Message from management

OCI Company vice chairman Woohyun Lee shares his thoughts on 2018 and the year ahead.

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How did OCI perform in 2018?

>>> Although we continued to execute according to plan and achieve most of our internal cost reduction targets across all our businesses in 2018, a number of external factors including the sudden change in China's solar PV feed-in tariff policy and escalating trade war between the United States and China had a significant negative impact on our performance. We recorded consolidated sales of KRW 3,112 billion and consolidated operating income of KRW 159 billion for the year, representing declines of 14% and 44%, respectively.

Our Basic Chemicals segment recorded sales of KRW 1,400 billion and an operating loss of KRW 65 billion. Our polysilicon business began the year strong, signing long-term supply contacts with major Chinese module makers Jinko Solar and Longi Solar in January that put it on-track to achieve its best performance to date. However, China's May 31 announcement of reduced feed-in-tariffs for solar PV projects put the viability of many local projects in doubt, pushing average selling prices sharply downward as we and the rest of the industry scrambled to cut inventories. Two other polysilicon-related factors impacted profitability during the year. The first was a minor gas leak at our Gunsan plant in Korea in November that led to a two-month partial production shutdown, resulting in the loss of 6% of quarterly production capacity. The second was a two-month delay in the P2 revamping project at our Sarawak plant in Malaysia that postponed the planned production ramp-up from 13,800 to 17,000 metric tons from September to November.

Our Petrochemicals and Carbon Materials segment recorded sales of KRW 1,426 billion and operating income of KRW 187 billion. Rising selling prices for carbon black and pitch were the primary drivers in revenue growth. Smooth production ramp-ups at carbon black maker Hyundai OCI Carbon in Korea and coal tar distiller Ma Steel OCI Chemical in China were instrumental in this solid performance. Only our Shandong OCI-Jianyang Carbon Black plant in China's Shandong Province underperformed expectations due to a sharp downturn in the Chinese tire industry in the wake of the escalating US-China trade war.

Our Energy Solutions segment recorded sales of KRW 483 billion and operating income of KRW 62 billion. In the United States, we completed and sold the 66 MWdc Ivory solar project in northwest Texas. Our Mission Solar Energy subsidiary in San Antonio, Texas delivered its first operating profit to date as it continued its shift in focus from the utility to distributed generation solar markets. In Korea, our OCI SE cogeneration subsidiary also continued to make an important contribution to the bottom line.

While we experienced a profitability setback in 2018 due to challenging market conditions in our core polysilicon business, our continued focus on financial soundness earned us a domestic credit rating upgrade from A0 (positive) to A+ (stable) during the year.

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What were OCI's primary accomplishments in 2018?

>>> Financial stability continued to be our top priority in 2018. Despite disappointing profitability for the year, we continued to make significant progress in reducing debt. Our debt-to-capital ratio also continued to improve, falling from 75% to the 60% level.

Our Basic Chemicals segment successfully ramped up production at the Sarawak P1 plant in Malaysia in October 2018, boosting our effective polysilicon production capacity by 3,200 metric tons from 65,800 to 69,000 metric tons. Our cost-reduction efforts continued to meet targets as we laid the foundation for the next round of innovations essential to cost leadership. We also continued to shift polysilicon production toward higher-margin market segments at our Gunsan plant in Korea to improve profitability.

Our Petrochemicals and Carbon Materials segment saw solid performances in the coal tar distillation and carbon black fields. Ma Steel OCI Chemical generated a strong operating profit from its 350,000 metric ton coal tar distillation plant in China's Anhui Province in its second full year of operations. Hyundai OCI Carbon also recorded a strong operating profit in the first full year of operations at its 100,000 metric ton carbon black plant in Daesan, Korea.

Our Energy Solutions segment completed and sold Project Ivory in northwest Texas. The 66 MWdc project was ordered by CPS Energy, the same client we completed the 560 MWdc Alamo project for in early 2017. Also in the US, our Mission Solar Energy solar module subsidiary added a third production shift to boost production to the plant's full 200 MW nameplate capacity on its way to recording its first operating profit since launching operations in 2013.

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What is your outlook for OCI's businesses in 2019?

>>> While we operate in a number of fields that are presently facing considerable market and geopolitical uncertainty, the overall fundamentals of our businesses are solid. We are confident that we have all the essentials necessary to weather the current challenges and emerge stronger than ever before.

Our Basic Chemicals segment will continue to focus on high-quality, value-added polysilicon markets including solar-grade production for monocrystalline wafer makers and semiconductor-grade production for memory chip makers.

We will increase our effective solar-grade polysilicon capacity at the Sarawak plant by 10,000 metric tons in the first quarter of 2019 as we work to ensure we can compete with any producer. We are also on track to achieve our goal of producing and selling 5,000 metric tons of semiconductor-grade polysilicon annually by 2022 as we continue to diversify our product portfolio.

Our Petrochemicals and Carbon Materials segment will continue to leverage economies of scale and a diversified production network to generate new growth. We are working on new business opportunities in China in value-added chemical fields with local partner Ma Steel. We are also on track to increase capacity at Hyundai OCI Carbon by 50,000 metric tons to 150,000 metric tons by year end as we aim to grow our share of the global carbon black market.

Our Energy Solutions segment will continue to pursue solar PV development projects worldwide with a focus on the United States and South Korea. In January 2019, we reached an agreement to acquire the Korean operations of German-based Kaco New Energy, a manufacturer of inverters and power conditioning systems, through our domestic solar PV development subsidiary OCI Power. The acquisition will allow us to accelerate development and deployment of advanced energy storage systems that will make tomorrow's solar PV plants even more efficient and reliable.

In 2018, we opened a new chapter in our history with the launch of our Biopharmaceuticals segment. Our primary area of focus at the outset is on the field of oncology. We are adopting an acquisition and development business model to develop a cancer therapeutic product pipeline through targeted acquisitions in major international markets. Drawing on our extensive experience in acquisitions and global markets, we aim to be a partner with the companies we acquire rather than simply a financial investor as we seek to accelerate the development of new life-saving cancer treatments.

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What are your key areas of focus going forward?

>>> Given the ongoing volatility in key markets and trade war between the United States and China, our most important task is to continually upgrade our core competitiveness across all businesses. We must enhance our agility to ensure we are the most cost-competitive producer in each of our businesses and that our product mix is optimally aligned with markets and trends. We are also looking beyond our existing manufacturing-centric business portfolio to new fields such as biopharmaceuticals as we put in place a new business foundation for long-term growth.

Safety will be another key focus in the year ahead. Despite our best efforts, our polysilicon operations experienced another gas leak incident in 2018. While the incident was minor in terms of scale, the impact has been far-reaching, resulting in not only the loss of production capacity for an extended period but the even more serious loss of confidence and trust of the local community. Our new Safety 2020 program will play a crucial role in helping us regain that confidence and trust as we work together proactively and systematically to take our safety performance to the next level.

As we approach our 60th anniversary in 2019, OCI is a world-class player in the global chemicals and materials fields. Our task today is to ensure we have the agility and vision to leverage our strengths to identify and harness the profitable new opportunities that will power our growth in the coming decade and beyond.

Once again, thank you for your interest in OCI. We look forward to sharing our progress toward becoming an even more profitable global leading green energy and chemical company with you in the coming year.

WooHyun Lee
Vice Chairman
OCI Company


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