

Quarterly Report 1/2015

- PCC reports solid start in new fiscal year with EBT rising to €2.5 million
- Successful focus on speciality products at Polyols and Surfactants
- Chemicals company PCC Rokita establishes joint venture in Thailand
- Chlorine production converted to environmentally friendly technology



Polyol tank farm at PCC Rokita SA

Business Development

The overwhelming majority of the portfolio companies of the PCC Group had a successful start to fiscal 2015. Low raw material prices and the strengthening of the US dollar, the Polish zloty and the Russian ruble versus the euro were primary reasons for the positive performance posted. Although, at a total of €144 million, consolidated sales in the first quarter were €9 million below the prior-year level (€153 million) and also fell short of the Q1 budget by more than €10 million, this variation is primarily due to results generated by the commodities trading business of PCC Trade & Services GmbH, Duisburg (Germany), and is directly attributable to the significant decline in commodity prices following the precipitous fall in the price for crude oil. Conversely, on the earnings side, the various prior-year figures were exceeded, as was our budget estimate for the first quarter. Earnings before interest or financial result, taxes and depreciation/amortization (EBITDA) came in at €+8.3 million as of March 31, 2015, an increase of 5.1% above the corresponding operating earnings result of the prior-year quarter (€+7.9 million). It should be noted here that the prior-year figure has been calculated according to German generally accepted accounting regulations (Commercial Code HGB), while the figures for this year have been recognized in accordance with international financial reporting standards (IFRS). Consequently, the figures for 2015 do not contain any earnings or expenses from foreign exchange differences at the EBITDA level. According to IFRS, these are reported exclusively in financial result. After adjusting EBITDA as of March 31, 2014, for the foreign exchange effects contained therein, the current figure is slightly lower year on year. Earnings before taxes (EBT) for the first quarter amounted to €+2.5 million. In the

corresponding prior-year period, the figures here showed a loss of €-1.8 million. Gratifyingly, therefore, EBT as of March 31, 2015, was €0.6 million above budget, despite the fact that the sale of the telecommunication and data centre activities of PCC SE, envisaged for the first quarter, was slightly delayed (closing now expected in June 2015), which meant that the associated gain has not yet been recognised. While the Holding/Projects segment therefore closed the reporting period with a loss, the other businesses made a largely positive contribution to quarterly earnings, as the following breakdown of performance in the individual divisions and their segments reveals:

Taking all its product segments as a whole, the Chemicals division of the PCC Group generated sales of €126 million in the first quarter of 2015. However, performance within the individual segments of this division was once again very mixed.

Polyols

The Polyols segment continued its positive business performance of the preceding months through the first quarter of this year. Aside from increasing its focus on higher-value speciality polyols, the segment also benefited from declining raw material prices. Segment earnings at Polyurethane Systems business. Among the causes are significantly lower sales to the Polish mining industry than budgeted, payment problems among the Belarusian customers of PCC Prodex Sp. z o.o., Warsaw, and start-up losses at its German subsidiary PCC Prodex GmbH, Essen. This latter company is scheduled to commence production activities in Germany in the course of the second quarter of 2015.

Surfactants

The Surfactants segment posted a significantly stronger performance in the first quarter of 2015 than in the preceding months. Particularly at PCC Exol SA, Brzeg Dolny (Poland), the increasing share of higher-grade speciality surfactants included in the product mix had a positive effect on earnings performance. The business was also able to profit from declining raw material prices and therefore closed the first quarter of 2015 in a better financial position than expected. By contrast, business at PCC Exol SA's subsidiary PCC Chemax, Inc., Piedmont (South Carolina, USA), was rather adversely affected by the fall in crude oil prices. The sale of products for the oil-field piping sector declined significantly. Consequently, during Q1, PCC Chemax, Inc., stepped up work on the development and sale of products for alternative applications. This company likewise ended the first quarter of 2015 with a positive earnings result.

Chlorine

The performance of the Chlorine segment in Q1 was impacted by the changeover of the second chlor-alkali electrolysis facility to environmentally friendly membrane technology. Because of the four-week production standstill that resulted from this, the Chlorine business unit of PCC Rokita SA, Brzeg Dolny, (and thus the Chlorine segment as a whole) closed the first quarter with a loss, as was expected. Commissioning of the new facility means that an important milestone on the way to improving the cost-efficiency of the segment has now been passed. Production capacity has been increased, as has energy efficiency (see page 4).

Key financials by segment	Polyols			Surfactants			Chlorine			Speciality Chemicals		
	Q1/2015	3M/2015	3M/2014	Q1/2015	3M/2015	3M/2014	Q1/2015	3M/2015	3M/2014	Q1/2015	3M/2015	3M/2014
Sales ¹ € m	35.4	35.4	34.5	25.9	25.9	23.9	12.1	12.1	17.2	43.2	43.2	50.6
EBITDA ² € m	5.0	5.0	2.0	2.6	2.6	1.8	-2.0	-2.0	2.2	1.2	1.2	0.8
EBIT ³ € m	4.7	4.7	1.7	2.0	2.0	0.9	-3.2	-3.2	1.1	0.3	0.3	0.2
EBT ⁴ € m	4.3	4.3	1.6	1.1	1.1	0.2	-2.2	-2.2	1.0	0.6	0.6	-0.1
Employees (at March 31)	-	149	141	-	249	237	-	249	237	-	383	380

Notes: Rounding differences possible; Quarterly figures unaudited; Annual financial statements 2014 not yet certified | 1 The segment sales indicated here also contain sales between the individual segments which are eliminated on consolidation. | 2 EBITDA (earnings before interest, taxes, depreciation and amortisation) | 3 EBIT (earnings before interest and taxes) = EBITDA - depreciation and amortization | 4 EBT (earnings before taxes) = EBIT - financial result (pre-tax profits)



MCAA plant under construction

The second major project in the Chlorine segment – construction of a production facility for high-purity monochloroacetic acid (MCAA) – made further progress in Q1.

Speciality Chemicals

The business development of the portfolio companies managed under the Speciality Chemicals segment was again extremely mixed in the first quarter of 2015. As mentioned at the beginning, sales of the commodity trading business of PCC Trade & Services GmbH remained substantially below expectations. However, because not only selling prices but also the prices on the purchasing side declined, this subsidiary was able to close the first quarter of 2015 with a positive earnings result. The same applies to PCC Morava-Chem s.r.o., Český Těšín (Czech Republic).

Business performance at alkylphenol manufacturer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), was similarly encouraging. Due to the strong US dollar, PCC Synteza S.A. saw its competitive position improve with respect to, among others, its Asian competitors, thus significantly boosting alkylphenol volume sales. The decrease in raw material prices on the purchasing side added further impetus. Consequently, PCC Synteza S.A. was able to end Q1 with

a positive earnings result and significantly better than expected.

However, the Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA and the quartzite quarry of PCC Silicium S.A., Zagórze (Poland), both ended the first quarter of 2015 with a loss. The reasons for this include the fact that the sales generated by both portfolio companies were below budget. At PCC Silicium S.A., the situation is being further exacerbated by certain rock strata needing to be reserved for our silicon metal project in Iceland. Currently, therefore, lower-grade material is frequently having to be mined, often under thick layers of spoil, and then sold in the marketplace. Further development of this portfolio company remains heavily dependent on our silicon metal project in Iceland, the financial closing of which is very likely to occur in the second quarter of 2015.

Consumer Products

The business performance of our PCC Consumer Products subgroup during the first quarter of 2015 was below our expectations. Although a small positive operating result was generated as of March 31, 2015, this subgroup once again posted a loss at the EBT level. One reason relates to changes in the product portfolio of one of the biggest customers of PCC Consumer Products Kosmet Sp. z o.o., Brzeg Dolny. In addition, the handling of a major tolling contract as a result of significant fragmentation of the assortment of goods awarded by the customer was found to be unprofitable. Business performance at our Belarusian subsidiary PCC Consumer Products Navigator was also negative, due among other things to the (now rescinded) state regulation of prices introduced in re-

sponse to the economic crisis impacting the country.



Energy

The Energy division of the PCC Group generated external segment sales of around €3 million in the first quarter of 2015. The main source of revenues and earnings remained the Conventional Energies business of this division, comprising the power station (and thus the corresponding business unit) of PCC Rokita SA, and the activities of the Polish power and heat generator PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle. The Renewable Energies business unit has remained unchanged in structural terms, with one operational small hydropower plant in Bosnia-Herzegovina and four in Macedonia where a fifth such facility is due for completion in 2015.



Logistics

In the first quarter of 2015, the Logistics division of the PCC Group recorded external sales of around €13 million. The main sales and earnings generator was once again PCC Intermodal S.A., Gdynia (Poland). Thanks both to continuing improvement in the capacity utilisation of the transport routes offered by the company and to growth in terminal handling volumes, PCC Intermodal S.A. was again able to end the quarter with positive figures, exceeding expectations in the process. The expansion of the container handling terminals of this portfolio company also continued to show progress, promoted by the mild weather conditions. The road tanker company PCC Autochem Sp. z o.o., Brzeg Dolny, likewise closed Q1 with a positive earnings result, as did the Russian wagon fleet operator ZAO PCC Rail. In the latter case, however, posi-

Key financials by segment	Consumer Products			Energy			Logistics			PCC Group total			
	Q1/2015	3M/2015	3M/2014	Q1/2015	3M/2015	3M/2014	Q1/2015	3M/2015	3M/2014	Q1/2015	3M/2015	3M/2014	
Sales ¹	€ m	9.0	9.0	11.0	3.2	3.2	3.1	13.2	13.2	11.2	144.0	144.0	153.3
EBITDA ²	€ m	0.1	0.1	0.2	2.1	2.1	1.8	0.9	0.9	0.1	8.3	8.3	7.9
EBIT ³	€ m	-0.1	-0.1	0.0	1.4	1.4	1.3	0.3	0.3	-0.6	2.8	2.8	2.9
EBT ⁴	€ m	-0.3	-0.3	-0.2	1.4	1.4	1.4	1.1	1.1	-1.0	2.5	2.5	-1.8
Employees (at March 31)		-	588	668	-	176	183	-	336	313	-	2,883	2,875

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tive foreign exchange effects resulting from a strengthening of the Russian ruble were the primary cause of the improvement. At the operating level, the company was only able to just about break even due to the economic crisis prevailing in Russia.

Holding

The Holding segment of PCC SE closed the first quarter of 2015 with a loss. This is essentially due to the high level of capital servicing with no offset in this quarter in the form of income from dividend distributions. In addition, the planned divestment of the Group's telecommunication and data centre activities was – as mentioned at the beginning – postponed to the second quarter of 2015. The corresponding purchase agreement was signed on April 24. The closing of this transaction is scheduled for June 2015. PCC SE thus continues to rigorously pursue its active investment portfolio management strategy with, in particular, the disposal of non-core activities.

Chemicals company PCC Rokita establishes joint venture in Thailand

In January 2015, PCC Rokita SA teamed up with Thai polyols producer IRPC Polyol Company Ltd. (IRPCP) in founding a 50/50 joint venture in Bangkok. The purpose of this joint venture, IRPC-PCC Company Ltd., is to develop the markets of South-East Asia, China and India, and thus drive the further international expansion of the PCC Chemicals division. IRPC-PCC will, in the first instance, be selling products from the portfolio of the joint venture partner IRPCP, namely polyols – a major feedstock for polyurethane (PU) prod-



ucts for comfortable mattresses and upholstery – and also PU systems. At the same time, IRPCP will be expanding its portfolio through the introduction of new products to be manufactured for the joint venture on the basis of a technology licence from PCC Rokita SA.

Harnessing new market opportunities in dynamically growing economies is a central plank of the growth strategy pursued by the PCC Group, and there is no chemicals market developing quite so rapidly as that of Asia. In recent years, the growth rates witnessed there have consistently been in the double-digit percentage range, with market saturation still a very long way off.

Conversion of chlorine production to environmentally friendly membrane technology

At the beginning of March 2015, following a period of uninterrupted operation that went back to 1976, PCC Rokita SA shut down its chlorine production facility based on the conventional amalgam process to allow it to be completely converted to environmentally friendly and energy-efficient membrane technology. After a brief plant standstill, commissioning of all the electrolyzers was successively initiated at the end of March. The first to be started up were the two serving membrane



electrolysis plant 1 which had already been commissioned back in 2010. Then, at the beginning of April, the two recently installed and completed electrolyzers of membrane electrolysis plant 2 also went into operation. It is further anticipated that the final expansion stage in the project will be completed with the commissioning of a fifth electrolyzer in June/July 2015. Overall, this will increase the annual production capacity of PCC Rokita from a current 120,000 metric tons of chlorine to 135,000 metric tons, and from 135,000 metric tons of caustic soda to 152,000 metric tons. Plans are also already in place for 2016 to further increase capacity through additional process optimisation, causing the annual capacity figures to then rise to 149,000 metric tons of chlorine and 168,000 metric tons of caustic soda.

In addition to completely eliminating mercury from the production process, the technology switch has substantially reduced energy consumption. As a result, from 2016 annual CO₂ emission is set to be cut by 140,000 metric tons.

The investment project means we have already met the EU requirements ahead of schedule which foresee the general decommissioning of facilities using the amalgam process by December 2017.

Duisburg, May 7, 2015

* Pictured (left to right): Wiesław Klimkowski (PCC Rokita SA), Waldemar Preussner (PCC SE), Sukrit Surabotsopon (IRPC Public Company Ltd. / IRPC Polyol Company Ltd.), Boondej Phuriyakorn (IRPC Polyol Company Ltd.)

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