PCC Group Quarterly Report 2/2016

- PCC Group raises EBITDA to € 29.5 million per June 30, 2016
- Construction of silicon metal plant in Iceland still proceeding to plan
- PCC Intermodal inaugurates Gliwice terminal / New service to Hungary
- Redemption of due bond
- Annual Report 2015 available

Since 2015, PCC Rokita SA has been exclusively utilising environmentally friendly and energy-efficient membrane technology for its chlorine production. Shown here is a plant unit of the electrolysis facility for the concentration of the caustic soda produced at the PCC Chemicals site in Brzeg Dolny (Poland).

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Business Development

The positive business development of the majority of the portfolio companies of the PCC Group continued through the second quarter. Compared to the prior-year quarter, consolidated sales increased by €6.7 million to €144.3 million, while sales of the PCC Group for the first half year amounted to €281.9 million (previous year: €285.3 million). However, this means that revenue was once again below plan, essentially due – as has previously been the case – to low commodity price levels and the weak Polish zloty. Conversely, on the purchasing side our portfolio companies were able to continue to benefit from this situation. Positive effects also resulted from the modernisation and expansion investments now completed in certain segments and business units. Earnings before interest (or financial result), taxes, depreciation and amortisation (EBITDA) rose in the second quarter by €14.5 million to €+29.5 million as per June 30, 2016. Compared to the corresponding prior-year figure of €+24.4 million, this represents an increase of 20.9 %. In making this comparison, it must be remembered that the quarterly figures of the previous year included the gain generated from disposal of our telecommunications activities. By contrast, 2016 does not contain any such exceptional items. Earnings before taxes (EBT) came in at €1.4 million for the quarter, thus accumulating per June 30, 2016 to €+3.6 million (previous year: €+4.0 million). Although earnings were overall weaker than in the first quarter of 2016, both EBITDA and EBT remained above plan as of the end of the first half year.

The Chemicals division of the PCC Group generated sales of €123.1 million in the second quarter of 2016. As of the end of the first half year, divisional net external sales therefore rose to €240.7 million. The segments Polyols, Surfactants and Chlorine once again had a successful second quarter, while Speciality Chemicals and the "PCC Consumer Products" subgroup were unable to reach their quarterly targets.

Polyols

The Polyols segment continued along its successful path in the second quarter. Although persistently low commodity prices and the weak Polish zloty meant that quarterly sales were once again below expectation, the low price levels prevailing had a disproportionately positive effect on the purchasing side. As before, the segment's positive results were largely due to the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland). The Polyurethane Systems business

Tank farm for polyols at PCC Rokita SA in Brzeg Dolny

unit once again recorded a slight quarterly deficit. However, from the middle of the quarter, sales of insulating foams increased significantly due to seasonal effects. With the production facilities in Essen (Germany) due for completion in the next quarter and with commissioning of further production lines at the Brzeg Dolny site, we do, however, expect to see additional growth in this segment.

Surfactants

The overall positive business performance of the Surfactants segment likewise continued through the second quarter of 2016. While sales here also fell short of the forecast levels, on the earnings side PCC Exol SA, Brzeg Dolny, at least was able to exceed our expectations. Among the reasons for this positive development are persistently favourable purchasing prices for ethylene oxide and fatty alcohols. The increased share of higher-quality products within the portfolio of PCC Exol SA also continues to pay dividends. Meanwhile, PCC Exol SA's US subsidiary, PCC Chemax, Inc., Piedmont (South Carolina), which focuses primarily on the supply of oilfield chemicals, continued to suffer during the second quarter from the difficult situation prevailing in the crude oil market. So far, its "march" into alternative market segments has progressed more slowly than planned. Nevertheless, PCC Chemax, Inc. also ended the second quarter with an overall positive earnings result.

Chlorine

The Chlorine segment again posted a strong performance in the second quarter. The main reason for this was the continuing positive development of the Chlorine business unit of PCC Rokita SA. This resulted firstly from the relatively high price levels prevailing for caustic soda (also known as sodium hydroxide), a major by-product of the chlorine manufacturing process. Secondly, the business unit also continued to benefit from favourable purchase prices for, among others, benzene, with the greatly improved energy efficiency of the new chlor-alkali electrolysis process coupled with further decreases in electricity prices as further contributory factors. Consequently, the Chlorine segment ended the second quarter once again significantly above expectation. This is all the more gratifying given the fact that, as a result of a lightning strike, the production of monochlorobenzene within the business unit has, since May, been substantially hampered. The damage which resulted is, however, covered

Key financials by segment (per IFRS)		Polyols			Surfactants			Chlorine			Speciality Chemicals		
		Q2/2016	6M/2016	6M/2015	Q2/2016	6M/2016	6M/2015	Q2/2016	6M/2016	6M/2015	Q2/2016	6M/2016	6M/2015
Sales[1]	€ m	30.4	61.7	69.6	24.9	50.1	49.9	18.5	37.6	24.2	43.4	78.7	85.3
EBITDA[2]	€ m	2.9	6.7	8.4	2.9	5.6	4.3	4.4	9.5	−1.0	1.3	2.5	3.4
EBIT[3]	€ m	2.6	6.0	7.7	2.4	4.5	3.2	2.9	6.5	−3.3	0.6	0.9	1.7
EBT[4]	€ m	2.8	6.1	7.4	2.3	3.8	1.8	1.2	4.4	−3.2	0.2	0.3	1.1
Employees	(at June 30)	194	194	150	260	260	252	352	352	294	355	355	373

Notes: Rounding differences possible. Quarterly and half-year figures unaudited. Subject to change without notice | **1** The segment sales indicated relate exclusively to 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) = EBIT - financial result by a corresponding insurance policy. The production plant for ultra-pure monochloroacetic acid (MCAA), which is also managed under the Chlorine segment, was finally completed at the end of the second quarter with installation of the previously missing plant component. Commissioning is scheduled for the third quarter.

Speciality Chemicals

Overall, performance at the Speciality Chemicals segment in the second quarter was below plan. However, developments in the individual business units varied. The alkylphenol manufacturer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), ended the second quarter better placed than expected. This portfolio company benefited in particular from the fact that the selling prices for alkylphenols – unlike the purchase prices for the feedstock materials used – have not been following the price trend on the crude oil market but rather that of the associated downstream products. Added to this, the quarter also saw the successful resolution of temporary quality problems that had arisen as a result of increased requirements imposed by a major Korean customer. By contrast, the Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA remained in the second quarter under ever-increasing competitive pressure from China and Russia and was therefore unable to avoid ending the period with a loss.

The two commodity trading companies PCC Trade & Services GmbH, Duisburg (Germany), and PCC Morava-Chem s.r.o., Český Těšín (Czech Republic), succeeded in substantially improving their performance in the second quarter, although remaining below expectation in terms of both sales – due to the low commodity price levels prevailing – and earnings. Nevertheless, both companies ended the quarter in profit. PCC Trade & Services GmbH was able to benefit in particular from increasing shipments of coke fines and also a major order for coke breeze from a Canadian purchaser. Gratifyingly, an agreement has also now been reached with this customer covering further deliveries scheduled for the second half of the year.

The quartzite quarry of PCC Silicium S.A., Zagórze (Poland), began the second quarter with an investment programme aligned to the silicon metal project of PCC SE. Among other things, an optical sorter and a scrubbing drum have been ordered for processing the quartzite needed for the smelting plant. The requisite liquid funds for these capital expenditures were provided by PCC SE. In line with expectations, the current "standard business" of PCC Silicium S.A. continued to operate at a deficit in the second quarter.

Consumer Products

The "PCC Consumer Products" subgroup again posted losses in the second quarter, predominantly attributable to PCC Consumer Products Kosmet Sp. z o.o., Brzeg Dolny (Poland). For the reasons explained in the previous quarterly report, the once biggest customer of this portfolio company has, in the meantime, further reduced its purchase quantities and no new customers offering corresponding volumes have yet been found. Consequently, production at PCC Consumer Products Kosmet was reduced to one shift in the second quarter. Redundancies have also had to be implemented. On the positive side, the audit for GMP approval (Good Manufacturing Practice, guidelines on quality assurance in production and environmental aspects applicable to the manufacture of pharmaceuticals, cosmetics and food and feed products) was successfully completed at the end of May. This represents an important milestone in turning this business around. The official awarding of this approval, indispensible for the planned sale and distribution of Kosmet products in Western Europe, is due to take place in the third quarter of 2016.

The other portfolio companies belonging to this subgroup – the Belarusian affiliate OOO PCC Consumer Products Navigator, Grodno, and the matches factory PCC Consumer Products Czechowice S.A., Czechowice-Dziedzice (Poland) – likewise continued to perform below plan. The latter affiliate was, however, at least able in the course of the second quarter of 2016 to renew its contract with its German distributor for the coming year.

Energy

The Energy division of the PCC Group largely performed as forecast in the second quarter. Net external sales amounted to €2.7 million, with the accumulated figure for the half year at €5.9 million. The main earnings generator remained the Conventional Energies business unit with its 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). Both this business unit and its Renewable Energies counterpart ended the second quarter with a positive earnings result.

Logistics

In the second quarter of 2016, the Logistics division of the PCC Group generated net external sales of €16.6 million. Effective June 30, divisional sales amounted to €31.9 million, once again slightly below our revenue target for the period. Nevertheless, earnings were generally positive and within the parameters of our expectations. The main sales and earnings gen-

Key financials by segment (per IFRS)		Consumer Products			Energy			Logistics			PCC Group total		
		Q2/2016	6M/2016	6M/2015	Q2/2016	6M/2016	6M/2015	Q2/2016	6M/2016	6M/2015	Q2/2016	6M/2016	6M/2015
Sales[1]	€ m	5.9	12.6	18.9	2.7	5.9	6.1	16.6	31.9	27.2	144.3	281.9	285.3
EBITDA[2]	€ m	−0.5	−1.1	0.2	2.3	4.5	4.0	1.6	3.1	2.0	14.5	29.5	24.4
EBIT[3]	€ m	−0.7	−1.5	−0.2	1.6	3.2	2.6	0.6	1.1	0.5	8.2	17.0	13.1
EBT[4]	€ m	−0.9	−2.2	−0.8	1.4	3.0	2.5	0.3	0.8	1.6	1.4	3.6	4.0
Employees	(at June 30)	494	494	576	181	181	183	383	383	350	2,984	2,984	2,898

Notes: Rounding differences possible. Quarterly and half-year figures unaudited. Subject to change without notice | **1** The segment sales indicated relate exclusively to 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) = EBIT - financial result erator remained PCC Intermodal S.A., Gdynia (Poland), the business performance of which is described in more detail further below. In the case of the Russian portfolio company ZAO PCC Rail, Moscow, the restructuring measures implemented in 2015 continued to exert a positive influence on EBITDA. In addition, the wagon tariffs in Russia showed a rising trend in the second quarter which has continued into Q3. This improvement is essentially due to the fact that the Russian authorities have not extended the operating permits for around 100,000 ageing wagons. This means that the value of the wagon fleet of ZAO PCC Rail should increase further going forward. The tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny (Poland), lost a total of three major customers to the competition for price reasons in the second quarter and therefore recorded a slight loss. The situation was exacerbated by negative foreign exchange effects resulting from lease contracts concluded in euro. Rising order intake in the Tank Cleaning unit should contribute to improvements in earnings in the months to come.

Holding/Projects

Due to dividends received, the holding company PCC SE completed the second quarter of 2016 with the positive earnings result expected. Aside from the holding company, this segment also includes various internal service companies and project companies that are, however, not yet making any contribution to Group sales or earnings. These include PCC BakkiSilicon hf, Húsavík (Iceland), with its silicon metal project (see right) and OOO DME Aerosol, Pervomaysky (Russia), a joint venture with a long-standing Russian partner that has been established in order to implement the jointly planned dimethyl ether project. Talks with a Russian bank on the financing of this project continued successfully in the second quarter, significantly increasing the chances of this highly promising project being taken to fruition.

Construction of silicon metal plant in Iceland still proceeding to plan

The building work on the silicon metal production plant of PCC BakkiSilicon hf in the north of Iceland continues to proceed to schedule and within budget, as has also been the case in the preceding quarters. Following erection of the steel structure supporting the 3,600 m² coal storage facility, the roof has

General view of the construction site of PCC BakkiSilicon showing, in the centre, a furnace foundation

Concrete foundation for the first furnace

also now almost been completed. Currently, the cladding panels for the side and end walls of the building are being installed. At the same time, work has begun on erection of the first of the two electric arc furnaces. Following the concrete work on the foundations, the rotary gear rim has also now been installed.

The current building work can be watched live, courtesy of a webcam, at: www.pcc.eu/Siliziummetall-Projekt-Island.

PCC Intermodal inaugurates Gliwice terminal / New service to Hungary

In the presence of around 400 guests, PCC Intermodal S.A. celebrated the opening of its expanded and upgraded container terminal in Gliwice (Poland) on June 23, 2016. As previously reported, the expansion work had already been successfully concluded at the end of 2015. The strategic significance of this combined transport terminal – today the most modern of its kind in Upper Silesia – continues to increase: PCC Intermodal S.A. has, for example, also now extended its service network southward through to Hungary. Since July 2016, a container block train has been travelling three times a week doing the round trip between the PCC terminal in Gliwice and the Sopron hub in Hungary's north-west. The new intermodal link thus now enables door-to-door deliveries extending to economic centres including those in eastern Austria, western Hungary and parts of Slovakia.

Redemption of due bond

Effective April 1, 2016, the 4.75% bond DE000A11P9V6 issued in April 2014 and representing a placed volume of around €7.3 million was redeemed on maturity as of April 1, 2016.

PCC Group Annual Report 2015 available

The 2015 annual report of the PCC Group is now available as a PDF download at www.pcc-finanzinformationen.eu (German version, posted on June 29, 2016) and www.pcc-financialdata.eu for the English version.

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