PCC Group Quarterly Report 3/2017

- PCC Group increases EBITDA per September 30, 2017, by 10.4 % year on year to a cumulative total of 48.9 million euros
- Group sales per September 30, 2017 rise to 507.7 million euros, a plus of 20.8 % versus the prior-year period
- Investment projects of PCC in Iceland (silicon metal) and Russia (dimethyl ether) proceeding to plan
- Scheduled bond redemption

Major construction site of PCC BakkiSilicon hf in the north of Iceland in October 2017 showing, in the background, the small town of Húsavík with its port. Here we are building one of the world's most advanced and also most environmentally compatible silicon metal production facilities. Commissioning with a production capacity of 32,000 metric tons per year is scheduled for the end of 2017/beginning of 2018.

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Business Development

As expected, business performance in the third quarter of 2017 eased somewhat versus the prior-year period. With respect to both consolidated sales and Group earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA), the figures achieved fell somewhat short of the exceptional results of the second quarter. Temporary production standstills due to scheduled maintenance and repair work, and also the vacation-related "summer lull" are among the causes that can be cited for this. The third quarter also saw a number of exceptional items affecting the financials, details of which are provided in the following reviews of the individual segments. Overall, however, both sales and EBITDA remained significantly above prior-year levels and also above our expectations. Consolidated sales for the third quarter amounted to 169.5 million euros (Q2: 172.2 million euros), accumulating as of September 30, 2017, to 507.7 million euros. This meant that not only the corresponding prior-year figure of 420.3 million euros but also our sales expectations as of end of September were clearly exceeded. Once again, the Chemicals division of the PCC Group accounted for by far the largest share and was, again in the third quarter of 2017, the main earnings generator of the PCC Group by some considerable distance. By contrast, sales and earnings in the Energy and also the Logistics divisions remained below expectations overall. Across all our divisions, EBITDA for the third quarter improved by 14.4 million euros to +48.9 million euros as of September 30, 2017. Compared to the prior-year period (+44.3 million euros), this represents a plus of 10.4 %. However, earnings before taxes as of September 30 remained below the corresponding prior-year figure and also our EBT expectations for this period. Although depreciation, amortization and the burden of interest and other financial items within the Group continued to be within expected parameters, the financial result was, again in the third quarter, adversely affected by, among others, negative foreign exchange effects arising from the weakening of the Polish zloty and the Russian ruble. The situation was further exacerbated by appreciation of the US dollar versus the euro. Consequently, a loss of 2.8 million euros was recorded at the EBT level. Effective September 30, EBT therefore amounted to +1.0 million euros for the first nine months of fiscal 2017 (prior-year period +5.6 million euros).

In the third quarter of 2017, the Chemicals division of the PCC Group generated sales of 144.4 million euros. As of September 30, divisional sales for the first three quarters had thus accumulated to 437.8 million euros. All four major segments of this division – Polyols, Surfactants, Chlorine and Specialty Chemicals – concluded the third quarter with a successful set of figures. The Consumer Products segment, on the other hand, remained in the red zone.

Polyols

Overall, the Polyols segment saw its positive business performance continue through the third quarter of 2017. However, sales were below the level of the preceding quarter. The reasons for this included scheduled maintenance and repair work in August, plus declining selling prices for polyether polyols as a result of increasing availability levels. Nevertheless, the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), was again able to exceed its revenue expectations as of September 30. The development in earnings was likewise better than expected, although purchase prices for feedstocks once again showed an upward trend from September 2017 after a brief period of calm in the summer. In the new production plant for polyester polyols, which began operations at the end of June, work in the third quarter focused on the optimization of the related processes as the first regular deliveries were being made to customers. Expansion of the product portfolio through the inclusion of polyester polyols is expected to lead to further growth in the Polyols segment going forward.

Sales growth was again registered in respect of our polyurethane systems and thermal insulation panels. On the earnings side, however, the results generated by these activities remained below expectations, the continuing difficulties encountered on the isocyanates market being one of the causes. In addition, the regular production of automotive polishing pads under the brand name Plasthan® at our systems business in Essen (Germany) did not start until some way into the preceding quarter, later than originally planned.

Surfactants

The sales and earnings performance of the Surfactants segment once again remained positive through the third quarter of 2017. The main sales and main earnings generator within this segment was again PCC Exol SA, Brzeg Dolny (Poland). Thanks to average selling prices remaining above budget, this portfolio company was once again able to exceed our sales expectations as of the end of September. At the same time, however, the average purchase prices for feedstocks were at a higher level than anticipated. This applies particularly to fatty alcohol prices which, following a temporary period of calm, are now once again picking up. PCC Chemax, Inc., Piedmont (South Carolina, USA), which is likewise managed within the Surfactants segment, had to contend with the effects of Hurricane Irma at the end of the third quarter. Quarterly earnings were therefore once again slightly below our expectations. Both portfolio companies and thus the Surfactants segment as a whole were, nevertheless, able to end the reporting period in substantially positive earnings territory.

Key financials by segment (per IFRS)		Polyols			Surfactants			Chlorine			Specialty Chemicals		
		Q3/2017	9M/2017	9M/2016	Q3/2017	9M/2017	9M/2016	Q3/2017	9M/2017	9M/2016	Q3/2017	9M/2017	9M/2016
Sales[1]	€ m	36.6	107.5	93.2	30.1	92.7	77.1	24.7	70.6	54.0	47.6	150.4	116.5
EBITDA[2]	€ m	4.0	10.3	9.3	3.0	7.9	8.1	5.4	17.8	13.8	1.2	6.6	3.5
EBIT[3]	€ m	3.6	9.2	8.3	2.5	6.1	6.4	2.7	10.2	9.1	0.4	4.1	1.2
EBT[4]	€ m	3.4	8.4	8.0	2.2	4.3	5.1	0.8	7.7	6.6	0.0	2.8	-0.2
Employees	(at Sept. 30)	224	224	200	279	279	258	406	406	346	357	357	355

Notes: Rounding differences possible. Quarterly and cumulative 9M 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

Chlorine

The Chlorine segment again put in a strong performance in the third quarter of 2017. This segment continues to be carried by the Chlorine business unit of PCC Rokita SA, the revenue and earnings performance of which benefited from sales volumes remaining above expectations. In addition, the prices for caustic soda (sodium hydroxide), a by-product of chlorine production, experienced a further upturn in the third quarter from an already high level. The reasons for this included production problems among several European competitors and production facilities in China being shut down in the wake of tougher environmental regulations. Prices then received an additional boost from the temporary closure of electrolysis facilities in the USA due to Hurricane Irma. However, PCC MCAA Sp. z o.o., Brzeg Dolny (Poland), which is also managed under the Chlorine segment, reported sales and earnings below expectations both for the third quarter and also for the nine-month total as of September 30, 2017. One of the reasons was that the average selling prices for ultra-pure monochloroacetic acid (MCAA) remained lower than anticipated. In addition, further start-up losses were registered in the third quarter of 2017 with respect to the commissioning of the second production column. The earnings of this business unit therefore remained below expectations. Thanks to the strong performance of the Chlorine business unit of PCC Rokita SA, however, the Chlorine segment closed the third quarter and also the nine-month period under review with an exceptionally successful set of figures overall.

Specialty Chemicals

The Specialty Chemicals segment once again exceeded our sales expectations in the third quarter of 2017. As has previously been the case, the main reason for this was higher revenues being generated by the trading business, carried by above-target sales of coke and anthracite by the largest trading entity of the PCC Group, PCC Trade & Services GmbH, Duisburg (Germany). The earnings of this portfolio company were, however, burdened in the third quarter by retrospective charges amounting to around 0.5 million euros resulting from now completed external tax audits covering the years 2011 to 2015. These repayments relate primarily to non-deductible input tax from 2011. Nevertheless, PCC Trade & Services GmbH was able to maintain its solid earnings performance of the first half year, again remaining above expectations as of the end of the third quarter. The Russian port company AO Novobalt Terminal, Kaliningrad (a 100% subsidiary of PCC Trade & Services GmbH), again benefited in the third quarter from an increasing number of coke and anthracite shipments, thus posting another positive quarterly earnings result. At the Czech commodity trading company PCC Morava-Chem s.r.o., Český Těšín, on the other hand, significantly lower sales to two major customers in the third quarter had a negative impact on revenue and earnings. As a result, this portfolio company was unable to avoid closing the third quarter with a small loss. However, accumulated earnings were sufficient to keep it in profit over the first three quarters of 2017.

This also applies to the Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA, which is likewise managed within the Specialty Chemicals segment. In the third quarter, this business found itself exposed to increasing competitive pressures from China, particularly with respect to its commodity sales. Efforts during the third quarter within this business unit were very much focused on the development of higher-grade products for specialty applications. Customer approval and qualification procedures for such products generally take several months to complete. Over the long term, however, it is expected that such activities will make an important contribution to the future growth of the business, particularly in the field of phosphorus-based chemicals.

The alkylphenol manufacturer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), succeeded in substantially improving its performance versus the preceding quarter. This portfolio company benefited to some extent from the effects of Hurricane Irma on the US market due to damage to local production facilities. With the resultant product scarcity that ensued, PCC Synteza S.A. was, for example, able to win two new major customers. As a result, the company closed both the third quarter of 2017 and also the nine-month reporting period with significantly positive overall results above expectations.

In line with seasonal variations, PCC Silicium S.A., Zagórze (Poland), succeeded in further increasing the sale of aggregates for road construction during the third quarter. This in turn enabled it to raise at least its EBITDA figure as of the end of September 2017 back to black. However, this portfolio company continued to operate at a loss overall. Implementation of the investment program required for the silicon metal project of PCC SE in Iceland reached its high point in the third quarter and should be fully completed in the course of the coming fourth quarter. In the meantime a first ship has been nominated for supplying quartzite to Iceland.

Consumer Products

The third quarter of 2017 again saw the business performance of the PCC Consumer Products subgroup fall short of our expectations. Once again and for the reasons already described in the previous quarterly report, none of the portfolio companies managed in this segment was able to meet the targets set. Gratifyingly, however,

Key financials by segment	(per IFRS)	Consumer Products			Energy			Logistics			PCC Group total		
		Q3/2017	9M/2017	9M/2016	Q3/2017	9M/2017	9M/2016	Q3/2017	9M/2017	9M/2016	Q3/2017	9M/2017	9M/2016
Sales[1]	€ m	5.5	16.5	18.4	2.4	8.7	8.2	20.5	54.9	48.3	169.5	507.7	420.3
EBITDA[2]	€ m	−0.9	−2.6	−1.6	0.5	5.4	5.9	2.2	5.6	4.7	14.4	48.9	44.3
EBIT[3]	€ m	−1.3	−3.7	−2.3	−0.7	2.3	3.8	1.2	2.3	1.7	6.1	24.9	25.1
EBT[4]	€ m	−1.6	−4.7	−3.1	−0.6	2.2	3.6	0.2	−0.4	1.1	−2.8	1.0	5.6
Employees	(at Sept. 30)	466	466	485	186	186	184	427	427	401	3,176	3,176	2,994

Notes: Rounding differences possible. Quarterly and cumulative 9M 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

PCC Consumer Products Kosmet Sp. z o.o. ("PCC CP Kosmet"), Brzeg Dolny (Poland), was able to win several smaller tenders from Polish customers in the third quarter. And this portfolio company is also expected to generate its first sales in the Chinese market during the fourth quarter. Further, "PCC CP Kosmet" is continuing to focus its efforts on expanding its more lucrative business activities aligned to professional chemistry and PCC's own brands. Over the long term, these measures should lead to a sustained improvement in the financial health of the Consumer Products segment.

Energy

In the third quarter, the Energy division of the PCC Group generated net external sales of 2.4 million euros. 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 this portfolio company was able once again to slightly exceed our earnings expectations. However, due to unfavorable hydrology, the small hydropower plants in the Renewable Energies business unit again posted sales and earnings below our expectations, closing the third quarter with a small loss. On a more positive note: after many delays, work was able to start in the third quarter on construction of the fifth power plant in the Republic of Macedonia.

Logistics

The Logistics division of the PCC Group succeeded in taking sales beyond the 20 million euro mark for the first time in the third quarter of 2017. However, the accumulated figure for divisional sales, at 54.9 million euros as of the end of September, remained below our expectations, with overall earnings also failing to reach the anticipated level. That said, the biggest portfolio company of this segment, namely PCC Intermodal S.A., Gdynia (Poland), was again able to substantially improve on its performance in the course of the third quarter, with sales expectations as of the end of September actually being slightly exceeded. Further significant growth was also achieved in earnings, with the positive trend extending beyond the end of the quarter. With the Russian economy continuing to recover, accompanied by a corresponding increase in wagon tariffs, earnings performance by our Russian portfolio company, ZAO PCC Rail, Moscow, at the operating level was again positive and better than anticipated. However, the initially persistent weakness of the Russian ruble versus the euro once again led to foreign exchange losses in the third quarter arising from translation of the euro loans granted by PCC SE. While a degree of recovery in the Russian currency marginally reversed this trend in September, the result below the line was still slightly negative overall, resulting in the Logistics division as a whole remaining in the red as of the end of September.

Holding/Projects

As of the end of the third quarter of 2017, the Holding/Projects division continued to show a substantially positive earnings result at the pre-tax level. This was due primarily to the results reported in the separate financial statements of PCC SE emanating from the receipt of dividends from portfolio companies in the preceding quarter. At Group level this dividend effect is, however, eliminated from the consolidated results. Compared to the second quarter, the pre-tax earnings indicated decreased by 7.4 million euros. The main causes for this were an interest charge at PCC SE and negative non-cash foreign exchange effects resulting from the valuation of the collateral deposit denominated in US dollars set aside to cover any investment overspends for the silicon metal project. This deposit was made in line with requirements imposed by the financing bank. In addition, PCC SE also recognized retrospective charges relating to non-deductible input tax in the amount of 0.7 million euros resulting from the external tax audit for the years 2011 to 2015. These latter three factors also had a negative impact on consolidated earnings.

Dimethyl ether plant in the Tula region (Russia): the site in November 2017

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 projects being managed by these two portfolio companies, namely construction of a silicon metal production facility in Iceland and construction of a dimethyl ether plant in the Tula region of Russia, are proceeding to schedule. You can find further information at www.pcc.eu/investments/holding-investments/. 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 (Poland), and distripark GmbH, Essen (Germany). All these entities have so far made either no or only a marginal contribution to the sales and earnings of the Group.

Scheduled bond redemption

Effective October 1, 2017, PCC SE redeemed at maturity its 7.25% bond WKN A1R1AN (ISIN DE000A1R1AN5) issued in February 2013 for around 29.7 million euros.

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