PCC Group Quarterly Report 2/2017

- PCC Group increases EBITDA per June 30, 2017, by around 17 % year on year to a total of € 34.5 million
- Construction of silicon metal plant in Iceland proceeding to schedule
- Further construction progress in the DME project in Russia
- Scheduled bond redemption

Modern production facilities at the largest chemicals site of the PCC Group in Brzeg Dolny (Poland).
The picture shows the tank farm of the new production plant for polyester polyols operated by PCC Rokita SA

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Business Development

The second quarter of 2017 saw a continuation of the positive business performance posted by the majority of the portfolio companies of PCC SE. In the case of both consolidated sales and Group earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA), the results achieved actually exceeded the corresponding figures of the first quarter. Consolidated sales in the second quarter amounted to €172.2 million (Q1: €165.9 million), with accumulated revenues as of June 30, 2017, rising to €338.1 million. That means that not only the corresponding prior-year figure (€281.9 million) but also our sales expectations for the end of June were substantially exceeded. Once again, the Chemicals division of the PCC Group accounted for by far the largest share. In the Logistics division, by contrast, sales came in below our expectations overall. There was a similar picture on the earnings side: The Chemicals division was very much the primary income generator and again in the second quarter succeeded in posting significantly positive results above expectations. By contrast, earnings both in the Logistics division and in the Energy division fell short of expectations. Across all the divisions, EBITDA in the second quarter improved by €19.2 million to €+34.5 million as of June 30, 2017. Compared to the prior-year period (€+29.5 million), this represents a plus of around 17%. At the pre-tax level (EBT), on the other hand, the year-on-year increase achieved in the second quarter was only marginal at €0.3 million. EBT for the first half-year came in at €+3.7 million, roughly matching the prior-year period (€+3.6 million). Amortization, depreciation and the interest burden within the Group during the first half of 2017 remained within our expectations. However, the financial result in the second quarter was burdened by, among other things, negative foreign exchange effects arising from the weakening of both the Polish złoty and the Russian ruble.

The chemicals division of the PCC Group posted sales of €148.4 million in the second quarter of 2017. As of the end of the first half year, divisional sales thus amounted to €293.4 million. All four major segments of this division – Polyols, Surfactants, Chlorine and Speciality Chemicals – were able to further increase their results in the second quarter, thus also closing the first half of 2017 successfully overall. Only the Consumer Products segment remained in deficit.

Polyols

Overall, the Polyols segment again posted a good performance in the second quarter of 2017. Sales increased both with respect to the preceding quarter and also year on year, with the revenue expectations for the first half of 2017 exceeded. The corresponding business unit of PCC Rokita SA, Brzeg Dolny (Poland), benefited from, in particular, increasing selling prices for polyether polyols arising from direct competitors experiencing temporary production problems. At the end of June, moreover, the new plant for polyester polyols manufactured its first complete production batch, enabling product approval processes to be initiated for the first wave of potential customers.

The segment's PU system house activities also posted an improvement in the second quarter: The start of the construction season saw a significant increase in, among other things, the sale of roof spray foam for insulating applications. And our system house in Essen, Germany, also began regular production of automotive polishing discs under the brand name Plasthan®. On the earnings side, the increase in purchase prices for isocyanates detailed in the previous quarterly report continued to exert negative impact. Gradually, these price increases were, however, passed on to our own customers in the course of the second quarter so that a positive quarterly earnings result was again achieved across all business units. The overall results of the first half of 2017 were largely within our expectations.

Surfactants

The Surfactants segment again posted a positive business performance in the second quarter of 2017. Our sales expectations were exceeded both in respect of the quarterly and the half-year figures. The main reason for this lay in the average selling prices continuing at levels above expectations. However, these advantages were negated on the purchasing side by higher prices for feedstocks such as fatty alcohols. As a result, quarterly earnings were again slightly below our expectations. Nevertheless, both PCC Exol SA, Brzeg Dolny, and the Surfactants segment as a whole were able to end the second quarter and thus the first half of 2017 in profit.

Chlorine

The Chlorine segment continued to deliver exceptional success in the second quarter of 2017. The main sales and earnings generator remained the Chlorine business unit of PCC Rokita SA, which continued to benefit from sales volumes above expectations. Due to further temporary production problems among several competitors, the prices for the by-product occurring from the manufacture of chlorine, namely caustic soda or sodium hydroxide, again remained at a high level in the second quarter, further boosting both sales and earnings. In the case of PCC MCAA Sp. z o.o., Brzeg Dolny, which is likewise

Key financials by segment (per IFRS)		Polyols			Surfactants			Chlorine			Speciality Chemicals		
		Q2/2017	6M/2017	6M/2016	Q2/2017	6M/2017	6M/2016	Q2/2017	6M/2017	6M/2016	Q2/2017	6M/2017	6M/2016
Sales[1]	€ m	**37.6**	70.9	61.7	**29.9**	62.7	50.1	**25.0**	45.9	37.6	**50.5**	102.8	78.7
EBITDA[2]	€ m	**3.9**	6.4	6.7	**2.2**	4.8	5.6	**7.6**	12.4	9.5	**2.6**	5.4	2.5
EBIT[3]	€ m	**3.6**	5.6	6.0	**1.6**	3.6	4.5	**5.0**	7.5	6.5	**1.8**	3.7	0.9
EBT[4]	€ m	**3.4**	5.0	6.1	**1.1**	2.2	3.8	**3.7**	6.9	4.4	**1.1**	2.7	0.3
Employees	(at June 30)	**219**	219	194	**272**	272	260	**375**	375	352	**360**	360	355

Notes: Rounding differences possible. Quarterly and half-year 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 managed under the Chlorine segment, the second quarter saw production of ultra-pure monochloroacetic acid undergo appreciable stabilisation at the MCAA plant commissioned at the end of 2016. In the first six months of 2017, the amount of MCAA sold exceeded the anticipated figures by around 1,000 metric tons. However, the average selling prices lay below our expectations, which meant that sales as of June 30 were nevertheless lower than envisaged. The earnings of this business unit therefore remained in negative territory and also below expectations. Over the long term, however, it is expected that the MCAA plant, through which the chlorine value chain of the PCC Group has been significantly extended, will deliver stable, positive contributions to the earnings of the Chlorine segment.

Speciality Chemicals

The Speciality Chemicals segment continued along its successful path in the second quarter of 2017. Across all its business units, quarterly sales in this segment again exceeded our expectations. The primary cause for this again lay in correspondingly higher sales in our trading business. In the case of some commodities, however, prices in the second quarter showed a declining trend. As a result, sales and earnings of the biggest trading company of the PCC Group, namely PCC Trade & Services GmbH, Duisburg (Germany), decreased compared to the exceptionally good figures of the first quarter. Nevertheless, this affiliate closed the second quarter with better-than-expected results. The port company of PCC Trade & Services GmbH, AO Novobalt Terminal, Kaliningrad (Russia), continued to profit from the increased number of coke and anthracite shipments, likewise once again generating positive quarterly earnings. In the case of the Czech commodity trading company PCC Morava-Chem s.r.o., Český Těšín, sales to the foundry industry at levels above expectations had a favourable effect on both sales and earnings. This portfolio company was also able to close the second quarter with a positive, better-than-expected earnings balance.

The same applies to the Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA, which is likewise managed under the Speciality Chemicals segment. Indeed, the business actually further improved on its performance of the preceding quarter. The alkylphenol manufacturer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), posted an increase in sales in the second quarter of 2017. However, sales in the Portuguese and Asian markets remained below expectations. In Asia particularly, PCC Synteza S.A. continued to encounter strong competitive pressures from Taiwan. Nevertheless, PCC Synteza S.A. also once again posted a positive earnings contribution in the second quarter.

PCC Silicium S.A., Zagórze (Poland), continued to focus in the second quarter on implementing the investment programme necessary for PCC SE's silicon metal project. The standard business of this affiliate, namely the sale of aggregates for road construction, picked up in the second quarter, in line with seasonal expectations, but continued to operate at a deficit. The development of alternative sales markets for grades and products not required for PCC SE's silicon metal project (including for hydraulic structures and horticultural applications) progressed more slowly than expected. Nevertheless, the first small shipments were made to such customers in the second quarter.

Consumer Products

The business performance at the PCC Consumer Products subgroup once again fell short of our expectations. In the second quarter of 2017, none of the portfolio companies managed in this segment was able to reach the targets set. The primary causes for this were again the continuing problems of PCC Consumer Products Kosmet Sp. z o.o. ("PCC CP Kosmet"), Brzeg Dolny, in the private label segment. The situation was made more difficult by the loss of two major tenders for firelighters, as a result of which the matches factory PCC Consumer Products Czechowice S.A., Czechowice-Dziedzice (Poland), was likewise unable to avoid ending the second quarter in deficit. The development of new sales markets in Asia and Africa, in which both affiliates are working intensively, proceeded more slowly than expected. The same applies to the expansion planned by "PCC CP Kosmet" of the lucrative business areas of professional chemistry and PCC own brands. Over the long term, however, these measures should lead to a sustained improvement in the economic situation of the Consumer Products segment.

Energy

The Energy division of the PCC Group generated sales of €2.9 million in the second quarter of 2017. Income development was positive overall. 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 Polish power and heat utility company PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle. Electricity sales above budget meant that our earnings expectations were actually exceeded. However, due to unfavourable hydrology, the small hydropower plants in the Renewable Energies business unit posted sales and earnings below expectations, which meant that again in the second quarter, they were only able to break even.

Key financials by segment (per IFRS)		Consumer Products			Energy			Logistics			PCC Group total		
		Q2/2017	6M/2017	6M/2016	Q2/2017	6M/2017	6M/2016	Q2/2017	6M/2017	6M/2016	Q2/2017	6M/2017	6M/2016
Sales[1]	€ m	**5.4**	11.0	12.6	**2.9**	6.3	5.9	**18.8**	34.4	31.9	**172.2**	338.1	281.9
EBITDA[2]	€ m	**−0.9**	−1.6	−1.1	**2.1**	4.8	4.5	**2.3**	3.4	3.1	**19.2**	34.5	29.5
EBIT[3]	€ m	**−1.3**	−2.4	−1.5	**0.9**	2.9	3.2	**1.2**	1.1	1.1	**11.0**	18.8	17.0
EBT[4]	€ m	**−1.9**	−3.1	−2.2	**0.8**	2.8	3.0	**−1.2**	−0.5	0.8	**0.3**	3.7	3.6
Employees	(at June 30)	**475**	475	494	**188**	188	181	**431**	431	383	**3,115**	3,115	2,984

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Logistics

The Logistics division of the PCC Group was able to increase sales in the second quarter of 2017 by more than 20 % to €18.8 million. As of the end of June, however, accumulated divisional sales remained below overall expectations. Similarly, earnings were below envisaged levels. Gratifyingly however, the largest affiliate of this segment, PCC Intermodal S.A., Gdynia (Poland), was able to significantly improve its performance in the course of the second quarter. It won back a major client so that in June, for the first time in the current fiscal year, sales generated were in line with expectations. Significant increases were also posted on the earnings front, with the positive trend continuing beyond the end of the quarter. In the case of the Russian affiliate, ZAO PCC Rail, Moscow, business development at the operational level remained positive, with results coming in better than expected due to the ongoing recovery of the Russian economy and the associated increase in wagon tariffs. However, the fall in value of the Russian ruble at the end of the second quarter led to significant foreign exchange losses in the valuation of the euro loan granted by PCC SE. As a result, ZAO PCC Rail was unable to avoid closing the second quarter in deficit. This meant that not only this portfolio company but also the Logistics division as a whole slipped into the loss zone as of the end of June.

Holding/Projects

The Holding/Projects division posted a substantially positive earnings result at the pre-tax level. This was due primarily to the results posted in the separate financial statements of PCC SE emanating from the receipt of dividends from portfolio companies. At the Group level, however, this effect was eliminated on consolidation.

Other than PCC SE, the Holding/Projects division also serves as an umbrella for the two project companies PCC BakkiSilicon hf, Húsavík (Iceland), and DME Aerosol, Pervomaysky (Russia). The project progress being made in relation to these two portfolio companies is detailed below. The division also accounts for a number of internal service companies and the two internet start-ups distripark.com Sp. z o.o., Brzeg Dolny, and distripark GmbH, Essen (Germany). All these companies have so far made either no or only a marginal contribution to the sales and earnings of the Group.

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

Construction of silicon metal plant in Iceland proceeding to schedule

Our Icelandic project company, PCC BakkiSilicon hf, continued during Q2 2017 to drive forward on-schedule and on-budget construction of its high-tech silicon metal plant. Following completion of the coal storage facility, construction of the other main buildings is likewise going to plan. Among others, the steel structure of the over 37 metre high furnace building has now been erected, with the specialist personnel provided by the contracted plant constructor, SMS group GmbH, Düsseldorf (Germany), having also installed the technical components, including in particular those required for the two electric-arc furnaces. Installation of the two furnaces is due to be completed by the beginning of December 2017.

This work was accompanied by on-site training of the future workforce so as to ensure the smooth commissioning and operation of the plant once completed at the end of 2017/beginning of 2018. In addition, the control software of the entire facility was subjected to an integration test in the laboratories of SMS group, attended by the experts of PCC BakkiSilicon from both Húsavík and Duisburg.

Further construction progress in the DME project in Russia

As already reported, our project company DME Aerosol, a 50/50 joint venture between PCC SE and the Russian chemicals corporation JSC Shchekinoazot, is constructing a plant for the manufacture of aerosol-grade dimethyl ether (DME). The site of the new plant is the manufacturing complex of the joint venture partner in Pervomaysky in the Tula region some 180 kilometres south of Moscow.

June 2017 saw completion of the detail engineering for the plant. The foundation work is also now nearing completion. Supply of the main apparatus commenced in July, and since the beginning of August, the materials for the steel structure have also been brought on site. Commissioning of the plant with an annual capacity of 20,000 metric tons is planned for spring 2018.

Scheduled bond redemption

Effective July 1, 2017, PCC SE redeemed at maturity its 4.00 % bond issued in 2015, WKN A14KJR (ISIN DE000A14KJR0), for around €11.5 million.

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