PCC Group
Quarterly Report 3/2018

25 YEARS PCC Established 1993

- **Consolidated sales of the PCC Group as of September 30, 2018 amounted to € 590.7 million, an increase of 16.4 % versus prior year**
- **EBITDA up year on year by 58.9 % to € 77.6 million as of September 30, 2018**
- **Silicon metal plant in Iceland about to commence regular operations**
- **Redemption of maturing bond**

Modern production facility for monochloroacetic acid (MCAA) operated by our subsidiary PCC MCAA Sp. z o.o. in Brzeg Dolny (Poland). Since its commissioning at the end of 2016, the plant has significantly extended the value chain of our Chlorine segment. Due to highly positive customer acceptance and market growth forecasts, expansion in the facility's annual capacity from its current 42,000 metric tons to up to 100,000 metric tons is planned for the medium term. Top photo: Complete MCAA plant with loading station (right). Bottom photo: Detailed view.

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Overall Business Development

The third quarter of 2018 once again saw the PCC Group exceed the good sales and earnings performance of the two preceding quarters. Despite the continuing political uncertainties and smoldering international trade conflicts, the business environment remained robust. In addition, the usual decline in sales during summer vacation months failed to materialize at all in 2018. At €203.3 million, Group sales therefore exceeded the €200 million threshold for the first time in the third quarter of 2018, rising to €590.7 million as of September 30. Compared to the corresponding prior-year period (€507.7 million), this represents an increase of 16.4 %. This is all the more gratifying because, at the end of the third quarter of 2018, total revenues of around €40 million expected from the Silicon Metal business unit were missing from the total due to the delayed commissioning of the associated production plant in Iceland. However, this gap was filled by sales exceeding expectations in the Chlorine, Surfactants and Specialty Chemicals segments (including Commodity Trading) and in the Intermodal Transport business. On the earnings side, too, the third quarter was a success for the majority of PCC SE's affiliated companies. Group earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA) amounted to €25.8 million for the third quarter, with the cumulative nine-month total coming in at €77.6 million. EBITDA thus improved by 58.9% compared with the corresponding prior-year figure of €48.9 million. Earnings before taxes (EBT) rose by €9.9 million in Q3 to €29.5 million as of the end of September 2018. In the previous year, this figure barely reached €1 million.

Segment Performance

The Chemicals division of the PCC Group with its five segments Polyols, Surfactants, Chlorine, Specialty Chemicals and Consumer Products posted sales in the third quarter of 2018 amounting to €175.3 million. This resulted in divisional sales of €509.2 million as of the end of the first nine months of the year. Compared to the corresponding prior-year figure (€437.8 million) this represents an increase of 16.3 %. Thanks in part to higher sales volumes and, for example, the persistently high price level for the chlorine by-product sodium hydroxide, divisional sales at the end of September were also higher than expected. On the earnings side, too, both the corresponding figures for the previous year and our overall expectations were once again exceeded. As in the two preceding quarters, all segments – with the exception of Consumer Products – made a positive contribution to this achievement.

Polyols

The third quarter saw a continuation of the market difficulties affecting the Polyols segment. One of the main reasons for this lies in the decline in demand for foam mattresses which began in the preceding quarter. This drop in demand resulted from the drastic rise in the price of toluene diisocyanate (TDI), the most important input material alongside polyols used in the production of flexible foam. As a result, many customers gave preference to less expensive spring mattresses – with a corresponding negative impact on sales of polyols required for the production of flexible foam. Although the price trend for isocyanates has reversed in the meantime, this development has not yet filtered through to the mattress market. Another important cause was the expansion in global supply levels of polyether polyols resulting from the commissioning of a new production plant for these products in Saudi Arabia (Sadara), which put pressure on sales prices and achievable margins. The current economic weakness of Turkey, an important sales market in the eastern hemisphere, has further exacerbated the situation. Despite this challenging market environment, the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), continued to steadfastly pursue its strategy of maximizing volume sales, particularly of specialty products for the ultra-flexible foam industry, accompanied by a process of continuous further development in this domain. In addition, the sales portfolio of standard products was further expanded to maximize the operating rates of the associated production facilities. As a result, the Polyols business unit was able to both successfully stave off the challenges of the market and close the third quarter of 2018 in positive territory. The Polyester Polyols business saw sales increase once more in the third quarter. By contrast, business performance at the two system houses and the subsidiaries active in the thermal insulation panels business area managed under the intermediate holding company PCC Insulations GmbH, Duisburg (Germany), has still not developed to a satisfactory level.

Surfactants

The Surfactants segment again performed well in the third quarter. The largest subsidiary in this segment, PCC Exol SA, Brzeg Dolny, further increased its sales volumes and revenues. This affiliate also once again improved on its earnings performance. The other portfolio companies managed in this segment likewise made positive contributions to earnings. Overall, therefore, the Surfactants segment closed the third quarter with an exceptionally successful set of financials that were also significantly up on the previous year.

Key financials by segment [1]	(per IFRS)	Polyols			Surfactants			Chlorine			Specialty Chemicals		
		Q3/2018	9M/2018	9M/2017	**Q3/2018**	9M/2018	9M/2017	**Q3/2018**	9M/2018	9M/2017	**Q3/2018**	9M/2018	9M/2017
Sales [2]	€ m	**35.3**	112.0	107.5	**34.0**	98.2	92.7	**42.1**	113.5	70.6	**58.5**	169.2	150.4
EBITDA [3]	€ m	**0.3**	5.7	10.3	**3.4**	8.2	7.9	**19.2**	47.6	17.8	**3.0**	7.9	6.6
EBIT [4]	€ m	**−0.4**	4.0	9.2	**2.8**	6.5	6.1	**15.3**	38.1	10.2	**2.2**	5.6	4.1
EBT [5]	€ m	**−1.0**	3.2	8.4	**2.1**	5.0	4.3	**14.7**	32.9	7.7	**1.8**	4.7	2.8
Employees	(at Sept. 30)	**257**	257	224	**294**	294	279	**367**	367	406	**380**	380	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

Chlorine

The positive business development exhibited by the Chlorine segment continued through the third quarter of 2018. Sales volumes and revenues of the Chlorine business unit of PCC Rokita SA remained at a high level. This was partly due to production problems at local competitors, as a result of which prices for the chlorine derivative, sodium hydroxide monohydrate, rose even further. The aforementioned business unit therefore increased its production of this form of sodium hydroxide in the third quarter at the expense of standard caustic soda, with a correspondingly positive effect on earnings ensuing. The MCAA (monochloroacetic acid) business unit also posted another strong performance in the third quarter of 2018. PCC MCAA Sp. z o.o., Brzeg Dolny, was again able to increase both its sales and its EBITDA compared to the previous two quarters and thereby significantly exceed both our expectations for the current financial year and the corresponding figures of the previous year. Overall, the Chlorine segment was the PCC Group's main earnings contributor in the third quarter.

Specialty Chemicals

The Specialty Chemicals segment likewise closed the third quarter of 2018 in positive territory and better than expected. Taking all business units into account, segment sales rose by €58.5 million to €169.2 million. This exceeds the prior-year figure by 12.5%. The main contributor remained the sales performance of the Commodity Trading business. This was partly due to the still relatively high average price levels prevailing for chemical commodities. Added to this, the largest trading company in the PCC Group, PCC Trade & Services GmbH, Duisburg, was – again in the third quarter – able to maintain sales volumes and transaction revenues from coke and anthracite sales at a high level. As a result, this affiliate also closed Q3 2018 in clearly positive territory with better-than-expected results. This also applies to the Russian port company AO Novobalt Terminal, Kaliningrad, which continued to benefit in the third quarter from high transshipment figures for coke and anthracite serving both its parent company, PCC Trade & Services GmbH, and a Russian third-party customer. The trading business of the Czech company PCC Morava-Chem s.r.o., Ceský Těšín, also regained traction in the third quarter, with this affiliate likewise exceeding our expectations in terms of both sales and earnings as of the end of September.

In the Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA, which is also managed under the Specialty Chemicals segment, growing demand for phosphorus-based flame retardants had a positive impact on sales and earnings in the third quarter. Gratifyingly, the Naphthalene Derivatives business was also able to attract new customers. As a result, the aforementioned business unit also ended the third quarter in positive territory and above the prior-year level. This also applies to the alkylphenols producer PCC Synteza S.A., Kędzierzyn-Koźle (Poland). And PCC Silicium S.A., Zagórze (Poland), likewise reported another upturn despite the delayed acceptance of quartzite deliveries by the Icelandic portfolio company PCC BakkiSilicon hf, Húsavík. Sales to customers in the ferroalloy industry of quartzite grades not suitable for the silicon metal production of PCC BakkiSilicon hf in Iceland remained at a high level. In addition, a Polish construction company was won as a customer for a large part of the overburden resulting from quartzite mining, which resulted in considerable savings in disposal costs.

Consumer Products

By contrast, the sales and earnings performance of the PCC Consumer Products subgroup remained below expectations in the third quarter. As has previously been the case, all affiliates managed in this segment continued to record losses. This applies in particular to the segment's largest company, PCC Consumer Products Kosmet Sp. z o.o. ("PCC CP Kosmet"), Brzeg Dolny. A process of downsizing has now been initiated for this affiliate. Among other things, the management has been instructed to review the contracts portfolio and adjust fixed cost and overhead items accordingly. Contracts with inadequate margins – especially in the private label and customer manufacturing sectors – are to be terminated wherever possible. In addition, further personnel reductions are planned, although a large proportion of the workforce is expected to be taken over by other, growing PCC companies on the Brzeg Dolny site. The future focus of PCC CP Kosmet will be on its newly designed own brands, the successful market launch of which will, according to PCC SE estimates, take at least three years. It is gratifying to report that in the third quarter of 2018, after lengthy contract negotiations, PCC CP Kosmet finally succeeded in making its first deliveries to several Chinese customers and is now negotiating follow-up orders.

Energy

The Energy division of the PCC Group generated net external sales of €2.6 million in the third quarter of 2018. The main revenue contributions continued to come from the Conventional Energies business unit with PCC Rokita SA's combined heat and power plant (and the corresponding local business unit) and the elec-

Key financials by segment [1] (per IFRS)		Consumer Products			Energy			Logistics			PCC Group total		
		Q3/2018	9M/2018	9M/2017	Q3/2018	9M/2018	9M/2017	Q3/2018	9M/2018	9M/2017	Q3/2018	9M/2018	9M/2017
Sales [2]	€ m	5.4	16.3	16.5	2.6	9.2	8.7	23.4	64.9	54.9	203.3	590.7	507.7
EBITDA [3]	€ m	−1.2	−3.8	−2.6	0.5	2.8	5.4	3.5	7.8	5.6	25.8	77.6	48.9
EBIT [4]	€ m	−1.5	−4.8	−3.7	−0.3	0.5	2.3	2.5	4.6	2.3	16.3	51.9	24.9
EBT [5]	€ m	−2.1	−5.9	−4.7	−0.4	0.2	2.2	1.3	1.3	−0.4	9.9	29.5	1.0
Employees	(at Sept. 30)	479	479	466	175	175	186	494	494	427	3,443	3,443	3,176

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 tricity and heat utility PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle (Poland). However, the earnings of this business unit once again fell below expectations. This was due, among other things, to a slump in sales of coking plant gas from the latter named affiliate as mentioned in the previous quarterly report and the loss of the associated margins. In addition, there were higher disposal costs for residues from the waste water treatment business and higher personnel expenses at both portfolio companies. By contrast, the Renewable Energies business unit continued to benefit from favorable hydrology, particularly in Macedonia, and also closed the third quarter in profit with better than expected results overall. Completion of the fifth power plant has been slightly delayed, and will now take place in the first quarter of 2019.

Logistics

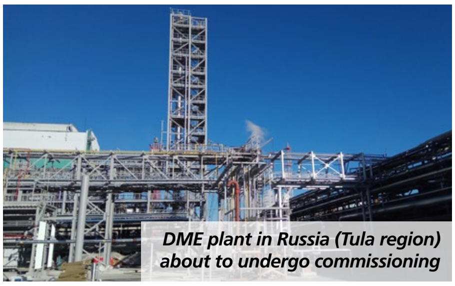
At €23.4 million in the third quarter, the Logistics division achieved its highest quarterly revenue figure in the current fiscal year to date. With this, divisional sales had accumulated to €64.9 million by the end of September. Compared to the corresponding prior-year period (€54.9 million) this represents an increase of 18.3 %. By far the largest share of this sales growth was again generated by PCC Intermodal S.A., Gdynia (Poland). In the third quarter, this affiliate benefited in particular from increasing capacity utilization of its trains on Polish routes. The Christmas business, which has taken off everywhere since August, has also made itself felt with increasing transport volumes. And now PCC Intermodal S.A. also regularly handles container deliveries by train from China traveling through to Germany – with the trend still rising. On the cost side, the increasing use of our own locomotives has also paid off. As a result, this portfolio company significantly improved its results in the third quarter, closing the period under review positively overall and more successfully than expected.

The road tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, also closed the third quarter of 2018 with a positive result, but remained below expectations in terms of earnings generated, partly due to higher diesel prices. At the Russian affiliate ZAO PCC Rail, Moscow, sales and earnings continued to develop well in Q3, and significantly better than in the previous year. The majority of the fleet of around 600 wagons continue to be leased to Russian Railways on a long-term basis. The remaining wagons were still being used by a third party customer, also on a long-term basis. As a result, ZAO PCC Rail further improved its results in the third quarter, with cash flows becoming increasingly stable. In September, this affiliate was therefore able to repay a further scheduled installment of the investment loan made available to it by PCC SE for the purchase of its wagons.

Holding / Projects

The Holding/Projects division closed Q3 2018 with positive results as anticipated. Although the earnings of PCC SE (per the individual financial statements) fell slightly compared with the first half of the year in line with our expectations, they remained clearly positive at the end of September due to the dividends received in the second quarter. At Group level, however, such dividend income is eliminated as part of the consolidation procedure.

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, Kamp-Lintfort (formerly Essen, both Germany), are managed by 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



DME plant in Russia (Tula region) about to undergo commissioning

to go into service at the end of November / start of December 2018. Meanwhile, the second major project company in this division, PCC BakkiSilicon hf, has completed the commissioning of the two furnaces of the silicon metal plant (see below).

Silicon metal plant about to commence regular operations

As reported, the commissioning of our silicon metal plant in Húsavík (Iceland) began on April 30, 2018 with the ignition of the first of the two electric arc furnaces. The official start of production then occurred with the first tapping of liquid silicon metal on May 11, 2018. The second furnace was started up on August 31, 2018. Now both furnaces are operating under normal load. Our operating team is working flat out, remedying the few remaining glitches in the run-up to regular operations. Including a delay of half a year, the construction period to ready the plant with its annual capacity of 32,000 metric tons, has been approximately three years in total.

Redemption of maturing bond

On October 1, 2018, the 7.00 % bond ISIN DE000A1YCSY4 issued by PCC SE in December 2013 was redeemed at maturity with a repayment of approximately €20.0 million.

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