PCC Group Quarterly Report 4/2016

- PCC increases EBITDA by 53 % to € 77.6 million for fiscal 2016
- Silicon metal project in Iceland proceeding to schedule
- PCC Rokita acquires shares in Thai chemicals manufacturer
- Redemption of maturing bonds

Part of the tank farm for polyols with filling station for drums and intermediate bulk containers (IBC) at the site of PCC Rokita in Brzeg Dolny (Poland)

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Business Development

Overall, the fourth quarter of 2016 was exceptionally successful for the PCC Group. Consolidated sales rose by €149.9 million to €570.2 million as of year-end (previous year €571.1 million). Although this meant that sales fell well below our targets for 2016, our expectations on the earnings side were nevertheless significantly exceeded. As already mentioned in the previous quarterly reports, the persistent weakness of the Polish zloty and the low raw material price levels that persisted almost without variation in 2016 had a negative impact on sales development. However, on the purchasing and thus also on the earnings side, our portfolio companies were able to benefit significantly from these two factors. Additional positive earnings effects resulted from the increased focus on higher-quality products and from the modernisation and expansion investments that have now been completed in some segments. As a result of these capital expenditures, PCC Rokita SA, Brzeg Dolny (Poland), was awarded so-called White Certificates for achieving certain energy efficiency parameters in summer 2016, and these were sold at a profit in the course of the fourth quarter. The one-time gains generated from these were credited to the holding company of the subgroup PCC Rokita SA and were thus recorded as income for the Holding/Projects segment. In the previous year, one-time gains of comparable magnitude were, incidentally, likewise achieved in this segment. These resulted in 2015 from disposal of the telecommunication and data centre activities of PCC SE.

Consolidated earnings before interest (or financial result), taxes, depreciation and amortization (EBITDA) increased in the fourth quarter by €33.3 million to a total of €+77.6 million. The corresponding prior-year figure of €+50.8 million was thus increased by a factor of 1.5. Earnings before taxes (EBT) increased year on year by an even greater proportion: The figure rose in the fourth quarter by €21.3 million to a total of €26.9 million, representing a multiple of 22.4 times the prior-year figure of €+1.2 million. All these disclosures are provisional consolidated financial statement figures. The final, certified financials will be published following approval of the consolidated financial statements in the course of the second quarter of 2017 on our website www.pcc-financialdata.eu.

The Chemicals division of the PCC Group remained its main revenue and earnings generator, achieving sales in the fourth quarter of 2016 in the amount of €127.0 million. As of year-end, cumulative external divisional sales grew to €486.1 million, well below the expectations for 2016. This applies both to the Chemicals division as a whole and also to its individual segments, and is essentially attributable to the reasons already mentioned at the beginning. Earnings development in the individual segments was, however, mixed:

Polyols

The Polyols segment continued to enjoy success in the fourth quarter of 2016 due primarily to the persistently strong performance of the Polyols business unit which turned in figures above expectation. By contrast, the insulation panels business, which is still undergoing development, closed the fourth quarter with a loss as expected. The system house activities in Poland and Germany likewise continued to operate at a deficit. At the PCC Prodex GmbH site in Essen, however, at least all the necessary production machinery had been delivered and successfully commissioned by the end of the year.

Surfactants

The positive business development of the Surfactants segment likewise continued through the fourth quarter of 2016. Thanks to increasing sales of higher-quality products, PCC Exol SA, Brzeg Dolny (Poland), was able to exceed our earnings expectations despite a further increase in purchase prices for fatty alcohols. The US-American subsidiary of PCC Exol SA, namely PCC Chemax, Inc., Piedmont (South Carolina), continued to operate below expectations due to the persistently difficult situation prevailing in the crude oil market. Nevertheless, it was able to close fiscal 2016 with a positive result overall. The Ghanaian affiliate of PCC SE, namely PCC Organic Oils Ltd., Accra, began its own production of palm kernel oil, an important feedstock for fatty alcohols, in the fourth quarter of 2016. The first samples have been sent to PCC Exol SA for test purposes. Over the long term, PCC Organic Oils Ltd. should, with such products, contribute to securing the supply of renewable raw materials to PCC Exol SA.

Chlorine

The Chlorine segment again put in a strong performance in the fourth quarter of 2016. The momentum behind this development continued to come from the Chlorine business unit of PCC Rokita SA, which was able to further profit from, among other things, the persistently high price level pertaining for caustic soda (sodium hydroxide) which occurs as a by-product of the chlorine manufacturing process. As mentioned in the previous quarterly report, this positive performance was also the result of favourable input material purchasing prices (including for propylene and benzene) and the higher efficiency of the new chlor-alkali electrolysis process. The

Key financials by segment	(per IFRS)	Polyols			Surfactants			Chlorine			Speciality Chemicals		
		Q4/2016	12M/2016	12M/2015	Q4/2016	12M/2016	12M/2015	Q4/2016	12M/2016	12M/2015	Q4/2016	12M/2016	12M/2015
Sales[1]	€ m	33.4	126.6	136.2	24.5	101.6	101.1	17.9	71.8	58.3	45.4	161.9	161.7
EBITDA[2]	€ m	3.0	12.3	13.8	2.3	10.3	9.5	9.6	23.4	8.2	2.6	6.2	5.2
EBIT[3]	€ m	2.6	10.9	12.5	1.7	8.1	7.3	7.9	17.0	3.0	1.6	2.8	1.6
EBT[4]	€ m	2.7	10.8	12.0	1.6	6.7	4.7	6.3	12.9	2.5	1.9	1.7	−0.6
Employees	(at Dec. 31)	204	204	171	259	259	259	381	381	344	353	353	363

Notes: Rounding differences possible. Annual figures for 2016 taken from unaudited and therefore provisionally consolidated financial statements. Quarterly figures likewise 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 Holding/Projects segment has not been separately listed. | **2 EBITDA** (earnings before interest, taxes, depreciation and amortisation) | **3 EBIT** (earnings before interest and taxes) = Operating profit = EBITDA - depreciation and amortisation | **4 EBT** (earnings before taxes) = Pre-tax profit = EBIT - financial result production plant for ultra-pure monochloroacetic acid (MCAA), which is also managed under the Chlorine segment, was finally commissioned in the fourth quarter of 2016, enabling it for the first time to make a contribution to segment sales.

Speciality Chemicals

Compared to the previous quarter, business performance in the Speciality Chemicals segment showed a significant improvement. Although results fell below expectations for 2016 overall, a large majority of portfolio companies and business units managed under this segment closed both the fourth quarter and the year as a whole in positive territory. The commodities trading company PCC Trade & Services GmbH, Duisburg (Germany), in particular was able to significantly increase its results versus the third quarter, due primarily to the current situation in the coke market: With prices for coking coal having risen relatively sharply, many coke users have been trying to quickly cover their volume requirements in expectation of further price increases. Consequently, PCC Trade & Services GmbH was able to sell far larger quantities of coke than was originally expected. The port company of this affiliate, ZAO Novobalt Terminal, Kaliningrad (Russia), was also able to benefit from the increased number of shipments ensuing. That said, however, the results of both companies remained below expectation overall. By contrast, the sales and earnings performance of the commodities trading company PCC Morava-Chem s.r.o., Český Těšín (Czech Republic), were within the bounds of our expectations.

Both the alkylphenol manufacturer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), and the business unit Phosphorus and Naphthalene Derivatives of PCC Rokita SA closed the fourth quarter and also fiscal 2016 with positive results overall. The figures produced by both business units as of the end of the year lay within our expectations. By contrast, PCC Silicium S.A., Zagórze (Poland), again remained in deficit in the fourth quarter, closing 2016 with a higher loss overall than was originally expected. The primary cause for this was the persistently declining and inadequate standard business of this portfolio company, namely the sale of aggregate for the construction of roads and railway lines. However, the new management now in place is continuing to diligently pursue new sales opportunities for the grades and products that are not going to be used for the silicon metal project of PCC SE (see page 4). The investment programme needed for the quartzite quarry for the aforementioned project was also taken further forward with financial support from PCC SE.

Consumer Products

The "PCC Consumer Products" subgroup posted further losses in the fourth quarter of 2016. For the reasons already detailed in preceding quarterly reports, these were again primarily attributable to PCC Consumer Products Kosmet Sp. z o.o., Brzeg Dolny. This affiliate participated in tenders issued by various major customers for their products in the fourth quarter in order to compensate at least in part to the loss of sales attributable to its still largest customer. In addition, there was a further continuation of the toll filling operations for liquid detergent products which commenced in the third quarter. In order to strengthen the capital base and improve the liquidity situation of this affiliate, a decision was taken in the fourth quarter to implement a capital increase, which took place at the beginning of 2017.

The other portfolio companies belonging to the "PCC Consumer Products" subgroup – the Belarusian company OOO PCC Consumer Products Navigator, Grodno, and the matches factory PCC Consumer Products Czechowice S.A., Czechowice-Dziedzice (Poland), likewise continued to perform below expectations in the fourth quarter. Both affiliates were, however, at least able to close fiscal 2016 with a positive EBITDA figure.

Energy

The Energy division of the PCC Group also completed the fourth quarter of 2016 with a successful set of figures. The sales and earnings performance of the business unit Conventional Energies with its CHP power station (and the corresponding business unit) of PCC Rokita SA, and also the power and heat utility PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle (Poland), continued to post positive figures above expectation. The Renewable Energies business unit likewise produced a positive result. However, the figures for 2016 fell below expectation overall, due, among other things, to unfavourable hydrology in the course of the year and to delays in the construction of the fifth small hydropower plant in the Republic of Macedonia. Overall, this division remains of subordinate relevance for the Group results.

Logistics

The Logistics division of the PCC Group generated net external sales of €17.2 million in the fourth quarter of 2016. As of December 31, cumulative divisional sales amounted to €65.5 million, which meant that, in this division too, we were unable to meet our sales expectations. The main sales generator remained PCC Intermodal S.A., Gdynia (Poland), which also contributed by far the largest share of the

Key financials by segment (per IFRS)		Consumer Products			Energy			Logistics			PCC Group total		
		Q4/2016	12M/2016	12M/2015	Q4/2016	12M/2016	12M/2015	Q4/2016	12M/2016	12M/2015	Q4/2016	12M/2016	12M/2015
Sales[1]	€ m	**5.7**	24.1	38.6	**3.1**	11.3	11.3	**17.2**	65.5	56.8	**149.9**	570.2	571.1
EBITDA[2]	€ m	**−1.1**	−2.7	−0.1	**3.9**	9.7	7.3	**0.9**	5.6	4.9	**33.3**	77.6	50.8
EBIT[3]	€ m	**−1.4**	−3.8	−0.9	**3.2**	7.0	4.3	**−0.2**	1.5	1.7	**26.2**	51.3	26.9
EBT[4]	€ m	**−1.5**	−4.6	−2.1	**3.1**	6.7	0.6	**0.6**	1.7	−2.1	**21.3**	26.9	1.2
Employees	(at Dec. 31)	**468**	468	569	**184**	184	179	**410**	410	367	**3,016**	3,016	2,992

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EBITDA posted by the Logistics division. Nevertheless, this affiliate performed below expectations overall in 2016, despite increasing sales. Among the reasons for this is the fact that, due to the expansion of the Polish ports, there have been significant increases particularly in transport volumes within Poland, while the lucrative international transport activities from Hamburg have exhibited a declining trend. In recent time, however, there has been a revival in local economic activity in the Frankfurt (Oder) area particularly, which would appear to indicate new growth potential in 2017 for the "German corridor" served by PCC Intermodal S.A. Further increasing utilisation levels are also expected for the service from Rotterdam and Duisburg to Poland. In the case of the Russian affiliate, ZAO PCC Rail, Moscow, rising wagon tariffs in Russia have continued to have a positive effect on EBITDA development. ZAO PCC Rail also benefited in 2016 from the strengthening of the Russian ruble. By contrast, business performance at the tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, was again unsatisfactory in the fourth quarter, due to the reasons already detailed in the preceding quarterly report. In the meantime, therefore, there has been a change in the management of this affiliate.

Holding/Projects

The Holding/Projects division closed the fourth quarter of 2016 in a substantially positive position overall due to the exceptional item mentioned at the beginning. However, the earnings generated by the holding company PCC SE dissipated again due, for example, to interest expenses and project development costs, taking the company into the loss zone as expected. The above-mentioned project development costs were again mainly attributable to the dimethyl ether project in Russia and the silicon metal project of the largest project company of PCC SE, namely PCC BakkiSilicon hf, Húsavík (Iceland), the progress of which is detailed in the following.

In the fourth quarter, PCC SE also acquired a participating interest as part of a capital increase implemented at the company distripark.com sp. z o.o., Brzeg Dolny, which until then had been a 100% subsidiary of PCC Rokita SA. Using the internet platform of this new affiliate, products of the PCC Group and also, in future, products of other suppliers are to be marketed directly to smaller customers (primarily B2B). In 2017, such activities using the distripark.de platform are also to be extended to the German market. All the entities mentioned, and the internal service companies which also belong to the Holding/Projects segment, have so far made no or only marginal contributions to the Group's sales and earnings.

Silicon metal project in Iceland proceeding to schedule

The construction of the silicon metal plant by PCC BakkiSilicon hf in the north of Iceland continues to advance in line with the envisaged time and cost schedules. Aside from overseeing the construction work being carried out by our turnkey contract partner SMS group GmbH, Düsseldorf (Germany), the PCC project team in Duisburg and Húsavík is focusing on preparations for commissioning the plant. The local management is already complete and in place and boasts extensive experience from the starting-up and operation of similar facilities. International experts with specific know-how in the production of silicon metal are also supporting us.

Installation of the furnace vessel bottom at the site of PCC BakkiSilicon hf near Húsavík (Iceland)

In order to also be able to offer future employees at the site attractive living accommodation, PCC SE has decided to invest in the construction of homes in the vicinity. The first 22 duplex houses, built on a very beautiful plot provided by the local council, will be ready for occupation by late summer 2017.

PCC Rokita acquires shares in Thai chemicals manufacturer

In December 2016, PCC Rokita SA acquired a 25% stake in the Thai polyols and polyurethane producer IRPC Polyol Company Ltd. (IRPC Polyol) headquartered in Bangkok. The parent of this company is the Thai petrochemicals concern IRPC Public Co. Ltd. and the two companies are already tied together by the joint venture IRPC PCC established at the beginning of 2015 for the marketing and distribution of polyols and PUR systems. The partial takeover of the joint venture partner constitutes a further step in PCC Rokita SA's policy of expanding into Asia.

The provisional purchase price for the 25% stake is around 82.5 million baht (around €2.2 million). The final price will be determined on the basis of the certified annual financial statements of IRPC Polyol for 2016. PCC Rokita SA has also committed to acquiring a further 25% of the shares in IRPC Polyol within three years from the date of closure of the sale agreement, or alternatively – in the event of the purchase option of further shares being declined – to sell the stake acquired to the majority shareholder IRPC Public Co. Ltd.

Redemption of maturing bonds

On December 1, 2016, PCC SE paid around €30 million to redeem the maturing 7.25% bond WKN A1PGS3 issued in 2012. On January 1, 2017, a payment of €10 million was effected to redeem the 4.00% bond WKN A13R7R from 2014.

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