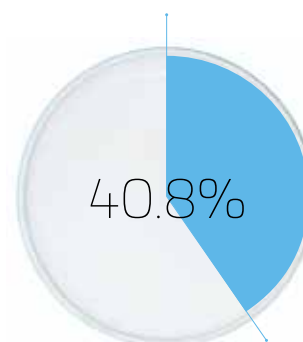


Synthetic Rubbers



In synthetic rubbers, we focused on diversifying product portfolio and improving productivity in 2017, which resulted in a significant improvement in profitability, and thus contributed to the improvement in overall performance of the company.

Portion to Total Sales in 2017
(Unit: %)



2017 REVIEW

Synthetic rubber is KKPC's key business, accounting for 40.8% of total sales, it therefore has a considerable influence on our corporate performance. In 2017, the synthetic rubber business achieved solid growth compared to the previous year despite difficult business conditions. Sales rose by 32.6% to reach KRW 2,068.1 billion, and there was a slight improvement in profitability, which in turn contributed to the overall performance of the company.

Large-scale expansion of facilities in the industry has led to an on-going oversupply situation. Recently, however, there has been less facility expansion and also a small but steady increase in demand, around the 2 to 3% range, which has somewhat eased the oversupply situation. In addition, there have been reductions in production as a result of environmental regulations in China, and these factors have combined to cause synthetic rubber prices to move with greater flexibility in a general upward trend.

In order to overcome the challenging business environment, KKPC has diversified our product portfolio to focus on profitability. We have also improved productivity and put into place an efficient production/sales system, including appropriate inventory management, which has been an important factor in improving profitability.

2018 OUTLOOK

The synthetic rubber market is forecast to grow by approximately 3% in 2018 mainly thanks to increasing demand for replacement equipment (RE) tires due to the tire replacement cycle. With automobile production still seeing low growth, however, there will be slower growth in demand for original equipment (OE) tires. The supply situation is still unfavorable, including the synthetic rubber supply/demand rate expected to reach about 140% in 2018. In addition, the economic environment will continue to be challenging for KKPC, with the Korean Won remaining strong against the US Dollar, and higher trade barriers.

We will continue to strive to overcome these difficult business conditions and generate stable profits by focusing on profit-centered portfolio



management. In addition to establishing a full sales system by diversifying our customer pool for NB latex products, we will further solidify our sales system by strengthening a sales basis for such products as NBR and SSBR. We will also flexibly adjust our production schedule and improve inventory control in order to minimize the inventory burdens caused by fluctuations in feedstock prices.

Given the vital nature of feedstock supply to our business, we will continue focus on competitive, stable butadiene (BD) supply. Although BD prices are expected to increase steadily, there is the possibility of increased availability from outside Korea, so KKPC will aim to acquire competitively-priced BDs, whether from inside Korea or imported. In addition, we will continue to improve and expand operations of our BD plant, so that we are prepared for the volatility in the BD market, and thus lay foundations for a more stable supply of feedstock.

KEY PRODUCTS

SBR, HBR, LBR, SSBR, NBR, HSR, NdBR, SB latex, NB latex, SBS, STE

KEY APPLICATIONS

Tires, Shoes, Automobile parts, Sporting goods, Asphalt, Waterproof sheet, Plastics, Paper, Gloves

MAJOR CUSTOMERS

Hankook Tire, Kumho Tire, Nexen Tire, Goodyear Tire, Continental Tire, Bridgestone Tire, Michelin Tire, YTY, Hartalega, Hankuk Paper