CEO's review

OCI Company President and CEO WooHyun Lee shares his thoughts on 2015 and insights on 2016 and beyond.

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How did OCI perform in 2015?

Our business portfolio reallocation efforts moved into high gear in 2015 as we continued to refocus and reinforce our strengths and core businesses in pursuit of profitability. Although our financial performance fell well short of our expectations, we strengthened our financial structure by divesting several non-core businesses as we reaffirmed that solar PV development and other clean energy-related businesses are clearly our focus going forward.

In 2015, we combined our energy production and storage businesses encompassing solar PV development, cogeneration, and energy storage systems into a new business segment—energy solutions—and set new investment targets. Our next step was the decisions to divest our non-core soda ash and specialty gases businesses. We reached agreements to sell subsidiaries OCI Resources in July and OCI Materials in November, raising approximately KRW 975 billion in capital. These funds will be used to pay for ongoing investments in the energy solutions segment as well as to lower debt to improve financial soundness.

Revenues from businesses in the energy solutions segment have gradually risen since we entered the energy sector in 2011 with the establishment of OCI Solar Power in the US. In 2015, we booked new solar PV projects totaling 64 MW in the US and 25 MW in China. At the same time, we monetized US solar assets Alamo 3, Alamo 5, and Alamo 7 as well as all our Korean solar assets, raising approximately USD 450 million in capital. Capable of generating operating income from both the sale of electricity as well as of the plant assets themselves, the segment will play a key role in boosting our overall business profitability going forward.

Our core business segments continued to face challenging times with increasingly unfavorable market fundamentals. In the basic chemicals segment, polysilicon prices fell steadily throughout the year, ending 35% lower than where they started. Despite the addition of 10,000 metric tons of polysilicon capacity via the P3.9 debottlenecking and extremely effective cost-reduction efforts that cut recurring manufacturing costs by approximately KRW 300 billion annually, our polysilicon business suffered an unfortunate setback in 2015. An accidental silicon chloride gas leak at our P2 polysilicon plant in Gunsan in June resulted in a shutdown that lasted over two months, reducing production volume by more than 15% and sales by more than KRW 30 billion, further aggravating profitability. The petrochemicals and carbon materials segment also closed the year in the red as revenue and profitability fell under the pressure of steadily declining selling prices, driven by the sharp fall in oil prices since the second-half of 2014.

What were the primary challenges OCI faced in 2015?

Over the past four years, we have invested approximately KRW 929 billion in our global solar PV development business, Saemangeum cogeneration power plant in Korea, and carbon materials projects in China. While these strategic investments are on track to begin generating revenue in 2016, it was clear from the beginning that our investment roadmap combined with the unfavorable global business climate would make 2015 a challenging year.

Since 2014, we have raised USD 1.4 billion in capital by divesting several subsidiaries operating in non-core business fields and selling a number of our solar PV projects. These strategic efforts enabled us to reduce our leverage ratio by three percentage points to 125% during the year. We also took one-time write-offs totaling KRW 48.3 billion in the 4th quarter related to the shutdown of several smaller under-performing businesses, including sapphire materials.

At the end of 2015, we regrettably had to launch our first voluntary retirement program. Although it was a necessary choice given business conditions, it pained us that we were unable to stand by our employees as they have stood by us over the years. That said, our entire team pulled together to reduce both general and manufacturing costs, helping us reduce expenses by over KRW 10 billion.

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WooHyun Lee, President and CEO, OCI Company

What is your outlook for OCI's businesses in 2016?

Global solar PV installations are projected to grow 22% in 2016 to reach 66 GW. The polysilicon industry is expected to see modest growth as cell and wafer manufacturers expand capacity to meet that demand. Aiming to improve polysilicon profitability, we will build on the 26% manufacturing cost-reduction we achieved in 2015 with an additional 19% reduction target in 2016 on our way to a total 2015-2018 reduction target of 42%. We also aim to increase our global market share from 18% today to over 20% by 2018.

At the close of 2015, we had solar PV projects totaling 507 MW either completed or in development. In 2016, we aim to grow our global project pipeline by at least 250 MW by winning 150 MW of new projects in the US and 100 MW in China as we actively explore additional opportunities in new emerging markets such as India and South Africa. Our strategy in the energy solutions segment and solar PV development in particular is to flexibly manage our projects to maximize return on investment and sell assets when appropriate. More specifically, we will only invest in projects that have an expected return on investment of at least 10% as we pursue our broader objectives for profitability and financial soundness.

We also have a number of other production facility investments that will begin commercial operations in 2016. In Korea, our Saemangeum cogeneration power plant will begin producing 303 MW of power and 860 tons of steam per hour. In China, we will complete a 350,000 metric ton coal tar distillation plant and an 80,000 metric ton carbon black plant. We aim to minimize start-up costs and maximize earnings from these new facilities to accelerate our return to profitability. Our new plants in China in particular will also play a key role in reducing earnings volatility in our petrochemicals and carbon materials segment. In terms of profitability, our profit target is 10%-15% in the energy solutions segment and as high as 5% in the petrochemicals and carbon materials segment.

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What efforts is OCI making in the areas of safety, environmental, and social responsibility?

Although the silicon chloride gas leak at the Gunsan P2 polysilicon plant in June 2015 resulted in no fatalities and minor environmental damage, the ensuing plant shutdown resulted in the loss of significant revenue and threatened the trust of our local stakeholders. Following the accident, we fully cooperated with all investigating agencies as well as conducting a comprehensive review of all polysilicon manufacturing facilities and compensating local residents for their losses. We also made some key changes to our safety management system that we are confident will help prevent such accidents in the future.

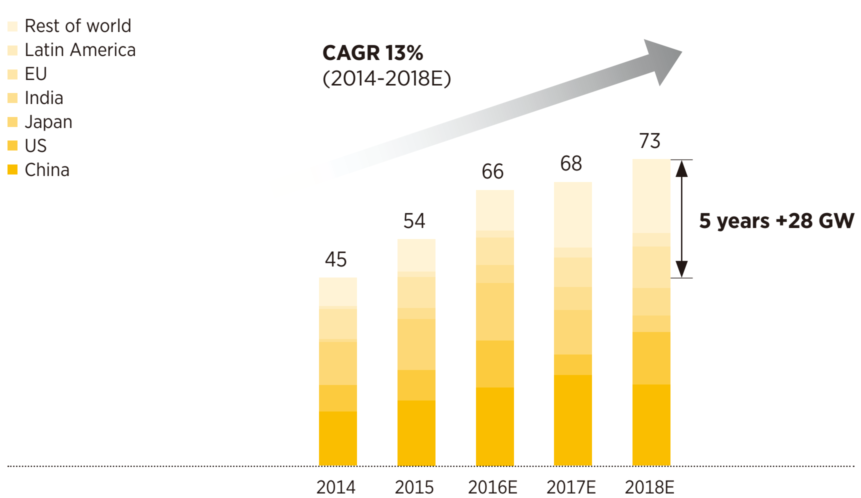
In the area of environmental responsibility, we continue to step up efforts to reduce greenhouse gas emissions to comply with Korea's new cap-and-trade emissions trading scheme launched in January 2015. We exceeded our emissions quota by approximately 8.2% during the year, a performance due in large part to the fact that the chemical sector has the lowest emissions allocation of any sector. We anticipate that we will be able to gradually decrease emissions through manufacturing process innovations starting in 2016.

In the area of social responsibility, our Solar School initiative continues to make steady progress toward our goal of donating and installing 5 kW solar PV systems at 300 primary schools in rural and remote areas of Korea. We completed our 239th system installation representing 80% of our goal as we wrapped up the fifth year of the initiative in 2015. We have also donated and installed solar PV systems in remote mountain villages in Nepal since 2013. Our people generously continue to raise funds for worthy charities as well as volunteer to help persons with developmental and visual disabilities through our Angel campaign and volunteer organization.

What are your key strategies going forward?

We will continue our evolution from a chemical maker to a diversified chemical and energy solutions company. We expect the investments we have made to make our vision a reality will begin to contribute to both top- and bottom-line growth in 2016, raising EBITDA and improving our financial structure as they transform our revenue mix over the remainder of the decade. In 2015, our revenue mix was 60% basic chemicals, 36% petrochemicals and carbon materials, and 2% energy solutions. By 2020, we expect energy solutions revenue to grow 10 times to 20% with the rest of the mix at 35% basic chemicals, 35% petrochemicals and carbon materials, and 10% new businesses.

Solar PV installation forecast (GW)



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We will be focusing on four key tasks going forward. First, we will actively identify and foster new growth engines. Our focus here will be on our energy solutions businesses, China carbon chemicals businesses, and value-added materials businesses.

Second, we will bolster the competitiveness of our existing core businesses. In polysilicon, we will extend our top-tier market position through cost and market leadership. In the basic chemicals and petrochemicals and carbon materials businesses, we will focus on new market opportunities in China, value-added product development, and expanding product applications.

Third, we will improve financial soundness. We will continue to lower our leverage ratio and systematically evaluate asset efficiency.

Finally, we will respond to changing global trends. We are now studying a variety of plans to respond to global environmental initiatives on carbon emissions and climate change. Managing currency and other financial risks will also be another top priority.

Thank you again for your interest in and support of OCI. We look forward to sharing better results with you in 2016 as we execute the next phase of our strategy to become a global leading energy and chemical company in the coming year.

WooHyun Lee
President and CEO
OCI Company

Business portfolio evolution