PCC Group
Quarterly Report 4/2018

25 YEARS PCC Established 1993

- PCC posts consolidated sales for fiscal 2018 of € 781.3 million, an increase of 14.4 % over the previous year
- EBITDA up year on year by 33.8 % to € 98.8 million
- Successful commissioning of our DME plant in Russia
- Planned final acceptance of our silicon metal plant in Iceland
- Redemption of maturing bond

The successful commissioning of the production plant for high-purity aerosol-grade dimethyl ether (DME) of our Russian joint venture DME Aerosol, Pervomaysky (Tula region), took place in December 2018. The annual capacity is around 20,000 metric tons of DME, used in this grade as an odorless and environmentally compatible propellant.

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Overall Business Development

The majority of the affiliates of PCC SE continued to generate positive sales and earnings through the fourth quarter of 2018. Group revenues remained high at €190.6 million, although falling short of the "record" level of the previous quarter (€203.3 million). Overall, the PCC Group realized consolidated sales of €781.3 million in 2018. Compared to the prior-year figure (€683.2 million), this represents an improvement of 14.4 %. The main reasons for this lay in increased sales volumes coupled with a continuation of the predominantly high level of commodity prices. In particular, the Chlorine, Surfactants and Specialty Chemicals segments (including Commodity Trading), together with the Intermodal Transport business unit, contributed significantly to this sales growth. External sales in all these business areas exceeded our expectations for the past fiscal year. This extensively compensated out the revenue shortfall of around €57 million from the Silicon Metal business unit that arose in 2018. Although PCC BakkiSilicon hf, Húsavík (Iceland), was already producing and selling silicon metal in 2018, the corresponding revenues could not be added to Group sales for the period, since we had not yet officially taken the plant on stream for regular operations (see also page 4). On the earnings side, the fourth quarter was again successful for the majority of PCC SE's affiliates. Group earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA) improved by €21.2 million to a total of €98.8 million as of December 31, 2018. Compared to the prior-year figure (€73.8 million), this represents an increase of 33.8 %. Earnings before taxes (EBT) rose by €10.6 million in Q4 to €40.1 million as of year-end. The corresponding figure for the previous year of €13.6 million was thus almost tripled.

The above disclosures represent preliminary figures for the consolidated financial statements. The final, audited financial data will be published on our websites www.pcc-financialdata.eu / www.pcc-finanzinformationen.eu in the second quarter of 2019 once the consolidated financial statements have been approved and certified.

Segment Performance

The Chemicals division of the PCC Group with its five segments Polyols, Surfactants, Chlorine, Specialty Chemicals and Consumer Products posted total sales of €161.4 million in the fourth quarter of 2018. As of year-end, divisional sales thus amounted to €670.6 million. Compared to the prior-year period (€587.9 million), this represents an increase of 14.1 %. Due in part to higher sales volumes and, for example, the persistently high price level for the chlorine by-product caustic soda, divisional sales for 2018 were also higher than expected. On the earnings side, too, the corresponding figures for the previous year and our expectations for 2018 were again both significantly exceeded. All segments – with the exception of Consumer Products – made a generally positive contribution to this achievement in the fiscal year.

Polyols

Sales and earnings in the Polyols segment remained under pressure in the fourth quarter of 2018. The current oversupply of polyether polyols in Asia and persistently weak demand for polyols for the production of flexible foam for mattresses continued to have a negative impact on the sales volumes and revenues of the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland). This was exacerbated in the fourth quarter by supply bottlenecks for the raw material ethylene oxide, resulting from production stoppages at several suppliers. Conversely, declining prices for propylene and thus also for the secondary product propylene oxide, another key raw material for the production of polyols, had a positive effect on earnings. In this difficult market environment, the Polyols business unit continued to focus its strategy on maximizing volume sales and, in particular, on the continued further development of specialty products. As a result, the Polyols business unit was able to continue in successfully countering the challenges of the market, closing both the fourth quarter and full fiscal 2018 in positive earnings territory overall. In the fourth quarter, the Polyester Polyols unit again recorded an encouraging increase in sales. Overall, however, sales and earnings development in this business unit, as in the two system houses, were still less than satisfactory in 2018. The latter also applies to the portfolio entities managed under the intermediate holding company PCC Insulations GmbH, Duisburg (Germany), which are active in the field of thermal insulation panels.

Surfactants

The Surfactants segment saw its positive business trend continue through the fourth quarter of 2018 – and this, encouragingly, despite the difficult conditions caused by the aforementioned supply shortages in respect of the important raw material ethylene oxide. Several producers, including the main supplier to PCC Exol SA, Brzeg Dolny, implemented scheduled plant shutdowns in the fourth quarter, with some lasting even longer than expected. Nevertheless, PCC Exol SA registered exceptional success again in the fourth quarter and closed fiscal 2018 with a very good set of figures overall. The reporting year saw it achieve the highest sales volume in its history, with revenues and earnings also coming in significantly higher than in the previous year. The other portfolio companies man-

Key financials by segment [1]	(per IFRS)	Polyols			Surfactants			Chlorine			Specialty Chemicals		
		Q4/2018	2018	2017	Q4/2018	2018	2017	Q4/2018	2018	2017	Q4/2018	2018	2017
Sales [2]	€ m	34.8	146.8	145.4	26.4	124.5	120.5	43.6	157.1	100.9	51.6	220.8	199.3
EBITDA [3]	€ m	−0.3	5.4	15.6	2.1	10.2	9.9	19.1	66.7	32.0	1.7	9.6	8.4
EBIT [4]	€ m	−1.1	2.9	14.0	1.5	8.0	7.5	15.9	54.0	21.7	0.9	6.5	5.1
EBT [5]	€ m	−1.4	1.8	12.4	0.8	5.8	5.0	14.1	47.1	20.5	1.0	5.7	3.3
Employees	(at Dec. 31)	254	254	242	291	291	279	384	384	409	386	386	360

Notes: Rounding differences possible. Fiscal 2018 figures taken from provisional consolidated financial statements and therefore currently unaudited. Quarterly 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 aged in this segment likewise made positive contributions to earnings.

Chlorine

The Chlorine segment again performed well in the fourth quarter of 2018. Sales volumes and revenues of the Chlorine business unit of PCC Rokita SA remained at a high level and continued to be driven by market demand for the chlorine derivative, sodium hydroxide monohydrate (caustic soda solution), as described in the previous quarterly report. The prices for this product remained at a high level. The aforementioned business unit therefore continued to pursue its strategy in the fourth quarter of increasing the production of sodium hydroxide monohydrate (H_3NaO_2) at the expense of standard caustic soda (NaOH), with a correspondingly positive effect on earnings ensuing. The MCAA (monochloroacetic acid) business unit also posted another positive performance in the fourth quarter of 2018. Aside from continuing good volume sales and revenue figures, improvements particularly in input factors relating to the use of raw materials in production also had a positive impact. PCC MCAA Sp. z o.o., Brzeg Dolny, was therefore able to once again increase its EBITDA in the fourth quarter. Overall, it thus also ended fiscal 2018 better than expected at the EBITDA level, with earnings significantly higher year on year. The Chlorine segment was the PCC Group's main earnings contributor both in the fourth quarter and for fiscal 2018 as a whole.

Specialty Chemicals

The Specialty Chemicals segment also closed the fourth quarter of 2018 in profit, with results coming in better than expected. Taking all business units into account, segment sales increased by €51.6 million to €220.8 million as of December 31, 2018. This exceeds the corresponding prior-year figure by 10.8 %. The main contributor remained the sales performance of the Commodity Trading business. Although the prices for crude benzene, one of the main trading products of PCC Trade & Services GmbH, Duisburg, fell drastically in the course of the fourth quarter due to a temporary oversupply of the downstream product, pure benzene, this was more than compensated for by sales of coke and anthracite, which continued to exceed our expectations. As a result, this affiliate also closed Q4, 2018 clearly in profit. Revenues and earnings for the past fiscal year likewise came in better than expected overall. This also applies to the Russian port company AO Novobalt Terminal, Kaliningrad, which continued to benefit in the fourth quarter from high transshipment figures for coke and anthracite in serving both its parent company, PCC Trade & Services GmbH, and a Russian third-party customer. By contrast, the trading business of the Czech company PCC Morava-Chem s.r.o., Český Těšín, stagnated in the fourth quarter. For full fiscal 2018, however, this affiliate also exceeded our expectations in terms of both sales and earnings.

The Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA, which is also part of the Specialty Chemicals segment, continued to benefit in the fourth quarter from increased demand for phosphorus-based flame retardants. Sales volumes of other phosphorus and naphthalene derivatives also rose in 2018, with correspondingly positive effects on revenues and earnings. As a result, the aforementioned business unit likewise ended the fourth quarter and 2018 as a whole in positive territory and up from the prior year. Developments at the alkylphenols producer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), were similar. PCC Silicium S.A., Zagórze (Poland), also continued to perform well in the fourth quarter of the year: 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 further consignment of quartzite for Iceland was delivered in December. Ultimately, this affiliate was therefore able to achieve a turnaround, posting a slightly positive earnings result as of the end of the year.

Consumer Products

The PCC Consumer Products subgroup continued to post losses in the fourth quarter of 2018. None of the portfolio companies managed in this segment were able to meet their sales and earnings targets either for the fourth quarter or for full fiscal 2018. The month of December was particularly weak due to the holiday period. Meanwhile, the downsizing and rationalization measures taken at PCC Consumer Products Kosmet Sp. z o.o. (PCC CP Kosmet), Brzeg Dolny, the largest company in this segment, are slowly starting to take effect. Nevertheless, this will only be gradually reflected in the sales and earnings of PCC CP Kosmet in the coming months. And the first measurable successes from the market launch of the newly designed own brands of PCC CP Kosmet, on which this affiliate is to focus in future, can only be expected in the medium term. According to PCC SE estimates, this will take at least three years. At the matches factory PCC Consumer Products Czechowice, Czechowice-Dziedzice (Poland), a number of smaller investments have also been initiated in coordination with PCC SE, which should lead to increased efficiency in the production of firelighters and long matches in the course of the new fiscal year. These measures should also contribute to earnings improvements in the Consumer Products segment in the course of 2019.

Key financials by segment [1] (per IFRS)	Consumer Products			Energy			Logistics			PCC Group total		
	Q4/2018	2018	2017	**Q4/2018**	2018	2017	**Q4/2018**	2018	2017	**Q4/2018**	2018	2017
Sales [2] € m	**4.9**	21.3	21.8	**3.1**	12.3	11.8	**23.7**	88.6	75.2	**190.6**	781.3	683.2
EBITDA [3] € m	**−1.6**	−5.3	−3.7	**1.5**	4.3	7.2	**3.0**	10.8	7.7	**21.2**	98.8	73.8
EBIT [4] € m	**−1.9**	−6.7	−5.2	**0.6**	1.1	3.3	**1.9**	6.5	3.3	**12.0**	63.9	41.0
EBT [5] € m	**−2.3**	−8.3	−6.5	**0.4**	0.6	2.9	**0.9**	2.1	0.3	**10.6**	40.1	13.6
Employees (at Dec. 31)	**446**	446	537	**180**	180	186	**509**	509	465	**3,480**	3,480	3,389

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Energy

The Energy division of the PCC Group generated net external quarterly sales of €3.1 million in the fourth quarter of 2018. Divisional sales thus amounted to €12.3 million for the fiscal year as a whole. The main contributions to sales and earnings continued to come from the Conventional Energies business unit with PCC Rokita SA's combined heat and power plant (and the corresponding business unit) and the electricity and heat utility PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle (Poland). The Renewable Energies business unit also posted positive results for both the fourth quarter and full fiscal 2018.

Logistics

At €23.7 million in the fourth quarter, the Logistics division once again slightly exceeded its highest quarterly revenue figure of 2018 (€23.4 million in Q3) with a further increase in sales. As of year-end, total divisional sales for the year thus amounted to €88.6 million. Compared to fiscal 2017 (€75.2 million), this represents an increase of 17.8 %. By far the largest share of this revenue growth was again generated by PCC Intermodal S.A., Gdynia (Poland). The fourth quarter saw this affiliate further benefit from increased train operating rates, with the inner-Polish services and the German corridor showing particular improvements. However, problems were caused in some cases by the slow recycling of empty containers, especially by the Polish ports of Gdańsk and Gdynia. In addition, the operation of container trains from China was interrupted at least temporarily for reasons of profitability. Nevertheless, PCC Intermodal S.A. was able to significantly increase its transport volumes compared to the previous year and thus close both the fourth quarter and full fiscal 2018 with a successful set of financials: It substantially exceeded both the corresponding prior-year figures and our revenue and earnings expectations for 2018.

The tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, also closed the fourth quarter and, with this, full fiscal 2018 with positive results essentially in line with our expectations. At the Russian affiliate ZAO PCC Rail, Moscow, sales and earnings continued to develop satisfactorily in Q4, with an improvement year on year. As a result, ZAO PCC Rail was able to further stabilize its cash flows and make another partial repayment at the end of the year on the investment loan made available to it by PCC SE for the purchase of its wagons. At €1.0 million, this partial repayment was also significantly higher than originally budgeted.

Holding / Projects

Earnings in the Holding/Projects division declined in the fourth quarter, but remained positive overall as of year-end. The earnings of PCC SE (per its individual financial statements) also continued to ease in line with our expectations in the fourth quarter, while remaining clearly positive as of the end of the year 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 (Germany), are managed within the Holding/Projects division. All these entities continued to make no or only marginal contributions to Group sales and earnings in the fourth quarter. 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) was commissioned in December 2018. Further details on this and on the second major project company in this segment, PCC BakkiSilicon hf, can be found in the following sections of this quarterly report.

Successful commissioning of our DME plant in Russia

As anticipated in the previous quarterly report, the commissioning of our new 20,000 metric ton plant for the production of high-purity aerosol-grade dimethyl ether (DME) in Russia's Tula region commenced at the beginning of December 2018. The work was then quickly and successfully completed just before the holiday period. Indeed, the plant was already operating stably and producing DME of the required quality by December 17. The aim of this investment is to develop the Eastern European market for DME.

Planned final acceptance of our silicon metal plant in Iceland

As already mentioned on page 2, we have not yet been able to take our new silicon metal plant in Iceland on stream for regular operations. Due to the extreme nature, even for northern Iceland, of the prevailing weather, it was not possible to maintain continuous production with the two arc furnaces in the course of this winter. Difficulties also arose, inter alia, in the supply of raw materials and in the sorting and packing of finished products. In collaboration with the plant constructor, our operating team is working hard on finding a sustainable solution so as to quickly enable final acceptance and the associated official turnkey handover of the plant.

Redemption of maturing bond

The 6.50 % bond ISIN DE000A13R5K3 issued by PCC SE in October 2014 was redeemed at maturity on January 1, 2019. The redemption amount was around €13.8 million.

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