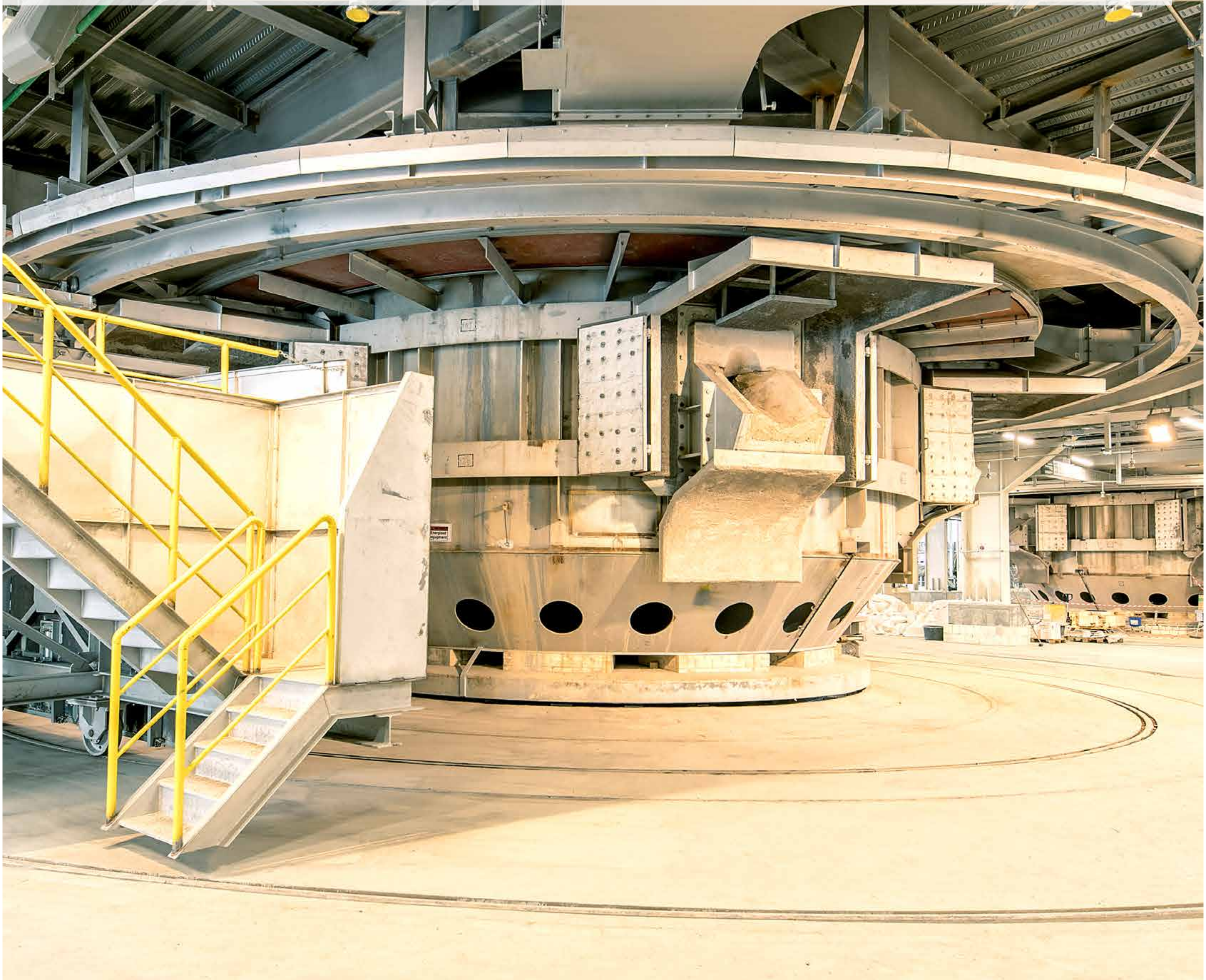
PCC Group Quarterly Report 1/2018

- Successful start to the new fiscal year sees 15.7 % year-on-year growth in sales
- EBITDA improvement of 80.8 %
- Commencement of commissioning phase at silicon metal plant in Iceland
- Capacity expansion activities in chlorine production
- Redemption of bond at maturity



The commissioning phase of the silicon metal plant of PCC BakkiSilicon hf, Húsavík, in the north of Iceland commenced on April 30, 2018 with the start-up of the first of the two electric arc furnaces – the picture shows the tapping floor. The official production start marked by the first tap is to take place shortly. Commissioning of the second EAF is also planned for the second quarter.

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Overall Business Development

Fiscal 2018 has started extremely well. The majority of the subsidiaries and affiliates of PCC SE closed the first quarter positively and better than expected, due primarily to the persistently good economic situation and the still high level of commodity prices. As a result, consolidated sales as of March 31, 2018 came in at 191.9 million euros, up 15.7 % on Q1 2017 (165.9 million euros). Consolidated earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA) amounted to 27.6 million euros. This represents a significant improvement of 80.8 % over the corresponding figure of 15.3 million euros for the prior-year period. The increase in earnings before taxes was even more significant: As of 31 March 2018, EBT amounted to 11.9 million euros. The corresponding figure for the prior-year quarter (3.4 million euros) was thus more than tripled. Although these results for the first quarter of 2018 include a positive one-off effect of 3.7 million euros, even adjusted for this income, both EBITDA and EBT significantly exceeded the already good results of the same period last year. The above-mentioned exceptional item is attributable to financial penalties received by PCC BakkiSilicon hf, Húsavík (Iceland) as a result of the delayed commissioning of the silicon metal plant there. These will serve to at least partially offset the losses expected from the delay.

Market values of PCC companies

The exceptionally positive business performance recorded in the first quarter of 2018 led to a further increase in the market value of our subsidiaries listed on the Warsaw Stock Exchange. Overall, PCC SE's share in the market capitalization of PCC Rokita SA, PCC Exol SA (both Brzeg Dolny, Poland) and PCC Intermodal S.A., Gdynia (Poland), amounted to 548.2 million euros as of March 31, 2018. Compared with December 31, 2017, this represents an increase of 33.5 million euros or 6.5 %, while compared to the previous year's figure of 448.9 million euros as of March 31, 2017, the increase in value amounted to just under 100 million euros (22.1 %).

Segment Performance

The Chemicals division of the PCC Group, with its five segments Polyols, Surfactants, Chlorine, Specialty Chemicals and Consumer Products, continued to be the Group's main source of sales and earnings in the first quarter of 2018. Sales of 164.9 million euros were generated across all divisional segments as of March 31 (prior-year quarter: 145.0 million euros). Overall, quarterly sales were thus also above expectations. On the earnings side, both the corresponding figures for the previous year and our earnings targets were likewise exceeded overall. All segments indicated – with the exception of Consumer Products – made a positive contribution to these results.

Polyols

The positive overall business performance of the Polyols segment continued in the first quarter of 2018. Sales and earnings were again higher year on year, mainly due to the continued strong performance of the Polyols business unit of PCC Rokita SA with its polyether polyols. Work on process optimization at the new production plant for polyester polyols continued to make rapid progress in the first quarter of 2018. Gratifyingly, this business area was also able to at least post a significant increase in sales versus the corresponding quarter of the previous year. By contrast, the development of the system house activities was rather unsatisfactory overall. At PCC Prodex GmbH, Essen (Germany), for example, some orders had to be postponed until the second quarter due to a reactor failure at a supplier. In addition, sales of roof spray foam remained below expectations due to weather conditions. The latter also applies to the thermal insulation panels business area. It was not until the start of the construction season in April that these activities found renewed momentum. PCC SE intends to significantly expand its thermal insulation panels business in the coming months. PCC Insulations GmbH, headquartered in Duisburg (Germany), was established for this purpose in the first quarter of 2018. In future, all investments undertaken in this business area are to be brought together and strategically managed under the umbrella of this intermediate holding company.

Surfactants

Business in the Surfactants segment also developed successfully in the first quarter of 2018. Sales volumes and revenues of PCC Exol SA, the largest subsidiary managed in this segment, exceeded expectations. On the earnings side, however, higher purchase prices for input materials supplied beyond the turn of the year had a negative impact on results. Nevertheless, PCC Exol SA and the Surfactants segment as a whole ended the first quarter on a positive note and with earnings before taxes roughly unchanged year on year.

Chlorine

The chlorine segment again posted an exceptionally strong performance in the first quarter of 2018. The Chlorine business unit of PCC Rokita SA re-

Key financials by segment (per IFRS)		Polyols			Surfactants			Chlorine			Specialty Chemicals		
		Q1/2018	3M/2018	3M/2017	**Q1/2018**	3M/2018	3M/2017	**Q1/2018**	3M/2018	3M/2017	**Q1/2018**	3M/2018	3M/2017
Sales[1]	€ m	**37.5**	37.5	33.3	**31.0**	31.0	32.8	**36.9**	36.9	21.0	**54.0**	54.0	52.3
EBITDA[2]	€ m	**2.8**	2.8	2.4	**2.1**	2.1	2.6	**15.6**	15.6	4.8	**2.0**	2.0	2.8
EBIT[3]	€ m	**2.3**	2.3	2.1	**1.6**	1.6	2.0	**12.9**	12.9	2.5	**1.3**	1.3	1.9
EBT[4]	€ m	**2.1**	2.1	1.6	**1.0**	1.0	1.1	**11.3**	11.3	3.2	**0.9**	0.9	1.6
Employees (at March 31)		**267**	267	208	**292**	292	267	**394**	394	367	**357**	357	351

Notes: Rounding differences possible. Quarterly and cumulative 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 amortization) | **3 EBIT** (earnings before interest/financial result and taxes) = Operating profit = EBITDA – depreciation and amortization | **4 EBT** (earnings before taxes) = Pre-tax profit = EBIT – interest/financial result mained the mainstay of this segment. Although prices for caustic soda, a by-product of chlorine production, showed a slight downward trend, they remained at a very high level. As a result, the Chlorine business unit again generated strong quarterly earnings. In the MCAA (monochloroacetic acid) business area, which is also managed within the Chlorine segment, the process optimization work of the previous quarters began to pay off. Sales and operating profit were significantly higher year on year and also came in above expectations, with utilization of nominal capacity having also risen to around 90 %. At the same time, work has been (and is still being) carried out to qualify our product for further customers, which should lead to additional growth in the MCAA business area in the coming quarters.

Specialty Chemicals

The Specialty Chemicals segment likewise closed the first quarter of 2018 successfully overall. Sales across all business areas significantly exceeded both the prior-year figure and our expectations for the first quarter of 2018. The main reason for this was once again similar sales developments in the trading business, driven by the still relatively high average price level for chemical commodities, coke and anthracite. Compared to the first quarter of the previous year, however, the market situation in the coke and anthracite business area, which had heavily overheated at the time, has now settled down. As a result, sales volumes and margins in this area remained below the previous year's level, with the result that PCC Trade & Services GmbH, Duisburg, the largest trading company of the PCC Group, was unable to match the exceptionally good earnings figures of the prior-year period. Nevertheless, this affiliate closed the first quarter of 2018 with a clearly positive earnings result. By contrast, the Russian port company AO Novobalt Terminal, Kaliningrad, posted a slight loss due to a decline in the number of coke and anthracite shipments. The Czech company PCC Morava-Chem s.r.o., Český Těšín, ended the first quarter of 2018 positively with results from its commodity trading business remaining roughly at the previous year's level.

The Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA, which is also part of the Specialty Chemicals segment, benefited from higher sales volumes in the first quarter in both the Phosphorus Derivatives and Naphthalene Derivatives business areas. In the case of the latter, higher average sales prices were also achieved. However, this business unit posted a slight loss at the end of the quarter due to higher overheads, including in the personnel domain. By contrast, sales volumes at alkylphenol producer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), remained below expectations. Nevertheless, this affiliate closed the first quarter positively, with results also higher versus the prior-year quarter. PCC Silicium S.A., Zagórze (Poland), also continued to show an encouraging trend. This affiliate was again able to significantly increase sales of its quartzite grades not suitable for the silicon metal project of PCC SE in Iceland. Sales of hydro pebbles were also better than expected. However, due to the delayed commissioning of the silicon metal plant of PCC BakkiSilicon hf, shipment volumes to Iceland were lower than expected, resulting in a loss being recorded for the first quarter of 2018. The installation of new transfer lines and conveyor belts required for the silicon metal project continued in the first quarter of 2018 and should be completed by the end of June at the latest. The loan made available by PCC SE for these investments has meanwhile been fully drawn down by PCC Silicium S.A.

Consumer Products

As expected, the PCC Consumer Products subgroup continued to trade at a loss in the first quarter. Sales and earnings of all subsidiaries and affiliates managed in this segment fell short of our expectations. This applies in particular to the largest of the segment's companies, PCC Consumer Products Kosmet Sp. z o.o. ("PCC CP Kosmet"), Brzeg Dolny. Response to the market launch of the newly designed own labels of PCC CP Kosmet was muted. Negotiations with potential Chinese customers also extended beyond the end of the first quarter of 2018 due to the Chinese New Year celebrations. In the meantime, however, we are pleased to report that production of the first trial quantities has been completed, with the first container also having already been shipped. The matches factory PCC Consumer Products Czechowice Sp. z o.o., Czechowice-Dziedzice (Poland), invested in the first quarter in a production machine for wooden boxes for the storage of fruit, vegetables and similar, with the requisite funding having been provided by PCC SE. The aim is to expand the product portfolio and achieve a long-term improvement in the economic situation of this affiliate.

Energy

The Energy division of the PCC Group generated external quarterly sales of 3.8 million euros in the first quarter of 2018. Positive results were achieved in both the Conventional Energies and Renewable Energies business units. The main contributors to sales and earnings continued to be the Conventional Energies

Key financials by segment (per IFRS)		Consumer Products			Energy			Logistics			PCC Group total		
		Q1/2018	3M/2018	3M/2017	Q1/2018	3M/2018	3M/2017	Q1/2018	3M/2018	3M/2017	Q1/2018	3M/2018	3M/2017
Sales[1]	€ m	5.4	5.4	5.6	3.8	3.8	3.4	20.8	20.8	15.6	191.9	191.9	165.9
EBITDA[2]	€ m	−1.2	−1.2	−0.7	1.7	1.7	2.7	2.4	2.4	1.1	27.6	27.6	15.3
EBIT[3]	€ m	−1.6	−1.6	−1.1	1.0	1.0	2.0	1.3	1.3	0.0	19.7	19.7	7.8
EBT[4]	€ m	−1.9	−1.9	−1.2	1.0	1.0	2.0	0.3	0.3	0.6	11.9	11.9	3.4
Employees	(at March 31)	521	521	469	183	183	187	470	470	423	3,432	3,432	3,049

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Logistics

First-quarter sales in the Logistics division came in at 20.8 million euros, some 33 % higher than in the prior-year quarter. By far the largest share of this revenue growth was generated by PCC Intermodal S.A. as a result of the continuing increase in operating rates in respect of services from the ports of Rotterdam and Antwerp via Germany to Poland and vice versa. The number of container handling operations also continued to rise, with a correspondingly positive impact on the sales and earnings of PCC Intermodal S.A. This affiliate significantly improved its performance compared with the same period in the previous year and closed the first quarter of 2018 clearly in profit. PCC Intermodal S.A. also benefited from the departure of a competitor from the routes it serves. In the course of a squeeze-out under Polish capital market law, PCC SE acquired from the remaining minority shareholders a further 5.53 % stake in PCC Intermodal S.A. from the end of February to the beginning of March 2018. Effective March 7, 2018, PCC SE thus holds 84.47 % of the company's capital stock and 89.06 % of its voting rights. In accordance with a shareholders' agreement dated February 7, 2018, PCC SE - together with Hupac Ltd. and the directors of PCC Intermodal S.A., Dariusz Stefanski and Adam Adamek – thus holds 100 % of the voting rights in PCC Intermodal S.A.

The tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, also ended the first quarter of the new fiscal year positively with results slightly above the prior-year period. At the Russian subsidiary ZAO PCC Rail, Moscow, the majority of the fleet of around 600 wagons were still under lease to Russian Railways on a long-term basis. The remaining wagons have also continued in service with an external customer, likewise on a long-term basis. ZAO PCC Rail also continued to benefit from the trend in wagon tariffs, which have risen several times since the beginning of last year. In terms of both sales and operating profit, this portfolio company significantly exceeded the positive figures of the previous year as of March 31, 2018. It also closed the first quarter of 2018 positively at the pre-tax level. The ensuing cash flows of ZAO PCC Rail have further stabilized, so that in the first quarter of 2018 it was again able to make a further partial repayment of the investment loans made available to it by PCC SE for the purchase of its wagons.

Holding/Projects

As expected, the Holding/Projects division ended the first quarter of 2018 with a deficit. Interest expenses and the project development costs of the holding company PCC SE had a particularly strong impact in this regard. As a result, PCC SE also reported a loss in its single-entity financial statements at the end of the first quarter. However, this will clearly reverse into positive territory with the posting of dividends from the Group's subsidiaries and affiliated companies in the course of the second quarter of 2018.

In addition to PCC SE, a number of internal service companies as well as the two Internet start-ups distripark.com Sp. z o.o., Brzeg Dolny (Poland), and distripark GmbH, Essen (Germany), are managed within the Holding/Projects division. To date, all these entities have made no or only marginal contributions to Group sales and earnings. The same applies to the project company DME Aerosol, Pervomaysky (Russia), which also belongs to this division and whose production plant for dimethyl ether (DME) is scheduled to go into service in fall 2018. By contrast, production at the second major project company in this division, PCC BakkiSilicon hf, was close to starting at the end of the first quarter. And indeed, the first furnace for the production of silicon metal was duly ignited on April 30, 2018.

View into the open furnace doors of the electric arc furnace of PCC BakkiSilicon hf directly after start-up.

Capacity expansion activities in chlorine production

In 2017, PCC Rokita SA ordered electrolyzers VI and VII to further expand chlorine production capacity. These were delivered at the beginning of 2018 and are currently being installed. Commissioning is scheduled for the end of May. In order to be able to utilize the full capacity of all seven electrolyzers, ancillary plant and equipment is also having to be expanded. After completion, scheduled for the first quarter of 2019, capacity will be increased to 209,000 metric tons of chlorine and more than 230,000 metric tons of caustic soda per year.

Redemption of bond at maturity

On April 1, 2018, the 7.00 % bond ISIN DE000A1TM979 issued by PCC SE in 2013 was redeemed at maturity with a repayment of approximately 15.7 million euros.

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