

Message from the Chairman



We will completely commit ourselves to change, and continually challenge ourselves to take on uncertainties and discover new possibilities for growth. This will not only enhance our corporate value, but also move KKPC a step closer to becoming a 'global leading chemical group'.

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Dear Valued Stakeholders,

In 2017, Kumho Petrochemical (KKPC) saw the fruits of the efforts we have made over the last six years of intense challenge. After achieving record performances in the early 2010s when the synthetic rubber industry was enjoying an unprecedented boom, we have since endured much greater challenges, mainly due to falls in international oil prices and substantial over-supply across the industry as a result of our competitors' over-expansion. However, we were able to meet the targets we set for 2017 and also achieved our best performance for past six years thanks to the global economic recovery, stronger international oil prices, and the encouragement and support of our stakeholders.

Consolidated sales for 2017 were KRW 5,064.7 billion, up 27.6% compared to 2016, and operating income was KRW 262.6 billion, a 67.2% increase year-on-year. Net income reached KRW 217.6 billion, the highest figure since 2011, mainly attributable to increased equity method gains backed by improved performances across our major chemical affiliates. These achievements also led to the improvement of our financial stability. As we completed major expansion projects, we were able to repay borrowings, and so our debt-to-equity ratio decreased considerably, from 163% at the end of 2016 to 134% in 2017. Our financial structure also improved, including an improved current ratio.

I believe that these achievements came about thanks to the consistent efforts we have made over recent years, always reminding ourselves that 'Many drops make a shower', and all of us made continued efforts to innovate in 2017. We improved the properties of our commodity rubber products and developed new grades in order to make our products distinct in the market. In addition, having expanded capacity for acrylonitrile butadiene (NB) latex in 2016, we widened its range of applications, and thus established a foundation for increased sales. In synthetic resins, we reduced costs through production process improvements, and we also increased generation in energy business by increasing facility efficiency.

Major Initiatives

Although the global economy is gradually recovering, growth in major economies is still sluggish, and so there are still uncertainties in business environment. China, for example, a major axis of global economic growth, is now concentrating more on qualitative growth than its previous drive for quantitative growth. In addition, full vertical integration of companies with naphtha cracking centers (NCC) is likely to trigger even fiercer competition. Therefore, rather than resting on the laurels of our achievements in 2017, we will implement the following strategies to prepare ourselves for more advances in the future.

First, we will seek to further strengthen our market dominance to face the competitive business environment. Because our most critical tasks are to ensure the supply of key feedstocks and to improve the profitability of commodity products, we will aim to improve our self-sufficiency in various ways. We will also do our best to differentiate our commodity products with an aim to achieve higher margins. In particular, we will focus on strengthening our customer management, reducing costs for our high value-added rubber products, and increasing sales and the overall competitiveness of acrylonitrile butadiene styrene (ABS) powder, as well as other products for which we plan to expand their production capacity.

Second, we will ensure the sustainability of our company by laying the foundations for sustainable future growth. We will optimize our business structure by assessing the sustainability and competitiveness of all our businesses. We are also aware of that real growth can only be achieved when we move beyond existing businesses, and continually develop new products and businesses. We will therefore actively look at entering new business areas through M&A, so that we can further diversify our portfolio.

Third, we will focus on strengthening our capabilities for change. Change by each individual at the company drives change at the company level. Every one of our employees will therefore demonstrate their abilities to the fullest, with an aim to establish an optimal system, which will enable the company as a whole to respond to changing business environment and customer demands across sales, production, research and management. In addition, we will make sure that we have an organizational culture which facilitates internal change, including right mindset, job attitude and core values. We will create strong internal communications channels which promote communications and collaboration, and we will also establish a healthy organizational culture that focuses on fostering talent, improving training, and increasing opportunities for self-development, so that everyone at KKPC has pride in the company and in their work.

Fourth, we will strengthen our safety and environmental management. Our supervision efforts in these areas are based on safety and environmental management systems at each plant site, and have enabled us to maintain a record of zero industrial accidents and disasters. In order to maintain this record, we will continue to focus strongly on safety and the environment. We know that an essential prerequisite of a strong safety culture is undertaking work duties in strict adherence to work manuals; we will therefore ensure that all our work is always handled based on the latest manuals, and that those manuals consist of fundamentals and principles.



KKPC is determined to explore all new possibilities that will lead us to enhance our corporate value and achieve further growth, all the while pushing ourselves to take on the challenges ahead by focusing on how we change and innovate. In doing so, we will make 2018 our first year of major advance after the difficulties of recent years, and we will continue our drive towards becoming a global leading chemical group.

I ask that all of our stakeholders stand by our side as we progress, trusting in our experience and business capabilities. I also ask for your unwavering interest and continued support.

Thank you.

Chan-koo Park

Chairman & CEO
Kumho Petrochemical