

MESSAGE FROM THE CHAIRMAN

We will realize our goal of becoming a 'Global Leading Chemical Group' by solidifying our fundamentals based on outstanding achievements in 2018, the first year of our new advance, and also by continually pursuing change and taking on new challenges.

DEAR VALUED STAKEHOLDERS,

2018 was a year of significant achievement for Kumho Petrochemical (KKPC) as our perseverance during difficult times bore fruit. Despite the slowing growth in Korean manufacturing industry and stagnation in global economy as a result of the US-China trade conflict, we recorded our best performance in seven years. This was thanks to the measures we had taken to preemptively respond to market conditions, improvements in profit structure, and the on-going encouragement and support that we have received from our stakeholders.

Consolidated sales for 2018 grew 10.3% year-on-year to record KRW 5,584.9 billion, and operating income stood at KRW 554.6 billion, a 111.2% increase over the previous year. Net income reached KRW 503.1 billion, its highest since 2011, which was mainly attributable to increased equity method gains and improved performances across our major chemical affiliates. These achievements also led to improvements in our financial stability. We made active efforts to repay borrowings, and as a result, our debt-to-equity ratio fell from 134.0% at year-end 2017 to 96.6% at the end of 2018. Our financial structure also strengthened, including an improved current ratio.

We have continued to take on challenges. We have improved product competitiveness by differentiating our commodity synthetic rubber and resin products, increased productivity by improving production processes, and enhanced cost competitiveness through a corporate-wide cost reduction program. We also responded to rapid market changes by undertaking research to expand our line-up of highly functional and eco-friendly products. In addition, we built a foundation for sales growth by completing the capacity expansion for acrylonitrile butadiene styrene (ABS) powder and epoxy resin, thus securing a competitive edge and expanding our markets even in a difficult business environment.



Chan-koo Park
Chairman & CEO
Kumho Petrochemical



In these times of change and uncertainty, we will ensure competitiveness by turning obstacles into opportunities, thereby achieving stronger and sustainable growth.



MAJOR INITIATIVES

Uncertainties remain in the external environment, including the stagnant global economy due to the prolonged US-China trade conflict, and concerns over strengthened import regulations as a result of China's increased self-sufficiency in petrochemical products. In addition, full vertical integration of companies with naphtha cracking centers (NCC) is likely to trigger even fiercer competition. We will therefore continue to pursue change for future growth by turning obstacles into opportunities, rather than resting on the laurels of our achievements over the past year.

First, we will ensure sustainability by identifying new growth drivers. We will optimize our business structure by assessing the sustainability of all our businesses, and by reviewing the competitiveness of each business area. We are aware that growth can only be achieved when we move beyond our existing businesses, and develop new products and expand into new markets. We will therefore set strategic growth direction and secure future competitiveness by building a strong business portfolio through a range of M&A activities.

Second, we will further improve our profit structure. We will curtail costs across all areas, including purchasing, production, inventory, logistics and sales. We will ensure the supply of key feedstocks, and improve the profitability of commodity products through differentiation. We will also increase sales of high value-added products, in tandem with our capacity expansion for acrylonitrile butadiene (NB) latex and ABS powder.

Third, we will expand our capability with better communication. We will establish an optimal system to enable us to respond to the changing business environment and customer demands across sales, production, research and management. Internally, we will promote communication and collaboration, and build a healthy organizational culture that focuses on fostering talent, expanding training, and increasing opportunities for self-development. This will ensure that everyone at KKPC has pride in the company and in their own work.

Fourth, we will strengthen environmental and safety management. We will continually inspect our environmental and safety systems, and make sure that all of our work is always handled in accordance with the latest manuals on fundamentals and principles. We will engage in strict safety and environmental management at each plant site, so that we can achieve a record of zero industrial accidents and disasters.

We will always challenge the status quo and consider new possibilities for future growth although the business environment remains difficult. The success of 2018 is a critical opportunity for us to look at our basic capabilities and to prepare for the future. We will therefore strengthen our fundamentals and principles with a renewed focus on the basics, and continue to seek out the changes and challenges that will lead us to become a 'Global Leading Chemical Group'.

I ask all of our stakeholders to make this journey with us, trusting in our experience and skills. I also ask for your unwavering interest and continued support.

Thank you.