

A Message from the Chairman



“We will generate stable returns by enhancing our cost competitiveness and firmly securing our competitive position going forward, strengthening the foundation for our next phase of growth.”

Dear Valued Stakeholders,

The past three years have been a particularly challenging time for KKPC. Slumping sales in our core synthetic rubbers business have delayed recovery in profitability. Consequently, our key focus has been on improving the profitability of commodity products, securing a stable supply of key feedstocks, and driving development and sales of high-value-added products.

We closed 2014 with consolidated sales of KRW 4,766 billion and operating income of KRW 185 billion, both of which fell short of our targets. Our synthetic rubbers business in particular continued to underperform, facing increased competition in the commodity-grade marketplace as China and India became increasingly self-reliant, butadiene feedstock prices fell, and natural rubber prices continued to experience weakness.

Although we were unable to meet our 2014 performance targets, we continued to make real progress in strengthening the competitiveness of our existing businesses and laying the foundation for future growth. Our synthetic resins business grew sales thanks

to the completion of projects that boosted PPG and ENERPOR production. Our energy business began construction of the Yeosu Energy II expansion project as well as a plant to produce tire-derived fuel, putting in place a system to ensure stable fuel procurement. Our building materials business also turned its first operating profit despite ongoing weakness in the Korean construction market.

From a financial perspective, our major businesses saw operating profitability improve, enabling our interest coverage ratio to increase from 1.93 at the end of 2013 to 2.72 at the end of 2014. Although we had a number of major investment projects underway such as the Yeosu Energy II expansion, we were able to maintain a sound financial structure through active ongoing liquidity management.

Major Initiatives

We will continue to face an increasingly challenging business environment in 2015. Slowing growth and growing self-sufficiency in China as well as increasing vertical integration by naphtha crackers present real and growing challenges for our synthetic rubbers business. That said, we are determined to stand our ground and achieve our business targets through the following initiatives.

We will upgrade our profit structure.

Given the continued low-growth trend in the petrochemical industry, bolstering the competitiveness of each of our businesses is a key task. We are aggressively focusing on pursuing cost reductions across the supply chain. We are reviewing all areas from procurement, production, and inventory to logistics and sales to identify opportunities for savings, setting goals, and executing them.

We will secure a stable supply of key feedstocks.

Securing a stable, competitively-priced supply of butadiene is essential to our continued growth. This task is expected to become increasingly difficult as current suppliers of this key feedstock expand into the synthetic rubbers business. Our goal over the mid to long term is to secure stable supply channels as well as to improve the competitiveness of our new butadiene production processes.

We will upgrade our product and business portfolio.

It will take more than simply improving the competitiveness of our existing products to remain competitive in the years ahead. Continuous development of new products and businesses is crucial. Looking at existing businesses, we are developing new SSBR products, improving the cost competitiveness of our NdBR products, and accelerating development of new carbon nanotube applications. Looking ahead, we are also stepping up our efforts to identify and enter the new businesses that will drive future growth.

We will upgrade our management capabilities.

In the sales area, we will improve our customer-tailored marketing efforts and strengthen our sales force to ensure we meet our sales targets. In the production area, we will focus on increasing the flexibility of our production system to adapt to changing customer demand. In the R&D area, we will accelerate efforts to develop new products and generate new demand by upgrading our development and technical support capabilities.

Given the expected low-growth environment for the foreseeable future, we are now laying the foundation for our next phase of growth over the next two-to-three years by ensuring our existing businesses are rock-solid as we prepare the groundwork for business diversification. We are determined to make a fresh start in 2015 as we aim to innovate across all our businesses.

Your continued support and encouragement are greatly appreciated as our experienced and capable teams work to create greater value for all our stakeholders in the year to come.

Chan-Koo Park
Chairman & CEO, Kumho Petrochemical

