Economic review

2017 Operating results

The global economy saw robust growth of 3.7% in 2017 compared to 2.5% in 2016. Growth in countries with advanced economies was driven by high domestic demand and strong investments and exports. Among developing and emerging economies, commodity exporters such as Brazil and Russia benefited from higher exports. China's growth, on the other hand, was spurred by rising domestic consumption.

For OCI, the business environment was favorable in 2017. Polysilicon market prices strengthened, particularly in the second half of the year as supply and demand remained in tight balance. Oil prices also rose over 2016. Prices of TDI and pitch were especially strong, driven by tight supply and increasingly strict Chinese environmental regulations.

The year 2017 brought significant sales volume growth for us with the acquisition of polysilicon plants in Malaysia along with the ramp-up of a cogeneration plant in Korea and new carbon material plants in China following their completion in the second and fourth quarters of 2016, respectively. We also completed monetization of the Alamo 6 and Alamo 6+ solar PV projects in the US during the year.

As a result, we recorded sales revenue of KRW 3,632 billion for the year, a 33% increase from 2016. EBITDA was KRW 587 billion, up 36% from the previous year. Free cash flow turned positive with the recovery of earnings and disciplined capital expenditures after the conclusion of major expansions in 2016.

Financial information

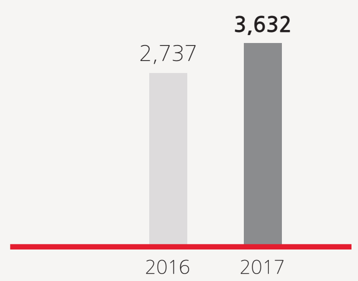
Major financial indicators

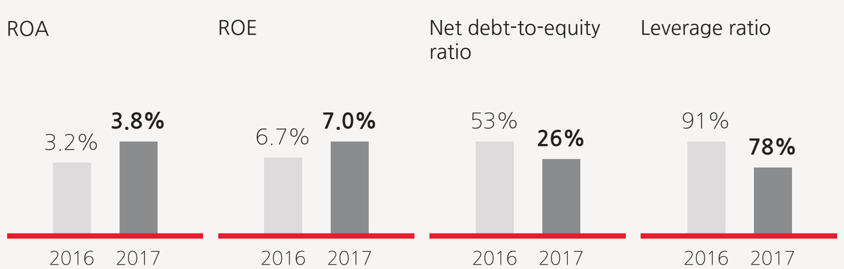
As previously mentioned, EBITDA increased by 36% in 2017, driven by the improved profitability of the Basic Chemicals and Petrochemicals and Carbon Materials segments. Net income increased by 6% with improved operating results partially offset by one-time expenses for asset impairment charges related to our US solar module business and metallurgical silicon plant in Malaysia. Overall, this enabled ROA and ROE to reach 3.8% and 7.0%, respectively, up from 3.2% and 6.7% in 2016. The net debt-to-equity ratio at year-end was significantly lowered to 26% from 53% in 2016 as we focused on retiring debt to improve our financial structure. This performance earned us a local credit rating perspective upgrade from A0 (stable) to A0 (positive).

Financial results by segment
In KRW bn

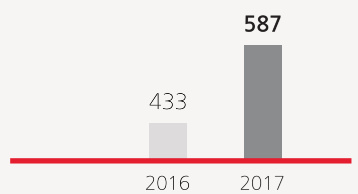
	Sales revenue	Operating income	EBITDA
Basic Chemicals	1,683	109	325
Petrochemicals & Carbon Materials	1,319	208	247
Energy Solutions	811	8	43
Others	34	(43)	(29)
Total	**3,847**	**282**	**586**
Inter-company adjustment	215	3	1
Grand total	**3,632**	**285**	**587**

Sales revenue
In KRW bn





EBITDA
In KRW bn



Funding strategy

Liquidity risk management: We have historically been able to satisfy our cash requirements from cash flows from operations and debt and equity financing. We have established short-term and long-term fund management plans and reviews. We monitor actual cash outflows and budget to match the maturity profiles of financial assets and liabilities.

Interest rate risk management: We use an appropriate mix of fixed- and floating-rate loans to flexibly respond to interest rate fluctuations. In addition, we partially hedge our floating rate financial assets and liabilities to ensure interest rate exposure is properly managed.

Foreign exchange risk management: We are exposed to currency risk on sales, purchases, and borrowings that are denominated in a currency other than our functional currency, the Korean won (KRW). We enter into forward foreign exchange contracts to manage a portion of our foreign currency risk from receivables and payables. In addition, we enter into foreign currency forwards in order to manage certain foreign currency risks related to future expected sales and purchases in foreign currencies.

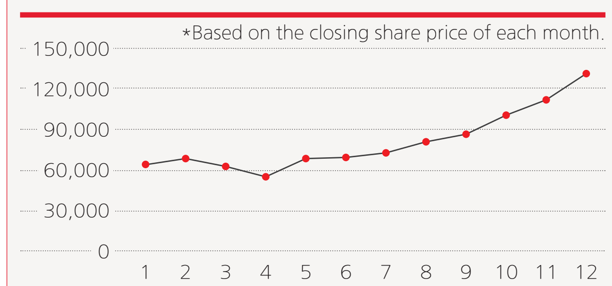
Capital expenditures

Total capital expenditures declined significantly to KRW 113 billion in 2017 from KRW 442 billion of 2016 with the completion of a number of capital-intensive projects in 2016 such as the Alamo project in the US, carbon material plants in China, and a cogeneration power plant in Korea. We continued to maintain strict expenditure discipline when searching for new business areas to grow our businesses further.

Stock information

	2016	**2017**
Common shares outstanding	23,849,371	**23,849,371**
Foreign investor holdings	8.80%	**18.93%**

OCI share price
In KRW



Stock information

As of December 31, 2017, 28.8% of OCI common stock was owned by the company founders, 18.9% by foreign investors, and 52.3% by domestic institutional investors and individuals.

Dividend

We paid a cash dividend of KRW 1,950 per share of common stock for the fiscal year 2017. The total dividend was KRW 46.5 billion, which represents 28% of K-IFRS parent-basis net income and a dividend yield of 1.5% based on the average share price during the final week of 2017, which was KRW 129,250.

2018 Outlook

The OECD projects that the global economy will continue to enjoy robust growth of 3.9% in 2018, up from 3.7% of 2017, primarily driven by growth in Asia with India and China leading the way. However, rising trade tensions between the US and China have the potential to create headwinds for every industry, including solar PV and chemicals. The appreciation of the KRW against the USD and rising electricity and labor costs in Korea are also risk factors that we face going forward. Under the circumstances, we will continue efforts to expand our market presence and improve profitability through growth in our core businesses and operational excellence to mitigate these uncertainties.

In the polysilicon business, we are expanding capacity by pursuing a debottlenecking project at our Sarawak P2 plant in Malaysia aimed at raising capacity by 3,200 metric tons from 13,800 to 17,000 metric tons. This will raise our global effective production capacity to 69,000 metric tons in 2018, enabling us to further reduce manufacturing costs with minimum capital expenditure by optimizing per-unit electricity and raw materials consumption. Looking further ahead, we aim to boost capacity by an additional 10,000 metric tons in 2019 with the launch of operations at our Sarawak P1 plant.

We will also continue to expand our carbon black business following the completion of the technical qualification process at Shandong OCI-Jianyang Carbon Black in China and the launch of operations at Hyundai OCI Carbon in Korea, further enhancing our industry leadership in both Korea and the wider Asian market.

Finally, we will expand our specialty chemicals business with a focus on high-value-added products that will make us less susceptible to volatility from market price fluctuations. Toward this end, we are focusing on increasing high-purity polysilicon sales volumes to monocrystalline solar wafer customers as well as semiconductor wafer makers. We also plan to expand our electronic chemicals product lineup to tap new opportunities in the display and semiconductor industries going forward.