

# Risk Management

KKPC manages risk at the company level to preemptively respond to major changes in global markets, which in turn enables us to run stable business operations. We categorize risks into financial, currency and raw material risks, so that we can systematically and efficiently manage them, thus preparing for uncertainties and developing new opportunities to create value.

## FINANCIAL RISK

As of the end of 2017, our net debt stood at KRW 1,575 billion, a year-on-year decrease of around KRW 300 billion, and our debt-to-equity ratio was around 134%, down 29%p year-on-year. There will be further investment activities this year, but we do not expect the same level of large-scale investments as those which took place before 2016. We do not expect significant changes in the business environment for our major businesses, and we anticipate generating similar operating cash flows to last year's, which should enable us to further reduce our borrowings and lower debt-to-equity ratio. We expect that this will be the foundation for improving our corporate credit rating. We also plan to diversify our funding sources in order to reduce financing costs. Considering our long-term holdings of available-for-sale securities in Daewoo Engineering & Construction and Asiana Airlines, as well as treasury shares, our financial liquidity position is satisfactory.

## CURRENCY RISK

Exports in 2017 accounted for 64% of our total sales. Around 68% of sales were in foreign currencies, including 5% of domestic local sales, 96% of which were in US dollars. Although our foreign currency incomes are higher than expenses due to the high level of exports, the gap is less than 15% which is a long cash position. Exchange rate fluctuations therefore have a relatively small impact on the company's overall profits and losses.

## RAW MATERIAL RISK

**Butadiene** Butadiene (BD) prices in Asia began 2018 in an upward trend, mainly in the Chinese market. This was caused by the improved competitiveness of imported BD due to the weak dollar and ABS manufacturers building up inventories ahead of the Lunar New Year holiday in China. There is the possibility of a correction in prices around the Lunar New Year period, but with regular maintenance by major local Asian cracker and BD suppliers being concentrated in the second and third quarters, prices are forecast to continue to trend upwards. However, due to continuing excess supply of synthetic and natural rubbers in the market, there is no significant possibility of a sharp rise in prices except in exceptional circumstances, such as major problems at a plant. The expectation is thus for a gradual upward trend in prices throughout the second half of the year.

Therefore, we will increase our BD plant utilization rate in order to ensure consistent supply of BD, and also bring in BD through offshore contracts which will improve our self-sufficiency. By doing so, we will secure stable supply of raw materials.

Year-on-year decrease in net debt

16%↓

Year-on-year decrease in debt-to-equity ratio

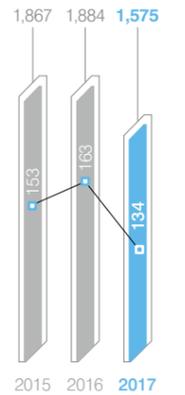
29%p↓



## Net Debt & Debt-to-equity Ratio

(Unit: KRW billion, %)

■ Net Debt    ▣ Debt-to-equity Ratio



**Styrene Monomer** Due to the anti-dumping issues around styrene monomer (SM), imports from Korea, the US and Taiwan by China, the largest importer of SM, are expected to fall in 2018 compared with the previous year. In addition, the regular maintenance by SM manufacturers that began in the first quarter and steady demand for derivatives are forecast to result in continuing tight supply, similar to the situation prevailing last year. However, there is the possibility of improved supply if new SM plants in China are able to resolve their environmental regulation and feedstock supply issues and thus begin normal operations, and also if there is additional further capacity expansion. Strong international oil prices at the beginning of the year led to higher prices for the raw materials for SM, such as benzene and ethylene, which has in turn increased prices for SM.

Given this business environment, we will enhance our supply stability of raw materials by increasing our purchases from domestic SM suppliers compared to last year.



## 2017 Butadiene Price / 2017 Styrene Monomer Price

(Unit: USD/ton)

■ Butadiene Price    ■ Styrene Monomer Price



\*Source: ICIS 2017