CEO's review

WooHyun Lee, President and CEO, OCI Company

OCI Company president and CEO WooHyun Lee shares his thoughts on 2016 and the year ahead.

How did OCI perform in 2016?

I am pleased to say that we achieved our first operating profit in four years in 2016 as we continued to reinforce our strengths in our core businesses. Despite continued oversupply in the global polysilicon market and other internal and external challenges, we recorded consolidated sales of KRW 2,739 billion and consolidated operating income of KRW 121 billion for the year. This turnaround in profitability was driven by improved performances in all business segments.

Our Basic Chemicals segment recorded sales of KRW 1,565 billion, returning to profitability with a modest operating income of KRW 29 billion. Strong polysilicon sales volume combined with a 14% reduction in manufacturing costs and favorable exchange rates were instrumental in this result.

Our Petrochemicals and Carbon Materials segment recorded sales of KRW 879 billion, also returning to profitability with a solid operating income of KRW 96 billion. Here, a tight TDI supply-demand balance, favorable exchange rates, and stable oil prices were the driving factors.

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Our Energy Solutions segment recorded sales of KRW 430 billion and a modest operating profit of KRW 19 billion. The sale of our equity stake in the Alamo 7 solar PV plant in the US and the launch of commercial operations at our OCI SE cogeneration power subsidiary in Korea both contributed to this result.

Although we returned to profitability in 2016, we realize that we still have a long way to go to achieve our vision of becoming a global leading green energy and chemical company. That said, we believe that we are well positioned to continue to steadily improve profitability in the coming year and beyond.

What were OCI's primary accomplishments in 2016?

Over the past five years, we have strategically invested in businesses that have strong potential to drive future growth. In 2016, we completed a number of projects that will lay the groundwork for growth in the second-half of the decade.

Our Energy Solutions segment completed two major projects in 2016. US subsidiary OCI Solar Power wrapped up the landmark 400 MW Alamo solar PV project launched in 2012 in the US state of Texas. To date, we have monetized five of the seven plants in that project representing 350 MW, significantly improving our financial structure. We also launched commercial operations of a new business in the segment during the year with the commissioning of a 303 MW cogeneration plant in the Saemangeum Industrial Complex on Korea's west-central coast. Operated by subsidiary OCI SE, the plant utilizes the best available technology to provide eco-friendly, quality power and steam to Korea Electric Power as well as tenant companies.

Our Petrochemicals and Carbon Materials segment completed construction of two major joint-venture plants in China in September 2016. Ma Steel OCI Chemical is a 350,000 metric ton coal tar distillation plant in Anhui Province and Shandong OCI-Jianyang Carbon Black is an 80,000 metric ton carbon black plant in Shandong Province. Both of these facilities will help us expand our customer base and boost profitability in this key manufacturing market in the years ahead. We also established Hyundai OCI Carbon in February, a joint venture with Hyundai Oilbank that is expected to begin producing 100,000 metric tons of carbon black in 2018 for markets including Korea, Japan, and Southeast Asia.

Our Basic Chemicals segment initiated a major strategic alliance during the year. We solidified our position as a top global polysilicon player by signing an agreement with Tokuyama of Japan to cooperate in the operations of its Tokuyama Malaysia subsidiary. As part of the agreement, we purchased a 16.5% equity stake in October. We expect the alliance to culminate with the increase of our stake to 100% in 2017. Once that happens, we intend to ramp up polysilicon production to 20,000 metric tons as quickly as possible, boosting our total capacity to 72,000 metric tons as we secure a global production platform and significantly expand capacity and economies of scale with minimal capital investment.

Beyond these important business developments, I want to emphasize the important contribution that our ongoing cost reduction initiatives have played in strengthening our financial structure. While these efforts, combined with the divestiture of certain businesses, have provided essential cash flow for our core businesses, our primary focus has been on paying down debt to put OCI on a solid financial footing. Over the next year or two, we aim to accelerate that process to create a strong foundation that will serve as a launch pad for new businesses and growth.

What is your outlook for OCI's businesses in 2017?

We expect our recently completed investments to add new momentum to the profitability turnaround we saw in 2016 as they begin generating cash flow and ultimately profits going forward.

Our Basic Chemicals segment will focus on completing the acquisition of Tokuyama Malaysia and ramping up production at that 20,000 metric ton polysilicon plant in Malaysia. This new plant will play a key role in ensuring we maintain our No. 3 industry position in terms of capacity, positioning us to significantly lower costs and drive growth.

Our Petrochemicals and Carbon Materials segment will continue to ramp up both production and marketing at our new coal tar distillation and carbon black plants in China. Our goal is to complete the qualification process with local tire manufacturers at an early date as we aim to achieve profitability from the first full year of commercial production.

Our Energy Solutions segment will apply the lessons learned from the Alamo solar PV project as we work to tap new opportunities in global markets. We will also re-enter the Korean solar market with a focus on developing new renewable energy solutions that will make us even more competitive going forward.

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

Safety continues to be a priority area of emphasis at all levels of our organization. Our focus on promoting a culture of safety day-in and day-out through multiple initiatives enabled us to steadily improve our safety performance during the year. Our lost time injury rate (LTIR) per million hours declined from 1.06 to 0.93 in 2016.

In the area of environmental responsibility, we continued 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 reduced GHG emissions unit by 1.6% in 2016 by implementing waste heat recovery and heat input reduction initiatives in accordance with Korean government guidelines and our own GHG reduction plan. We will continue to gradually reduce emissions through manufacturing process innovations going forward.

In the area of social responsibility, we continued to actively engage and serve our local communities through our Angel campaign and volunteer organization. Roughly 70% of our employees currently donate their money, time, and talents to help the needy in their communities. We also continued our flagship Solar School Project initiative in 2016, completing installation of 5 kW solar PV systems at 10 primary schools on Korea's Jeju Island. We have now installed a total of 249 of the planned 300 systems at rural and remote schools across Korea since 2011.

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What are your key strategies going forward?

I believe we have now passed a crucial turning point with our return to operating profitability in 2016. We will be focusing on four key tasks going forward to ensure that momentum continues in the new year.

First, we will sharpen our focus on growth. From our energy solutions businesses to our new coal tar distillation and carbon black operations in China, we must leverage our production infrastructure and know-how to create new growth opportunities in key global markets.

Second, we must ensure we are globally competitive in our core businesses. Beyond pursuing cost and market leadership, we must also develop value-added products and identify emerging opportunities in key growth markets such as China.

Third, we will continue to improve our capital structure. We have made great strides in strengthening our balance sheet in recent years. We will continue to lower our leverage ratio and systematically evaluate asset efficiency to achieve our targets.

Finally, we will strategically adapt to changing global trends. Beyond existing areas such as environmental initiatives on carbon emissions and climate change, we are preparing for significant changes as rising protectionism threatens the global trade order. Our goal is to ensure we are positioned to turn these challenges into opportunities. I am confident that we will be able to do that as we lay a sound foundation for sustainable growth going forward.

Thank you again for your interest in OCI. We look forward to sharing our progress toward greater profitability in 2017 as we continue our journey toward becoming a global leading green energy and chemical company.

WooHyun Lee
President and CEO
OCI Company