RISK MANAGEMENT

Disciplined, preemptive risk management not only ensures stable business operations but also builds lasting value for stakeholders. KKPC manages risk at the company level in order to respond to major changes in global markets, which in turn enables us to manage short-term uncertainties and deliver future growth.

FINANCIAL RISK

As of the end of 2018, our net debt stood at KRW 1,355 billion, a year-on-year decrease of around KRW 220 billion, and our debt-to-equity ratio was 96.6%, down 37.4%p year-on-year. There will be further investment activities in 2019, but we do not expect the same level of large-scale investments as those which took place before 2016. Although it may be difficult to generate similar operating cash flows this year due to the prolonged US-China trade conflict, the resulting uncertainties, and sluggish demand in upstream industries, we will lower our debt-to-equity ratio by reducing debt through effective liquidity management. We anticipate that this will lead to improvements in our corporate credit rating and lower financial costs. In addition, 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 2018 accounted for 66% of our total sales. Around 74% of sales were in foreign currencies, including 8% of domestic local sales, 93% 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 As of the first quarter of 2019, butadiene (BD) price has remained steady as derivatives demand recovery has been delayed while the market is adopting a wait-and-see attitude due to concerns over the US-China trade conflict. A price rise is expected in the first half, with regular maintenance by BD producers in Europe and Asia, resulting in tight supply for a limited period. However, the impact of this temporary factor will be insignificant if there is no improvement in demand for derivatives. In the second half, new plants will come into operations in Korea, China and other Asian countries, closing the gap between supply and demand and thus stabilizing prices.

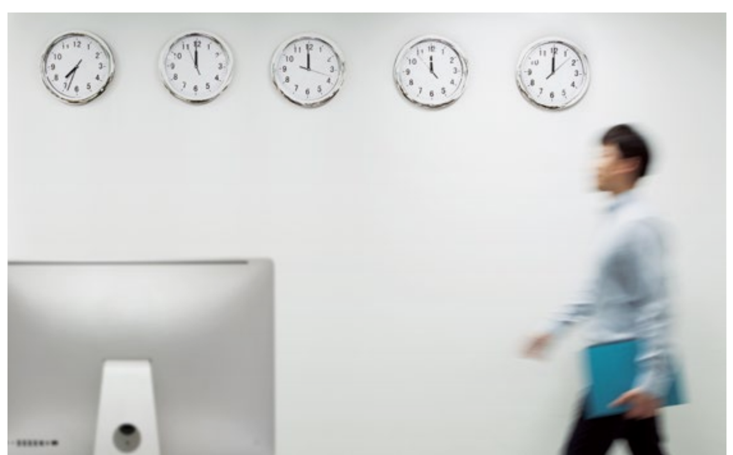
Given this business environment, we will aim to reduce the risks associated with lead times by increasing domestic and regional contracts. We also plan to reduce costs by improving our BD plant utilization rate.

YEAR-ON-YEAR DECREASE IN NET DEBT

14.0% ↓

YEAR-ON-YEAR DECREASE IN DEBT-TO-EQUITY RATIO

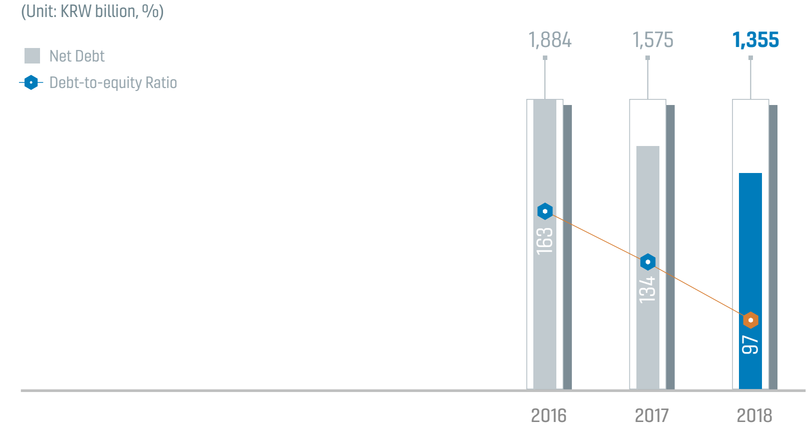
37.4%p ↓



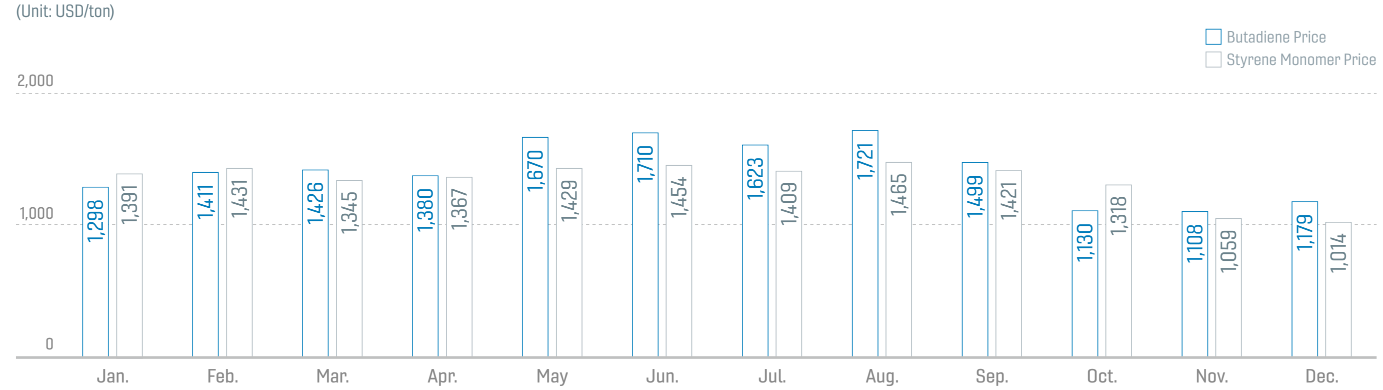
STYRENE MONOMER In 2019, as in 2018, China's styrene monomer (SM) imports are likely be limited due to an impact of anti-dumping duties (ADD). In the first half of the year, when there is a concentration of regular maintenance by Asian SM manufacturers, strong prices are expected in tandem with recognition of the low point of SM prices. However, high inventory levels in China and the US-China trade conflict are expected to result in sluggish demand for derivatives, which may restrain price rises. In the second half of the year, prices are forecast to weaken as the completion of regular maintenance in the region stabilizes supply. In general, there will be price fluctuations driven by varying demand for derivatives.

Given this business environment, we will maintain the proportion of purchases in Korea, while also diversifying domestic and overseas suppliers, in order to ensure stability of supply. In addition, we plan to increase the proportion of our spot purchases of imported items as a response to the price volatility expected in the second half of the year.

NET DEBT & DEBT-TO-EQUITY RATIO
(Unit: KRW billion, %)



2018 BUTADIENE PRICE / 2018 STYRENE MONOMER PRICE
(Unit: USD/ton)



*Source: CFR CHINA ICIS 2018