PCC Group Quarterly Report 1/2017

- PCC Group reports EBITDA of € 15.3 million in Q1/2017
- EBT up 48 % year on year
- Construction work on Icelandic silicon metal project proceeding to plan
- Start of construction of DME plant in Russia
- 3.00 % bond volume increased by € 10 million
- Consolidated financial statements for fiscal 2016 available online

New production plant for monochloroacetic acid (MCAA) operated by PCC MCAA Sp. z o.o. in Brzeg Dolny (Poland): The facility significantly extends the chlorine value chain of the PCC Group. It also facilitates backward integration, as MCAA can be used as a feedstock for betaine production in our Surfactants segment.

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Business Development

The majority of the portfolio companies of PCC SE have started fiscal 2017 well. Consolidated sales in the first quarter amounted to €165.9 million. This not only significantly exceeded the corresponding prior-year figure (€137.6 million), it also surpassed our sales expectations as of the end of March. The Chemicals division of the PCC Group was by far the largest contributor to this revenue result. It also made a significant contribution to quarterly profits which were likewise above expectation. As of March 31, 2017, consolidated earnings before interest/financial result, taxes, depreciation and amortisation (EBITDA) had accumulated to €+15.3 million, an improvement of 3% on the figure for Q1 2016 (€+14.9 million). At the pre-tax level (EBT), earnings amounted to €+3.4 million. Compared to the corresponding prior-year level of €2.3 million, this represents a plus of around 48%. Business performance in the individual segments was, however, mixed.

The Chemicals division of the PCC Group generated sales as of March 31, 2017 in the amount of €145.0 million. All four major segments of this division – Polyols, Surfactants, Chlorine and Speciality Chemicals – reported profits for the first quarter. Only the Consumer Products segment remained in the loss zone.

Polyols

Business performance in the Polyols segment during the first quarter of 2017 was again positive overall. Although sales volumes were lower year on year, there was an increase in average selling prices. The sales revenue figure therefore exceeded that of the prior-year period. In the first quarter of 2017, sales were in line with expectations, although earnings were lower than anticipated. The reason for this lay in, among other things, the rapid increase in purchase prices for isocyanides (in particular, MDI), which the segment was unable to pass on in full to its customers. Aside from the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), the impact of this was also felt by the system house activities of the Polyols segment.

The situation was exacerbated by scarcity in the supply of toluene diisocyanate (TDI), the second most important feedstock after polyols in the manufacture of flexible polyurethane foams. As a consequence, demand for standard polyols declined significantly. Thanks to the increasing share of high-quality products in the portfolio of the Polyols business unit of PCC Rokita SA, however, we were largely able to compensate for this shortfall, with the quarterly earnings of the Polyols segment overall showing a positive result.

Surfactants

The Surfactants segment likewise reported solid performance in the first quarter of 2017. Overall, quarterly sales came in higher than expected. The main cause of this was an unexpected increase in sales volumes at PCC Exol SA, Brzeg Dolny, combined with likewise higher average selling prices. However, the purchase prices for feedstocks also continued to increase, so that quarterly earnings were slightly below the level anticipated. The price drivers in this case were once again fatty alcohols. Nevertheless, both PCC Exol SA and the Surfactants segment as a whole closed the first quarter with a positive trading balance.

Chlorine

The Chlorine segment ended the first quarter of 2017 with a successful set of figures, significantly exceeding our expectations. This positive development was once again driven by the Chlorine business unit of PCC Rokita SA which was able to profit from, among other things, higher-than-expected sales volumes. In addition, low electricity prices and the higher efficiency of the new chlor-alkali electrolysis facility had a favourable effect on earnings development. However, the portfolio company PCC MCAA Sp. z o.o., Brzeg Dolny, which is also managed under the Chlorine segment, was still experiencing start-up losses with the production plant for ultra-pure monochloroacetic acid (MCAA) commissioned at the end of 2016. Production and sales volumes in this business unit continued to rise, with certain key accounts already receiving regular supplies of ultra-pure MCAA. In the case of other customers, essential qualification procedures continued to be energetically pursued through the first quarter of 2017. The MCAA plant significantly extends the chlorine value chain in the PCC Group. In addition, this facility also permits backward integration, as MCAA can also be used as a feedstock for betaine production in our Surfactants segment.

Speciality Chemicals

The business performance of the Speciality Chemicals segment likewise exceeded expectations. Across all its business units, quarterly sales in this segment were significantly above the level anticipated. The primary cause for this was correspondingly higher sales generated by the PCC Group's largest trading company, namely PCC Trade & Services GmbH, Duisburg (Germany), which benefited from the increase in commodity prices. Seen at least in absolute terms, this also led to a significant improvement in the margins of our trading activities. Added to this was the situation in the coke market, which was mentioned in the preceding quarterly report, as a consequence of which PCC Trade & Services GmbH was able to sell far higher quantities of coke breeze

Key financials by segment (per IFRS)		Polyols			Surfactants			Chlorine			Speciality Chemicals		
		Q1/2017	3M/2017	3M/2016	Q1/2017	3M/2017	3M/2016	Q1/2017	3M/2017	3M/2016	Q1/2017	3M/2017	3M/2016
Sales[1]	€ m	**33.3**	33.3	31.3	**32.8**	32.8	25.2	**21.0**	21.0	19.0	**52.3**	52.3	35.3
EBITDA[2]	€ m	**2.4**	2.4	3.8	**2.6**	2.6	2.6	**4.8**	4.8	5.1	**2.8**	2.8	1.2
EBIT[3]	€ m	**2.1**	2.1	3.5	**2.0**	2.0	2.1	**2.5**	2.5	3.6	**1.9**	1.9	0.4
EBT[4]	€ m	**1.6**	1.6	3.3	**1.1**	1.1	1.5	**3.2**	3.2	3.2	1.6	1.6	0.1
Employees	(at March 31)	**208**	208	182	**267**	267	254	**367**	367	343	**351**	351	357

Notes: Rounding differences possible. Quarterly figures unaudited. Subject to change without notice. | **1** The sales indicated relate exclusively to net external sales; consolidation procedures have already been taken into account. The segment Holding/Projects has not been separately listed. | **2 EBITDA** (earnings before interest/financial result, taxes, depreciation and amortisation) | **3 EBIT** (earnings before interest/financial result and taxes) = Operating profit = EBITDA – depreciation and amortisation | **4 EBT** (earnings before taxes) = Pre-tax profit = EBIT – interest/financial result and coke fines in the first quarter of 2017 than originally envisaged. Overall, therefore, this affiliate closed the first quarter with a better set of results than predicted. The port company of PCC Trade & Services GmbH, namely AO Novobalt Terminal, Kaliningrad (Russia), continued to benefit from the increasing number of coke shipments and was therefore also able to post positive quarterly results above expectations. This also applies to the commodity trading company PCC Morava-Chem s.r.o., Český Těšín (Czech Republic), which benefited from, among other things, an increase in supplies to the foundry industry.

Volume sales and revenues for the first quarter at alkylphenol manufacturer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), and the Phosphorous and Naphthalene Derivatives business unit of PCC Rokita SA, remained below expectations for Q1 2017. Lower sales of phosphorous derivatives in the aforementioned business unit and also a reduction in sales at PCC Synteza S.A. in the Portuguese and Asian markets are the main reasons for these results. In Asia particularly, PCC Synteza S.A. faced increasing competitive pressure from Taiwan. Nevertheless, both entities closed the first quarter well in profit.

By contrast, the business performance of PCC Silicium S.A., Zagórze (Poland), again showed a deficit in the first quarter of 2017 due to continuing insufficient demand for the standard grades of quartzite supplied by this affiliate. Gratifyingly, however, there was at least an increase in revenues – of more than a third – versus the prior-year period. Sales expectations for the first quarter were also slightly exceeded, with intensive efforts ongoing to develop new sales opportunities for the grades and products not earmarked for PCC SE's silicon metal project in Iceland. In addition, the investment programme necessary for developing the quartzite quarry with a view to supporting the aforementioned project was further extended in the first quarter, with financial support coming from PCC SE.

Consumer Products

The PCC Consumer Products subgroup again posted a trading deficit in the first quarter of 2017. With the exception of the matches factory PCC Consumer Products Czechowice S.A., Czechowice-Dziedzice (Poland), the portfolio companies belonging to this subgroup posted results that were below expectations. By far the greatest portion of these losses was again attributable to the familiar problems being encountered in the private label business area of PCC Consumer Products Kosmet Sp. z o.o. ("PCC CP Kosmet"), Brzeg Dolny. Although, gratifyingly, this affiliate was able to generate better-than-expected sales and profits in the business area Customer Manufacturing, in percentage terms it is still realising relatively small margins in this field. Consequently, the focus of "PCC CP Kosmet" is to be aligned in future to expanding the more lucrative business areas Professional Chemistry and Own Brands. The management of PCC SE is also looking forward to positive effects arising from the future use of our own plastic bottles. These have been in production for "PCC CP Kosmet" since February 2017 under the management of PCC Packaging Sp. z o.o. in Brzeg Dolny. In order to improve the capital base and liquidity situation of "PCC CP Kosmet", PCC SE implemented a capital increase at the affiliate in the first quarter via the intermediate holding company PCC Consumer Products S.A., Brzeg Dolny.

Energy

The Energy division of the PCC Group reported sales in the first quarter of the new fiscal year of €3.4 million. Earnings development was positive overall and within our expectations. The main generator of revenue and earnings remained the Conventional Energies business unit with the power station (and the corresponding local business unit) of PCC Rokita SA and the power and heat cogenerator PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle. The portfolio companies in the Renewable Energies business unit suffered during the first quarter from the consequences of the mild winter and the unfavourable hydrology encountered, and were therefore unable to generate profits beyond the breakeven point. Overall, this division remains of subordinate relevance for the Group results.

Logistics

The Logistics division of the PCC Group generated external sales of €15.6 million in the first quarter of 2017. Although this was an increase year on year, it fell short of our expectations for the end of March with respect to both sales and earnings. This applies both to Road Haulage and to the Intermodal Transport business unit. Particularly in the first months of the new fiscal year, the number of containers handled by PCC Intermodal S.A. was significantly below our expectations. The temporary shortage of available shipping capacity, which ultimately led to an increase in sea freight tariffs, is one of the major reasons for this. In the meantime, the situation has eased again. Moreover, PCC Intermodal S.A. has succeeded in winning back a major client. Consequently, it is expected that the performance of this portfolio company will bounce back in the second quarter. With the continuing recovery of the Russian economy, the Q1 business performance of our Russian affiliate ZAO PCC Rail, Moscow, was more or less in line with expectations. Both the increase in wagon tariffs in Russia and also the current

Key financials by segment (per IFRS)		Consumer Products			Energy			Logistics			PCC Group total		
		Q1/2017	3M/2017	3M/2016	**Q1/2017**	3M/2017	3M/2016	**Q1/2017**	3M/2017	3M/2016	**Q1/2017**	3M/2017	3M/2016
Sales[1]	€ m	**5.6**	5.6	6.7	**3.4**	3.4	3.3	**15.6**	15.6	15.3	**165.9**	165.9	137.6
EBITDA[2]	€ m	**−0.7**	−0.7	−0.6	**2.7**	2.7	2.3	**1.1**	1.1	1.5	**15.3**	15.3	14.9
EBIT[3]	€ m	**−1.1**	−1.1	−0.8	**2.0**	2.0	1.6	**0.0**	0.0	0.6	**7.8**	7.8	8.8
EBT[4]	€ m	**−1.2**	−1.2	−1.2	**2.0**	2.0	1.6	**0.6**	0.6	0.5	**3.4**	3.4	2.3
Employees	(at March 31)	**469**	469	549	**187**	187	181	**423**	423	372	**3,049**	3,049	2,975

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Holding/Projects

As anticipated, the Holding/Projects division ended the first quarter of 2017 with a deficit. Interest expenses and project development costs incurred by the holding company PCC SE were among the primary reasons for this. In its individual financial statements, PCC SE also registered a loss for the first quarter. However, the situation will reverse to profitability in the second quarter once subsidiary dividends have been received.

Beyond PCC SE, the Holding/Projects division also has overall responsibility for the two project companies PCC BakkiSilicon hf, Húsavík (Iceland), and DME Aerosol, Pervomaysky (Russia), the activities and progress of which are summarised in the following, and also a number of internal service companies. Moreover, the two internet start-ups distripark.com Sp. z o.o., Brzeg Dolny, and distripark GmbH, Essen (Germany), also belong to this division. The platforms of these two latter portfolio companies have, since quite recently, been used for marketing both products of the PCC Group and also those of third-party suppliers directly to small-volume customers (predominantly B2B). All these companies have so far made either no or only a marginal contribution to the sales and earnings of the Group.

Construction work on Icelandic silicon metal project proceeding to plan

The construction work in respect of our silicon metal production plant in Iceland continued to progress in the first quarter of 2017 – not only in terms of the manufacturing facilities themselves but also the geother-

Site of PCC BakkiSilicon hf near Húsavík (Iceland) in March 2017.

mal power plant close by, the high-tension power line and the road, tunnel and port expansion work in Húsavík. The project has now moved into a phase of high intensity: up to 550 people will shortly be working on our construction site alone in order to ensure on-schedule completion of the plant by the end of 2017. Added to this is roughly the same number of workers at the associated ancillary sites in Húsavík and its environs. Despite this high influx of people and the major disruptions that it brings, the population in the region continues to regard the project in a highly positive light – thanks not least to the open communications policy adopted by our local management there. This was also quite clearly the case at the end of March at a well-attended public stakeholder meeting in the town organised by our project company, PCC BakkiSilicon hf.

Our turnkey plant construction partner, SMS group GmbH, Düsseldorf (Germany), is also putting huge efforts into ensuring the smooth commissioning of the facilities, for which task it is able to leverage valuable experience from comparable, recently completed projects. The commissioning team of SMS group and those of PCC BakkiSilicon and other partners are already collaborating closely with one another in order to ensure that, by late summer, they can commence the preparatory work for the cold commissioning phase.

Start of construction of DME plant in Russia

Our DME project, which we are pursuing in the Tula region of Russia together with our longstanding business associate and now also our joint venture partner, JSC Shchekinoazot Pervomaysky, has now entered the construction phase. The project company responsible, DME Aerosol, succeeded in completing the site preparation work following the end of the frost period in March 2017, immediately commencing thereafter with the laying of the foundations.

Completion of the detail engineering is expected in May 2017, and the plant is scheduled to be commissioned with an annual capacity of 20,000 metric tons of dimethyl ether (DME) in aerosol quality by the end of 2017.

3.00% bond volume increased by €10 million

As of March 15, 2017, PCC SE increased the issuance volume of its 3.00% bond ISIN DE000A2AAY93 (WKN A2AA19) from €15 million to €25 million.

Consolidated financial statements for fiscal 2016 available online

The certified consolidated financial statements for fiscal 2016 are now available for immediate viewing on www.pcc-financialdata.eu. Our 2016 annual report will also be available on this platform by the end of May 2017. The English versions are in preparation.

The table below provides an overview of the key financials of the PCC Group:

Key financials PCC Group		2016	2015
Sales	€ m	568.9	571.1
EBITDA	€ m	76.4	50.8
EBIT	€ m	48.2	26.9
EBT	€ m	24.6	1.2
Employees	(as of Dec. 31)	3,032	2,992

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