PCC Group Quarterly Report 4/2017

- PCC Group sales increased in fiscal 2017 by 20.4 % versus prior year, to 685.0 million euros
- PCC Group well exceeds earnings target with EBITDA of 73.9 million euros per December 31, 2017
- Commissioning of silicon metal plant in Iceland now imminent
- PCC Rokita SA once again listed in the sustainability index of the Warsaw Stock Exchange
- Start-up companies established for the further development of products in the Specialty Chemicals segment
- Redemption of bond at maturity and repayment of profit participation certificate

Construction site of PCC BakkiSilicon hf in the north of Iceland in February 2018: In the center background can be seen the building containing the two electric arc furnaces. Commissioning is scheduled for the end of March / beginning of April, 2018.

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Business Development

Our business performance picked up considerably in the fourth quarter of 2017 compared to the prior-year period. At 177.4 million euros, the quarterly sales figure was the highest of this financial year. Overall, consolidated sales as of December 31, 2017 amounted to 685.0 million euros, 116.1 million euros (20.4 %) higher than the corresponding figure for the previous year. Our sales targets for 2017 were thus also clearly exceeded. The main reasons for this were higher sales volumes and a year-on-year increase in average commodity prices. Product portfolio changes and exchange rate effects also contributed to this positive development. The fourth quarter likewise saw us achieve our best earnings results for fiscal 2017: Consolidated earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA) increased as of December 31, 2017 by 25.0 million euros to a total of 73.9 million euros. Although this meant that our EBITDA figure was 2.6 million euros below the corresponding prior-year level (76.4 million euros), it should be noted that these prior-year figures included a positive exceptional item amounting to around 10 million euros resulting from the sale of white certificates for energy reductions achieved. Earnings before taxes (EBT) also increased significantly in the fourth quarter, by 13.2 million euros to 14.2 million euros as of December 31, 2017. When drawing a comparison with the previous year (24.6 million euros), the aforementioned exceptional item of around 10 million euros should again be taken into account. After adjusting for this one-time effect, EBT for 2017 was flat versus the prior-year level. Both EBITDA and EBT thus clearly exceeded our earnings targets for 2017. This development was due primarily to the results of the Chemicals division of the PCC Group which, once again in fiscal 2017, constituted by far the largest sales and earnings generator within the Group. The Chlorine segment made a particularly significant contribution in this regard, posting figures significantly above expectations. By contrast, the sales and earnings of the divisions Energy, Logistics and Holding/Projects came in below expectations for 2017.

All these disclosures are based on provisional consolidated financial statement data. The final, certified figures will be published on our website www.pcc-financialdata.eu following approval of the consolidated financial statements in the course of the second quarter of 2018.

The Chemicals division of the PCC Group generated sales of 151.8 million euros in the fourth quarter of 2017. As of year-end, cumulative external divisional sales amounted to 589.6 million euros. All four major segments in this division – Polyols, Surfactants, Chlorine and Specialty Chemicals – also turned in successful figures for the fourth quarter. By contrast, the Consumer Products segment again reported a deficit.

Polyols

The overall positive business development in the Polyols segment continued through the fourth quarter of 2017. Sales and earnings remained significantly higher than in the previous year and our already high expectations for fiscal 2017 were also exceeded. The Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), made the largest contribution in this regard with its polyether polyols. The fourth quarter also saw intensive work continue on process optimization at the new production plant for polyester polyols where we have not yet fully achieved the performance levels envisaged for 2017. Overall sales and earnings in the Polyurethane Systems and Thermal Insulation Panels businesses were also below our expectations both for the fourth quarter and for fiscal 2017 as a whole.

Surfactants

The Surfactants segment likewise posted a solid sales and earnings performance in the fourth quarter of 2017. The main sales and earnings generator of this segment remained PCC Exol SA, Brzeg Dolny, which registered volume sales increases in, among its various lines, detergent and personal care products. As a result, the Surfactants segment was able not only to again generate positive results in the fourth quarter of 2017 but also to successfully close the full fiscal year – despite the average purchase prices for raw materials and feedstocks increasing significantly more than forecasted.

Chlorine

The Chlorine segment continued to perform exceptionally well in the fourth quarter of 2017. The mainstay of this segment was again the Chlorine business unit of PCC Rokita SA, the sales and earnings performance of which were once more characterized by volumes in excess of expectations. This business unit also continued in the fourth quarter to benefit from the very high prices prevailing for the chlorine by-product caustic soda (sodium hydroxide). Delays in the upgrade of chlor-alkali electrolysis facilities coinciding at several regional competitors were among the factors driving prices in this regard. As a result, the chlorine business unit again generated strong quarterly earnings. By contrast, the sales and earnings of the MCAA business unit, which

Key financials by segment	(per IFRS)	Polyols			Surfactants			Chlorine			Specialty Chemicals		
		Q4/2017	2017	2016	Q4/2017	2017	2016	Q4/2017	2017	2016	Q4/2017	2017	2016
Sales[1]	€ m	37.9	145.5	126.0	27.9	120.6	101.5	31.8	102.5	71.8	48.9	199.3	161.9
EBITDA[2]	€ m	4.7	15.0	12.3	2.0	9.9	10.2	15.1	32.9	24.3	2.0	8.6	5.7
EBIT[3]	€ m	4.2	13.4	10.9	1.4	7.5	7.4	12.6	22.8	16.7	1.2	5.3	2.3
EBT[4]	€ m	4.0	12.4	10.5	0.6	5.0	6.0	12.9	20.5	12.8	0.6	3.3	1.3
Employees	(at Dec. 31)	236	236	204	279	279	260	409	409	381	360	360	353

Notes: Rounding differences possible. Fiscal 2017 figures taken from provisional consolidated financial statements and therefore currently unaudited. Quarterly 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 is also managed under the Chlorine segment, were again below expectations in the fourth quarter. Average selling prices for ultra-pure monochloroacetic acid (MCAA) remained lower than envisaged. PCC MCAA Sp. z o.o., Brzeg Dolny (Poland), therefore made huge efforts in the fourth quarter to optimize the production process and various input factors. As a result, tangible earnings improvements in the MCAA business unit should become achievable in 2018.

Specialty Chemicals

The Specialty Chemicals segment likewise generated further success in the fourth quarter of 2017. In terms of sales, both the corresponding figure for the previous year and our original expectations for fiscal 2017 were significantly exceeded. The main reason for this lay in a further increase in sales in the trading business in the fourth quarter, driven by the high average price levels prevailing for chemical commodities and rising prices for coke and anthracite coal. Once again the largest trading company in the PCC Group, PCC Trade & Services GmbH, Duisburg (Germany), was the biggest contributor. Hence, this portfolio company closed the fourth quarter and also fiscal 2017 with overall earnings well in the black and above expectations. Business at the Russian port company AO Novobalt Terminal, Kaliningrad, also once again showed positive development. This Group subsidiary continued to benefit from the increased number of coke and anthracite shipments, which are now also being regularly handled for an external customer. However, the Czech commodities trading company PCC Morava-Chem s.r.o., Český Těšín, was unable to compensate for significantly lower sales to two major customers in the fourth quarter, these having further declined since the previous period. The subsidiary consequently slipped slightly into deficit as of the end of the year.

The Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA and the alkylphenol producer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), which are also part of the Specialty Chemicals segment, closed the fourth quarter and full fiscal 2017 with a positive, better-than-expected set of results. There were also encouraging developments at PCC Silicium S.A., Zagórze (Poland): In the fourth quarter, this portfolio company significantly increased sales to two Eastern European customers of those quartzite grades not suitable for the silicon metal production project of PCC SE in Iceland, with this trend continuing beyond the turn of the year. In addition, the first shipment of quartzite to Iceland was successfully completed in the fourth quarter. Overall, this portfolio company ended 2017 in deficit, but was at least able to achieve a positive EBITDA by the end of the year, marking a significant improvement compared to full fiscal 2016. The investments required for the silicon metal project were largely completed in the fourth quarter. However, the installation of new transfer systems and conveyor belts had to be postponed until the first quarter of 2018 due to problems with the supplier involved.

Consumer Products

The PCC Consumer Products subgroup continued to operate at a deficit in the fourth quarter. Once again, for the reasons already discussed in previous quarterly reports, none of the portfolio businesses managed in this segment succeeded in meeting expectations. Although the segment's largest company, PCC Consumer Products Kosmet Sp. z o.o. ("PCC CP Kosmet"), Brzeg Dolny (Poland), again won a number of relatively minor contracts tendered by customers in Poland in the fourth quarter, overall sales remained below the levels envisaged. In addition, negotiations with potential Chinese customers had to be extended to beyond the turn of the year, with tangible orders not expected until after the Chinese New Year celebrations at the end of the first quarter of 2018. The redesign of the own brands of PCC CP Kosmet continued in the fourth quarter and should soon be completed. The matches factory PCC Consumer Products Czechowice Sp. z o.o., Czechowice-Dziedzice (Poland), decided in the fourth quarter to expand its product portfolio to include the production of wooden boxes, e.g. for the storage of fruit and vegetables. With financial support from PCC SE, the machinery required for this was purchased and put into operation at the beginning of 2018. Over the long term, these various measures should lead to a sustained improvement in the business situation of the Consumer Products segment.

Energy

The Energy division of the PCC Group was able to increase revenue in the fourth quarter with net external sales rising to 3.1 million euros. Although remaining below expectations, the earnings result reflected positive developments overall. The main contributor to sales and earnings in the fourth quarter was again the Conventional Energies business unit with the cogeneration plant (and the corresponding business unit) of PCC Rokita SA, and the electricity and heat utility PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle. The losses in the Renewable Energies business unit, resulting among other things from the unfavorable hydrology encountered in 2017 and the delay in the construction of the fifth power plant in the Republic of Macedonia, were more than offset by the

Key financials by segment (per IFRS)		Consumer Products			Energy			Logistics			PCC Group total		
		Q4/2017	2017	2016	Q4/2017	2017	2016	Q4/2017	2017	2016	Q4/2017	2017	2016
Sales[1]	€ m	5.3	21.8	24.1	3.1	11.8	11.3	20.4	75.2	65.5	177.4	685.0	568.9
EBITDA[2]	€ m	−1.2	−3.7	−2.4	1.8	7.2	9.8	2.2	7.8	5.6	25.0	73.9	76.4
EBIT[3]	€ m	−1.5	−5.2	−4.0	1.0	3.3	7.1	1.2	3.4	1.6	17.0	41.9	48.2
EBT[4]	€ m	−1.8	−6.5	−5.0	0.8	2.9	6.7	0.6	0.3	1.9	13.2	14.2	24.6
Employees	(at Dec. 31)	524	524	476	187	187	183	465	465	410	3,368	3,368	3,032

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Logistics

Sales and earnings in the Logistics division continued to develop positively in the fourth quarter. Quarterly sales once again exceeded the 20 million euro mark. With external sales of 75.2 million euros, total revenue as of December 31, 2017 was only just below expectations. On the earnings side, the turnaround to a positive EBT figure was achieved by the end of the year. PCC Intermodal S.A., Gdynia (Poland), again made the largest contribution to this positive development. The performance of this portfolio company has shown a clear upward trend since the third quarter, which gratifyingly has continued beyond the fourth quarter of 2017. In particular, the operating rate of the service route from the ports of Rotterdam and Antwerp via Germany to Poland and vice versa showed a steady and sustainable increase – with correspondingly positive effects on the sales and earnings of PCC Intermodal S.A. A further expansion in capacity along this route is therefore already in the pipeline for 2018. Due to the still robust Russian economy and the associated increase in wagon tariffs, earnings at our Russian subsidiary ZAO PCC Rail, Moscow, continued to develop positively with improvements significantly above expectations at the operating profit level. As planned, ZAO PCC Rail was therefore able to make further repayments in the course of the year of the investment loans made available to it by PCC SE for the purchase of its own wagons. In addition, an unscheduled repayment was made in December 2017. Due to a further slight recovery in the Russian ruble against the euro, some of the exchange rate losses recorded in previous months as a result of devaluation of the euro loans granted by PCC SE were recovered in the fourth quarter. Nevertheless, ZAO PCC Rail's EBT remained negative as of year-end. This was, however, more than offset by the positive results of the tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny (Poland), and of the Intermodal Transport business unit.

Holding/Projects

The results of the Holding / Projects division remained well in the black at the pre-tax level as of the end of the fourth quarter of 2017. A major portion of these earnings (12.5 million euros) was again attributable to the individual financial statements of PCC SE, having resulted from the receipt of dividends from its affiliated companies in the first half of 2017. However, this dividend effect is eliminated at Group level. In addition to PCC SE, the two project companies PCC BakkiSilicon hf, Húsavík (Iceland), and DME Aerosol, Pervomaysky (Russia), are also managed within the Holding/Projects division. The division also manages 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). To date, all these entities have either made no or only marginal contributions to Group sales and earnings.

Commissioning of silicon metal plant in Iceland now imminent

The commissioning of our silicon metal production plant in Iceland has been scheduled for the end of March/beginning of April 2018. With plant constructor SMS group GmbH providing active assistance, individual components of the two arc furnaces were cold tested some time ago. Work on the material feed system and the dust control facility is still being carried out in awareness of their huge importance for the reliable operation of the overall plant, and only when this is completed will the hot commissioning phase commence with the initial ramp-up of the smelting furnaces.

PCC Rokita SA once again listed in the sustainability index of the Warsaw Stock Exchange

December 2017 marked the second successive year that PCC Rokita SA has been included in the RESPECT sustainability index of the Warsaw Stock Exchange (GBW). This, our largest subsidiary, is one of only two chemical companies recognized by the GBW as operating with sufficient sustainability to warrant inclusion in this index. The listing includes just 28 of the almost 500 corporations quoted on the main market of the Warsaw Stock Exchange.

Start-up companies established for the further development of products in the Specialty Chemicals segment

We intend in future to further strengthen the focus of our portfolio on higher-value niche products within the Specialty Chemicals segment. To this end, two companies – PCC Specialties GmbH and PolyU GmbH – were established in the fourth quarter of 2017 to further develop products for customer-specific applications. Both start-ups are wholly owned subsidiaries of PCC SE and will commence operations in Germany in the course of 2018.

Redemption of bond at maturity and repayment of profit participation certificate

On December 1, 2017, the 3.50% bond ISIN DE000A162AN1 issued by PCC in 2015 was redeemed at maturity with a payment of approximately 14.5 million euros. In addition, the bearer profit participation certificate ISIN DE000A0MZC31, which PCC issued in 2007, was repaid as of January 1, 2018 with a volume of approximately 11.0 million euros.

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