

*beyond*  
the best

KUMHO PETROCHEMICAL

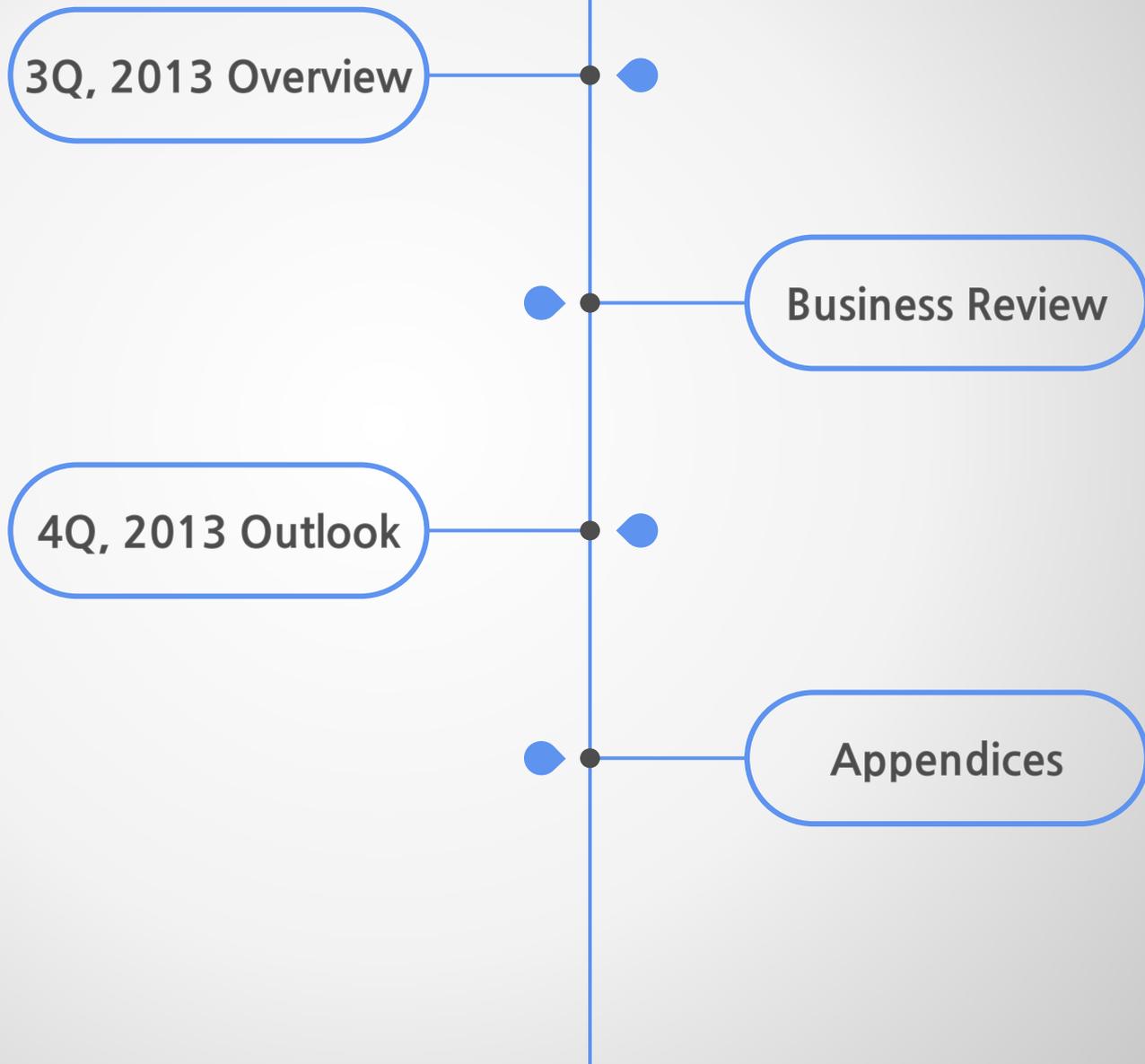
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# INVESTOR RELATIONS

## 3Q 2013



# Contents



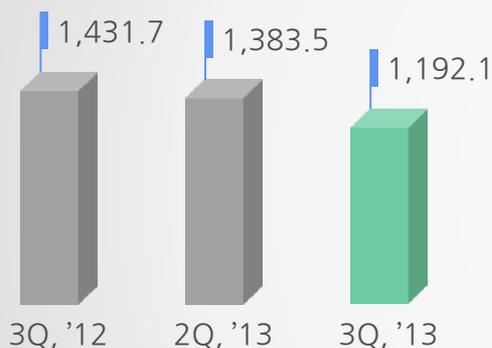
## 3Q, 2013 Overview

### Sales & Operating Income

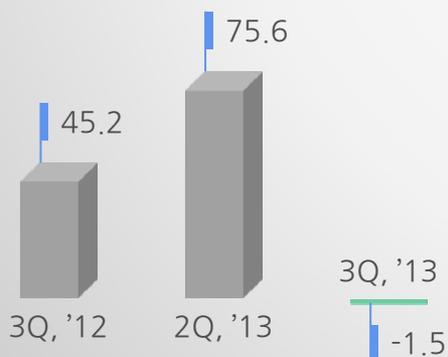
- ❖ Decrease in sales by 13.8% over the previous quarter to KRW 192.1bn, making a record of KRW 1.5bn loss
- ❖ Diminished sales and profitability mainly caused by deteriorated business environment for synthetic rubber and phenol derivatives

(Unit: KRW bn)

#### Sales (Unit: KRW bn)



#### Operating Income (Unit: KRW bn)



	3Q, '13	2Q, '13	3Q, '12	Rate of increase	
				QoQ	YoY
S a l e s	1,192.1	1,383.5	1,431.7	-13.8%	-16.7%
[Synthetic rubber]	510.7	654.0	692.8	-21.9%	-26.3%
[Synthetic resin]	340.4	359.7	337.1	-5.4%	1.0%
[ O t h e r s ]	341.0	369.8	401.8	-7.8%	-15.1%
Phenol derivatives	204.9	253.9	274.3	-19.3%	-25.3%
Specialty chemical	36.6	39.5	37.2	-7.3%	-1.6%
E n e r g y	43.9	29.1	42.6	50.9%	3.1%
O t h e r s	55.6	47.3	47.7	17.5%	16.6%
Operating Income	-1.5	75.6	45.2	surplus to deficit	surplus to deficit
[ % ]	-0.1%	5.5%	3.2%	-	-
Income before Income tax	-4.2	29.1	44.3	surplus to deficit	surplus to deficit
Net Income	5.5	26.2	40.6	-79.0%	-86.5%
Gain/.Loss on valuation of equity method investments	8.3	11.5	17.5	-27.8%	-52.6%

✓ Net Income is based on controlling interests

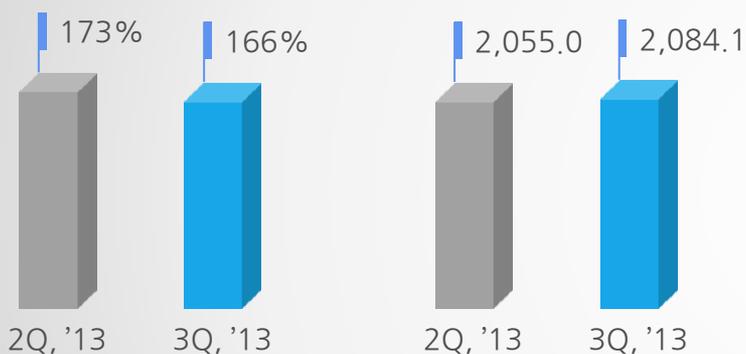
## 3Q, 2013 Overview

### Financial Structure

- ❖ Improvement in the financial stability through steady reduction of short-term liabilities
- ❖ Betterment in debt to equity ratio due to an increase in shareholder's equity resulted from the price ascent of holding stocks

(Unit: KRW bn)

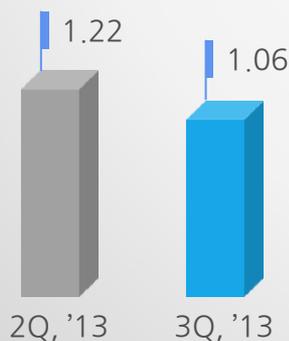
Debt to Equity Ratio (%)



Borrowings (KRW bn)



Total assets turnover ratio



	Unit	3Q, '13	2Q, '13	3Q, '12	Rate of increase	
					QoQ	YoY
Assets	KRW bn	4,455.7	4,531.9	4,653.1	-1.7%	-4.2%
Liabilities	KRW bn	2,780.4	2,872.3	3,000.7	-3.2%	-7.3%
Shareholders' equity		1,675.3	1,659.6	1,652.4	0.9%	1.4%
Controlling interests	KRW bn	1,564.8	1,545.8	1,540.2	1.2%	1.6%
Non-controlling interests		110.5	113.8	112.2	-2.9%	-1.5%
Debt to equity ratio	%	166%	173%	182%	-	-
Borrowings		2,084.1	2,055.0	2,166.3	1.4%	-3.8%
Won-denominated	KRW bn	1,601.4	1,559.4	1,671.1	2.7%	-4.2%
Foreign currency-denominated		482.7	495.6	495.2	-2.6%	-2.5%
Asset turnover ratio		1.06	1.22	1.22	-13.1%	-13.1%
Interest coverage ratio		-	4.40	1.77	-	-

## Business review

### Synthetic rubber

**42.8%**  
of total sales

Synthetic  
r u b b e r

Synthetic  
r e s i n

O t h e r s



- ❖ Decrease in sales by 21.9% over the previous quarter to KRW 510.7bn
- ❖ Slackening in profitability as a result of a sharp drop of BD price which led to the decrease in selling price and sales volume

#### • Sharp drop and rally in BD price

- Ongoing oversupplies of BD due to rise in the utilization rate of NCC makers according to the favorable demand in C2, C3 and SM
- Increased BD price with regards to improvement in balance between supply and demand due to the delay in starting operation of new BD plant and the conversion to LPG Cracking

##### ➤ BD Price changes by region

(Unit: USD/ton)

	04, '13	05, '13	06, '13	07, '13	08, '13	09, '13
Asia	1,433	1,474	1,300	906	1,176	1,393
N. America	1,902	1,742	1,461	1,075	1,069	1,102
Europe	1,625	1,480	985	644	750	981

※ Source: ICIS/PLATTS 2013

#### • Deterioration in sales margin of synthetic rubber

- Delay in the demand recovery and the slump in sales volume due to the sharp drop in BD price which led to the weak mentality in purchasing
- Loosened profitability as a result of the high manufacturing cost of BD which led to decrease the spread between selling price and the cost

(Unit: USD/ton)

구 분	04, '13	05, '13	06, '13	07, '13	08, '13	09, '13
SBR	2,048	2,025	1,911	1,599	1,639	1,738
BR	2,272	2,215	2,063	1,716	1,715	1,844

※ Source: ICIS 2013

# Business review

## Synthetic resin

**28.6%**  
of total sales

Synthetic  
r u b b e r

Synthetic  
r e s i n

O t h e r s

- ❖ Decrease in sales by 5.4% over the previous quarter to KRW 340.4bn
- ❖ Slackening in profitability as a result of weak demand which led a constraint in the increase in selling price in relative portion to the rise in feedstock price

### • Rise in SM price

- Decrease in sales volume due to troubles and annual maintenance of Asian SM makers
- Rise in SM price caused by improvement in demand of downstream makers, despite weak price of feedstock (Benzene)

#### ➤ SM price changes

(Unit: USD/ton, CFR China)

	04, '13	05, '13	06, '13	07, '13	08, '13	09, '13
SM	1,676	1,689	1,711	1,805	1,794	1,800

※ Source: ICIS 2013

### • Diminished profitability of synthetic resin

- Declined in sales volume with regards to a continuous weak demand from the result of stagnation in the Chinese domestic market
- Depreciation in profitability as a limitation to increasing the selling price in proportion to the rise in the price of feedstock (SM)

(Unit: USD/ton)

	04, '13	05, '13	06, '13	07, '13	08, '13	09, '13
PS	1,816	1,810	1,831	1,880	1,921	1,911
ABS	1,904	1,898	1,921	1,928	1,938	1,930

※ Source: PLATTS 2013

# Business review

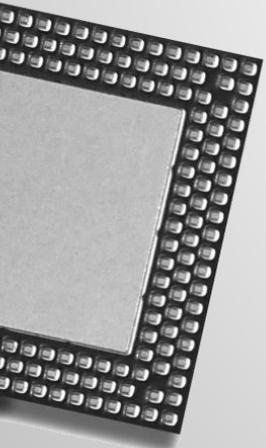
## Others

28.6%  
of total sales

Synthetic  
r u b b e r

Synthetic  
r e s i n

O t h e r s



- ❖ Decrease in sales by 7.8% over the previous quarter to KRW 341.0bn
- ❖ Phenol derivatives: Slackening in profitability as a result of a weak demand and an ongoing oversupplies which led to decrease in the selling price
- ❖ Energy: Increase in both sales and operating income as a result of rise in sales volume of steam and an ascent in the selling price of electricity

### Phenol derivatives

- Continuation of weak feedstock (Benzene) price in response to a fall and stabilization in the price of both oil and naphtha
- Declined in profitability due to a fall in the selling price with regards to weak demands and an ongoing oversupplies

#### ➤ BZ price changes

(Unit: USD/ton, FOB Korea)

	04, '13	05, '13	06, '13	07, '13	08, '13	09, '13
BZ	1,310	1,292	1,255	1,226	1,255	1,299

※ Source: PLATTS 2013

- Completion of BPA expansion: 150,000MT/Y(June, 2013), Investment of KRW 110bn

### Energy

- Increase in sales volume of steam in response to a normal operation and the capacity expansion of Kumho Polychem
- Improvement in both sales and operating income due to a rise in the selling price of electricity during the summer season

- Expansion of Yeosu Energy II : Steam 800T/H, Electricity 145MWH(in 2015). Investment of KRW 425.8bn(2012~2015)

## 4Q, 2013 Outlook

BD

- Supply is forecasted to increase in response to the operation commencement of the newly established BD plants, deep sea cargos and the conversion to Naphtha cracking
- Price is expected to change as a result of decrease in demand, caused by the adjustment in utilization rate and the annual maintenance of downstream makers

Synthetic rubber

- Supply is looking to decrease due to the annual maintenance and also the adjustment in the utilization rate of synthetic rubber makers within the region
- Demand is likely to be improved in regards to the recovery trend of demand in the tire market, mainly in North America and in Europe, and the reduction of accumulated stocks in China

SM

- Supply is anticipated to increase as a result of the reoperation of annual maintenance and manufacturing troubles and also the deep sea cargos
- Price is expected to weaken due to the feeble price of feedstock (Benzene) and also the decrease in demand of downstream makers (ABS/PS)

Synthetic resin

- Demand is estimated to increase, mainly caused by seasonal appliances (i.e. refrigerators, heaters) and the car industry
- Market share is predicted to be expanded through increasing sales volume and profitability is expected to be improved by focusing on selling high-marginal products

## Appendices

### Profit and Loss statement

(Unit: KRW bn)

	3Q, '13	2Q, '13	3Q, '12	Change			
				QoQ		YoY	
				Amount	Rate of change	Amount	Rate of change
Sales	1,192.1	1,383.5	1,431.7	-191.4	-13.8%	-239.6	-16.7%
Operating Income	-1.5	75.6	45.2	-77.1	surplus to deficit	-46.7	surplus to deficit
<i>(Operating Margin)</i>	<i>-0.1%</i>	<i>5.5%</i>	<i>3.2%</i>	<i>-5.6%p</i>	-	<i>-3.3%p</i>	-
Net interest expense	-7.2	28.0	9.1	-35.2	loss to profit	-16.3	loss to profit
Gain/Loss on valuation of equity method investments	8.3	11.5	17.5	-3.2	-27.8%	-9.2	-52.6%
Income before Income taxes	-4.2	29.1	44.3	-33.3	surplus to deficit	-48.5	surplus to deficit
<i>(Ordinary Income margin)</i>	<i>-0.4%</i>	<i>2.1%</i>	<i>3.1%</i>	<i>-2.5%p</i>	-	<i>-3.5%p</i>	-
Net Income	5.5	26.2	40.6	-20.7	-79.0%	-35.1	-86.5%
<i>(Net Income margin)</i>	<i>0.5%</i>	<i>1.9%</i>	<i>2.8%</i>	<i>-1.4%p</i>	-	<i>-2.3%p</i>	-

✓ Net Income is based on controlling interests

## Appendices

### Statement of financial position

(Unit: KRW bn)

	3Q, '13	2Q, '13	3Q, '12	Change	
				QoQ	YoY
Current assets	1,442.6	1,587.7	1,773.2	-145.1	-330.6
- Cash and Cash equivalents	185.9	250.6	332.1	-64.7	-146.2
Non-current assets	3,013.1	2,944.2	2,879.9	68.9	133.2
<b>Total assets</b>	<b>4,455.7</b>	<b>4,531.9</b>	<b>4,653.1</b>	<b>-76.2</b>	<b>-197.4</b>
Current Liabilities	1,313.2	1,439.3	2,119.7	-126.1	-806.5
Non-current Liabilities	1,467.2	1,433.0	881.0	34.2	586.2
■ Interest bearing Liabilities	2,084.1	2,055.0	2,166.3	29.1	-82.2
- Short-term debts	727.2	737.6	1,406.7	-10.4	-679.5
- Long-term debts	1,356.9	1,317.4	759.6	39.5	597.3
■ Non-interest bearing Liabilities	696.3	817.3	834.4	-121.0	-138.1
<b>Total Liabilities</b>	<b>2,780.4</b>	<b>2,872.3</b>	<b>3,000.7</b>	<b>-91.9</b>	<b>-220.3</b>
Common & Preferred Stock	167.5	167.5	167.5	-	-
<b>Total Shareholders' Equity</b>	<b>1,675.3</b>	<b>1,659.6</b>	<b>1,652.4</b>	<b>15.7</b>	<b>22.9</b>
Net debt ratio	42.6%	39.8%	39.4%	2.8%p	3.2%p
Long-term debts to total debts ratio	65.1%	64.1%	35.1%	1.0%p	30.0%p
Current ratio	109.9%	110.3%	83.7%	-0.4%p	26.2%p
Total Liabilities to Equity ratio	166.0%	173.1%	181.6%	-7.1%p	-15.6%p

## Appendices

### Production Capacity (KKPC)

	Product	Capacity	Unit	Note	
Synthetic rubber	SBR	481,000	MT/Y		
	BR	HBR		290,000	
		LBR		43,000	
	S-SBR	60,000			
	NdBR	45,000			
	NBR	80,000			
	HSR	10,000			
	NBR Latex	168,000			
	SB Latex	70,000			
	SBS	70,000			
	<b>Total</b>	<b>1,317,000</b>			
Synthetic resin	PS	230,000	MT/Y		
	ABS	250,000			
	EPS	75,000			
	PPG	80,000			
	<b>Total</b>	<b>635,000</b>			
Specialty chemicals	Antioxidants	80,300	MT/Y		
Energy	Steam	910	T/H	Completion of Expansion: steam 800T/H, electricity 145MWH in 2015	
	Electricity	155	MWH		
BD	Ulsan	90,000	MT/Y		
	Yeosu	147,000			
	<b>Total</b>	<b>237,000</b>			

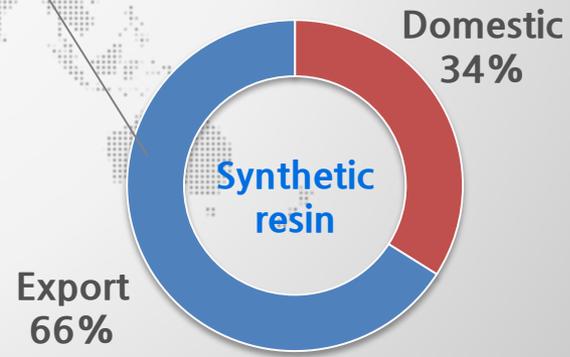
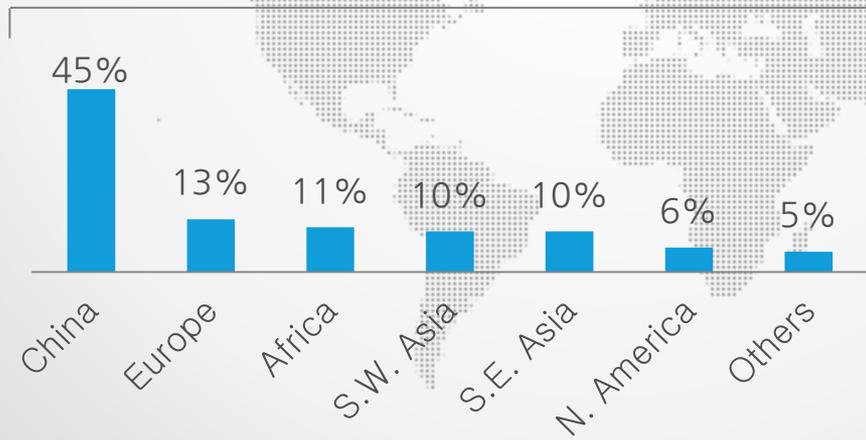
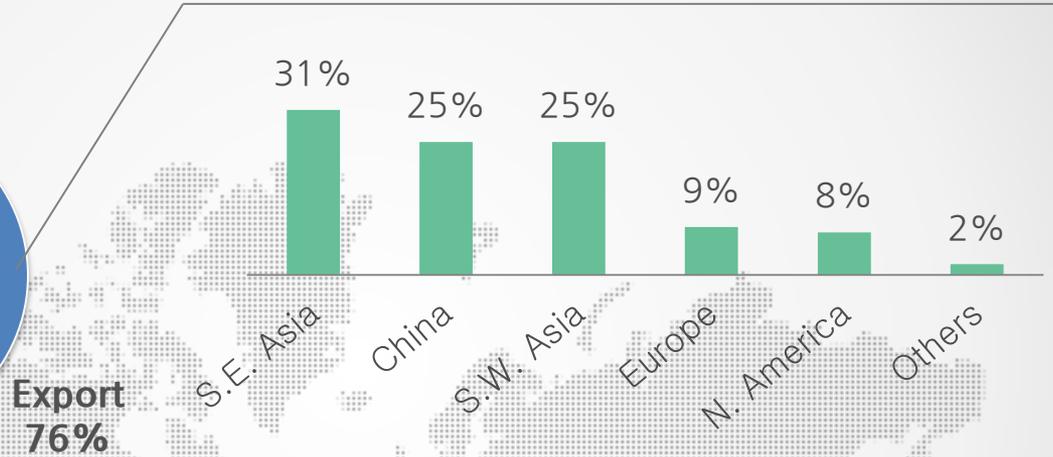
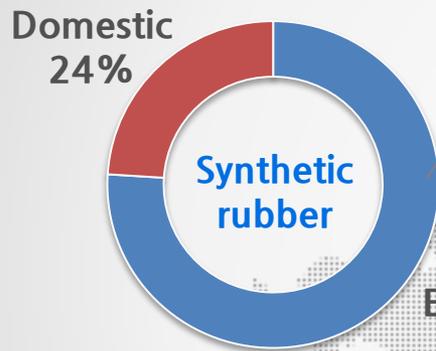
## Appendices

### Production Capacity (Affiliates)

	Product	Capacity	Unit	Note
Kumho P&B Chemicals	Phenol	380,000	MT/Y	Completion of Expansion: 300,000MT/Y, 2Q, '15
	Acetone	235,000		Completion of Expansion: 185,000MT/Y, 2Q, '15
	MIBK	55,000		
	Cumene	440,000		Completion of Expansion: 460,000MT/Y, 2Q, '15
	BPA	430,000		Completion of Expansion: 150,000MT/Y, June '13
	Epoxy resin	90,000		Completion of Expansion: 45,000MT/Y, 2Q, '14
	<b>Total</b>	<b>1,630,000</b>		
Kumho Polychem	EP(D)M	170,000	MT/Y	Completion of Expansion: 60,000MT/Y, June '13 60,000MT/Y, June '15
	TPV/KEPA	7,000		
	<b>Total</b>	<b>177,000</b>		
Kumho Mitsui Chemicals	MDI	200,000	MT/Y	
	Aniline	2,000		
	<b>Total</b>	<b>202,000</b>		

# Appendices

## Sales proportion & Export Share by Region



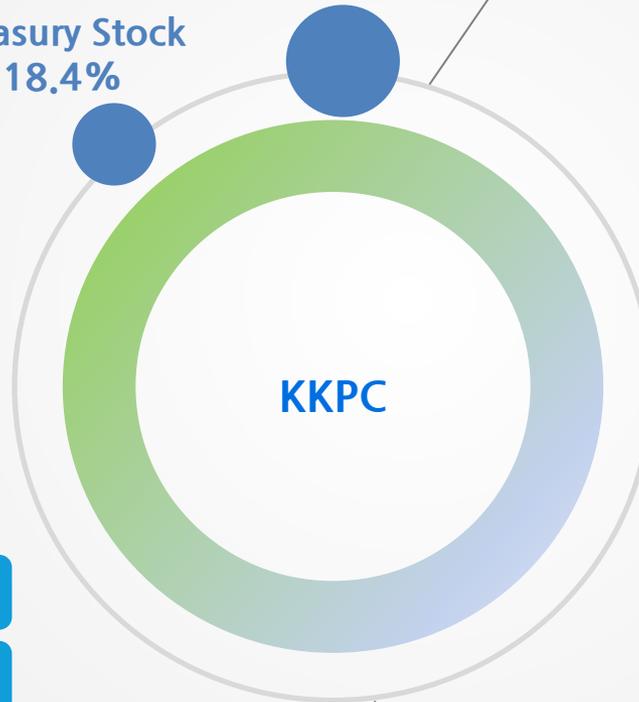
# Appendices

## Investment share & Asset available for sale

✓ As of 30<sup>th</sup> Sep 2013, based on common shares

Treasury Stock 18.4%

Major Shareholders 24.2%



Asiana Airlines 12.6%

Daewoo E&C 3.5%

KDB Life Insurance 0.9%

Asset available for sale

## Investments in affiliates

Kumho P&B Chemicals 78.2%

Kumho Polychem 50.0%

Kumho Mitsui Chemicals 50.0%

Kumho Terminal & Logistics 85.0%

Korea Energy 80.8%

**Q & A**