

Economic review

2016 Operating results

The business environment in 2016 continued to be challenging with ongoing concerns over global economic growth and rising domestic and foreign political uncertainties. Polysilicon prices were volatile and continued their year-on-year decline. The average oil price for the year was still below the previous year's average despite the recent recovery. Facing this difficult environment, our cost reduction efforts and ramp-up of new businesses enabled us to return to profitability. We recorded sales revenue of KRW 2,739 billion for the year, a 19% increase from 2015. EBITDA was KRW 422 billion, up 204% from previous year backed by profit recovery in all operating segments.

The Basic Chemicals segment saw sales rise slightly for the year due to increased polysilicon sales volume and profitability gains driven by cost reduction efforts. The Petrochemicals and Carbon Materials segment saw sales decline slightly as average selling prices for most products tracked falling oil prices. However profitability improved due to cost reduction efforts and lower feedstock costs. The Energy Solutions segment showed strong improvement in both sales and profitability with the sale of the Alamo 7 solar PV project in the US and the launch of commercial operations at the OCI SE cogeneration plant in Korea.

Financial information

Major financial indicators

As previously mentioned, EBITDA increased by 204% in 2016 with profit recovery in all operating segments. Net income increased

*All figures are K-IFRS consolidated basis unless noted.

20% in 2016, boosted by the divestiture of OCI Materials. Overall, this enabled ROA and ROE to reach 3.2% and 6.7% respectively at the end of 2016 compared to 2.5% and 5.6% in 2015. The net debt-to-equity ratio at year-end was 53%, a 12-point decrease, while our leverage ratio was 91%, a 34-point decrease.

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.

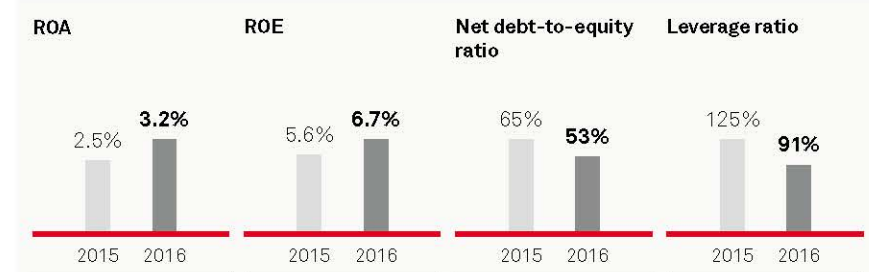
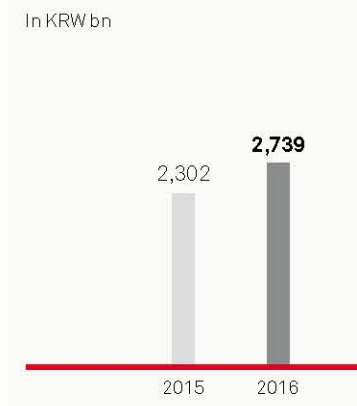
Interest rate risk management: We use an appropriate mix of fixed- and floating-rate loans to flexibly respond to interest rate fluctuations. In addition, we partially hedge our floating rate financial assets and liabilities to ensure interest rate exposure is properly managed.

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.

Financial results by segment

	Sales revenue	Operating income	EBITDA
Basic Chemicals	1,565	29	242
Petrochemicals & Carbon Materials	879	96	127
Energy Solutions	430	19	58
Others	54	(25)	(9)
Total	2,928	119	418
Inter-company adjustment	189	3	4
Grand total	2,739	121	422

Sales revenue



Capital expenditures

Total capital expenditures decreased to KRW 442 billion in 2016 compared to KRW 876 billion in 2015. During the year, we completed expenditures for the 400 MW Alamo solar PV project in the US and the Saemangeum cogeneration power plant in Korea. Going forward, we will maintain strict expenditure discipline as we focus on retiring debt to improve our capital structure.

Stock information

As of December 31, 2016, 30.04% of OCI common stock was owned by the Company founders, 11.41% by foreign investors, and 58.55% by domestic institutional investors and individuals.

Dividend

We paid a cash dividend of KRW 400 per share of common stock in 2016. The total dividend was KRW 9,540 million, which represents 2.75% of K-IFRS parent-basis net income and a dividend yield of 0.51% based on the December 29 closing share price of KRW 78,700.

2017 Outlook

The global economic outlook continues to remain uncertain as we head into 2017. The rise of protectionism among our trading partners and the new US administration's "America First" policy are among many headwinds facing the global economy. Despite these macroeconomic challenges, we will strive for growth and greater profitability by focusing on improving our capital structure, core business growth, and profitability.

Given the uncertain global macroeconomic outlook, we will continue efforts to improve our balance sheet. During the past year, we completed the divestiture of OCI Materials and monetization of the Alamo 7 solar PV project. In January 2017, we finalized the monetization of the Alamo 6 project and will recognize the sale proceeds as revenue in the first quarter. We

will also continue to proceed with the monetization of other non-core assets. With improved earnings from core businesses, conservative capital expenditure plans, and non-core asset monetization, we expect to enhance our balance sheet strength in 2017, significantly lowering our leverage and net debt.

With the conclusion of capital expenditures related to our Energy Solutions businesses, we will focus on achieving growth in our core polysilicon and carbon materials businesses. We will finalize the acquisition of Tokuyama Malaysia, which will give us a global production platform and an opportunity to expand polysilicon capacity with minimal capital investment. In addition to enabling top-line growth, the acquisition has the potential to enhance overall polysilicon profitability given its low utility costs. On the carbon side, our Chinese carbon material projects through Ma Steel OCI Chemical and Shandong OCI-Jianyang Carbon Black have successfully launched operations with production ramp-up proceeding as scheduled. Hyundai OCI Carbon, a joint venture with Hyundai Oilbank to enhance our carbon black market leadership in Korea, is also proceeding well with plant construction currently in progress.

Finally, improving the profitability of our core businesses will be another key focus in 2017. Despite record-high global solar PV installations, polysilicon prices were highly volatile in 2016 with average selling prices ending lower than the previous year. While the currently low prices will deter capacity expansion and improve polysilicon demand-supply dynamics, we expect price volatility to continue. Our polysilicon cost reduction efforts will continue as we aim to maximize profitability regardless of price volatility. The outlook for our Petrochemicals and Carbon Materials segment in 2017 is relatively positive given the recent recovery in oil prices. We will focus on minimizing the start-up costs of our new facilities in China and maximizing the profitability of our existing products.

Interest expense

	2015	2016
Interest expense	75.7	73.1
Interest rate	2.78%	3.18%

Dividend

	2015	2016
Net income (in KRW mn)	182,069	219,428
EPS (in KRW)	4,206	10,151
Dividend per share (in KRW)	0	400
Total dividends (in KRW mn)	0	9,540
Dividend payout ratio	0%	4.36%
Dividend yield	0%	0.51%

Stock information

	2015	2016
Common shares outstanding	23,849,371	23,849,371
Foreign investor holdings	12.54%	11.41%

OCI share price

