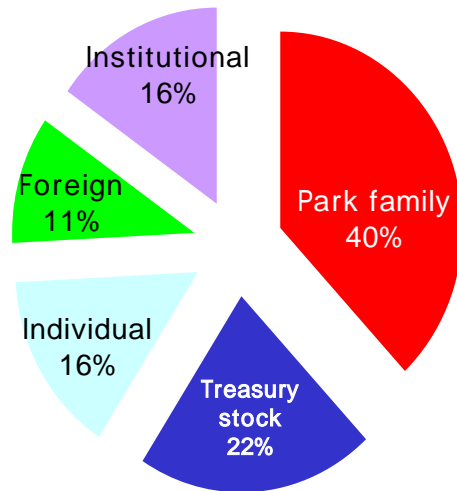


Sales trend



## 5. Shareholding structure

Shareholding Structure



Share information

	shares	Price*	Market cap	Capital
Common	25,424,447	20,300	516Wb	127.1Wb
Preferred	3,023,486	10,000	30Wb	15.1Wb
TOTAL	28,447,933	-	546Wb	142.2Wb

Note

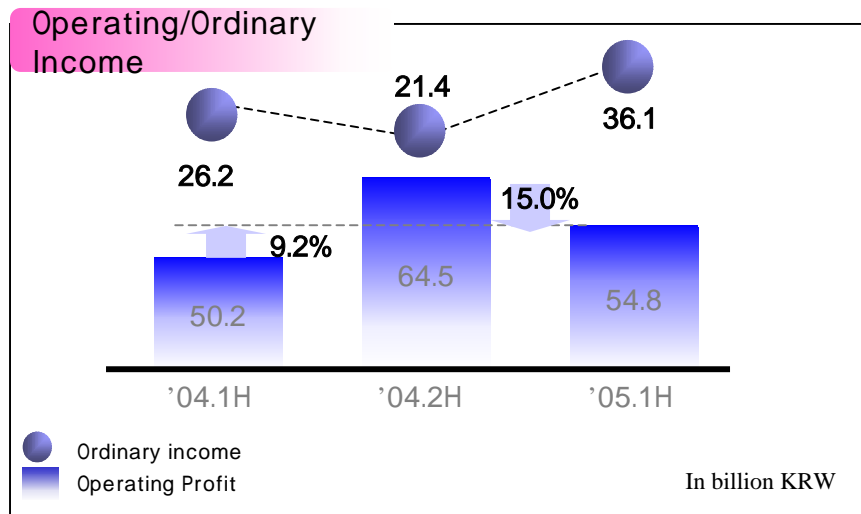
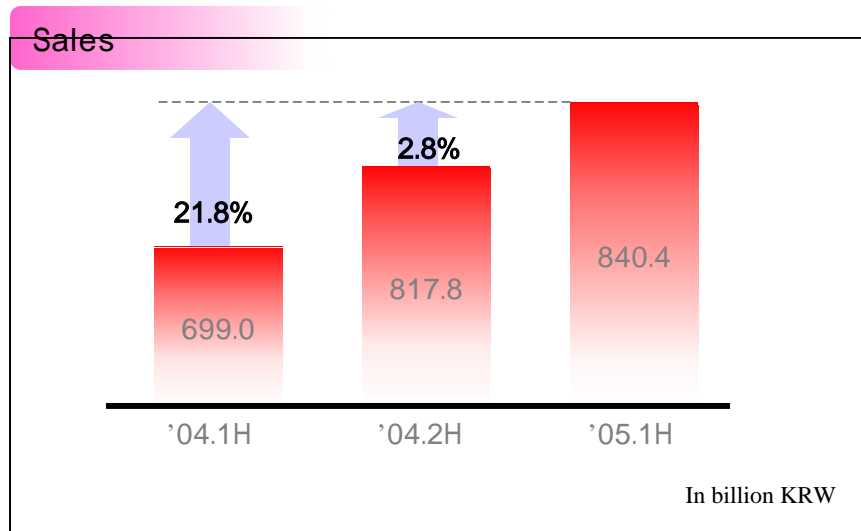
\* Price : Market Price on June 30, 2005



## II. 2Q Business Performance

1. 1H Business performance[summary]
2. 2Q Business performance[summary]
3. Income Analysis
4. Financial Structure
5. Cash Flow
6. Business performance[Business Unit]
7. Main Achievements of 2Q 2005

## 1. 1H Business Performance[summary]



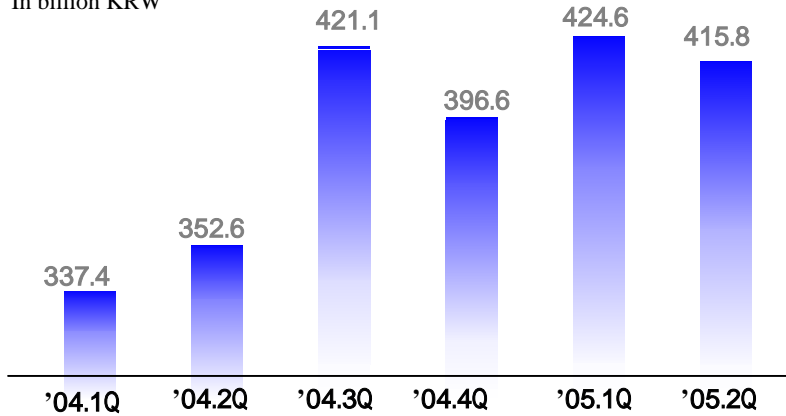
[in billion KRW]

	'04.1H	'04.2H	'05.1H	Growth[%]	
			Actual	Y-Y	Q-Q
sales	690.0	817.8	840.4	21.8	2.8
Gross margin	113.7	125.9	1,17.0	2.9	7.1
[%]	16.5	15.4	13.9		
Operating Income	50.2	64.5	54.8	9.2	15.0
[%]	7.3	7.9	6.5		
Ordinary Income	72.0	92.6	88.6	23.1	4.3
Except for Equity Method income	26.2	21.4	36.1	37.8	68.7
Net Income	51.6	82.8	7.14	38.4	13.8
E.M.Income	45.8	71.2	52.5	14.6	26.3

## 2. 2Q Business Performance [summary]

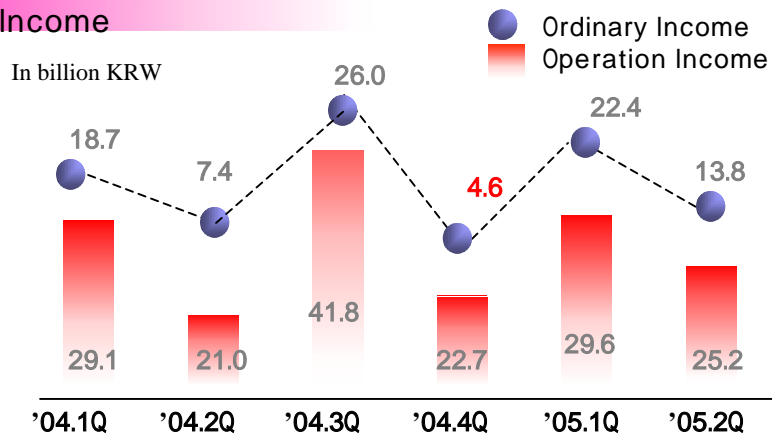
## Sales

In billion KRW



## Operating/Ordinary Income

In billion KRW



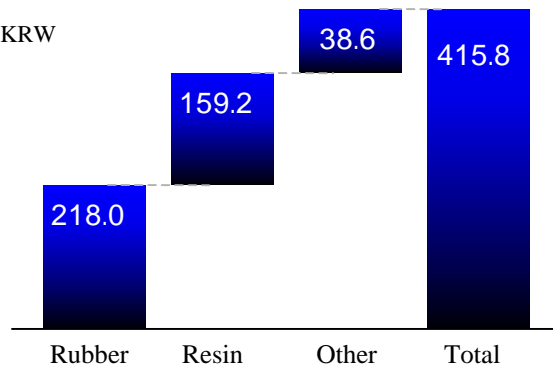
In billion KRW	'04.2Q	'05.1Q	'05.2Q	Growth[%]	
			Actual	Y-Y	Q-Q
sales	352.6	424.6	415.8	17.9	2.1
Gross Margin	53.3	60.8	56.2	5.4	7.6
[%]	15.1	14.3	13.5		
Operating Income	21.0	29.6	25.2	20.0	14.9
[%]	5.9	7.0	6.1		
Ordinary Income	26.4	56.5	32.1	21.6	43.2
Except for Equity Method Income	7.4	22.4	13.8	86.5	38.4
Net Income	20.0	46.8	24.6	23.0	47.4
E.M.Income	19.0	34.2	18.3	3.7	46.5

### 3. Income Analysis

- 53% of revenue came from synthetic rubber, 38% from synthetic resin, 9% from other sectors
- Achieved 25.2billion KRW of operating income 21.4 billion came from synthetic rubber, 6.4 billion from synthetic resin, 10.2 billion from other sectors.

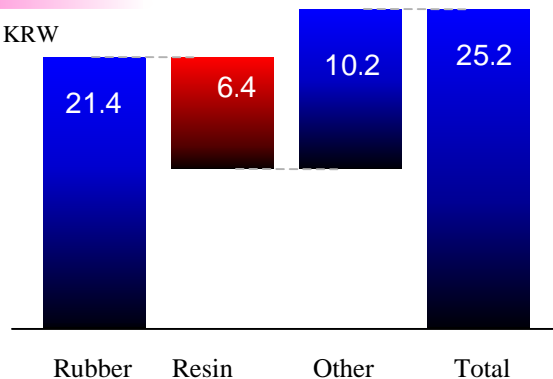
#### Sales

In billion KRW



#### Operating Income

In billion KRW

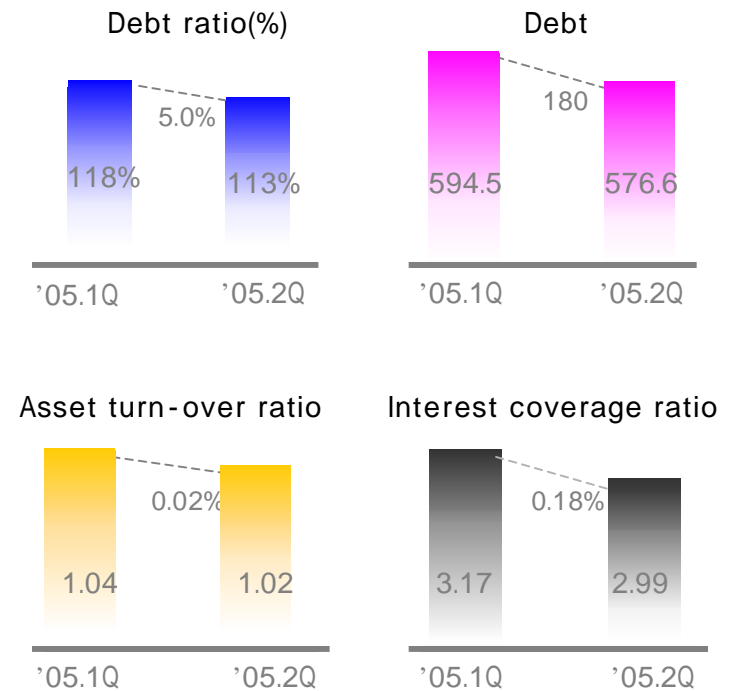


In billion KRW	'04.2Q	'05.1Q	'05.2Q	Growth[%]	
			Actual	Y-Y	Q-Q
Sales	352.6	424.6	415.8	17.9	2.1
[Rubber]	156.5	224.4	218.0	39.3	2.9
[Resin]	169.1	165.1	159.2	5.9	3.6
[Other]	27.0	35.1	38.6	43.2	10.2
Operating Income	21.0	29.6	25.2	19.6	15.0
[%]	6.0	7.0	6.1		
Rubber	10.0	26.6	21.4	114.0	19.5
[%]	6.4	11.9	9.8		
Resin	2.8	5.6	6.4	328.6	14.3
[%]	1.7	3.4	4.0		
Other	8.2	8.6	10.2	24.4	18.6
[%]	30.4	24.5	26.4		

## 4. Financial structure

- Liability increased by 2.3 billion KRW over previous quarter, debt ratio decreased by 5.0% over previous quarter.
- Borrowings decreased by 35.1 billion KRW over last year decreased by 18.0 billion KRW over previous quarter.

	Unit	'04.2Q	'05.1Q	'05.2Q	Y-Y	Q-Q
Assets	Wb	1,470.6	1,629.6	1,662.7	192.1	33.1
Liabilities	Wb	858.8	880.5	882.8	24.0	2.3
Equity	Wb	611.8	749.1	779.9	168.1	30.8
Dept ratio(%)	%	140	118	113	27	5.0
Dept	Wb	611.7	594.5	576.6	35.1	18.0
Asset turn-over ratio		0.97	1.04	1.02	0.05	0.02
Interest Coverage ratio		1.60	3.17	2.99	1.39	0.18



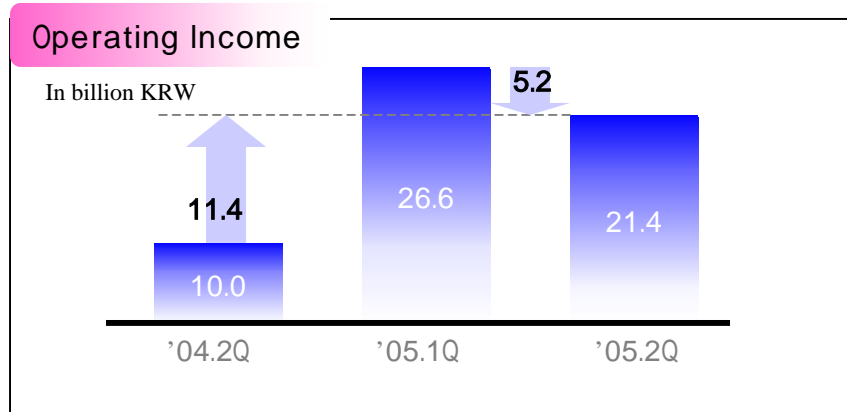
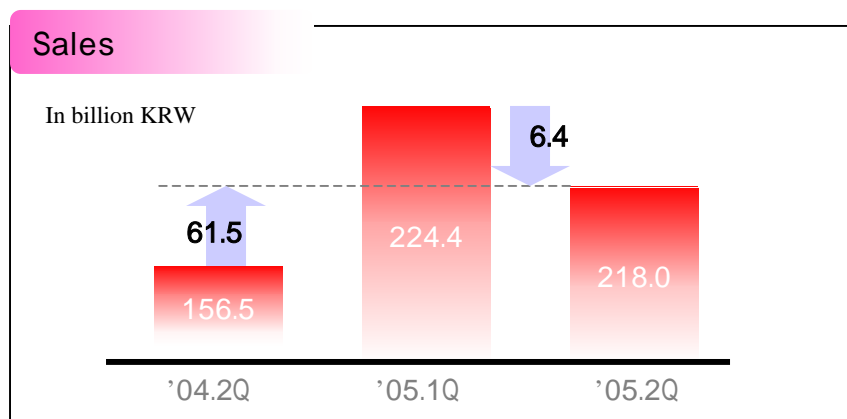
## 5. Cash Flow

[in billion KRW]

	'04.2Q	'05.1Q	'05. 2Q	Y-Y	Q-Q
1. Operating	32.4	2.1	45.2	12.8	47.3
- Net Income	20.0	46.8	24.6	4.6	22.2
- Depreciation/severance benefits	15.7	16.1	15.7	0	0.4
- Other	3.3	65.0	4.9	8.2	69.9
2. Investment	26.3	22.1	17.1	9.2	39.2
- Tangible	9.9	12.7	33.5	23.6	20.8
- Other	16.4	34.8	16.4	32.8	18.4
3. financing	5.4	15.6	32.0	26.6	16.4
- Borrowings	2.6	16.2	18.5	15.9	2.3
- Treasury stock/dividend	18.1	-	11.5	29.6	11.5
- Other	20.9	0.6	2.0	18.9	2.6
Net Cash Flow	0.7	4.5	3.9	4.6	8.4

## 6. Synthetic Rubber

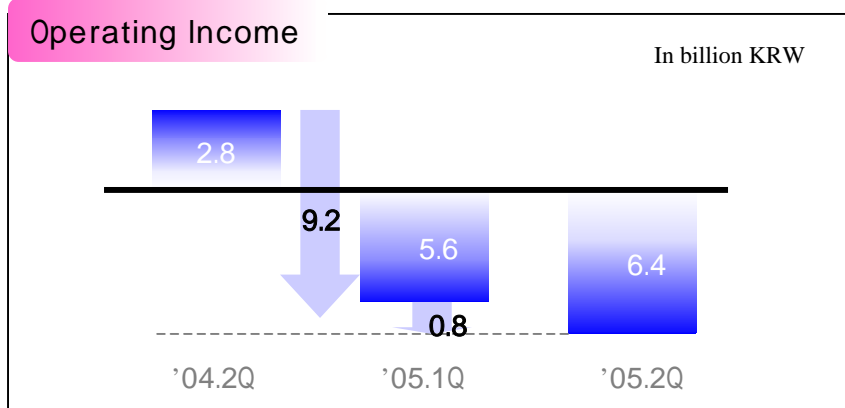
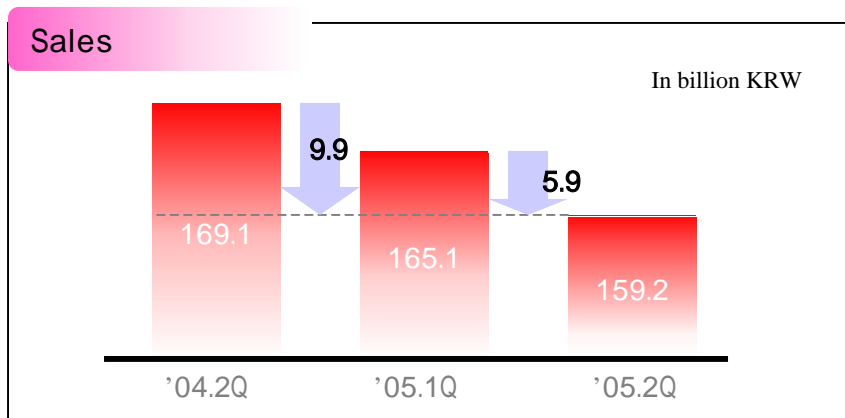
- Solid profit continued aided by soaring export to Asia and America(23% increase over the same period last year)
- Revenue slightly decreased due to Yeosu plant annual shut down in may June 2005



- Despite strong BD price, export increased by 23% and operating income increased by 15.2 billion KRW over the same period last year aided by increasing demand in Asia, America and Europe
- Tight demand/supply and strong natural rubber price continued(Natural rubber import price : \$1,370)
- In May&June, the sale of SBR temporarily decreased due to the influx of low-price products from Russia and other places caused by low SM price.  
(In July sales is rapidly recovering because the influx of low-price products halted as SM price Stabilized)
- Sales a bit decreased due to Yeosu Plant annual Shut-down
  - Each line shut down for 15 days for maintenance in May/June 2005
  - Production line tied in for revamping

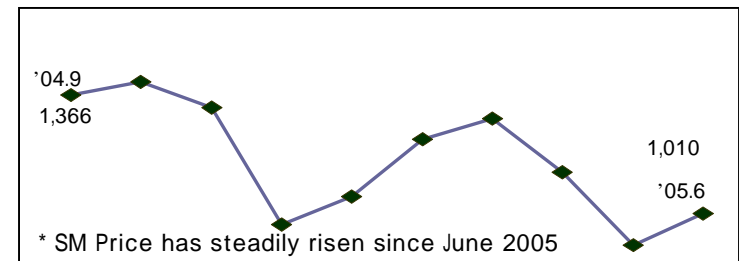
## 6. Synthetic Resin

- Revenue and operating income reduced due to the sharp fluctuation of SM price
- 3Q operating income expected to increased as SM price has steadily risen since June 2005



- Revenue and operating income decreased due to the burden of high cost inventory and sluggish sales caused by the sharp fluctuation of SM price
- Price slightly went down in May 2005 due to sluggish Chinese market and the entry of China's SECCO
- SM Price trend (CFR Taiwan, \$, Month, 2005]

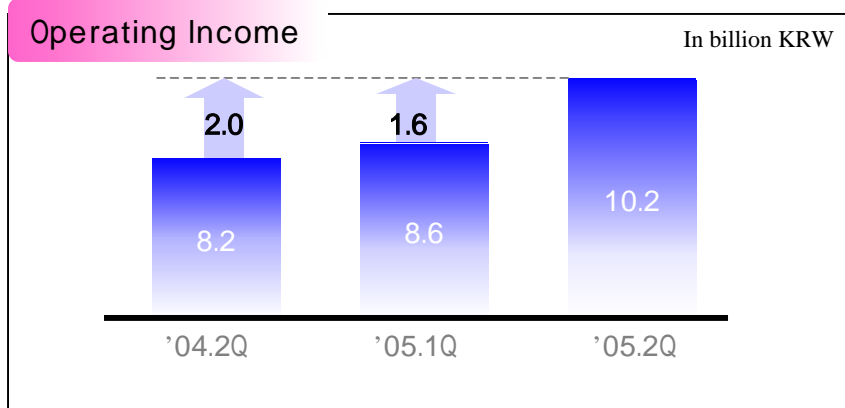
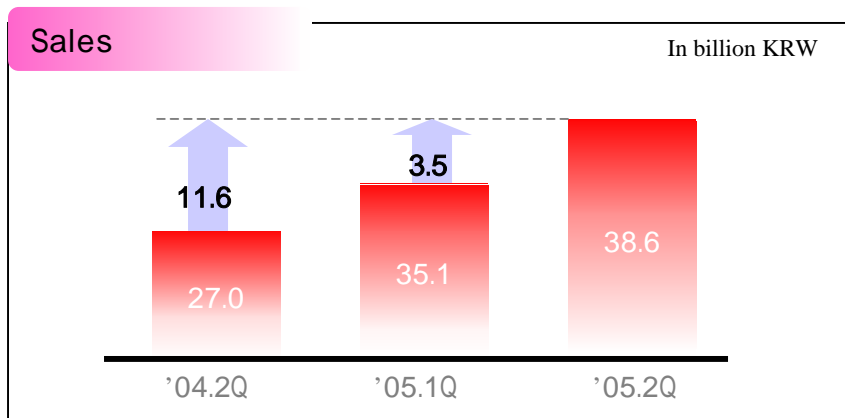
1	2	3	4	5	6
1,048	1,233	1,295	1,136	915	1,010





## 6. Other divisions

- Profitability improved due to brisk antioxidants sales in the rubber chemical sector and the utility price hike in the combined heat power plant



- Profitability improved due to utility price hike of combined heat power plant and rubber chemical
  - Chemical price : 3,200 million KRW/Ton[1Q '04]  
4,690 million KRW/Ton[2Q '05]
- Sales volume increased over the same period last year
  - Chemical : 55% [3,100Ton 4,800Ton]
  - C.H.P : 9.5% [294Kton 322Kton]
- Revenue increased over the same period last year [in billion KRW]
  - Chemical : 127% [99 225]
  - C.H.P : 18.0% [124 147]
  - Electronic : 25.0% [8 10]

## 7. Main Achievement of 2Q, 2005

### Improving profitability

- Expand production capacity  
[2Q capacity addition]
  - HBR: 155Kt/Y    200Kt/Y[45Kt]
  - \* swing LBR Production Line
- Considering expanding rubber chemical production capacity
  - Considering increasing production capacity of antioxidants[K-13], [1,300Mt/Year]
- Turbine Generator Tie In completed
  - Construction to be completed in October 2005
- Expand into new markets
  - expand marketing into newly developed construction material sector

### Reviewing business opportunities

- Mid to long term strategy consulting for chemical affiliates
  - objects
    - Future prospects of existing businesses
    - Business prospects of chemical affiliates
    - New business prospect
  - Follow up
    - Use consulting report for business plan

### Shareholder value maximizing management

- Aggressive IR activity
  - held 1Q business performance seminar[April 22]
  - Distributed 2004 Annual Report
- Post quarterly performance and hold investor Meeting
- Invite analysts for IR at least 3 times a week

### III. Prospects and plans



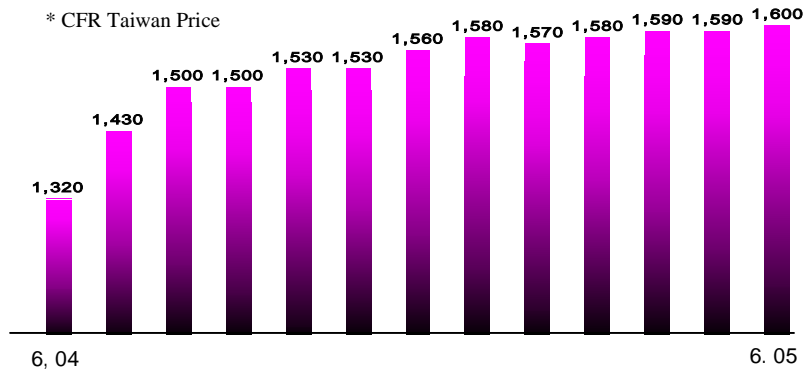
1. Business prospects
2. Management plans

# 1. Business Prospects – Synthetic Rubber

## Production/Feedstock Price Trend

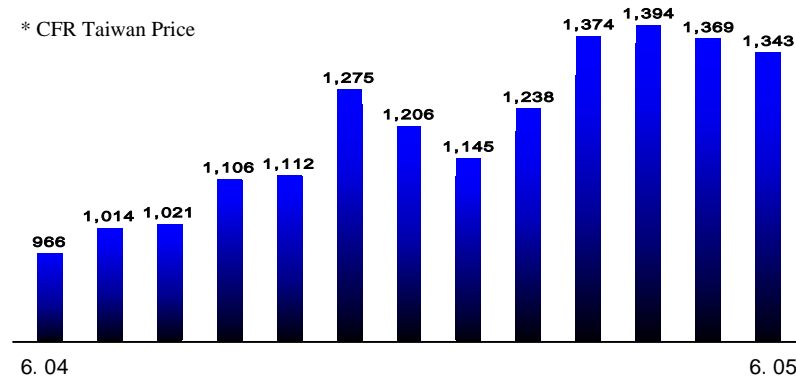
Production Price[KRW/Ton]

\* CFR Taiwan Price



Feedstock Price[BD, KRW/Ton]

\* CFR Taiwan Price

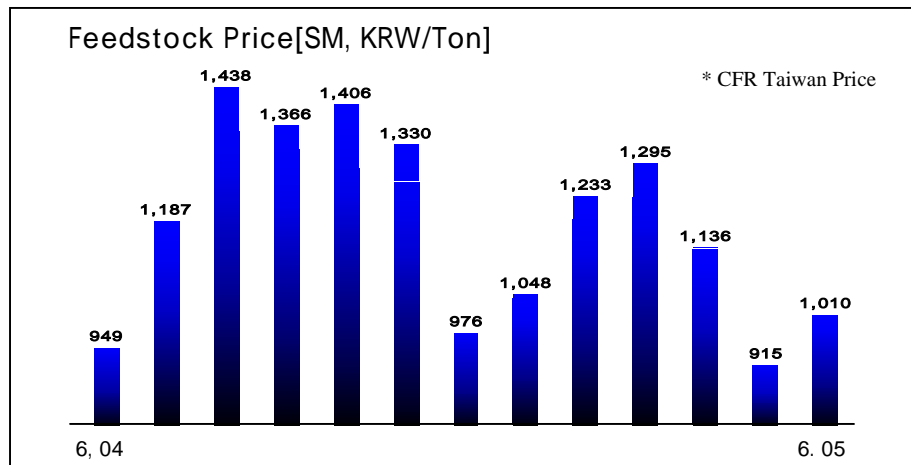
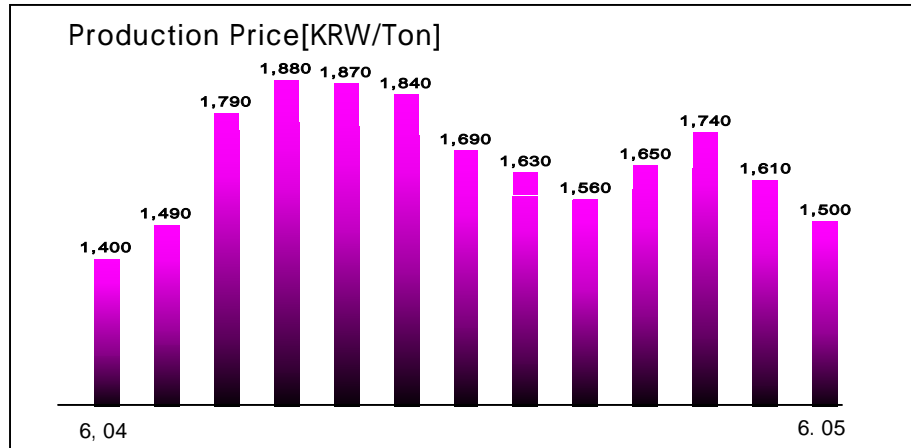


## forecast of 3Q, 2005

- Sales and operating income expected to grow due to ever growing demand in South-East Asia and China
- BR sales in Europe expected to increase aided by the completion of Nd-BR[new environment – friendly product) capacity addition
- SBR sales expected to grow due to capacity addition
  - Capacity addition of 30,000 ton to be completed in October 2005
- High natural rubber price continues caused by bad weather conditions in the natural rubber producing nations [Thailand, etc.]
- Considering commercialization of MMA
  - Utilizing surplus acetone produced by Kumho P&B chem. create synergy effect among group affiliates.
- Maximize profit by expanding direct marketing

# 1. Business prospects – Synthetic Resin

## Production/Feedstock Price Trend



## forecast of 3Q, 2005

- Sales volume expected to increase as demand rises in the China market
- Expand sales to Japan and East Asia
- SM price expected to remain strong since July. unlike 2Q, there won't be sharp fluctuation of sales price
- Revenue and operating income expected to rise due to seasonal peak
- Strengthen marketing in the construction material sector
  - Try to enter window material business with KKPC's ASA product
  - form construction material sales T.F.T to facilitate marketing
- Improve profitability by removing low-profit-generating grade

## 2. Management Plants

### Improving Profitability

- Maximize production capacity by revamping Synthetic rubber production line
  - Capacity addition of SBR 30,000ton(to be completed in October 2005)
- Commercial production of Nd-BR (Environment - friendly material)
- Complete turbine generator tie in
  - construction to be completed in Oct,2005

### Expand marketing activity of Synthetic Resin sector

- Expand marketing into construction material sector
  - Enter window material business with KKPC's ASA product

### Energy sector & New business

- Building TDF Power Plant (going on)
  - Target Operation Date [2<sup>nd</sup> half of 2007]
  - Currently : designing boiler
  - Purpose : generate electricity utilizing garbage resource.  
build utility supply base for Yeosu industrial complex
- Improving profitability
  - cut 23% of steam cost compared to existing coal boiler
- MMA project
  - Purpose : Create new profit source and synergy among affiliates
  - structure : J/V
  - construction period : 2 yrs. Yeosu
  - currently : reviewing feasibility

## IV. APPENDIX



1. Income statement
2. Balance sheet
3. CAPEX
4. Percentage of ownership

## 1. Income statement

In billion KRW	'04.2Q	'05.1Q	'05.2Q	remark
Sales	352.6	424.6	415.8	
Gross margin	53.3	60.8	56.2	
Selling and Administrative expenses	32.3	31.2	31.0	
Operating Income	21.0	29.6	25.2	
[%]	5.9	7.0	6.1	
Non-operating Income	23.0	43.3	20.6	
Non-Operating expenses	17.6	16.4	13.7	
Ordinary Income	26.4	56.5	32.1	
[Except for equity Method income]	7.3	22.4	13.8	
Net income	16.9	46.8	24.6	



## 2. Balance sheet

In billion KRW	'04.2Q	'05.1Q	'05.2Q	Remark
Assets	1,470.6	1,629.6	1,662.7	
Current	295.5	384.2	380.7	
[Inventories]	146.6	179.1	184.1	
Non-Current	1,175.1	1,245.4	1,282.0	
[Tangible]	485.6	487.8	503.6	
Liabilities	858.8	880.5	882.8	
Current	610.5	457.9	451.5	
Non-Current	248.3	422.6	431.3	
Equity	611.8	749.1	779.9	
Paid-in capital	142.2	142.2	142.2	
Retained earnings	65.3	184.1	208.7	
Other	404.3	422.8	429.0	

## 3. CAPEX

In billion KRW	'04. 2Q	'05. 2Q		Change	
		Plan	Actual	Y-Y	P-P
Ordinary	8,7	19,1	10,7	2,0	8,4
Expansion	3,6	19,8	18,7	15,1	1,1
NEW		9,1	0,3	0,3	8,7
R&D	5,1	8,8	6,2	1,1	2,6
TOTAL	17,4	56,8	35,9	18,5	20,1

## The main Investment of 2Q

- SEBS Plant Revamping[5.4]
- T/G expansion [3.3]
- ABS Sheet expansion [2.2]

## Unfinished investment

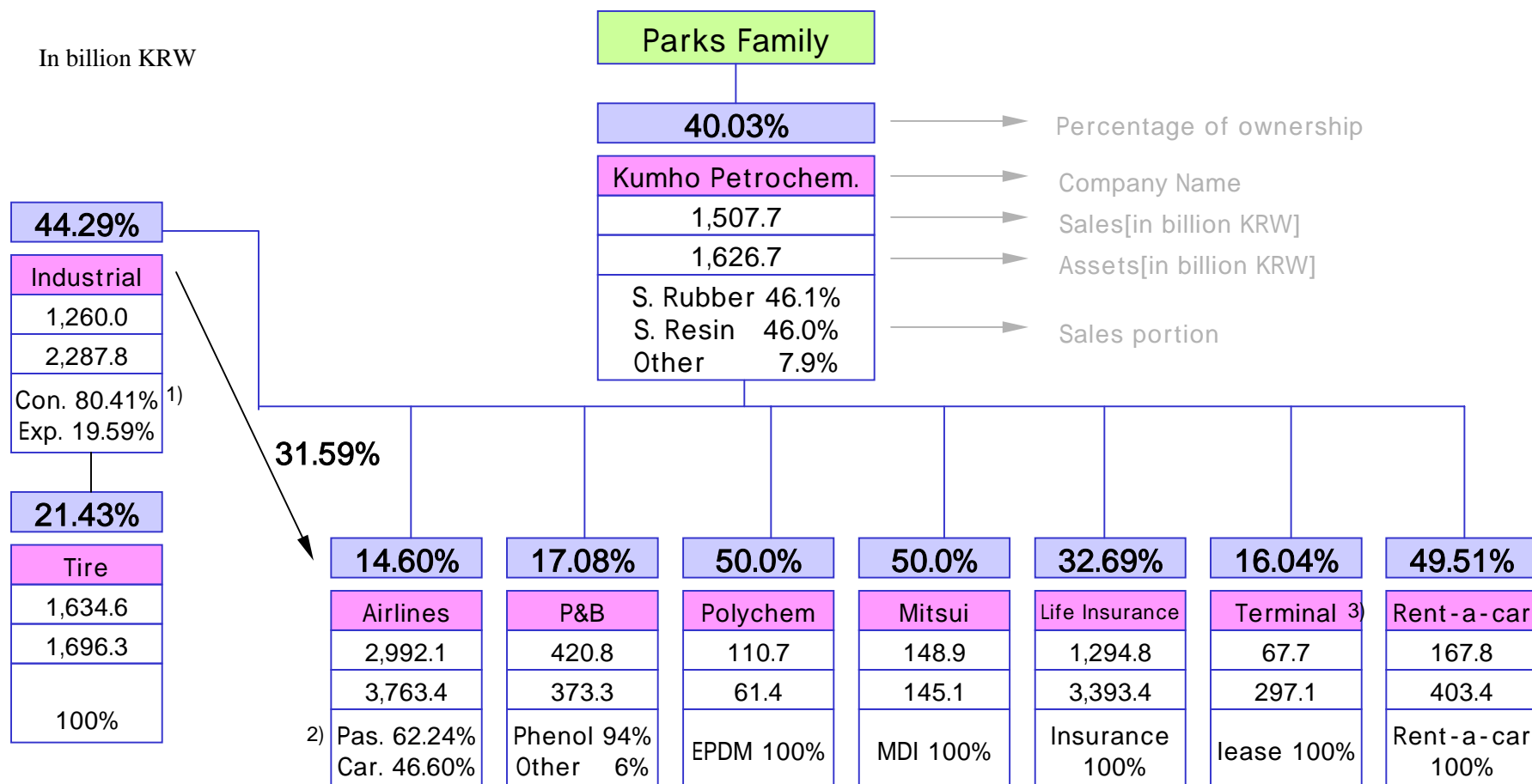
- ABS Dry Part Capa Up [2.2]
- Yeosu rubber plant Heat Pump Capa-Up[2.3]

## The main Investement plan of 3Q, 2005

- Yeosu rubber plant Heat Pump Capa-Up [2.3]
- SBR Plant Revamping [1.3]
- SGT change [1.6], etc.

\* [ ] : in billion KRW

## 4. Percentage of Ownership



1) Con : Construction, exp : express bus lines

2) Pas : Passenger, Car : Cargo

3) Terminal : Integrated freight terminal