

# Mid/Long-term Growth Strategy for Sustainable Business Management

**KUMHO  
PETROCHEMICAL**

Mar. 09, 2021



# Disclaimer

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1. The purpose of the materials on this website (“Materials”) is to inform the shareholders of the company’s status and prospects. The Materials may not be construed as investment, financial, legal, tax or other advice.
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# Background and summary of the main contents of the announcement of the mid to long-term growth strategy

## Back-ground

- ✓ The Company intends to **correct, based on facts, misleading information** in ‘the shareholder proposal’ made on January 27 this year.
- ✓ In addition, the Company desires to **announce a feasible and concrete mid/long-term growth strategy that maximizes future shareholder value** so as to actively communicate with shareholders and stakeholders, and form a consensus for goals.

## Main contents

- ✓ **Kumho Petrochemical has achieved outstanding shareholder value even in financial conditions and industrial market conditions where it is difficult to guarantee survival.**
  - Despite the fear of survival for the past 10 years, it has successfully implemented financial soundness enhancements and structural improvement measures of its main businesses.
    - Debt ratio lowered from 361% in 2010 to less than 100% in 2020/Credit rating improved by 6 steps from BBB0 in early 2010 to A0 (positive) in 2020
    - Despite the deteriorating commoditized rubber business market, the op margin in 2020 increased by seven times compared to 2012 with a successful business improvement revolving around NB Latex and high value-added products. It also successfully converted its key downstream businesses from automobiles/tires to healthcare/eco-friendly.
  - Thanks to these efforts, we have achieved the highest shareholder value in the rubber industry (total shareholder return over the past five years has been ~2 times higher than that of the leading companies in the industry).
- ✓ **The Company has established and is implementing a concrete and viable “New Vision” for 2025, and with this, we will continue to improve shareholder value.**
  - The Company will build a business structure with high stock price multiples of over KRW 9 trillion in sales in the future through the persistent implementation of the “New Vision” strategy with the goal of strengthening the core businesses and securing a new growth platform.
    - Core strengthening: This will be achieved through NB Latex continuing to be ranked the No. 1 in the global market, securing the No. 1 position in Asia for high-value rubber products, and the expansion of high-value-added specialty chemical products.
    - Securing a new growth platform: This will be achieved through the establishment of a large-scale, high-growth new business platform with revenue of over KRW 1 trillion.
  - We will establish and implement ESG strategies that are comparable to those of leading chemical companies by the year’s end.
    - Establishment and implementation of comprehensive ESG strategies and roadmaps at the enterprise level, including the declaration of carbon neutrality
- ✓ **We will support management decisions that best meet shareholder interests by establishing second to none governance in Korea.**
  - We will separate the Chairman of the Board of Directors and the CEO roles, and establish a separate committee deliberating on important issues to enhance the independence and expertise of decision-making.



# AGENDA

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**Historical performance assessment**



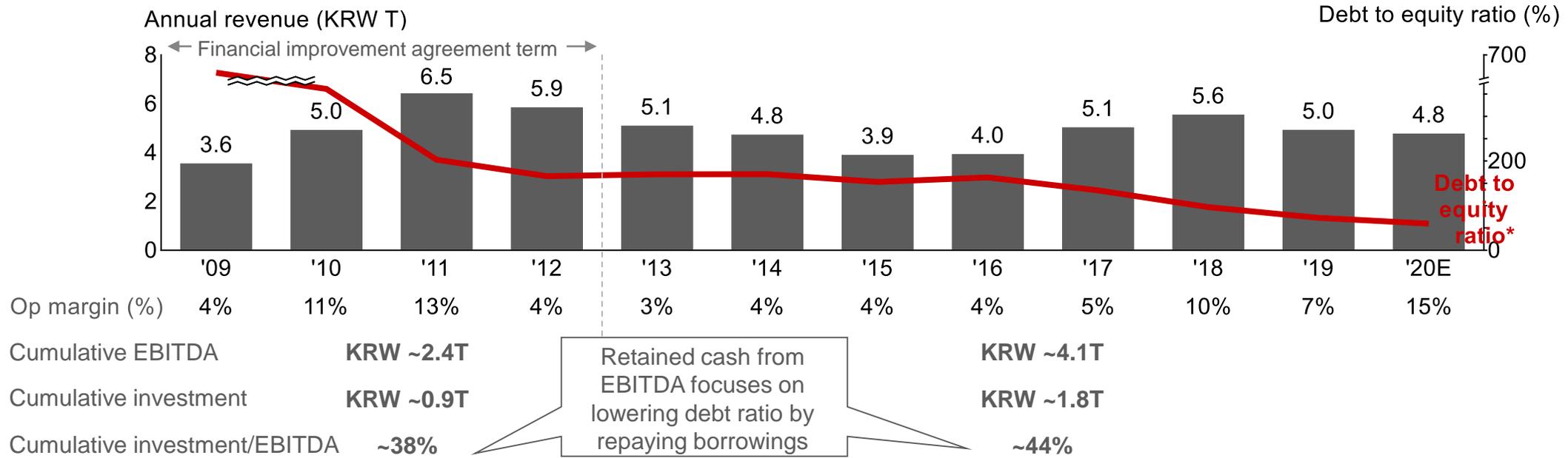
New Vision & growth strategy



Appendix: Kumho Petrochemical's view  
on the shareholder proposal

# Kumho Petrochemical's historical performance: Successfully improved financial structure for survival while strengthening business fundamentals as well (1/2)

## Financial performance ('09-'20E, consolidated)



**Will continue to engage in active investment to support sustainable business mgmt.**

(high growth platform + corporate ESG strategy)

### Focus on financial improvement for independent survival

- **Debt repayment & financial improvement** to recover from negative impact on financial structure caused by Kumho Asiana Group's issues
- Intensive investment in high-margin solid rubber

### Focus on maintaining financial stability & improving business fundamentals (in response to worsening market conditions)

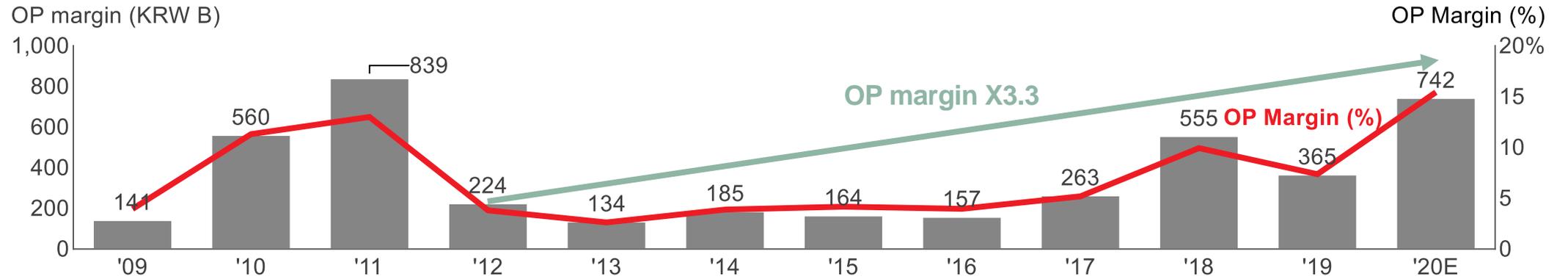
- **Shift from general rubber to high value-added products, SSBR/SBS, with increased investment**
  - Continued investment in core and adjacent business incl. solid rubber, synthetic resin and utility
- **NB Latex, etc. as future growth engine;** focus on quality & supply competitiveness enhancement

\*Due to excessive competition driven by oversupply since '11, the unit price of general purpose rubber products dropped, leading to rapid decline of the profitability of the Company's core rubber business

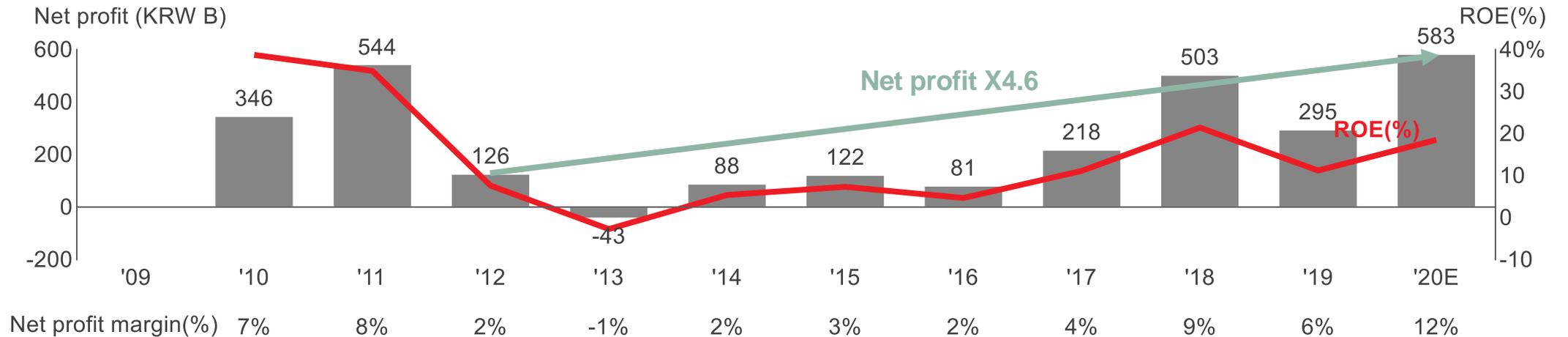
# Kumho Petrochemical's historical performance: Successfully improved financial structure for survival while strengthening business fundamentals as well (2/2)

## Financial performance index ('09-'20E, consolidated)

### OP margin



### Net profit /ROE\*

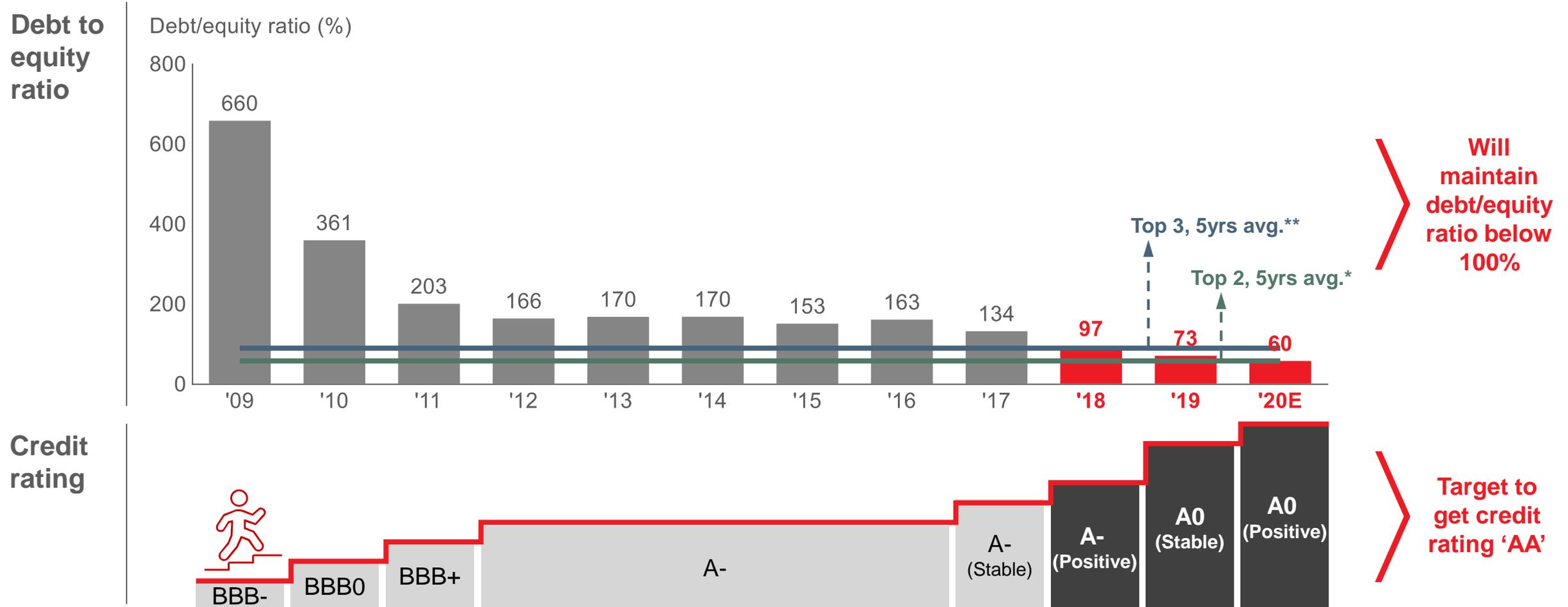


\*Not displayed consolidated net profit for 2009 due to IFRS conversion issue

# Financial structure improvement:

Focused efforts for early debt repayment successfully resulted in obtaining a stable credit rating

## Debt ratio & credit rating trend ('09-'20E, consolidated)

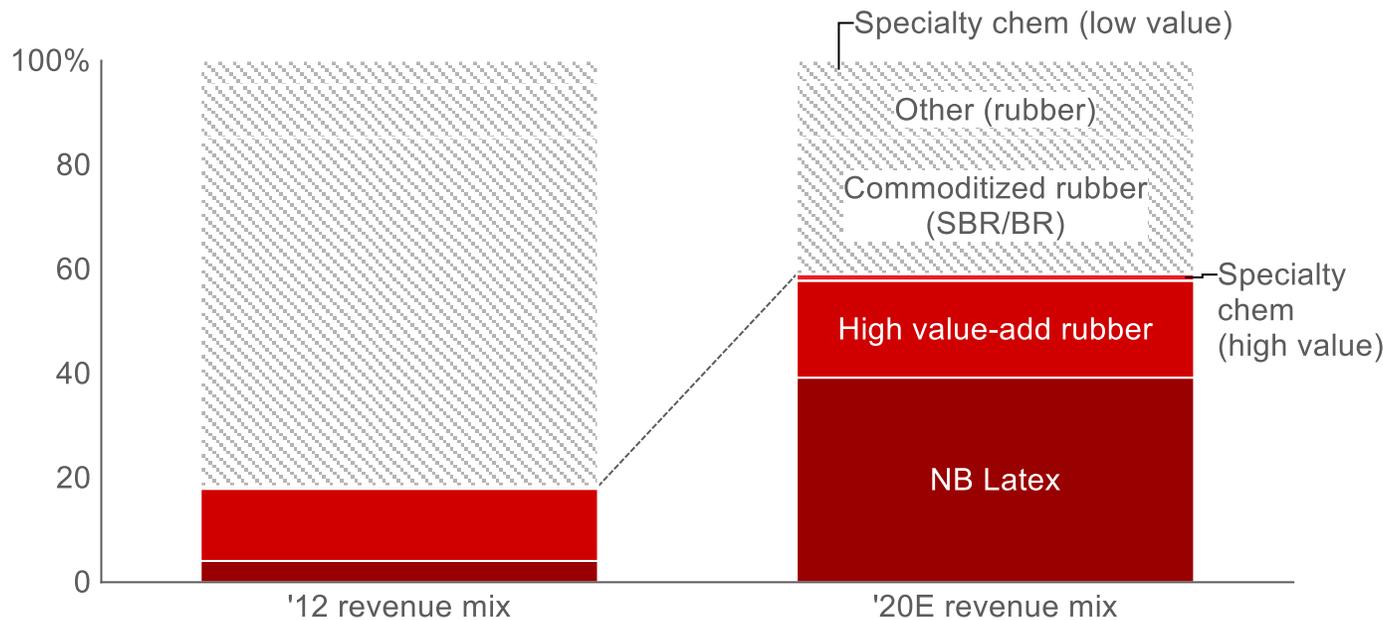


\*LG Chem, Lotte Chem '15-'19 average debt/equity ratio; \*\* LG Chem, Lotte Chem Hanwha solution '15-'19 average debt/equity ratio;

# Business fundamentals improvement: Improved business fundamentals by pre-emptive actions in the core business of solid rubber in response to hostile market conditions

## Revenue mix shift (fundamentals improvement in rubber/specialty chemicals)

Successful improvement in business fundamentals in the core business of rubber and specialty chemicals led to a significant uplift in op margin



% high value-add	18%	<b>OP margin ~ 5x</b>	59%
OP margin(%)*	3%	<b>OP margin(%) ~ 7x</b>	19%

\*Rubber business

## Main efforts to improve fundamentals

Pre-emptive attempts at acquiring NB Latex capability

- **NB latex market entry** to diversify market/application outside tire rubber
  - Became global no. 1 via aggressive capa addition
- Competitive advantage in quality & cost w/ **continuous NB latex mfg.**
- **Stepped up local commercial drive** in Malaysia
  - Sales office was set up (1Q'16)

High value-added rubber mfg line conversion / expansion

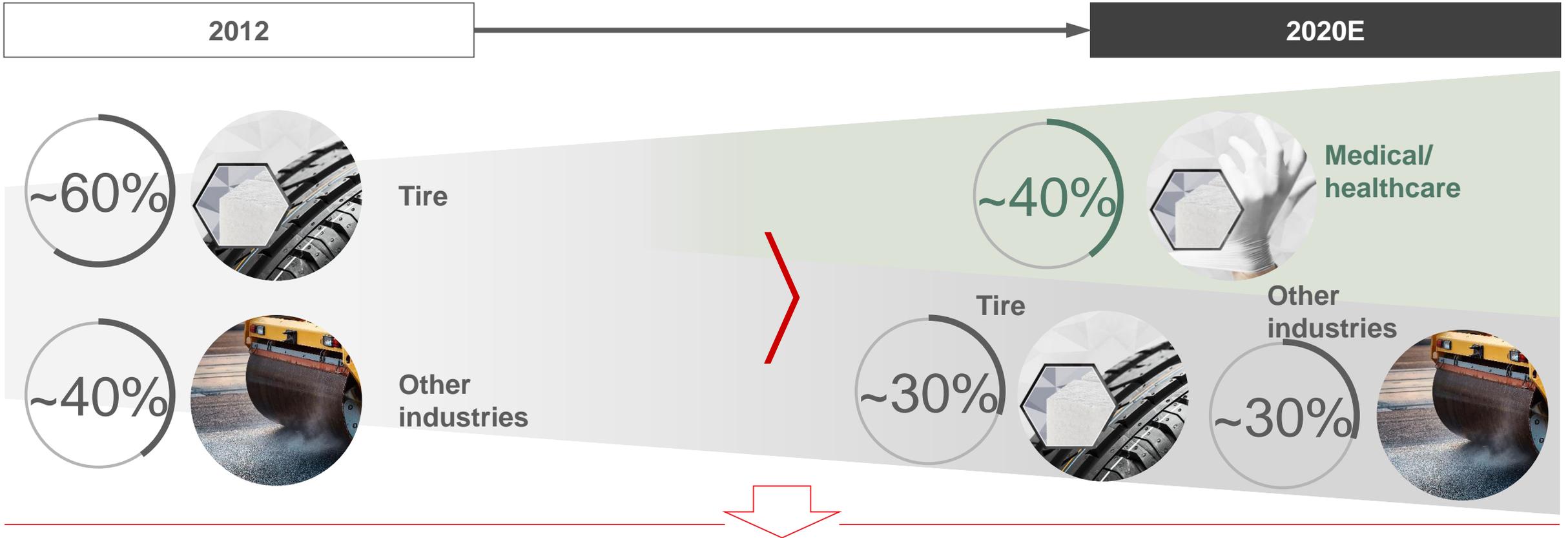
- Low-margin **commodity BR line converted to high value-added line (SSBR/SBS)**, improving profitability
  - Fixed cost improvement also resulted in higher margin in commodity rubber

High value-added specialty chem products

- **Product diversification** from mainly K-13 antioxidants to **profitable products such as K-5010 and SP**

# Customer mix improvement: Built advanced customer portfolio by expanding to medical / healthcare applications from automobile / tire-centric applications

## Customer portfolio advancement\*

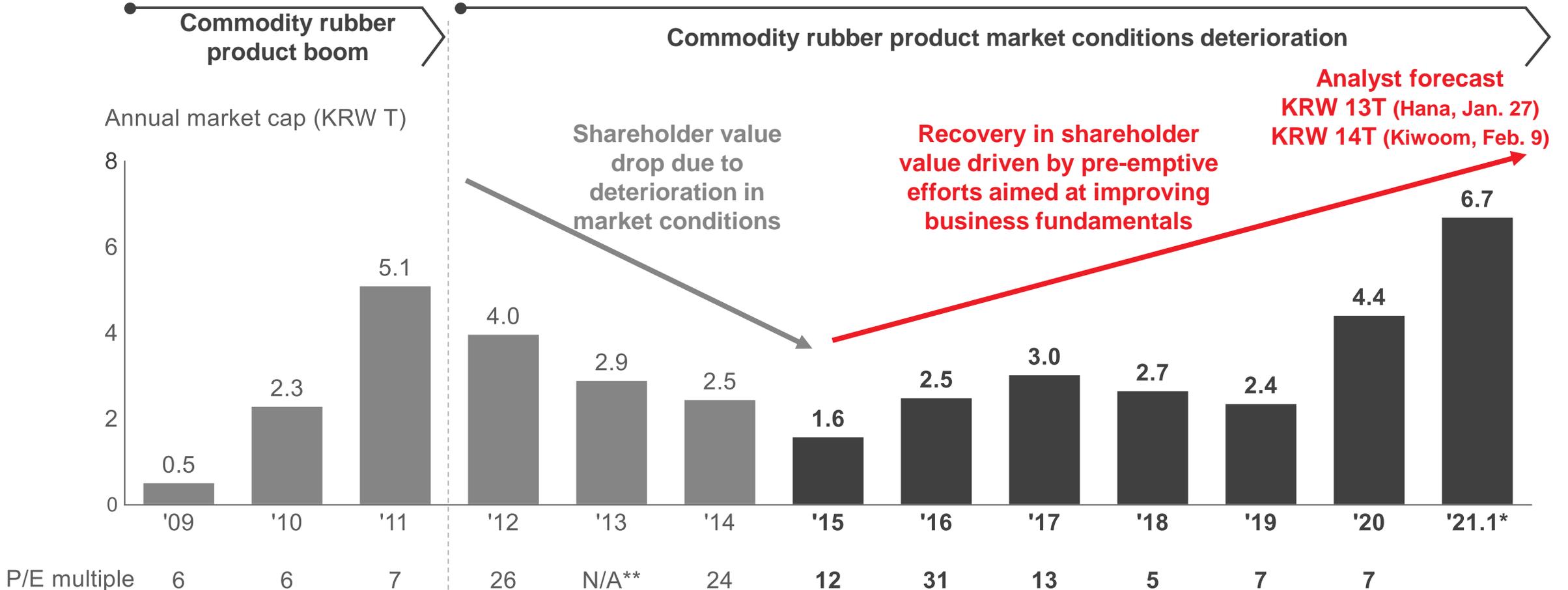


**Entry to fast-growing downstream industries via product advancement & application expansion, transforming into a materials provider capable of pre-emptively responding to rapidly-evolving market landscape**

\*Based on revenue proportion

# Shareholder value improvement: Based on business fundamentals improvement, recovered shareholder value to its previous peak and kept expanding

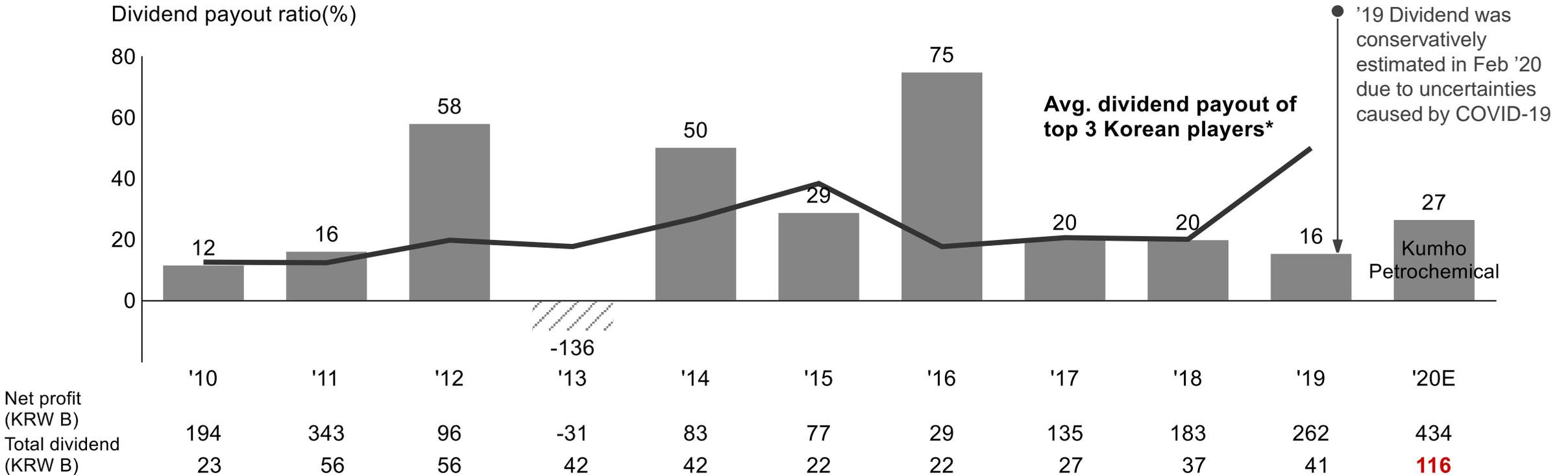
Market cap\* trend ('09-'21.1)



\*Market cap as of year-end, and market cap for '21.1 before '21.1.26(day of the shareholder proposal) ; \*\*Net profit < 0; Source: Capital IQ

# Efforts to enhance shareholder value: Kumho Petrochemical sought to offer most favorable dividend policy for shareholders even when it had to repay heavy debts and improve fundamentals for survival

Dividend payout trend ('10-'20E, based on non-consolidated financial statement)



**Kumho Petrochemical continued dividend payments even when it had to invest in business diversification & restore fiscal soundness; Now, it plans to increase dividends while making strategic investments for growth, backed by improved cash flow**

\*Arithmetic mean of LG Chem, Lotte Chemical and Hanwha Solutions' dividend payout ratio. However, Hanwha Solutions' '18 dividend payout ratio was factored out due to negative NP

# Shareholder value realization: Kumho Petrochemical achieved the industry's highest TSR through improved fundamentals vs. its leading peers\*

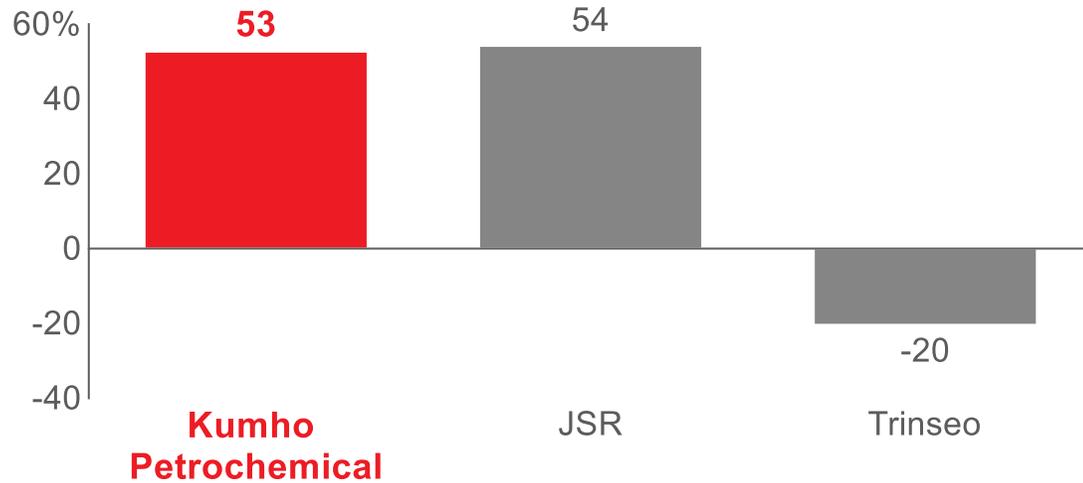
## What is TSR?

- Total shareholder return (TSR) is a metric for value creation for shareholders, or the total return accrued to shareholders for a certain period of time
- Cumulative TSR = [(Sale price - Purchase price) + Total dividend per share] / Purchase price

## 3-year TSR

- Total shareholder return by 3-year investment

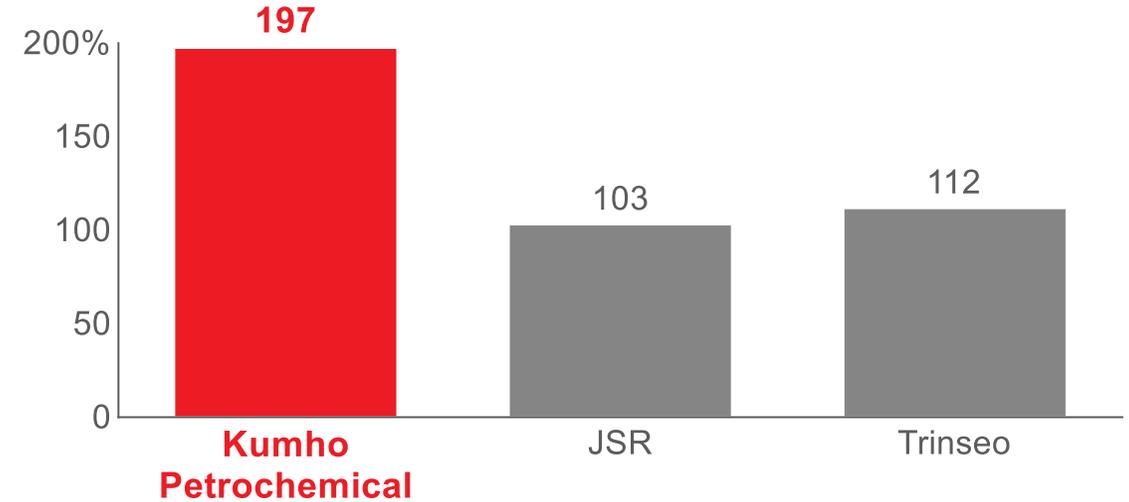
3yr TSR of major rubber makers(%)



## 5-year TSR

- Total shareholder return by 5-year investment

5yr TSR of major rubber makers(%)



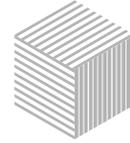
**Due to recent headwinds in rubber market, several players are up for M&A deals (JSR, Trinseo, etc.)**

\*Selected among global top 10 synthetic rubber manufacturers, excluding upstream makers with NCC, which are listed companies with public financial statements; \*\*Capital IQ

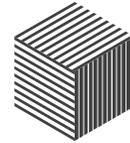


# AGENDA

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Historical performance assessment



**New Vision & growth strategy**



Appendix: Kumho Petrochemical's view  
on the shareholder proposal

# New vision\*: Solution partner creating Our Common Future with value beyond chemistry

Corporate vision

Solution partner creating  
Our Common Future with value beyond chemistry  
(’25 revenue KRW ~9T)

Business portfolio strategy

## 1 Focus on core business growth

(KRW 4T)

**Maintain global top position & maximize profit**

- Maintain global no. 1 position in NB Latex
- Leapfrog to Asia no. 1 player in high value-added synthetic rubber
- Become global Top 5 in epoxy business
- Diversify fine chemistry products & sales

## Improve base business margin

(KRW 3.2T)

**Optimize operation & improve profitability**

- Diversify grades & mix to maximize profit of synthetic resins business
- Improve margin of phenol derivatives biz

## 2 Build new growth platform

(KRW 1.7T)

**Build the 3<sup>rd</sup> growth engine & conduct re-valuation**

- Acquire high-growth large platform via M&A (Battery cell materials, Bio etc.)
- Accelerate new businesses such as CNT, environment-friendly products

Sustainable mgmt.

3

### ESG management

2025 ESG vision & strategy

ESG committee

### Group vision initiatives

DX

NBD

R&D

BM innovation

Ways of working

Core values

**Passion for Excellence**

**Innovation for Satisfaction**

**Collaboration for Unity**

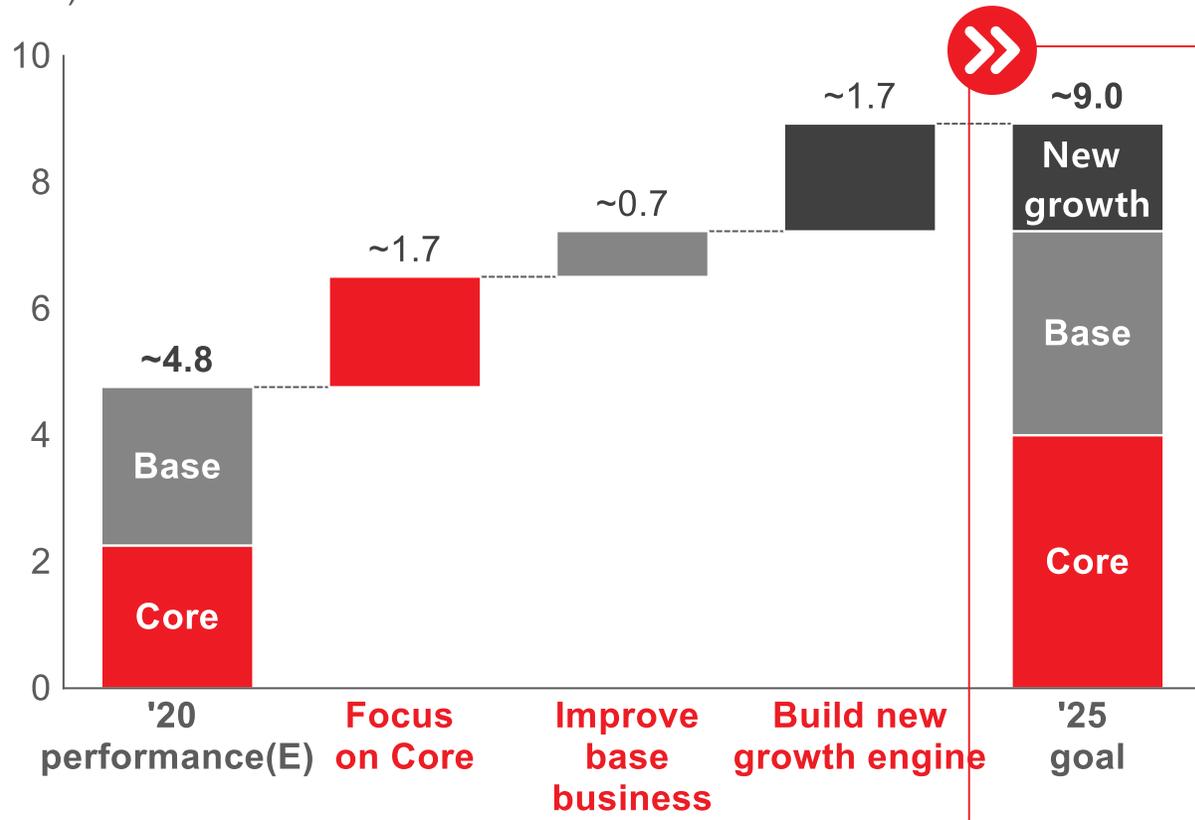
**Responsibility for Integrity**

\* A new vision was announced in December 18<sup>th</sup> 2020 for the next 50 years; DX: Digital Transformation, NBD: New Business Development, BM: Business Model

# Business portfolio transformation strategy: Focus on Core & build a large new growth platform to develop sustainable high-growth portfolio

## Corporate revenue goal setting\* ('20 → '25 goals)

(Unit: KRW T)



Investment\*\*

**Will invest KRW 3~4T\*\*\* focusing on core and new growth business**

\*Consolidated financial statements; \*\*Including major investments; \*\*\*with maintaining healthy financial structure by securing improved cash flow

## Key mid/long-term strategic initiatives

### Focus on core business growth

KRW +1.7T

- Maintain global M/S no. 1 in high growth market of NB Latex
- Become no.1 SSBR player in Asia
- Join global Top 5 in epoxy
- Double the global M/S in specialty chemicals

### Improve base business

KRW +0.7T

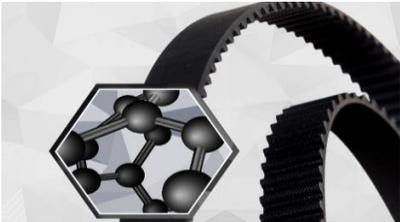
- Diversify grades and mix of synthetic resins to maximize profit
- Improve margin of phenol derivatives

### Build new growth platforms

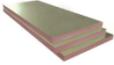
KRW +1.7T

- Incubate next-gen./environment-friendly new business, ensure high-multiple through large high-growth platform M&A
  - CNT, environment-friendly insulation materials, engineering plastic, rechargeable battery cell, etc.

# Detailed strategies: **1** Focus on the core business growth

		Strategic direction	Target ('20 → '25)	Key initiatives
<b>NB Latex</b>		 <b>Maintain global no.1 position</b>	 <b>Maintain a ~30% M/S in global high-growth market</b>	<ul style="list-style-type: none"> <li>• Switch SB Latex lines to produce NB Latex</li> <li>• Boost supply by adding NB Latex capa. (Consider domestic/overseas capa. addition)</li> <li>• Develop new products such as NI Latex</li> </ul>
<b>Synthetic rubber</b>		 <b>Maximize margin focusing on high value-added products</b>	 <b>Become no. 1 SSBR player in Asia</b>	<ul style="list-style-type: none"> <li>• Continue to switch commodity lines to produce high value-added products (SSBR/SBS)</li> <li>• Drive margin by improving commodity customers/cost</li> <li>• Build the basis for high value-added business and customer pool via M&amp;A with leaders/competitors</li> </ul>
<b>Epoxy</b>		 <b>Diversify applications/ customers via a shift from commodity to specialty</b>	 <b>Join global top 5</b>	<ul style="list-style-type: none"> <li>• Boost production competitiveness via vertical integration and build a robust market position via capa expansion</li> <li>• Expand applications including specialty resins for wind power/leisure</li> </ul>
<b>Specialty chemicals</b>		 <b>Achieve double-up growth</b>	 <b>Double up revenue from high value-added specialty chemical</b>	<ul style="list-style-type: none"> <li>• Diversify markets to include Europe and India leveraging raw materials cost competitiveness</li> <li>• Develop high value-added specialty chemicals in addition to existing major business; consider M&amp;A</li> </ul>

## Detailed strategies: **2** Build new growth platforms

	Strategic direction	Target ('20 → '25)	Key initiatives	
<p><b>Large-scale high-growth platform</b></p>		<p><b>Secure a platform with &gt;10% p.a. growth</b></p>	<p><b>Secure a &gt;1T business with x15 investment multiple</b></p>	<ul style="list-style-type: none"> <li>Secure a large-scale platform to build a rechargeable battery domain via M&amp;A                             <ul style="list-style-type: none"> <li>Consider rechargeable battery anode materials relevant to existing business or solid-state battery materials</li> </ul> </li> <li>Pursue M&amp;A in high-growth, stable industries such as bio, semiconductor materials and eco-friendly business                             <ul style="list-style-type: none"> <li>Consider large high-margin leaders in industries growing 7~8%+ p.a.</li> </ul> </li> </ul>
<p><b>Next gen. / eco-friendly new business</b></p>	<p><b>CNT</b></p>  <p><b>Eco-friendly insulation</b></p>  <p><b>Engineering Plastic</b></p> 	<p><b>Become a leader with low-carbon, eco-friendly new products</b></p>	<p><b>Secure a 3<sup>rd</sup> growth engine via product diversification beyond core/base</b></p>	<ul style="list-style-type: none"> <li>(CNT) Drive CNT materials sales for rechargeable batteries</li> <li>(Eco-friendly insulation) Normalize commercial production of Plant 1 in '21; complete Plant 2 construction by '25</li> <li>(EP) Obtain ~15+ client approvals in 3 years from '21; consider strategic partnership/M&amp;A w/ producers of differentiated high value-added EP</li> </ul>

# Detailed strategies: **3 ESG management**

## ESG goal



- Create an ESG strategy and roadmap within '21 and accelerate ESG management

## Key strategic direction

### Emissions reduction & increase in clean energy use

Create carbon-neutral strategy by site/process in '21



#### CCU

- Commercialize CCU demonstration plant to secure long-term carbon conversion demo. tech



#### Biomass

- Gradually reduce coal usage in combined heat and power plants leveraging biomass fuels



#### K-RE100

- e.g. Pursue captive power generation by using a next-gen. high-efficiency solar cell (i.e. perovskite)

### Waste reduction

Focus on technology development; commercialize in mid-to long-term



#### Eco-friendly water treatment

- Minimize waste from water treatment process leveraging bio treatment tech



#### Eco-friendly materials

- Develop technology to reuse bio-silica, waste synthetic resin and recycled monomer as materials



#### Recycling

- Reuse organic sewage sludge and waste plastics as fuels

### Structural improvement of site safety system

#### EHS system optimization

- Maintain/optimize ISO9001, 14001, 45001

#### Contamination prevention system

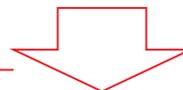
- Respond proactively to EU REACH/K REACH & strengthen internal monitoring process

#### Job safety system

- Obtain PSM P-grade for all sites & develop joint safety projects with subcontractors

# Governance improvement measures: Amendment of the Articles of Incorporation

	As-is	To-be	Background and expected effect
<b>Separate the CEO and the Chair of the Board roles</b>	<ul style="list-style-type: none"> <li>CEO concurrently serves as the Chair of the Board</li> </ul>	<ul style="list-style-type: none"> <li><b>Separating the roles of CEO and the Chair of the Board</b></li> </ul>	<ul style="list-style-type: none"> <li>Increasing the proportion of non executive directors &amp; separation of the CEO and the Chair of the Board roles are key measures to ensure the operation of the Board centered on shareholder value;</li> <li>Although CEOs also serve as the Chair of the board at most listed companies, the Company's plan is to enhance the independence, transparency, and rationality of the Board through preemptive separation.               <ul style="list-style-type: none"> <li>Only 20% of the companies in Korea have separate CEO and Chair as of 2019, but the Company's plan is to seek preemptive separation</li> </ul> </li> </ul>
<b>Create committees within the Board</b>	<ul style="list-style-type: none"> <li>Audit Committee</li> <li>Director Nomination Committee</li> </ul>	<ul style="list-style-type: none"> <li><b>Establishment of a committee led by Independent Directors to raise the value of shareholders</b> <ul style="list-style-type: none"> <li>ESG Committee</li> <li>Related Party Transactions Committee</li> <li>Compensation Committee</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>In the past, there was a lack of discussion systems within the Board related to shareholder value/profit; this will improve through the establishment of separate committees.</li> <li>Currently, it is confirmed to establish ESG, Related Party Transactions and Compensation Committees within the Board.               <ul style="list-style-type: none"> <li>Establish ESG strategies and policies (especially in response to climate change such as carbon neutrality)</li> <li>Improving transparency in transactions between affiliated companies and related parties</li> <li>Ensure objectivity and transparency in the Director compensation decision process</li> </ul> </li> <li>To ensure independent operation, relevant Articles will be amended and the Committees' operation will be managed by Independent Directors.</li> </ul>

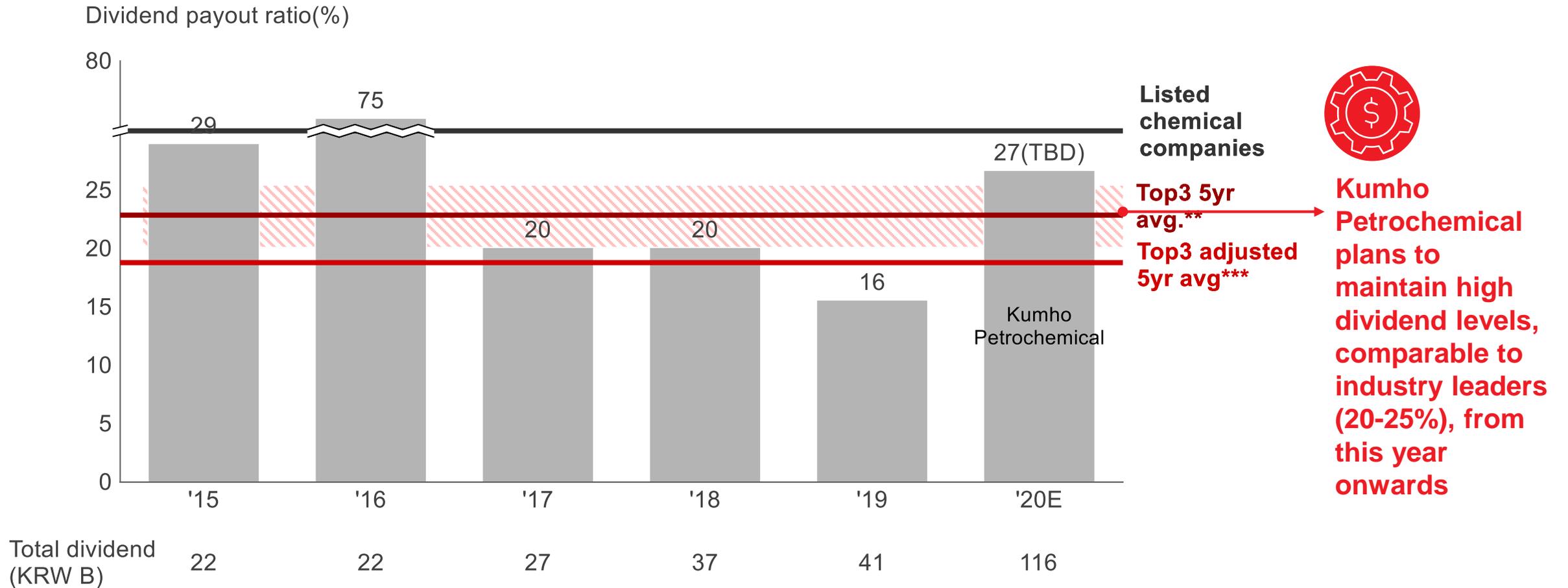


**Will establish foundation for sustainable management and social value creation**

# Future direction for dividends:

Kumho Petrochemical will maintain dividend payout at 20-25% as part of shareholder-friendly policy

## Dividend payout trend ('15~'20E)



\*Due to the high volatility of Kumho P&B Chemical's performance, the company determines the dividend policy on a separate basis to maintain a stable dividend policy; \*\*Simple average of '15-'19 dividend payout of LG Chem, Lotte Chemical and Hanwha Solutions; \*\*\*'15-'19 average dividend payout of LG Chem, Lotte Chemical and Hanwha Solutions, excluding outliers



# AGENDA

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Historical performance assessment



New Vision & growth strategy



**Appendix: Kumho Petrochemical's view  
on the shareholder proposal**

# Summary of Kumho Petrochemical's view on the shareholder proposal (1/2)

## Shareholder proposal

**1 Kumho Petrochemical's shareholder value has been stagnant for the past decade (shareholder value of '11 vs. '20)**

## Kumho Petrochemical's view

- Drop in shareholder value was inevitable due to the continued deterioration of market conditions in the core rubber business since '11.
- Nevertheless, Kumho Petrochemical was able to recover shareholder value to the previous peak level (of '11) through its preemptive efforts to improve business fundamentals and continues to expand its value.

**2 Low valuation despite superior performance vs. competitors (compared with numerous leading NCC based chemical players separate from the rubber industry)**

- Despite its disadvantageous business structure vs. leading chemical players with NCC, Kumho Petrochemical recently achieved performance similar to other leading chemical companies through years of business fundamentals improvement efforts.
- It is not a valid claim to link the recent business performance with valuation given the low valuation is mainly attributable to biz structure.
- Compared in TSR (Total shareholder return), a more relevant indicator for shareholder return, Kumho Petrochemical is ranked the highest among the industry leaders.

**3 Damaged shareholder value due to excessive cash on hand and underleverage (presented cash/debt status in '20)**

- Right after separating from Kumho Asiana Group in '10, Kumho Petrochemical was facing dire financial situations with no guarantee of survival; since then, it has devoted to continuous financial improvement. The rapidly increased cash holdings in '20 were the result of such efforts aimed at financial and business fundamentals improvement.
- Improved cash flow going forward will be invested focusing on the business portfolio improvement to maximize shareholder value; to this end, vision/strategy was newly established in late '20, which will be executed with focused drive.

**4 Low propensity to dividend (compared with dividend payout rate of '19)**

- 'Since '10, the entire corporate capabilities/resources were focused on improving financial structure & business fundamentals for survival, unable to pay out high dividends compared to financially stable peers.
- Even in such challenging times, Kumho Petrochemical put its best effort for steady dividend payout.
- To meet improved cash flow, the company plans to implement a policy of raising dividends other than strategic investments for growth.

# Summary of Kumho Petrochemical's view on the shareholder proposal (2/2)

## Shareholder proposal

**5** **Owning treasury stocks is not a shareholder-friendly policy (proposing retirement of treasury stocks)**

## Kumho Petrochemical's view

- Treasury stocks acquired during the previous business restructuring were not disposed due to concerns of potential damage to future value given the deterioration of rubber market conditions in the last 10 yrs.
- Treasury stocks will be either retired or actively used as strategic investment resource for future investments once appropriate value is reached.

**6** **Shareholder value was damaged due to investment into unrelated assets (unrelated assets purchases vs. current price)**

- These investments were made by the decisions of Kumho Asiana Group before the legal separation of Kumho Petrochemical in '10, and Kumho Petrochemical ended up owning the unrelated assets.
- Instead of immediate disposal at loss, the Company plans to sell after recovering proper value and actively use them as funding resources for investment such as new growth platform.

**7** **Shareholder value was hurt by acquiring Kumho Resort at a high price (comparing EBITDA multiple, quoting news articles)**

- Valuation of resort business should be based on the property value, not the business viability; Kumho Petrochemical was able to acquire the asset at a low price in the midst of COVID-19 situation.
- Based on the sharp upward trend of in-country golf / leisure demands as per COVID-19, it is expected that a superior business performance will be secured compared to existing business by strengthening competitive edge of the Resort with continued investment & by proactively utilizing idle assets.

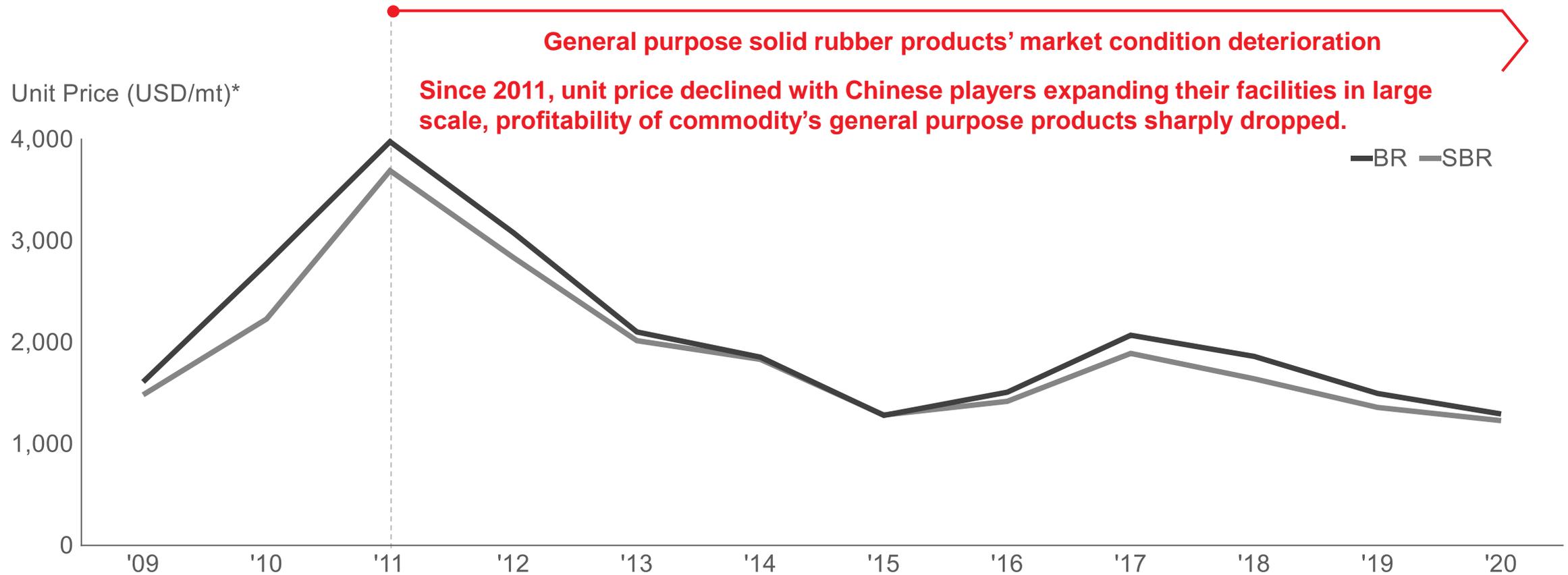
**8** **Insufficient investment in strengthening of core business competitiveness & new business (listed Kumho Petrochemical's failed, small-scale investment cases vs. leading chemical companies w. NCC)**

- Even in the midst of its efforts in financial improvement for survival, Kumho Petrochemical continued to invest in core business cultivation and improvement of fundamentals with 30~50% of cumulative EBITDA invested in the core businesses.
- Through such efforts, Kumho Petrochemical was able to succeed in improving business fundamentals, which became the foundation for the recent performance improvement.

Due to excessive competition driven by oversupply since '11, the unit price of general purpose rubber products dropped, leading to rapid decline of the profitability of the Company's core rubber business

1 Stagnation of shareholder value

General purpose rubber price trend & profit change ('09-'20)



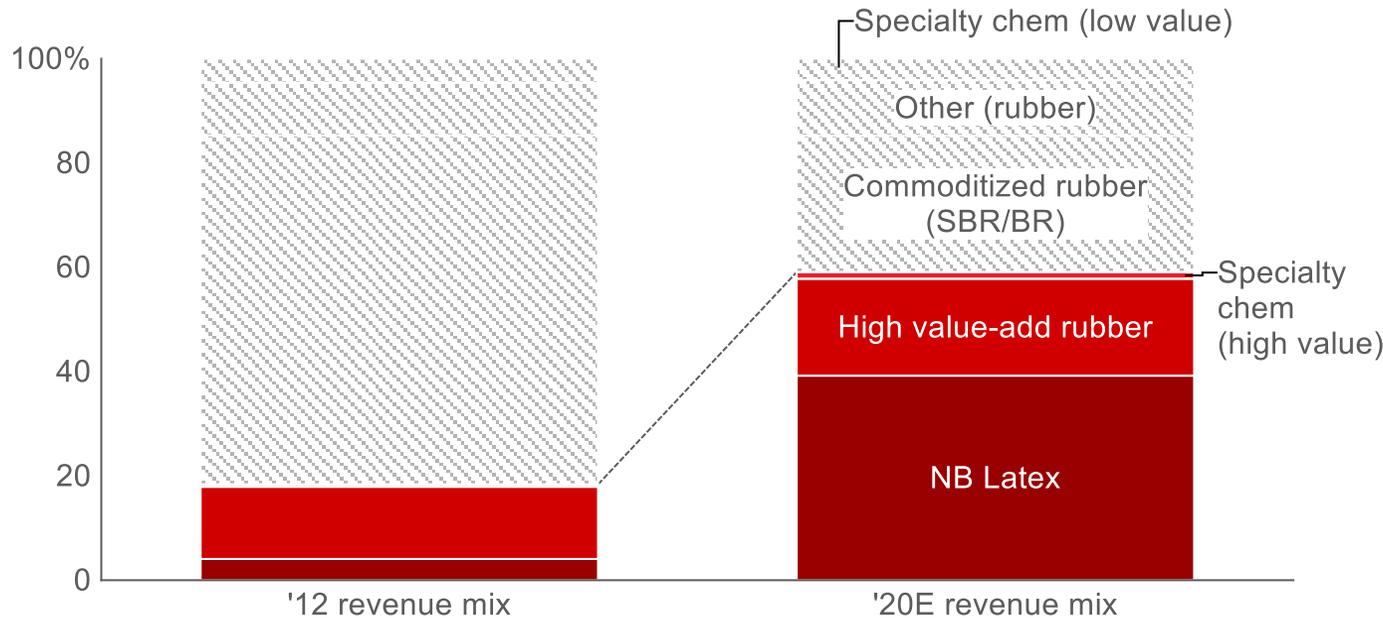
\*As per ICIS Spot Price, BR (HBR) CFR NEA, SBR (non oil) CIF China

# Kumho Petrochemical successfully improved business fundamentals by preemptively shifting to high value added products responding to deteriorating market conditions for commodity rubber products

## 1 Stagnation of shareholder value

### Revenue mix shift (fundamentals improvement in rubber/specialty chemicals)

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**High value-add rubber mfg line conversion / expansion**

- **Low-margin commodity BR line converted to high value-add line (SSBR/SBS)**, improving profitability
  - Fixed cost improvement also resulted in higher margin in commodity rubber

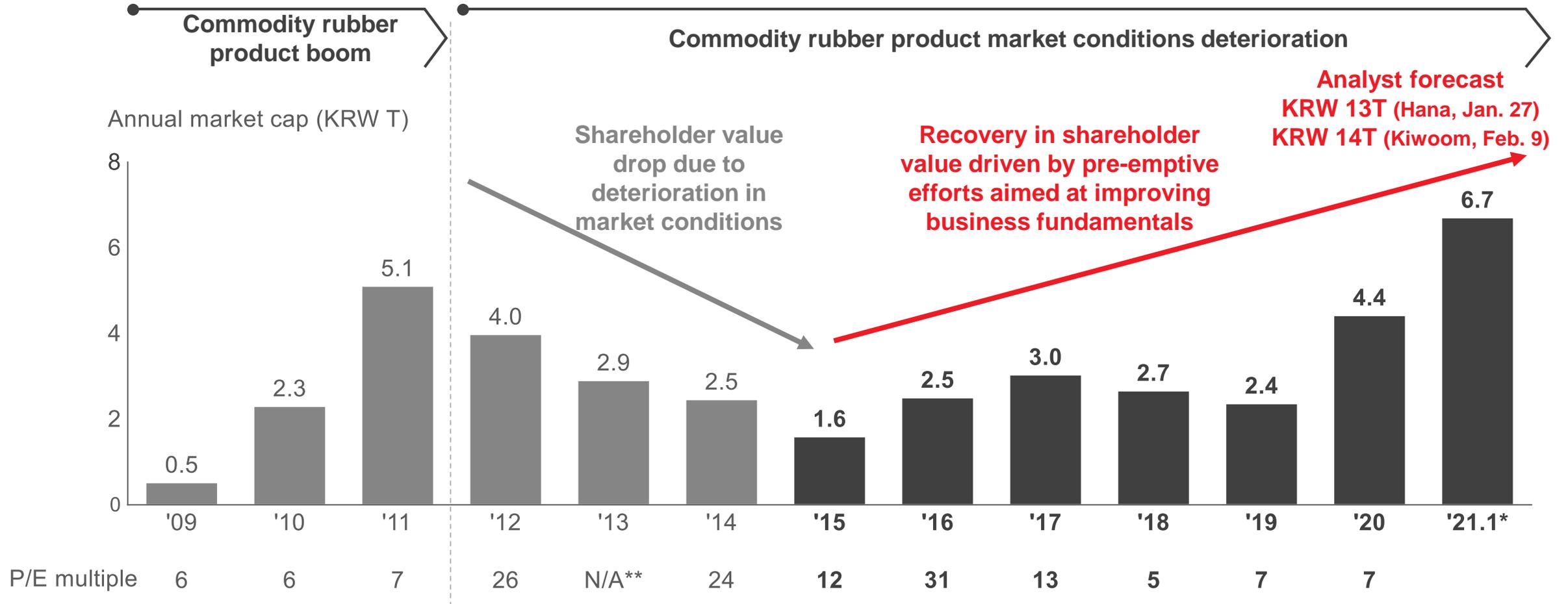
**High value-add specialty chem products**

- **Product diversification** from mainly K-13 antioxidants to **profitable products such as K-5010 and SP**

# Pre-emptive efforts in improving business fundamentals helped commodity products to achieve strong results despite challenging market conditions, **sending shareholder value to its previous peak**

## 1 Stagnation of shareholder value

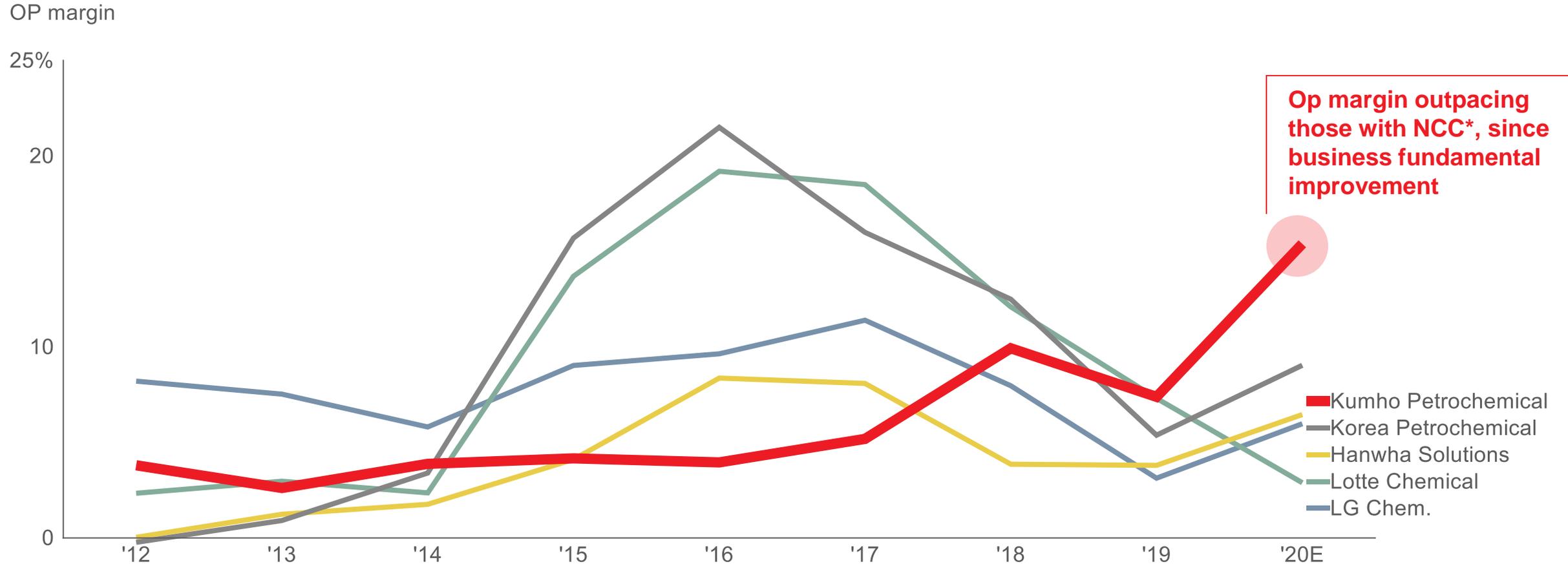
Kumho Petrochemical market cap\* trend ('09-'21.1)



\*Market cap as of year-end, and market cap for '21.1 before '21.1.26(day of the shareholder proposal) ; \*\*Net profit < 0; Source: Capital IQ

# Even with the disadvantageous business structure vs. chemical players with NCC, Kumho Petrochemical has recently achieved similar performance to leading players, as a result of years of efforts to improve business fundamentals

## 2 High performance vs. low valuation

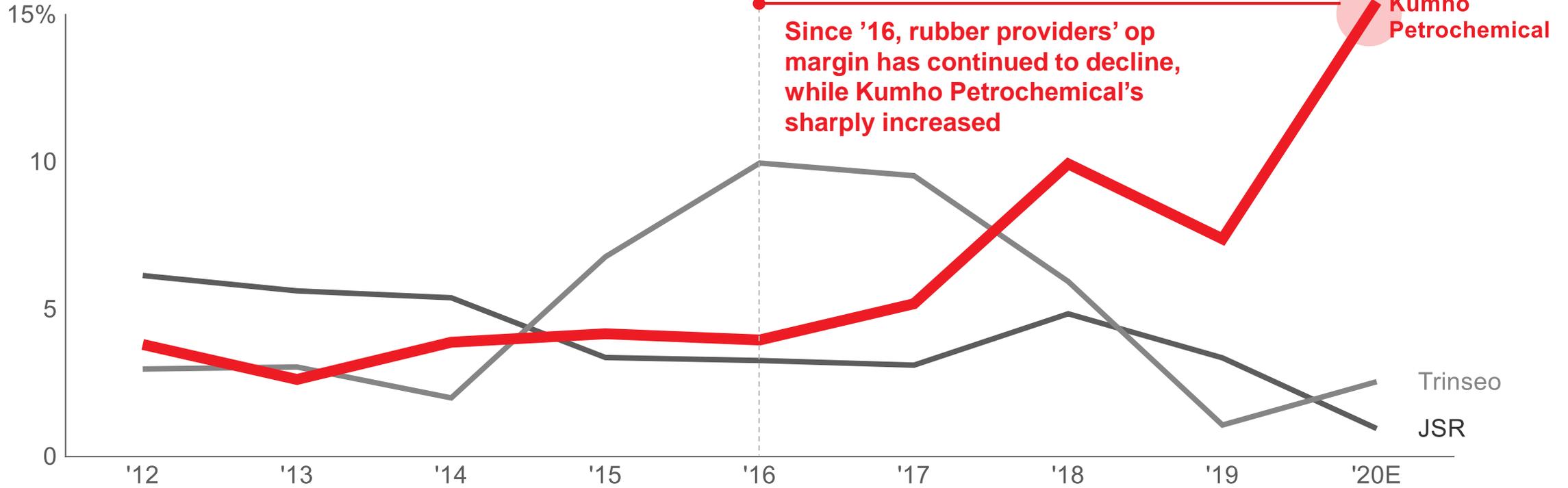


\*NCC: Naphtha Cracking Center; \*\*Capital IQ

# Kumho Petrochemical achieved specially strong results compared to the leading rubber providers

## 2 High performance vs. low valuation

OP margin (%)



Trinseo	3%	3%	2%	7%	10%	10%	6%	1%	3%
JSR	6%	6%	5%	3%	3%	3%	5%	3%	1%
<b>Kumho Petrochemical</b>	<b>4%</b>	<b>3%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>5%</b>	<b>10%</b>	<b>7%</b>	<b>15%</b>

\*Capital IQ was used for JSR and Trinseo. \*\* Internal data was referred to for KKPC's rate of operating profit. \*\*\* Total operating profit ratio for JSR's Elastomer and Synthetic Resin.

# Shareholder value realization: Kumho Petrochemical achieved the industry's highest TSR through improved fundamentals vs. its leading peers

## 2 High performance vs. low valuation

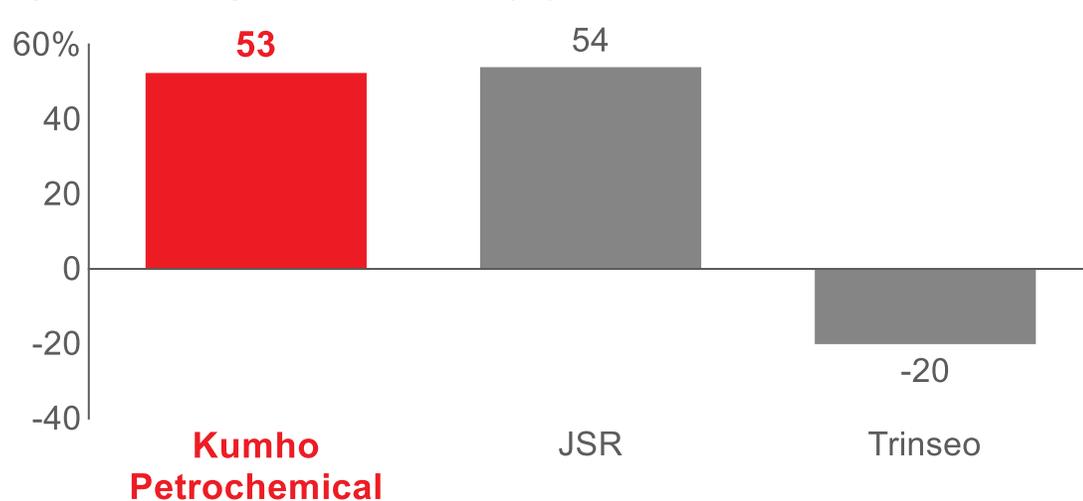
### What is TSR?

- Total shareholder return(TSR) is a metric for value creation for shareholders, or the total return accrued to shareholders for a certain period of time
- Cumulative TSR = [(Sale price - Purchase price) + Total dividend per share] / Purchase price

### 3-year TSR

- Total shareholder return by 3-year investment

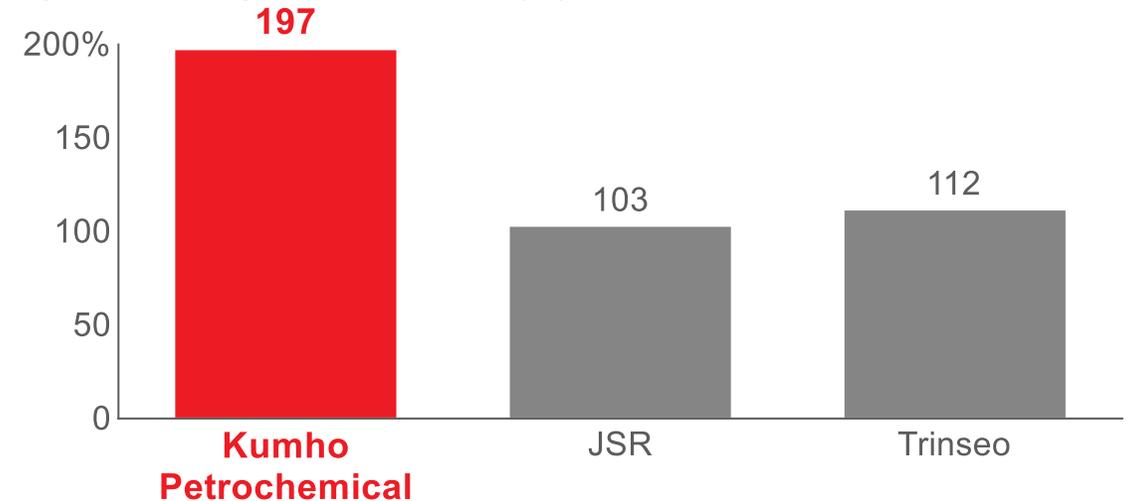
3yr TSR of major rubber makers(%)



### 5-year TSR

- Total shareholder return by 5-year investment

5yr TSR of major rubber makers(%)



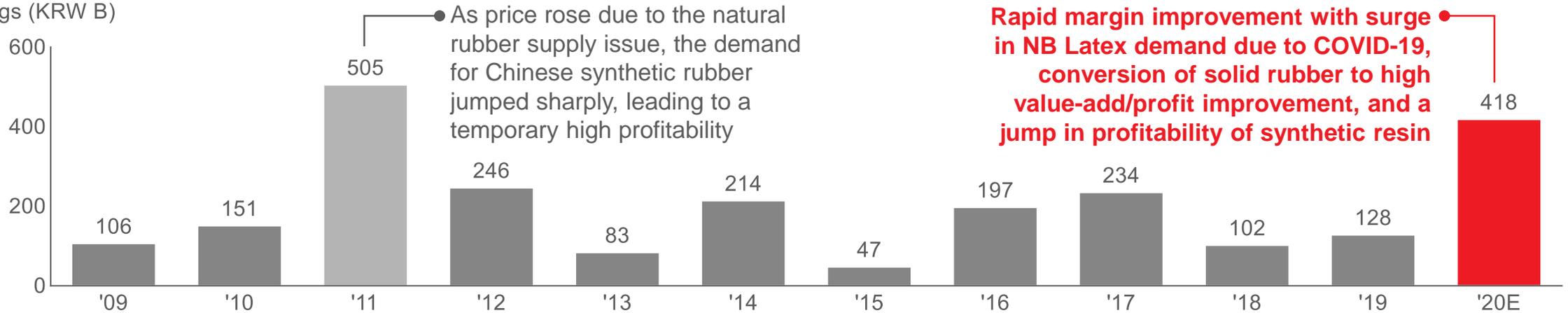
Due to recent headwinds in rubber market, several players are up for M&A deals (JSR, Trinseo, etc.)

# Kumho Petrochemical has committed itself to improving its financial structure and business fundamentals for its survival; rapid cash increase in '20 is the result of such efforts to improve business fundamentals

## 3 Excessive cash on hand & damage in shareholder value

### Kumho Petrochemical's Cash Holdings Trend ('09 → '20E, consolidated)

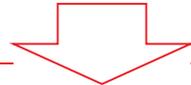
Cash Holdings (KRW B)



Cash/Assets(%)	2.7%	3.7%	10.7%	5.6%	2.0%	4.8%	1.1%	4.3%	5.1%	2.2%	2.8%	8.3%
Debt Ratio(%)	660%	361%	203%	166%	170%	170%	153%	163%	134%	97%	73%	60%

**Korean leaders maintaining low debt ratio of <100%;  
Kumho Petrochemical also below 100% since '18**

LG Chem	42%	46%	53%	67%	96%
Lotte Chem	52%	69%	60%	54%	43%



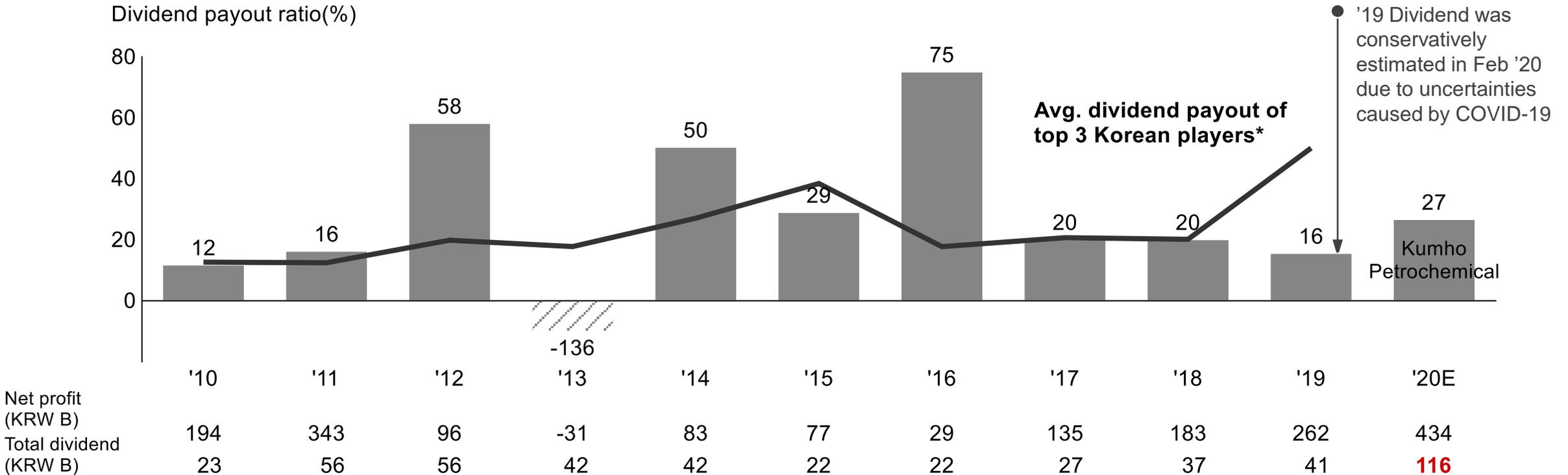
- Cash holdings that dramatically increased as a result of business fundamentals improvement and COVID-19 impact, will be used to improve business portfolio and strengthen dividend policies to increase shareholder value
- In particular, building of new business platforms is to be pursued based on a large scale M&A.

Note: For the Q4 of 20, internal estimation was applied to get the accumulated figure; Source: Publicly disclosed data.

# Kumho Petrochemical **continued dividend payout** even while executing a challenging strategy of restoring financial soundness and improving business fundamentals

## 4 Low dividend payout

Kumho Petrochemical's dividend payout trend ('10-'20E, based on non-consolidated financial statement)



**Kumho Petrochemical plans to increase dividends while making strategic investments for growth, backed by improved cash flow**

\*Average of dividend calculations for LG Chem, Lotte Chemical, and Hanwha Solutions. However, for '19, as Hanwha Solutions' net income was net loss, it was excluded

# Kumho Petrochemical ended up acquiring treasury stocks during Group's restructuring, and continued to hold as the value declined since then; **plans to use as strategic investment resource once value recovers**

## 5 Treasury stocks & damage in shareholder value

### Reason for holding high % of treasury stocks in the past

Assets acquired during restructuring have been held to be used strategically at the timing with a good business value



Treasury stocks currently held (18.36% of shares issued) are **the remains of treasury stocks acquired at the time of subsidiary merger in the past.**

Current treasury stocks volume is what's left of the treasury stocks acquired when Kumho Chemical, a synthetic resin company, was merged, after retiring about half of them.



Since 2011, with key business market conditions declining, there were **concerns that disposing them at that time would damage future value.**

Rather than forcing to dispose of them at a point of low business value, waiting until internal improvements on business fundamentals raised company value was considered.

### How treasury stocks will be used in the future

**To be retired or used as strategic investment resource for business portfolio revision**



**Will be leveraged as investment resource to secure new growth platforms or structurally improve existing businesses**

#### Financial resource for strategic alliance

- Leverage as a resource for structural competitiveness improvement via strategic alliance with global leaders in the related industries
  - Consider using it for pursuing alliance with players in related industries with whom Kumho Petrochemical can generate strategic synergy

#### Financial resource to secure new growth platforms

- Leverage as the financial resource to build high-growth platforms when business value is recovered
  - Consider using it to acquire competitive & sizable company in sectors such as secondary cell material/parts



**Immediate disposal of the treasury stocks can hurt future value; the proposed retirement of treasury stocks, in particular, raises concerns that it would lower investment capacity and concentrate benefits to major shareholders.**

# Immediate sale of the non-adjacent assets, acquired at Kumho Asiana mgmt.'s decision, raises a huge concern of damaging future value; **plans to use as future investment resource by selling at recovered value**

## 6 Investment in non-adjacent value & damage in shareholder value

### Current status of non-adjacent assets

	Why the shares were acquired	Share ownership	Share value			
			'14	'16	'18	'20
Daewoo E&C	Assets acquired by Kumho Asiana Group's decision of investment resource allocation, before the Company's legal separation in '10	3.52% Share % at time of acquisition	KRW ~86B	KRW ~71B	KRW ~75B	KRW ~70B
Asiana Airlines		13.78% Share % at time of acquisition	KRW ~175B	KRW ~104B	KRW ~102B	KRW ~104B
KDB Life Insurance Co., Ltd.		0.94% Share % at time of acquisition	KRW 4.7B	KRW 3B	KRW 200M	KRW 800M
KDB Consus Value PEF		9.87% Share % at time of acquisition	(Loss setoff)			



**To be used as investment resources to secure future portfolio upon recovering value**

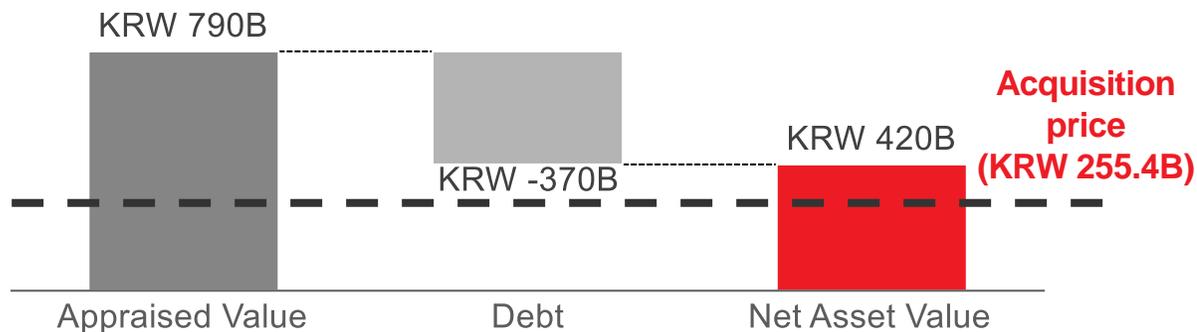
- Daewoo E&C shares: to pursue sell off when construction/ plant industry recovers post COVID-19 (sale was stopped in the past due to low unit price & concerns of damaging value)
- Asiana Airlines shares: to pursue sell off after the deal with Korean Airlines completes and normal value is recovered

# On a real estate value level, the acquisition of Kumho Resort was made at a low price amid the pandemic – also, expected to secure additional business value

## 7 Acquisition of Kumho Resort & damage in shareholder value

### Reasonability of Kumho Resort purchase price from real estate value perspective

**Resort asset should be evaluated from real estate value perspective; Kumho Resort was purchased at a low price**



	Asiana CC	Resort	Water Park
<b>Land in Use</b>	<ul style="list-style-type: none"> <li>2.45Mm<sup>2</sup> (740k pyeong)</li> </ul>	<ul style="list-style-type: none"> <li>142km<sup>2</sup> (43k pyeong)</li> </ul>	<ul style="list-style-type: none"> <li>169km<sup>2</sup> (51k pyeong)</li> </ul>
<b>Idle Land</b>	<ul style="list-style-type: none"> <li>270km<sup>2</sup> (82k pyeong)</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>115km<sup>2</sup> (35k pyeong)</li> </ul>

### Examples of major recent real estate transactions in Korea

**Resorts/hotels/golf courses are usually appraised based on their real estate value as opposed to their existing purposes**

#### Sale of Le Meridien Seoul Hotel

- Le Meridien Seoul located in Yeoksam, Seoul, was sold off at KRW ~700B based on its real estate value (Total lot area of 10,362m<sup>2</sup>; ~3,140 pyeong)
  - Bought to develop a commercial and residential complex building, not a hotel as before

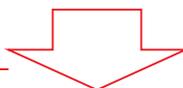
#### Sale of Yongsan Crown Hotel

- Crown Hotel located in Itaewon, Seoul, is expected to be sold at KRW ~300B scale based on the price of its land (Total lot area of 7,011m<sup>2</sup>; ~2,121 pyeong)



*“Acquisition of Le Meridien and Crown Hotel in Yongsan were undertaken for the value of their locations rather than for the purpose of running hotels as before”*

- Chosun Biz



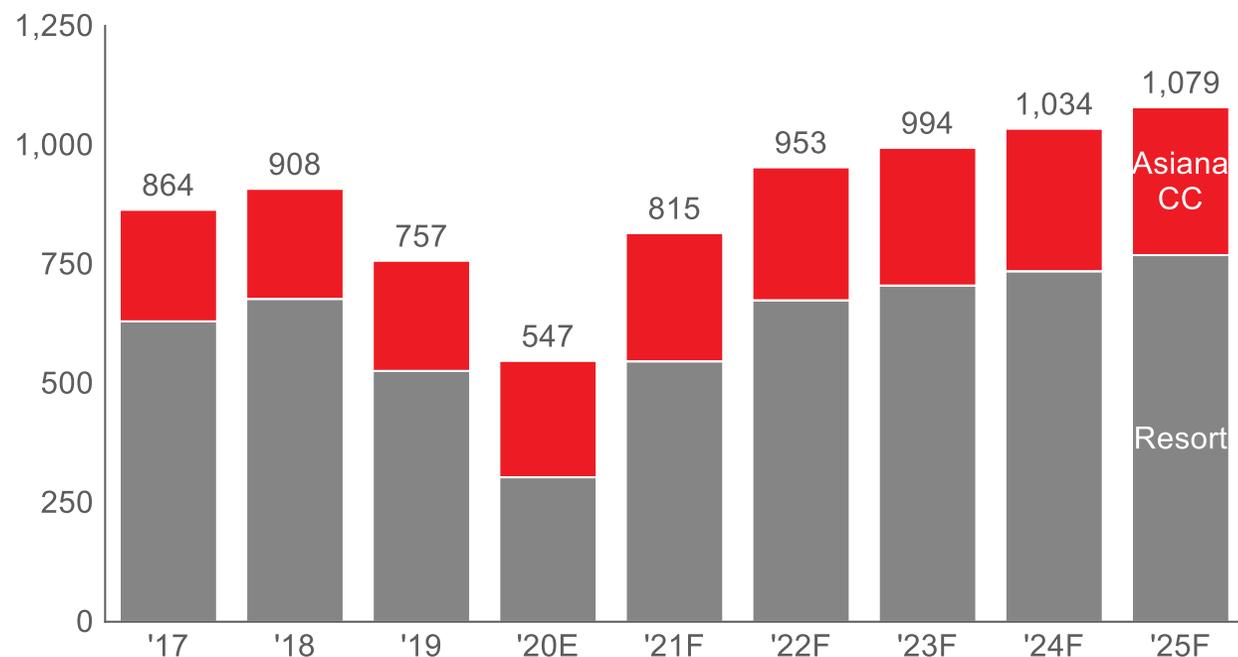
**Expected to secure additional business value, separate from the appraisal value**

# By actively capitalizing on the trend of rapidly growing domestic leisure demand, Kumho Petrochemical will make active inv't to strengthen competitiveness of resort business & utilize idle assets to recover pre-pandemic earnings capability

## 7 Acquisition of Kumho Resort & damage in shareholder value

### Sales plan by business division\*

(Unit: KRW 100M)



Op income	48	73	-37	-134	11	86	122	152	172
Op margin (%)	6%	8%	-5%	-24%	1%	7%	10%	11%	12%
Investments					190	75	35	10	

\* Not including additional income from idle land/parcel sales

### Main strategies

#### Asiana CC

#### Uplift profitability by upgrading service and utilizing idle assets amid growing demand

- Secure additional profit by leveraging the surge in demand for golf since entering COVID-19 era & enhancing services
- Drive linked business based on strategic investment attraction
  - Leveraging 82k pyeong of land near Asiana CC

#### Resort

#### Renovate the asset to recover earnings power & utilize additional idle assets

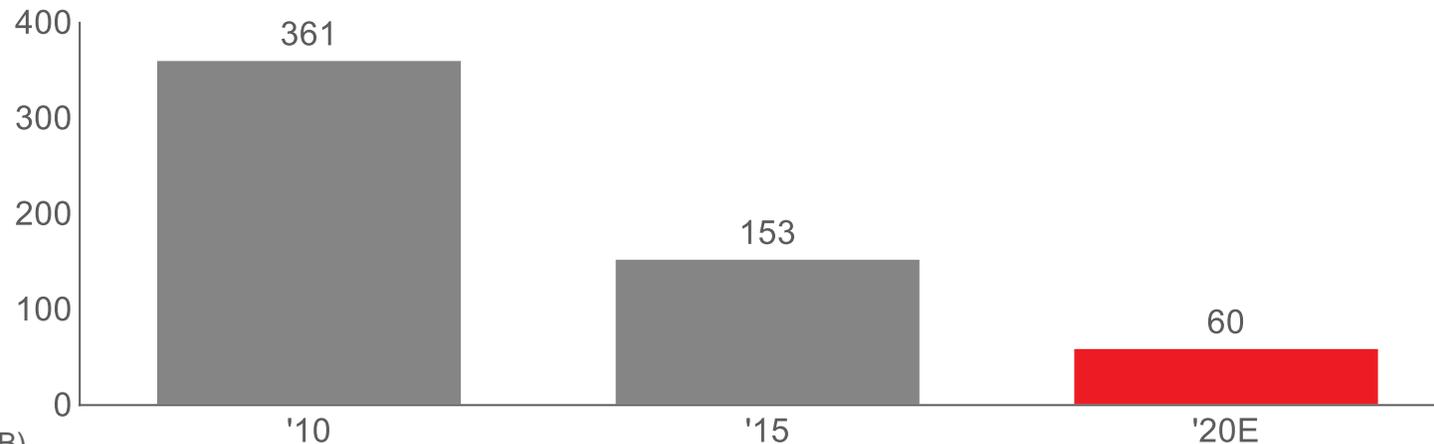
- Raise customer transaction & occupancy ratio based on renovation
  - Targeting 10% level margin which is same as that of small giant resorts/hotels like Oakwood and Blue One
- Leverage idle land based on strategic investment attraction
  - Leveraging 35k pyeong of land near Asan Spavis
- Improve room occupancy rate of Weihai CC/Resort based on marketing & sales for Chinese domestic customers
- Enhance operational efficiency by hiring external managements

# Even amid its efforts to improve financial soundness for its survival, Kumho Petrochemical has continued to proactively invest in cultivating core business and improving business fundamentals

## 8 Inadequate investment

### Kumho Petrochemical's Debt Ratio and Credit Rating Trend ('10-'20E, consolidated)

Debt/Equity ratio (%)



(Unit: KRW B)

Cumulative 5yr EBITDA	2,388	3,084
Cumulative 5yr repayment (%)	471 (20%)	1,425 (46%)
Cumulative 5yr investment in core business (%)	1,272 (53%)	818 (27%)
Credit rating	BBB0	A0

- Since separating from Kumho Asiana Group and starting independent management, **focused on improving financial structure for survival**
  - In '09 with debt ratio of 660%, signed agreement to improve financial soundness with creditors
  - After completing the agreement only in 3 years, continued to drive debt repayment until securing credit rating of Stable.
- At the same time, **continued to make investments to strengthen core businesses and improve business fundamentals**
  - Continued investment in core businesses such as solid rubber, synthetic resin, and utilities
  - Invested in facilities switch to high value-added products such as SSBR, SBS, and fine chemicals
  - Entered NB Latex market & invested to build and expand capacity

**With the improved financial positions, the Company plans to actively invest to innovate business portfolio and seek shareholder value re-valuation (large-scale high-growth new business platform such as secondary battery cell under the new vision strategy)**

\*Core business: rubber, resin, specialty chemicals, energy, new businesses



**Thank you**

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