PCC Group Quarterly Report 1/2019

- PCC makes a successful start to the new fiscal year with sales of € 193.6 million and an EBITDA of € 28.6 million, slightly above the level of the prior-year quarter, despite a decline in certain commodity prices.
- Earnings before taxes (EBT) up 7.2 % year on year
- DME plant in Russia about to begin final proving test
- New silicon metal plant in Iceland undergoes further modifications
- Redemption of maturing bond

In 2015, we switched our entire chlorine manufacturing operation over to environmentally compatible membrane technology, with production being further expanded in the intervening years. At present, our annual capacity stands at 209,000 metric tons of chlorine and 236,000 metric tons of sodium hydroxide (chlorine co-product). We use most of the chlorine we manufacture as a feedstock for our own MCAA and propylene oxide production.

www.pcc.eu

Overall Business Development

The PCC Group has made a generally successful start to fiscal 2019. Despite all the international trade conflicts and political uncertainties prevailing, the economic environment remained robust through the first quarter of 2019. Consolidated sales came in at €193.6 million, representing a slight further improvement on the already good figure for the same quarter of the previous year (€191.9 million). That said, however, our revenue targets were not achieved in their entirety. The main reason for this was the continued lack of sales from the Silicon Metal business. Although PCC BakkiSilicon hf, Húsavík (Iceland), is already producing and selling silicon metal, the corresponding revenues can still not yet be added to Group sales for the period, since we still have not yet officially taken the plant on stream for regular operations (see also page 4). In addition, sales in the Commodity Trading business also fell short of our expectations in the first quarter of 2019, due to a – in some cases – sharp decline in commodity prices. By contrast, the Surfactants and Chlorine segments recorded revenue growth, due in part to higher sales volumes. Sales in the Intermodal Transport business unit also increased significantly compared to the same period of the previous year. On the earnings side, the first quarter was again successful for the majority of PCC SE's affiliates, with figures coming in better than expected. Group earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA) amounted to €28.6 million, again representing a slight increase versus the prior-year quarter (€27.6 million). The earnings before taxes (EBT) total was also up on the good level of Q1 2018: As of the end of March 2019, EBT amounted to €12.8 million. Compared to the corresponding prior-year period (€11.9 million), this represents an increase of 7.2 %.

Segment Performance

The Chemicals division of the PCC Group generated sales of €164.1 million in the first quarter of 2019, on a par with the level for the previous year (€164.9 million). However, this did not meet our revenue expectations, due primarily – as already mentioned – to lower sales in the Commodity Trading business. On the earnings side, however, the corresponding figures for the previous year and our expectations for 2019 were significantly exceeded. All segments – with the exception of Consumer Products – made a positive contribution to this achievement in the first quarter.

Polyols

The Polyols segment closed the first quarter of 2019 with a positive result overall. However, total sales and earnings remained below the previous year's figures, due in part to continued weak demand for polyols for the manufacture of flexible foam for mattress production. The sales volumes and revenues of the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), continued to be impacted by this fall in activity. On the other hand, however, declining prices for two key feedstocks for the production of polyols, namely propylene oxide and ethylene oxide, had a favorable effect on the earnings performance of this business unit. The Polyester Polyols business saw a significant increase in sales compared to the previous year, but developments on the earnings side were still unsatisfactory. The latter also applies to the two system houses, and also to the portfolio entities that are active in the field of thermal insulation panels and managed by the intermediate holding company PCC Insulations GmbH, Duisburg (Germany).

Surfactants

The Surfactants segment again performed well in the first quarter of 2019. The largest affiliate in this segment, PCC Exol SA, Brzeg Dolny, again saw its sales volumes increase, with correspondingly positive effects on revenue and earnings. Its business also benefited from lower prices for ethylene oxide. PCC Exol SA therefore ended the first quarter of 2019 with an exceptionally positive result and with the previous year's good figures also being significantly exceeded. The other portfolio companies managed in this segment likewise made positive contributions to earnings.

Chlorine

The Chlorine segment continued on its successful upward trajectory in the first quarter of 2019. The Chlorine business unit of PCC Rokita SA was once more a major contributor to the results achieved, with developments again being driven by the high price levels commanded by the chlorine co-product sodium hydroxide monohydrate. The prices for caustic soda were also again higher than expected in the first quarter, with a proportionately positive impact being exerted on the sales and earnings of this business unit. Although the MCAA (monochloroacetic acid) business unit did not quite achieve its expected sales levels in the first quarter of 2019, the corresponding prior-year figures were significantly exceeded. This also applies to results on the earnings side, with the ongoing process of optimizing production at PCC MCAA Sp. z o.o., Brzeg Dolny, also bringing further efficiency and profitability gains. All this meant that the Chlorine segment was once again the PCC Group's main earnings generator for the quarter.

Key financials by segment [1] (per IFRS)		Polyols			Surfactants			Chlorine			Specialty Chemicals		
		Q1/2019	3M/2019 [6]	3M/2018	Q1/2019	3M/2019	3M/2018	Q1/2019	3M/2019	3M/2018	Q1/2019	3M/2019	3M/2018
Sales [2]	€ m	**36.2**	36.2	37.5	**33.8**	33.8	31.0	**41.0**	41.0	36.9	**47.6**	47.6	54.0
EBITDA [3]	€ m	**1.8**	1.8	2.8	**4.4**	4.4	2.1	**16.5**	16.5	15.6	**2.6**	2.6	2.0
EBIT [4]	€ m	**0.9**	0.9	2.3	**3.8**	3.8	1.6	**13.2**	13.2	12.9	**1.8**	1.8	1.3
EBT [5]	€ m	**0.6**	0.6	2.1	**3.3**	3.3	1.0	**11.7**	11.7	11.3	**1.5**	1.5	0.9
Employees	(at March 31)	**256**	256	267	**291**	291	292	**383**	383	394	**389**	389	357

Notes: Rounding differences possible. Quarterly and cumulative figures unaudited. Subject to change without notice. | **1** The segment Holding/Projects has not been separately listed. | **2** The sales indicated relate exclusively to net external sales; consolidation procedures have already been taken into account. | **3 EBITDA** (earnings before interest/financial result, taxes, depreciation and amortization) | **4 EBIT** (earnings before interest/financial result and taxes) = Operating profit = EBITDA – depreciation and amortization | **5 EBT** (earnings before taxes) = Pre-tax profit = EBIT – interest/financial result | **6** "M" = months

Specialty Chemicals

The Specialty Chemicals segment likewise posted a positive earnings performance in the first quarter of 2019. The revenue of this segment across all its business units was €47.6 million as of the end of March 2019, representing a decrease versus the prior-year quarter (€54.0 million). The figure also falls short of our sales expectations. On the earnings side, however, the corresponding prior-year figures were exceeded, as were our expectations for the first quarter of 2019. With the exception of the two Germany-based start-ups involved in product development for customer-specific applications, namely PCC Specialties GmbH, Kamp-Lintfort, and PolyU GmbH, Essen, all of our affiliates in the Specialty Chemicals segment made a positive contribution to the results achieved. The largest commodity trading company within the PCC Group, PCC Trade & Services GmbH, Duisburg, remained the main revenues generator. However, as already mentioned, sales of this affiliate fell short of our expectations in the first quarter of 2019. They were also below the corresponding prior-year figure. The main reason for this was a sharp fall in prices for the coking plant by-products crude tar and crude benzene. In absolute terms, margins in this business therefore also declined. This latter development was, however, at least partially offset by sales of coke and anthracite, which exceeded our expectations. PCC Trade & Services GmbH therefore closed the first quarter well into positive earnings territory. The Russian port company AO Novobalt Terminal, Kaliningrad, also generated a positive quarterly earnings result thanks to the high volumes of coke and anthracite transshipped for its parent company PCC Trade & Service GmbH and for a Russian third-party customer. The Czech company PCC Morava-Chem s.r.o., Český Těšín, benefited in the first quarter of 2019 from rising sales volumes, particularly for pig iron. Sales and earnings from this affiliate assigned to the Commodity Trading business unit were therefore slightly better than expected in the first quarter, although they fell short of their respective prior-year levels.

Also part of the Specialty Chemicals segment, the Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA continued its positive sales and earnings performance in the first quarter of 2019. Demand for phosphorus-based flame retardants, for example, remained brisk, while naphthalene derivative sales volumes were actually higher than expected. The aforementioned business unit was therefore able to close the first quarter of 2019 in positive territory with figures significantly higher than in the corresponding prior-year period. Developments at the alkylphenols producer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), were similar. Among other things, this affiliate was able to benefit from lower raw material purchase prices. PCC Silicium S.A., Zagórze (Poland), doubled its sales in the first quarter of 2019 compared to the same quarter of the previous year. Although it was not possible to ship out as much quartzite to Iceland as originally expected due to the delays in our silicon metal project there, sales of quartzite grades not suitable for silicon metal production to customers in the ferroalloy industry remained at a high level. In addition, hydrostone sales volumes were higher than expected. PCC Silicium S.A. was therefore able to post a positive quarterly earnings result in contrast to the loss it posted in the first quarter of 2018.

Consumer Products

Although the PCC Consumer Products subgroup saw its performance improve year on year, it still recorded a loss in the first quarter of 2019. Overall, sales in this segment were on a par with those of the prior-year quarter, and thus more or less in line with our expectations. Encouragingly, the largest affiliate in this segment, PCC Consumer Products Kosmet Sp. z o.o. (PCC CP Kosmet), Brzeg Dolny, at least was able to exceed both the previous year's figures and our sales expectations for the first quarter. However, this improvement was canceled out by lower sales at matches maker PCC Consumer Products Czechowice, Czechowice-Dziedzice (Poland), and our Belarusian affiliate PCC Consumer Products Navigator, Grodno. PCC CP Kosmet also achieved a significant improvement in earnings compared to the same quarter of the previous year. However, the process of reducing personnel numbers progressed more slowly than planned, which meant that this affiliate was still unable to fully meet our earnings expectations for the first quarter of 2019. The end of the Q1 reporting period therefore saw PCC CP Kosmet and all the other operating companies in this segment post another set of losses.

Energy

The Energy division of the PCC Group generated net external sales of €3.7 million in the first quarter of 2019, repeating the performance of the prior-year quarter. The main contributions to sales continued to come from the Conventional Energies business unit comprising PCC Rokita SA's combined heat and power plant (and the corresponding business unit) and the electricity and heat utility PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle. This business unit also made the largest contribution to the positive EBITDA posted by the Energy division. As expected, however, it slipped slightly into the red at the end of the quarter at the pre-tax level (EBT), partly due to higher depreciation and amor-

Key financials by segment [1] (per IFRS)		Consumer Products			Energy			Logistics			PCC Group total		
		Q1/2019	3M/2019 [6]	3M/2018	Q1/2019	3M/2019	3M/2018	Q1/2019	3M/2019	3M/2018	Q1/2019	3M/2019	3M/2018
Sales [2]	€ m	**5.4**	5.4	5.4	**3.7**	3.7	3.8	**23.7**	23.7	20.8	**193.6**	193.6	191.9
EBITDA [3]	€ m	**−0.8**	−0.8	−1.2	**0.9**	0.9	1.7	**5.7**	5.7	2.4	**28.6**	28.6	27.6
EBIT [4]	€ m	**−1.2**	−1.2	−1.6	**0.1**	0.1	1.0	**3.4**	3.4	1.3	**17.9**	17.9	19.7
EBT [5]	€ m	**−1.4**	−1.4	−1.9	**0.0**	0.0	1.0	**3.8**	3.8	0.3	**12.8**	12.8	11.9
Employees	(at March 31)	**426**	426	521	**179**	179	183	**525**	525	470	**3,515**	3,515	3,432

Notes: Rounding differences possible. Quarterly and cumulative figures unaudited. Subject to change without notice. | **1** The segment Holding/Projects has not been separately listed. | **2** The sales indicated relate exclusively to net external sales; consolidation procedures have already been taken into account. | **3 EBITDA** (earnings before interest/financial result, taxes, depreciation and amortization) | **4 EBIT** (earnings before interest/financial result and taxes) = Operating profit = EBITDA – depreciation and amortization | **5 EBT** (earnings before taxes) = Pre-tax profit = EBIT – interest/financial result | **6** "M" = months tization charges. By contrast, the Renewable Energies business unit achieved a marginal increase in EBT. However, it still fell short of our expectations, mainly due to the unfavorable hydrology situation prevailing at our sites in Bosnia & Herzegovina and northern Macedonia. Added to this, construction work on the fifth small hydropower plant in northern Macedonia was delayed until the second quarter of 2019.

Logistics

Generating sales of €23.7 million in the first quarter of 2019, the Logistics division was able to extend its success of the previous quarter. Compared to the corresponding prior-year figure (€20.8 million), revenue increased by 14.2 %. By far the largest share of this growth was again generated by PCC Intermodal S.A., Gdynia (Poland), which was able to implement price increases with many customers in the first quarter. There was also a further increase in container transshipment numbers. As a result, PCC Intermodal S.A. had an exceptionally successful first quarter of 2019, significantly exceeding both the corresponding prior-year figures and our expectations.

Tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, also posted higher sales in the first quarter of 2019 than in the same period of the previous year, with a positive earnings result as of the end of March representing an improvement versus Q1 2018. Our sales and earnings expectations for the reporting period were likewise exceeded, with major growth in the tanker cleaning business as one of the reasons. A significant increase in Russian Rail's transport tariffs in the first quarter also had a positive impact on sales and earnings development at our Russian affiliate ZAO PCC Rail, Moscow. This portfolio company likewise exceeded both the good results of the corresponding prior-year quarter and its earnings expectations per 31 March 2019. In the first quarter, the affiliate also benefited from the strengthening of the Russian ruble versus the euro. As a consequence, ZAO PCC Rail was able as of the reporting date to post gains from positive foreign currency translation adjustments in the valuation of the investment loans provided in euros by PCC SE. With its cash flows continuing at a steady pace, ZAO PCC Rail made a further repayment of €0.9 million on these loans in the first quarter.

Holding/Projects

As expected, the earnings result of the Holding / Projects division for the first quarter of 2019 dipped into negative territory. The primary cause of this lay in the interest expenses and the project development costs incurred by PCC SE. Hence, PCC SE also reported a loss in its individual financial statements at the end of the first quarter. However, this situation will completely reverse once the dividend payments due from the Group affiliates are posted in the second quarter. Moreover, the sale of PCC SE's investment property in Lippstadt, initially planned for the first quarter, is now due to take place in mid-May 2019.

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, and distripark GmbH, Kamp-Lintfort, are managed within the Holding / Projects division. All these entities continued to make no or only marginal contributions to Group sales and earnings in the first quarter. 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) went into service in December 2018. The second major project company, PCC BakkiSilicon hf., also reported losses at the end of the first quarter. However, due to the fact that this company has not yet been able to commence regular operations, these losses were lower than expected, with a large part of the costs incurred currently still being capitalized. Further details relating to these two project companies can be found in the following sections of this quarterly report.

DME plant in Russia about to begin final proving test

Since its commissioning in December 2018, our new 20,000 metric ton plant for the production of high-purity aerosol-grade dimethyl ether (DME) in Russia's Tula region has already produced significant quantities of this odorless and environmentally compatible propellant gas. In the meantime, the first deliveries have been made to customers for whom qualification has already been completed. The facility's final proving test is scheduled for May. This involves verifying the plant capacity together with its raw material and energy consumption levels.

New silicon metal plant in Iceland undergoes further modifications

Operations at the two electric arc furnaces of our silicon-metal plant in Iceland, which – like our DME plant – was also commissioned in 2018, have now extensively stabilized. At present, adjustments are still being made to the charge feed system and the finished products handling arrangement. In addition, somewhat greater modifications are having to be made to the exhaust gas ducting in the dedusting system. Our plant is intended to be one of the most environmentally friendly in the world. The plant constructor is therefore currently implementing these measures, after which regular operational service under full load can commence.

Redemption of maturing bond

On April 1, 2019, PCC SE repaid on maturity the 6.75 % bond ISIN DE000A11QFD1 (WKN: A11QFD). The redemption amount was around €8.9 million.

Duisburg, May 2019

Published by
PCC SE
Moerser Str. 149
47198 Duisburg
Germany
www.pcc.eu

Public Relations contact
Moerser Str. 149, D-47198 Duisburg
Phone: +49 (0)2066 20 19 35
Fax: +49 (0)2066 20 19 72
Email: pr@pcc.eu
www.pcc-financialdata.eu

Direktinvest contact
Baumstr. 41, D-47198 Duisburg
Phone: +49 (0)2066 90 80 90
Fax: +49 (0)2066 90 80 99
Email: direktinvest@pcc.eu
www.pcc-direktinvest.eu