

A Message from the Chairman

INNOVATION IS CHANGING THE FACE OF KUMHO PETROCHEMICAL. AT A TIME WHEN THE GLOBAL ECONOMY IS FACING INCREASING UNCERTAINTY, WE ARE COMMITTED TO RAISING OUR COMPETITIVENESS BY PURSUING INNOVATION ACROSS ALL OUR BUSINESSES AS WE MOVE CONFIDENTLY FORWARD TOWARD OUR GOAL OF BEING A GLOBAL LEADING CHEMICAL GROUP.



Dear Valued Stakeholders,

KKPC has experienced an extremely challenging period over the past few years. The global synthetic rubbers market has faced chronic oversupply primarily due to capacity expansion in Asian markets. The ensuing fierce competition in the commodity rubber market in particular has been the primary source of our business difficulties over the past 5 years. Beyond that, ongoing crises in global economic blocs such as the EU and general political unrest worldwide have also contributed to uncertainty in the global economy. Responding to this volatile business climate, we have continued to aggressively optimize inventories and reduce costs across our operations. Despite these efforts, we came up short of our financial targets, closing the year with consolidated sales of KRW 3,970.4 billion and operating income of KRW 157.1 billion.

Although we fell short of our 2016 targets, we did have a number of notable successes that have prepared us for greater success in the future. Our synthetic rubbers business completed the NB latex plant expansion project, boosting annual production capacity to 400,000 metric tons. A focus on process optimization to boost quality now means our quality ranks with the best in the industry. Our energy business completed the Yeosu Energy II expansion project and began commercial operations. We expect that plant to significantly boost the cost competitiveness of our operations as well as generating additional revenues from power and steam sales going forward. Our phenol derivatives business also completed a major expansion project in the first half of the year, bolstering our vertical integration with expanded production capacity for phenol, acetone, and cumene.

»The completion of major capacity expansion projects in our synthetic rubbers, energy, and phenol derivatives businesses will significantly enhance our competitiveness going forward.«

Major Initiatives

The outlook for 2017 indicates that we will continue to face considerable headwinds and challenges in the year ahead. A sluggish global economy combined with increasing trade protectionism and widespread political uncertainty due to events such as the United Kingdom's exit from the EU are all issues of great concern given our reliance on global markets. With these challenges in mind, we have launched the following four initiatives to achieve our business targets and demonstrate our potential as we pursue our vision of being an industry leader in our core business fields.

We will aggressively push forward with a survival strategy in our core businesses.

Our core synthetic rubbers and synthetic resins businesses deal largely in commodity petrochemical products. For these businesses to survive and ultimately thrive, we must step up our efforts to differentiate our products as we work to secure a stable supply of the key feedstocks needed to produce them. Building on this foundation, we must step up our efforts to actively build stronger relationships with our major customers as we continue to improve and strengthen these businesses.

We will strengthen our core competencies to prepare for the future.

We will review our business structure and evaluate the competitiveness of each business as we take the next step toward our vision of becoming a global leading chemical group. This is key to identifying and executing the strategies that will enhance our competitiveness. At the same time, we will also be looking for ways to generate greater synergy between our businesses.

We will review our business portfolio to identify new business opportunities.

We must continue to expand our business scope, leveraging a streamlined business structure to generate revenue growth in the face of continued sluggish markets. These changes will focus on expanding the proportion of high value-added products in our portfolio through strategic business ventures and technical development based on in-depth market analysis.

We will promote a can-do corporate culture based on action and communication.

In challenging times, organizational capabilities become increasingly important. Here, communication is key to breaking through the status quo. By creating an environment conducive to constructive conversation that will foster a culture equipped to generate positive synergy, we will create new opportunities to rise above the challenges and difficulties we face. This will in turn enable us to lay the solid foundation that will ultimately elevate our businesses to the top of their industries.



As we move into 2017, I would liken our situation to traveling through a long tunnel. Our task in this new year is to make the changes that will help us exit the tunnel sooner rather than later. We are eliminating unproductive practices, turning challenges into opportunities, and aggressively charting a new course to ensure we are among the world's best in our core businesses. At a time when the global economy is facing increasing uncertainty, we are committed to raising our competitiveness as we move confidently forward toward our goal of being a global leading chemical group. Your continued support and encouragement are greatly appreciated as our talented, experienced teams focus on creating greater value for all our stakeholders in the coming year.

Chan-koo Park
Chairman & CEO
Kumho Petrochemical