

INVESTOR RELATIONS 3Q 2016

beyond
the best

KUMHO PETROCHEMICAL



Investor Relations 2016

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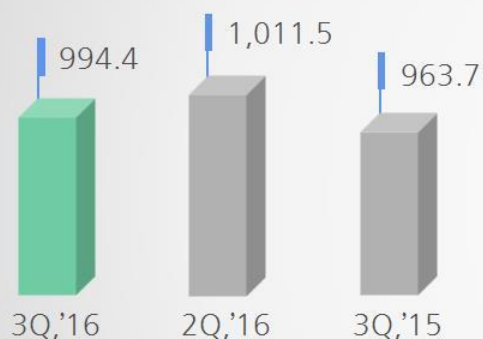
3Q, 2016 Overview

Sales & Operating Income

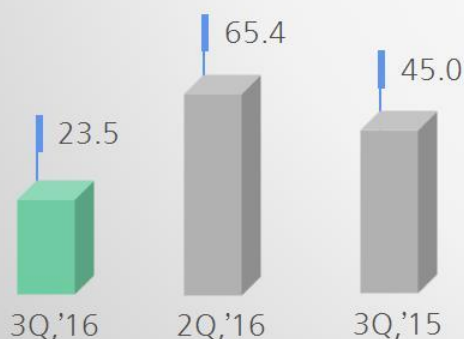
- ❖ Sales revenue decreased by 1.7% over the previous quarter and increased by 3.2% over the previous year to KRW 994.4bn.
- ❖ Operating income decreased by 64.1% since the last quarter and declined by 47.8% over the previous year to KRW 23.5bn.

(Unit: KRW bn)

Sales (Unit: KRW bn)



Operating Income (Unit: KRW bn)



	3Q,'16	2Q,'16	3Q,'15	Rate of change	
				QoQ	YoY
S a l e s	994.4	1,011.5	963.7	-1.7%	3.2%
[Synthetic Rubbers]	379.3	387.7	388.6	-2.2%	-2.4%
[Synthetic Resins]	247.8	271.6	256.9	-8.8%	-3.5%
[O t h e r s]	367.3	352.2	318.2	4.3%	15.4%
P h e n o l Derivatives	240.9	223.4	195.4	7.8%	23.3%
S p e c i a l t y Chemical s	30.7	28.5	32.4	7.7%	-5.2%
E n e r g y	32.2	38.1	30.6	-15.5%	5.2%
O t h e r s	63.5	62.2	59.8	2.1%	6.2%
Operating Income	23.5	65.4	45.0	-64.1%	-47.8%
[%]	2.4%	6.5%	4.7%	-	-
Income before Income Taxes	22.9	66.0	35.7	-65.3%	-35.9%
N e t I n c o m e	17.8	45.0	26.7	-60.4%	-33.3%
Gain/Loss on Valuation of Equity Method Investments	5.7	8.1	10.0	-29.6%	-43.0%

✓ Net Income is based on Controlling Interests.

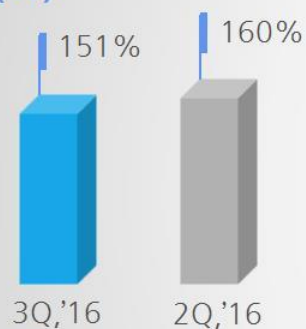
3Q, 2016 Overview

Financial Structure

- ❖ The maintenance of a stable financial structure through a decreased debt-to-equity ratio by paying back loans with continuous liquidity control.
- ❖ The drop in interest coverage ratio caused by reduced operating profit from sluggish performance in the main businesses.

(Unit: KRW bn)

Debt to Equity Ratio (%)



Borrowings (KRW bn)



Total Assets Turnover Ratio



Interest Coverage Ratio



	Unit	3Q,'16	2Q,'16	3Q,'15	Rate of change	
					QoQ	YoY
Assets	KRW bn	4,394.4	4,476.2	4,368.0	-1.8%	0.6%
Liabilities	KRW bn	2,644.0	2,754.9	2,683.6	-4.0%	-1.5%
Shareholders' Equity	KRW bn	1,750.4	1,721.3	1,684.4	1.7%	3.9%
Controlling Interests		1,637.3	1,607.5	1,598.5	1.9%	2.4%
Non-controlling Interests		113.1	113.8	85.9	-0.6%	31.7%
Debt to Equity Ratio	%	151	160	159	-	-
Borrowings	KRW bn	1,985.5	2,072.8	2,043.6	-4.2%	-2.8%
Won-denominated		1,564.0	1,642.4	1,447.3	-4.8%	8.1%
Foreign currency-denominated		421.5	430.4	596.3	-2.1%	-29.3%
Total Assets Turnover Ratio		0.90	0.92	0.86	-2.2%	4.7%
Interest Coverage Ratio		1.40	4.25	3.57	-67.1%	-60.8%

Business Review

Synthetic Rubbers

38.1 %
of Total sales

Synthetic Rubbers

Synthetic Resins

Others



- ❖ Sales decreased by 2.2 % over the previous quarter to KRW 379.3bn.
- ❖ The drop in profitability caused by spread reduction from the wait-and-see attitude along with the expectation of lower product prices, in spite of strong BD prices.

• Strong price of main feedstock, BD

- A surge in price caused by continuous tight supply conditions, due to decreased inflow of deep-sea cargoes and a sharp increase in technical issues within the region.
- Urgent demands caused supply and demand to become tighter, due to technical issues of BD makers and the low BD inventory level of the downstream companies.

➤ BD Price changes by region

(Unit: USD/ton)

	Apr.'16	May.'16	Jun.'16	Jul.'16	Aug.'16	Sep.'16
Asia	1,059	1,091	956	1,079	1,068	1,236
N. America	750	805	899	851	890	992
Europe	663	697	703	763	750	810

※ Source: ICIS/PLATTS 2016

• Diminished profitability of synthetic rubber

- Reduced sales caused by increased synthetic rubber inventory within the region during the first half of the year and the expectation of a drop in prices of related products.
- A drop in spread and profitability because of a wait-and-see attitude from deepened uncertainty over price directions, in spite of the strong BD prices (raw materials).

(Unit: USD/ton)

	Apr.'16	May.'16	Jun.'16	Jul.'16	Aug.'16	Sep.'16
SBR	1,353	1,366	1,298	1,304	1,291	1,348
BR	1,445	1,476	1,370	1,420	1,450	1,570

※ Source: ICIS 2016

Business Review

Synthetic Resins

24.9%
of Total sales

Synthetic
Rubbers

Synthetic
Resins

Others

- ❖ Sales declined by 8.8% over the previous quarter to KRW 247.8bn.
- ❖ A drop in profitability because of weakened product prices from a weak steady trend of SM prices and decreased demand.

• Weak steady trend of feedstock price, SM

- A weak steady trend of prices due to a fall in the downstream demand, even though the tight supply and demand is caused by scheduled shut-downs and increased demand through the temporary inventory built up as a result of the G20 in the early quarter.

➤ SM Price changes

(Unit: USD/ton, CFR China)

	Apr.'16	May.'16	Jun.'16	Jul.'16	Aug.'16	Sep.'16
SM	1,098	1,021	1,004	1,052	1,042	1,026

※ Source: ICIS 2016

• Slackening in profitability of synthetic resin

- A reduction in sales and profitability caused by the weak trend of the SM prices, which led few downstream companies to cut-down their inventory.
- Decreased demand due to the vacation season and the strike in the domestic automobile industry.

(Unit: USD/ton)

	Apr.'16	May.'16	Jun.'16	Jul.'16	Aug.'16	Sep.'16
PS	1,264	1,194	1,158	1,200	1,165	1,156
ABS	1,361	1,274	1,278	1,373	1,374	1,401

※ Source: PLATTS 2016

Business Review

Others

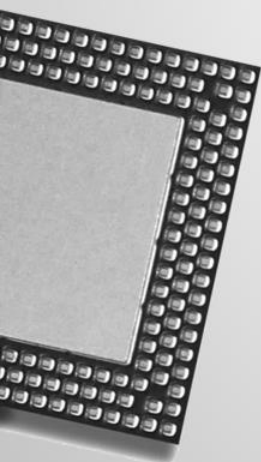
37.0%

Of Total sales

Synthetic
Rubbers

Synthetic
Resins

Others



- ❖ Sales increased by 4.3% over the previous quarter to KRW 367.3bn.
- ❖ Phenol derivatives: A reduction in profitability due to the falling exchange rate along with the difficulty of increasing selling price in relative portion to the rise in raw materials price (C3).
- ❖ Energy : In spite of decreased sales volume due to regular maintenances from the source of demand, the profit level was sustained through the increase in the selling price of electricity.

• Phenol derivatives

- In spite of an arbitrage opportunity to the outer region, the price of benzene remained moderate from the small oil price movements and weakened SM market conditions.
- Reduced profitability as a result of the extension of newly supplied, falling exchange rate and the difficulty of increasing selling price relatively to the rise in raw material price (C3).

➤ BZ Price changes

(Unit: USD/ton, FOB Korea)

	Apr.'16	May.'16	Jun.'16	Jul.'16	Aug.'16	Sep.'16
BZ	639	637	609	633	645	639

※ Source: PLATTS 2016

- Expansion of Phenol, Acetone and Cumene : Phenol 300KTA, Acetone 185KTA and Cumene 470KTA(in 2016.2Q)

• Energy

- In spite of decreased sales volume by reason of the reduced operating rates at the source of demand from scheduled shut-down, the profit level was sustained due to an upturn in selling price of electricity.

- Expansion of Yeosu Energy II : Steam 800T/H, Electricity 145MWH(in 2016.1Q)

4Q, 2016 Outlook

BD

- While it is anticipated that tight supply and demand conditions takes place due to a large number of technical issues at the BD makers, the balance is forecasted to be gradually stabilized through the change to naphtha cracking and the expected inflow of deep-sea cargoes.
- After a robust price-level at the start of this quarter caused by rush in demands through low BD inventory level, the price is expected to be fluctuated depending on resolution of problems and utilization rates within the region.

Synthetic Rubbers

- In spite of the tight balance between supply and demand in feedstock as well as favorable natural rubber prices, the increase in price is forecasted to be limited due to a wait-and-see attitude.
- In spite of regular maintenance of synthetic rubber manufacturers within the region, supply is expected to be stable thanks to moderate synthetic rubber inventory.

SM

- In spite of decreased SM inventory trend within the region, the balance is expected to be calm as a result of restarting SM plant operations after the regular maintenances.
- The price is forecasted to be weak because of sluggish demand as the manufacturing sector is in the off-season.

Synthetic Resins

- In spite of strong prices of raw materials (BD/AN) in the early quarter, the increase in price is predicted to be limited due to the expectation of low SM price.
- Demand is expected to be dropped because of an increase in the inventory at the source of demand and the arrival of the off-season period.

Appendices

Income Statement

(Unit: KRW bn)

	3Q,'16	2Q,'16	3Q,'15	Rate of change			
				QoQ		YoY	
				Amount	Rate of change	Amount	Rate of change
Sales	994.4	1,011.5	963.7	-17.1	-1.7%	30.7	3.2%
Operating Income	23.5	65.4	45.0	-41.9	-64.1%	-21.5	-47.8%
<i>(Operating Margin)</i>	<i>2.4%</i>	<i>6.5%</i>	<i>4.7%</i>	<i>-4.1%p</i>	-	<i>-2.3%p</i>	-
Net Interest Expense	10.1	17.3	30.3	-7.2	-41.6%	-20.2	-66.7%
Gain/Loss on Valuation of Equity Method Investments	5.7	8.1	10.0	-2.4	-29.6%	-4.3	-43.0%
Income before Income Taxes	22.9	66.0	35.7	-43.1	-65.3%	-12.8	-35.9%
<i>(Ordinary Income Margin)</i>	<i>2.3%</i>	<i>6.5%</i>	<i>3.7%</i>	<i>-4.2%p</i>	-	<i>-1.4%p</i>	-
Net Income	17.8	45.0	26.7	-27.2	-60.4%	-8.9	-33.3%
<i>(Net Income Margin)</i>	<i>1.8%</i>	<i>4.4%</i>	<i>2.8%</i>	<i>-2.6%p</i>	-	<i>-1.0%p</i>	-

✓ Net Income is based on Controlling Interests.

Appendices

Balance Sheet

(Unit: KRW bn)

	3Q,'16	2Q,'16	3Q,'15	Rate of change	
				QoQ	YoY
Current Assets	1,009.3	1,092.3	1,131.4	-83.0	-122.1
- Cash and Cash Equivalents	54.8	103.0	79.9	-48.2	-25.1
Non-current Assets	3,385.1	3,383.9	3,236.6	1.2	148.5
Total Assets	4,394.4	4,476.2	4,368.0	-81.8	26.4
Current Liabilities	1,768.0	1,755.8	1,592.7	12.2	175.3
Non-current Liabilities	876.0	999.1	1,090.9	-123.1	-214.9
■ Interest bearing Liabilities	1,985.5	2,072.8	2,043.6	-87.3	-58.1
- Short-term Debts	1,244.2	1,210.5	1,074.6	33.7	169.6
- Long-term Debts	741.3	862.3	969.0	-121.0	-227.7
■ Non-interest bearing Liabilities	658.5	682.1	640.0	-23.6	18.5
Total Liabilities	2,644.0	2,754.9	2,683.6	-110.9	-39.6
Common & Preferred Stock	167.5	167.5	167.5	-	-
Total Shareholders' Equity	1,750.4	1,721.3	1,684.4	29.1	66.0
Net Debt Ratio	43.9%	44.0%	45.0%	-0.1%p	-1.1%p
Long-term Debts to Total Debts Ratio	37.3%	41.6%	47.4%	-4.3%p	-10.1%p
Current Ratio	57.1%	62.2%	71.0%	-5.1%p	-13.9%p
Debt to Equity Ratio	151.1%	160.0%	159.3%	-8.9%p	-8.2%p

Appendices

Production Capacity (KKPC)

	Product		Capa.	Unit	Note
Synthetic Rubbers	BR	SBR	481,000	MT/Y	
		HBR	290,000		
		LBR	45,000		
	S-SBR		63,000		
	NdBR		60,000		
	NBR		80,000		
	HSR		10,000		
	NB Latex		200,000		Completion of Expansion: 200,000MT/Y(Multi-purpose), 2H,'16
	SB Latex		80,000		
	SBS		75,000		
	Total		1,384,000		
Synthetic Resins	PS		230,000	MT/Y	
	ABS		250,000		
	SAN/POW		145,000		
	EPS		80,000		
	PPG		139,000		
	Total		844,000		
Specialty Chemicals	Antioxidants		83,000	MT/Y	
Energy	Steam		1,710	T/H	Completion of Expansion: Steam 800T/H, Electricity 145MWH in 1Q,'16
	Electricity		300	MWH	
BD	Ulsan		90,000	MT/Y	
	Yeosu		147,000		
	Total		237,000		

Appendices

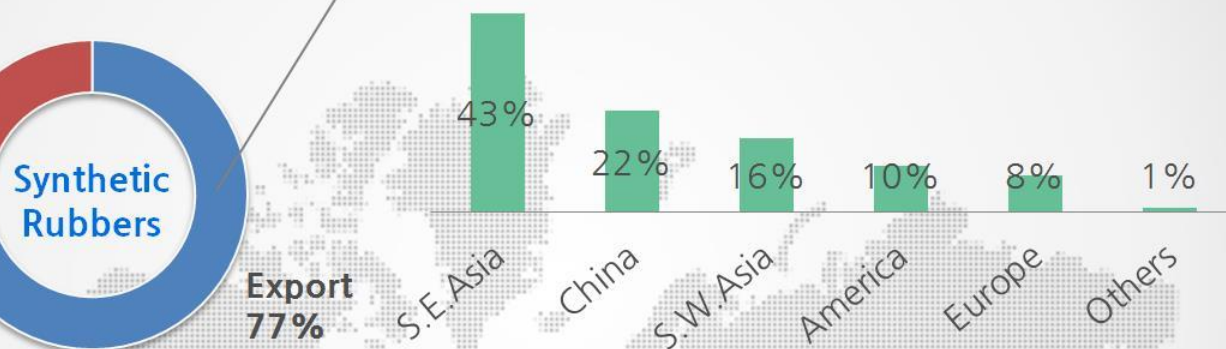
Production Capacity (Affiliates)

	Product	Capa.	Unit	Note
Kumho P&B Chemicals	Phenol	680,000	MT/Y	Completion of Expansion: 300,000MT/Y, 2Q,'16
	Acetone	420,000		Completion of Expansion: 185,000MT/Y, 2Q,'16
	MIBK	60,000		
	Cumene	900,000		Completion of Expansion: 470,000MT/Y, 2Q,'16
	BPA	450,000		
	Epoxy Resin	135,000		
	Total	2,645,000		
Kumho Mitsui Chemicals	MDI	250,000	MT/Y	Completion of Expansion: 100,000MT/Y, 2H,'17
	Aniline	2,000		
	Total	252,000		
Kumho Polychem	EP(D)M	220,000	MT/Y	
	TPV/KEPA	7,000		Completion of Expansion: TPV 5,000MT/Y, 3Q,'17
	Total	227,000		

Appendices

Sales Breakdown & Export Share by Region

Domestic
23%



38%

16%

15%

12%

10%

9%

China

Europe

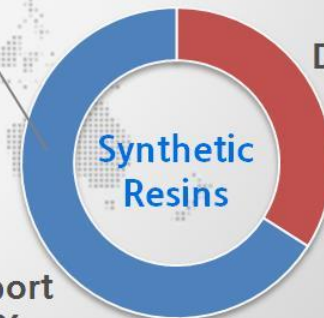
S.W. Asia

America

Africa

S.E. Asia

Export
66%

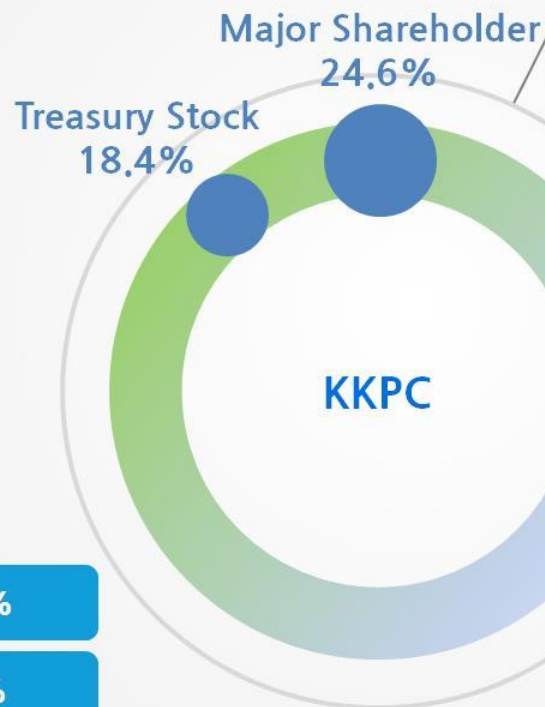


Domestic
34%

Appendices

Investment Shares & Asset available for sale

✓ As of 30th Sep 2016,
based on common shares



Investments in Affiliates

Kumho P&B Chemicals 78.2%

Kumho Mitsui Chemicals 50.0%

Kumho Polychem 50.0%

Kumho Terminal & Logistics 95.0%

Korea Energy Power Plant 92.6%

Yeonggwang Baeksu Wind Power
51.0%

Asiana Airlines 12.6%

Daewoo E&C 3.4%

KDB Life Insurance 0.9%

Asset available for sale

Q & A