PCC Group Quarterly Report 3/2016

- PCC raises EBITDA by €14.8 million to €44.3 million per September 30, 2016
- Silicon metal plant construction project in Iceland proceeding to schedule
- Joint venture in Russia receives building approval for DME production plant
- Termination of profit participation certificates announced for December 31, 2017
- Redemption of maturing bonds

Northern Lights above our construction site near Húsavík in the north of Iceland. Here, PCC BakkiSilicon hf is in the process of constructing one of the most advanced and also most environmentally friendly silicon metal plants in the world, due for completion in 2018. On the left in the photo is the already finished coal storage facility (see also page 4).

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Business Development

Following a temporary downturn during the summer vacation period, business performance in the PCC Group regained traction in the course of the third quarter. Consolidated sales rose by € 138.5 million to € 420.3 million per September 30, 2016. However, this once again represents a decrease compared to the corresponding prior-year figure of € 436.9 million and also with respect to our sales expectations for this period. The main causes for this were the persistently weak Polish zloty and still low commodity price levels. However, on the purchasing side, our portfolio companies continued to benefit at least partially from this situation. In addition, positive effects on earnings development once again accrued from the increased focus on higher-quality products, while the modernisation and expansion investments now completed in some segments generated further efficiencies. Consequently, the majority of our portfolio companies again ended the third quarter with a positive result.

Consolidated earnings before interest (or financial result), taxes, depreciation and amortisation (EBITDA) improved year on year by €14.8 million to €+44.3 million per September 2016, thus meeting our expectations. The corresponding prior-year figure of €+37.2 million was actually exceeded by 19%. Earnings before taxes (EBT) increased by €2.0 million to €+5.6 million (previous year €+3.4 million), and as such came in higher than expected.

The Chemicals division of the PCC Group generated sales of €118.4 million in the third quarter of 2016. As of September 30, divisional net external sales thus rose to €359.1 million, although business development in the individual segments was mixed:

Polyols

The Polyols segment closed the third quarter with another successful performance overall, although quarterly sales were once again below expectations. Aside from the aforementioned reasons, further causes included delays in planned investments (including the late delivery of production machines ordered for our Essen site). Beyond this, the purchase prices registered for certain raw materials trended upward with increases that could not be passed on immediately on the selling side. Consequently, the segment was unable in the period under review to quite repeat the solid earnings level of the second quarter, although its performance, led by the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), continued to exceed expectations. Gratifyingly, the insulation systems business was able in the third quarter to book its first order for thermal insulation panels for the Bulgarian market. Until then, these systems had been sold exclusively in Poland and the Czech Republic. Other regions are expected to follow in the future.

Surfactants

The positive business performance of the Surfactants segment of previous periods likewise continued through the third quarter of 2016. Although here, too, sales came in below our expectations, on the earnings side PCC Exol SA, Brzeg Dolny, was again able to exceed expectations – despite increasing purchase prices for fatty alcohols. The US-American subsidiary of PCC Exol SA, PCC Chemax, Inc., Piedmont (South Carolina), also ended the third quarter with a positive earnings figure. However, due to the persistently difficult situation in the crude oil market, this business continued to perform below expectations.

Chlorine

The Chlorine segment continued its successful upward momentum in the third quarter. The main reason for this lay in the persistently strong performance of the Chlorine business unit of PCC Rokita SA. The greatly improved energy efficiency of the new chlor-alkali electrolysis process continued to generate efficiencies, while the favourable purchase prices for raw materials still prevailing (e.g. for the benzene used in the manufacture of monochlorobenzene) also made a positive contribution. On the selling side, moreover, this business unit continued to benefit from the comparatively high price levels for caustic soda (also known as sodium hydroxide), a major by-product of the chlorine manufacturing process. This effect was additionally boosted by temporary production interruptions suffered by a local competitor.

As regards the commissioning of the production plant for ultra-pure monochloroacetic acid (MCAA), which is also managed within the Chlorine segment, the third quarter initially saw the occurrence of further delays. Among other things, various leakages had to be rectified, and damaged components of the catalyst replaced. In the meantime, however, the first quantities of MCAA have now been shipped out.

Speciality Chemicals

Performance at the Speciality Chemicals segment in the third quarter fell short of our overall expectations. Although the alkylphenol manufacturer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), reported a continuation of its positive business development, its performance showed a decline compared to preceding quarters. This is due among other things to the fact that dodecylphenol is being increasingly replaced

Key financials by segment (per IFRS)		Polyols			Surfactants			Chlorine			Speciality Chemicals		
		Q3/2016	9M/2016	9M/2015	Q3/2016	9M/2016	9M/2015	Q3/2016	9M/2016	9M/2015	Q3/2016	9M/2016	9M/2015
Sales[1]	€ m	31.5	93.2	104.7	26.9	77.1	76.9	16.4	54.0	40.7	37.8	116.5	128.7
EBITDA[2]	€ m	2.6	9.3	11.0	2.5	8.1	6.8	4.3	13.8	2.3	1.0	3.5	5.0
EBIT[3]	€ m	2.2	8.3	10.0	1.9	6.4	5.2	2.6	9.1	−1.3	0.2	1.2	2.4
EBT[4]	€ m	2.0	8.0	9.7	1.3	5.1	3.3	2.2	6.6	−1.6	−0.4	−0.2	1.5
Employees	(at Sept. 30)	200	200	167	258	258	255	346	346	323	355	355	368

Notes: Rounding differences possible. Quarterly and nine-month figures unaudited. Subject to change without notice. | **1** The sales indicated relate exclusively to net external sales. Intra-group sales have already been eliminated through consolidation. | **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 in certain applications by alternative products, putting its selling prices under pressure. However, on the purchasing side, PCC Synteza S.A. was still able to profit from favourable prices for input products such as oligomers. Overall therefore, this portfolio company likewise posted a positive quarterly earnings result within expectations as of the end of September. The Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA, on the other hand, was again unable to fulfil our expectations in the third quarter due to persistently strong competitive pressures coming out of China and Russia.

The two commodity trading companies of the PCC Group, PCC Trade & Services GmbH, Duisburg (Germany) and PCC Morava-Chem s.r.o., Český Těšín (Czech Republic), again posted positive business results in the third quarter. Due to persisting low commodity price levels, however, both sales and earnings remained below our expectations, particularly in the case of PCC Trade & Services GmbH.

As regards the quartzite quarry of PCC Silicium S.A., Zagórze (Poland), the third quarter saw the investment programme for the silicon metal project of PCC SE (see page 4) continue to progress with financial support from the holding company. As expected, the previous base-load business of PCC Silicium S.A., namely the sale of aggregates for the construction of roads and railways, continued to operate at a deficit in the third quarter. The new management of this portfolio company has therefore now stepped up its search for alternative sales opportunities for the "lower-quality" quartzite grades and also for the quartz sand that occurs as an excavation by-product. Among other things, for example, use of the sand by horticultural businesses and garden landscapers in Poland and other countries is being investigated. Gratifyingly, a sample consignment to a manufacturer of refractory materials in the Czech Republic has already been agreed.

Consumer Products

The "PCC Consumer Products" subgroup continued to trade at a loss in the third quarter. The reasons for this were as described in the preceding quarterly report, with the deficit once again being attributable primarily to PCC Consumer Products Kosmet Sp. z o.o., Brzeg Dolny. With the award of the GMP certificate (Good Manufacturing Practice), this portfolio company was, however, at least able in the third quarter to pass a further milestone in achieving its eventual turnaround. The certificate verifies compliance with guidelines on quality assurance in production and on environmental aspects applicable to the manufacture of pharmaceuticals, cosmetics and food and feed products. As a result of this, negotiations with respect to a toll manufacturing agreement are now underway with a renowned brands manufacturer of laundry and home care products. In addition, a first order has been booked for the contract bottling of liquid detergents.

The other portfolio companies that make up this subgroup – OOO PCC Consumer Products Navigator, Grodno (Belarus), and the matches factory PCC Consumer Products Czechowice S.A., Czechowice-Dziedzice (Poland), again remained below our expectations in the third quarter. The Belarusian affiliate was, however, able to at least marginally improve its results thanks to increasing sales figures.

Energy

The Energy division of the PCC Group exceeded our expectations in the third quarter. The main reason for this lay in sales and earnings above expectations in the Conventional Energies business unit comprised of the CHP power plant (and the corresponding business unit) of PCC Rokita SA and the power and heat cogenerator PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle (Poland). In the Renewable Energies business unit, on the other hand, the third quarter resulted in no more than a break-even EBITDA figure, due among other things to the unfavourable hydrology of recent months. The start of construction of the fifth small hydropower plant in the Republic of Macedonia, planned for 2016, was further delayed due to unresolved building land issues. Overall, however, this division remains of subordinate relevance for Group results.

Logistics

The Logistics division of the PCC Group generated net external sales of €16.4 million in the third quarter of 2016. As of September 30, cumulative divisional sales amounted to €48.3 million, once again coming in slightly below our expectations both for the business unit Intermodal Transport and for the other portfolio companies managed within this division. The main sales and earnings generator remained PCC Intermodal S.A., Gdynia (Poland), which posted a positive performance in the third quarter of 2016, generating an EBITDA figure as of the end of September slightly above our expectations. In achieving this, the portfolio company benefited from the consistently high level of utilisation of the route from Rotterdam to Poland and also increasing terminal handling volumes. Its internal Polish transportation operations also showed a steady improvement due to increased capacity in the relevant national ports. As a result of this expansion, the port of Hamburg has now declined in importance for transportation to Poland, which is why the frequency of trains on the route from there has been reduced. This also applies to the link to Sopron in Hungary taken

Key financials by segment	(per IFRS)	Consumer Products			Energy			Logistics			PCC Group total		
		Q3/2016	9M/2016	9M/2015	Q3/2016	9M/2016	9M/2015	Q3/2016	9M/2016	9M/2015	Q3/2016	9M/2016	9M/2015
Sales[1]	€ m	5.7	18.4	30.0	2.2	8.2	8.4	16.4	48.3	41.6	138.5	420.3	436.9
EBITDA[2]	€ m	−0.5	−1.6	0.4	1.3	5.9	5.5	1.6	4.7	3.3	14.8	44.3	37.2
EBIT[3]	€ m	−0.8	−2.3	−0.2	0.6	3.8	3.4	0.6	1.7	1.2	8.2	25.1	20.2
EBT[4]	€ m	−1.0	−3.1	−1.6	0.6	3.6	3.3	0.3	1.1	−0.9	2.0	5.6	3.4
Employees	(at Sept. 30)	485	485	570	184	184	183	401	401	354	2,994	2,994	2,952

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Holding/Projects

Due to dividends previously received, the holding company PCC SE continued to post positive earnings results as of the end of the third quarter, although these were diminished by, among other things, quarterly expenditure on interest. Project development costs also continued to burden results. Progress in construction of the silicon metal production plant of PCC SE'S biggest project company, PCC BakkiSilicon hf, Húsavík (Iceland), is dealt with in detail below. The same applies to the dimethyl ether project in Russia under the responsibility of OOO DME Aerosol, Pervomaysky (Russia), a joint venture with a long-standing Russian partner. Also managed within the Holding/Projects segment is, for example, the entity distripark.com sp. z o.o., Brzeg Dolny. The internet platform of this portfolio company currently under development is to be used to sell products of the PCC Group – and also, later on, products of other suppliers – directly to small-volume purchasers (predominantly B2B). The aforementioned entities and also the internal service companies that likewise fall under the responsibility of the Holding/Projects segment have so far made no or only marginal contributions to the Group's sales and earnings.

Silicon metal plant construction project in Iceland proceeding to schedule

The project company PCC BakkiSilicon hf is continuing to drive forward the construction of our silicon metal plant in the north of Iceland, keeping it on schedule and within budget. The 3,600 m² coal storage facility on the topmost terrace of the construction site was completed in September 2016. At the same time, work was begun on the structural steelwork for the electric arc furnace building (see webcam at www.pcc.eu/webcam).

Development of the industrial park, the nucleus of which is provided by our plant, is also going to plan. Work has likewise now begun on the lining of the tunnel that will link our site to the port of Húsavík. The final phase of blasting took place at the end of August 2016, enabling breakthrough at the northern portal of the tunnel.

Following objections raised by a local environmental organisation against the construction of the high-tension electricity transmission line providing power to our site, the environmental commission responsible merely criticised certain formal irregularities in a few building approvals. These have now been corrected. As a result, provision of the mains power connection and also construction of the nearby geothermic power plant are likewise proceeding to schedule.

Joint venture in Russia receives building approval for DME production plant

Our DME project in Russia has now been given the green light to initiate the construction phase. As already reported, we plan to build a plant for the manufacture of dimethyl ether (DME) of aerosol quality together with the chemicals company JSC Shchekinoazot at a facility some 180 kilometres south of Moscow in the Tula region. DME is primarily used in the cosmetics industry as a propellant in, for example, hairsprays, and also for the production of construction-grade polyurethane foam.

Our Joint venture, OOO DME Aerosol, received the corresponding building approval at the end of June 2016. The building land has been under preparation since July. Depending on the weather conditions, the foundation work will start either this year or, at the latest, by March 2017.

Termination of profit participation certificates announced for December 31, 2017

PCC SE intends to redeem the PCC bearer participation certificates issued in 2007 (WKN A0MZC3) by way of ordinary termination effective December 31, 2017, in compliance with Section 5 of the associated terms and conditions, with repayment of 100% of the face value due as from January 2, 2018.

Redemption of maturing bonds

On July 1, 2016, PCC SE paid €13.1 million to redeem the maturing 7.25% bond WKN A1PGNR issued in 2012. On October 1, 2016, a payment of €9.18 million was effected for redemption of the 4.25% bond WKN A12T7C issued in 2014, as were the final instalments of €0.07 million for the 6.50% amortisable bond WKN A1EWRT from 2011 and €0.34 million for the 6.50% amortisable bond WKN A1EWB6 from 2010.

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