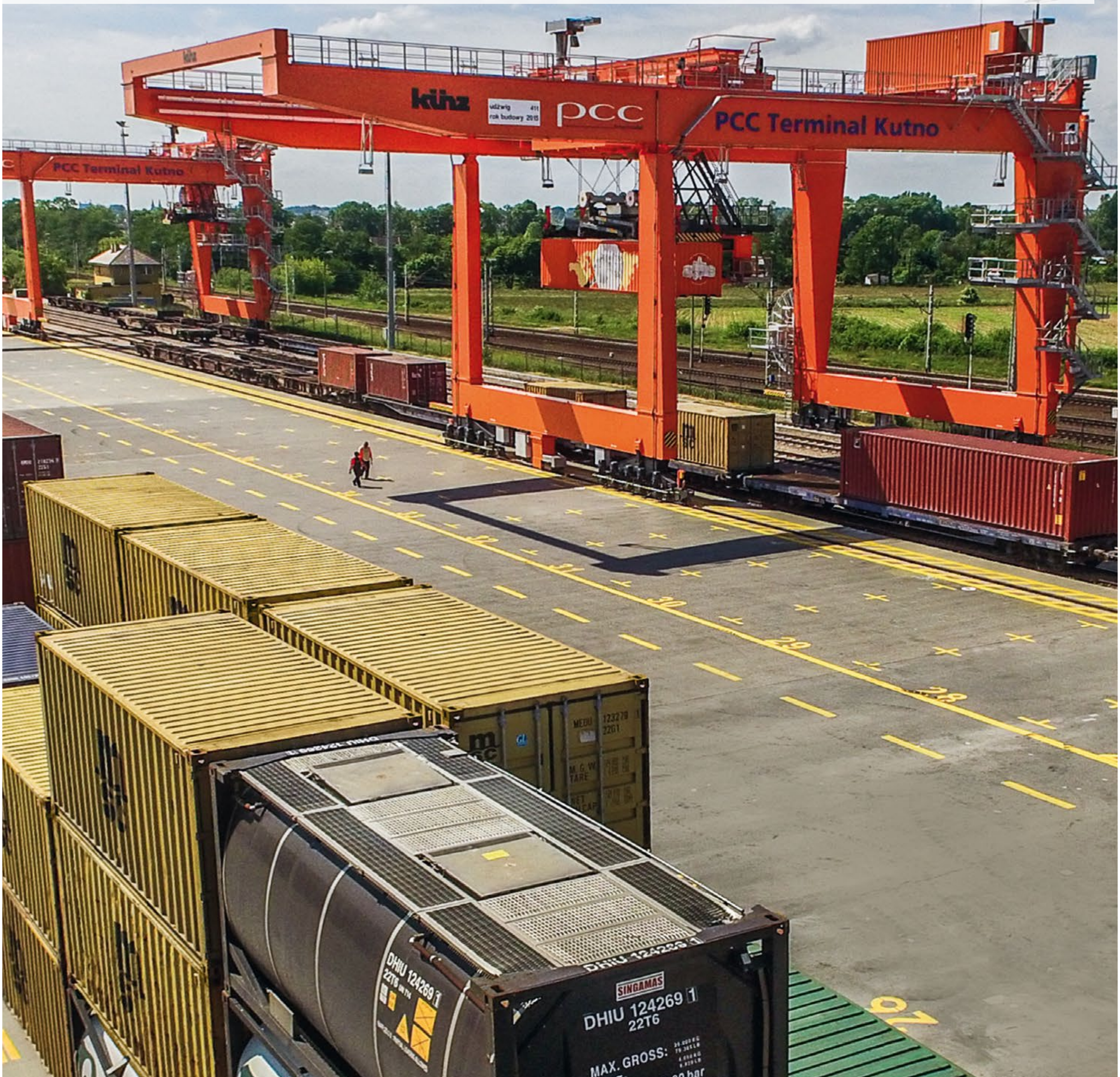
Quarterly Report 2/2015

- PCC increases operating profit to €24.6 million as of June 30, 2015
- Production of PU flexible foams starts in Essen
- Capacity of propylene oxide production plant increased
- Expansion of the container terminal in Kutno successfully completed



New gantry cranes at the container terminal of PCC Intermodal S.A. in Kutno

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Quarterly Report 2/2015

Business Development

The second quarter of 2015 saw a continuation of the positive business performance of most of the portfolio companies of the PCC Group. Consolidated sales amounted to €141 million, thus remaining at the level of the preceding quarter. As of the end of the half year, accumulated consolidated sales had reached €285 million. Compared to the corresponding prior-year figure, this represents a decrease of around €40 million, with the total falling well below budget for the first half year. The main cause of these negative variances lies in the significant decline in commodity prices resulting from the dramatic fall in the price for crude oil. Consequently, by far the biggest part of this difference is attributable to the commodities trading business of PCC Trade & Services GmbH, Duisburg, which is currently still managed within the Speciality Chemicals segment.

Operating profit before interest (or financial result), taxes, depreciation and amortisation (EBITDA) almost tripled in the second quarter of 2015, improving by €16.4 million to €+24.6 million as of the end of the half year. Compared to the prior-year figure (€+21.7 million), this represents a rise of 13.4%. The prior-year figure has, incidentally, now been retrospectively adjusted to the accounting rules of IFRS in order to ensure comparability of the individual numbers. (For further details regarding the transition from the German accounting standard, HGB, to IFRS, see Quarterly Report 1/2015). However, our performance at the EBITDA level was not quite sufficient to meet our 2015 budget figure for the period. This is largely due to the fact that PCC SE was unable to quite realise its original price targets for its telecommunication and data centre activities, which were sold in June 2015. This transaction nevertheless had a positive effect on earnings development in both the financial statements of PCC SE and at Group level. Across all business units, consolidated earnings before taxes (EBT) increased by €1.2 million quarter-on-quarter, reaching €+3.7 million (previous year: €+0.6 million). Encouragingly, this meant that EBT remained slightly above budget as of the end of the first half year, exceeding it by €0.3 million. Almost all our operations made a positive contribution to this result, as the following overview of the business performance of the individual divisions and their segments shows:

Taking all its segments together, the Chemicals division of the PCC Group generated sales of €122 million in the second quarter of 2015. Half-yearly sales amounted to €248 million. However, performance within the individual segments of this division was once again very mixed.

Polyols

Our positive business performance in the Polyols segment – boosted by greater focus on high-quality speciality polyols – continued through the second quarter. Slight improvements in earnings were also achieved by the Polyurethane Systems business unit, at least at PCC Prodex Sp. z o.o., Warsaw, due among other things to a seasonally related increase in sales to the construction industry. As of the end of the half year, however, this portfolio company was still operating at a loss. The reasons for this include both below-budget sales to the Polish mining industry, and payment problems involving Belarusian customers. PCC Prodex GmbH, Essen (Germany), continued to report start-up losses in the second quarter. However, production activities in the PU flexible foam sector have now begun, with the first trial deliveries to the automotive components industry having been completed.

Surfactants

The Surfactants segment saw the positive trend of the preceding three months continue through the second quarter of 2015. PCC Exol SA, Brzeg Dolny (Poland), continued to benefit from favourable purchase prices for the feedstock materials it requires. In addition, the increasing share of higher-quality speciality surfactants within the product portfolio exerted further positive momentum on the earnings front. Overall, this affiliate was therefore able to close the first half of 2015

Sulphonation plant of PCC Exol SA in Brzeg Dolny

with a positive earnings result within our expectation corridor. The US American subsidiary of PCC Exol SA, namely PCC Chemax, Inc., Piedmont (S.C.), likewise ended both the second quarter and the first half year in profit, albeit still below budget. The main cause for this remains the significant decline in sales of products for the oilfield chemicals sector resulting from the dramatic fall in the price of crude oil.

Chlorine

The operating performance of the Chlorine segment improved significantly in the second quarter. Because of the switch in the chlor-alkali electrolysis process to environmentally friendly membrane technology in March, the Chlorine business unit of PCC Rokita SA, Brzeg Dolny, was not able to completely ramp up production to

Key financials by segment (per IFRS)		Polyols			Surfactants			Chlorine			Speciality Chemicals		
		Q2/2015	6M/2015	6M/2014	Q2/2015	6M/2015	6M/2014	Q2/2015	6M/2015	6M/2014	Q2/2015	6M/2015	6M/2014
Sales[1]	€ m	**34.2**	69.6	70.9	**24.1**	49.9	49.5	**12.2**	24.2	34.4	**42.1**	85.3	114.7
EBITDA[2]	€ m	**3.4**	8.4	4.5	**1.9**	4.3	3.2	**1.1**	−1.0	4.2	**2.2**	3.4	1.8
EBIT[3]	€ m	**3.0**	7.7	3.9	**1.3**	3.2	2.2	**−0.1**	−3.3	2.0	**1.3**	1.7	0.0
EBT[4]	€ m	**3.1**	7.4	3.6	**0.8**	1.8	0.8	**−1.0**	−3.2	1.7	**0.5**	1.1	−0.7
Employees	(at June 30)	**149**	149	138	**252**	252	243	**294**	294	236	**373**	373	370

Notes: Rounding differences possible; Quarterly and half-year figures unaudited | **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 amortisation | **4 EBT** (earnings before taxes) = EBIT - financial result (pre-tax profits) the planned output volumes. Sales therefore remained below budget. However, favourable feedstock prices and low electricity costs at least partially compensated for this shortfall. The new plant is now running at a stable level so that, in the next few months, a further improvement in the cost-efficiency of this segment can be expected. The construction of a production plant for ultra-pure monochloroacetic acid (MCAA), the other major project in the Chlorine segment, continued according to schedule through the second quarter.

Speciality Chemicals

Again in the second quarter of 2015, the Speciality Chemicals segment reported positive development across all its business units. The performance of the portfolio companies managed under this segment was, however, once more extremely mixed: both revenues and volume sales were again far below our expectations for the commodities trading business of PCC Trade & Services GmbH, Duisburg. The reasons for this lay not only in the still relatively low price level for chemical commodities but also in negative developments on the international coke market. Because of the current decline in growth of the Chinese market, increasing volumes of coke are flooding onto the European market from that source, with correspondingly negative effects on local prices. On the earnings side, however, PCC Trade & Services was able to end the second quarter of 2015 with another positive number slightly above budget, due among other things to the achievement of price reductions on the purchasing side. Similarly, PCC Morava-Chem s.r.o., Český Těšín (Czech Republic), was able to close both the second quarter and the first half year with a positive overall earnings result.

Although in the case of our alkylphenol manufacturer, PCC Synteza S.A., Kędzierzyn-Koźle (Poland), the thoroughly gratifying trend registered in the preceding months was seen to ease somewhat in the second quarter, this portfolio company also ended the period showing a profit level substantially above expectations. PCC Synteza S.A. was able to benefit on the purchasing side from the persistently low price level for feedstock materials and – on the selling side – by the continuing strength of the US dollar, enabling it to increase its competitiveness with respect to Asian suppliers, among others.
The Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA succeeded in significantly improving its performance in the second quarter, due among other things to the low feedstock prices prevailing. It thus ended the half year in profit, at least on the operating level, in line with our expectations. By contrast, the quartzite quarry of PCC Silicium S.A., Zagórze (Poland), continued to operate at a loss owing to the problems already recounted in Quarterly Report 1/2015.

Consumer Products

Again in the second quarter of 2015, the business performance of the "PCC Consumer Products" subgroup fell below our expectations. The operating result improved marginally in the course of the quarter, due primarily to the slight upturn in business performance at the matches factory, PCC Consumer Products Czechowice S.A., Czechowice-Dziedzice (Poland), and at the Belarusian affiliate OOO PCC Consumer Products Navigator, Grodno. However, this subgroup continues to post losses at the pre-tax level. Continuing sales problems at PCC Consumer Products Kosmet Sp. z o.o., Brzeg Dolny, with currently its biggest customer in Poland are among the major causes

New production plant of PCC Consumer Products Kosmet in Brzeg Dolny

of this development. Ongoing upgrade and modernisation work in the production facilities of this affiliate also burdened earnings.

Energy

The Energy division of the PCC Group turned in a stable sales performance in the second quarter of 2015. External divisional revenues again amounted to around €3 million, with the accumulated half-year figure thus at €6.1 million. The main revenue and main earnings generator of this division remained the Conventional Energies business unit responsible for the power station of PCC Rokita SA (and its corresponding business unit) and the activities of the Polish combined heat and power generator PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle (Poland). Compared to the prior-year period, however, the Renewable Energies business unit saw a substantial increase in both sales and earnings, having now added four fully productive small power plants in the Republic of Macedonia to the one commissioned in 2009 in Bosnia-Herzegovina.

Logistics

The Logistics division of the PCC Group recorded external sales of around €14 million in the second quarter of 2015. As of June 30, net external sales for the half year thus amounted to some €27 million. The main sales and earnings

Key financials by segment (per IFRS)		Consumer Products			Energy			Logistics			PCC Group total		
		Q2/2015	6M/2015	6M/2014	Q2/2015	6M/2015	6M/2014	Q2/2015	6M/2015	6M/2014	Q2/2015	6M/2015	6M/2014
Sales[1]	€ m	9.9	18.9	21.3	2.9	6.1	5.7	14.1	27.2	24.7	141.3	285.3	325.1
EBITDA[2]	€ m	0.1	0.2	0.7	1.9	4.0	3.0	1.0	2.0	2.3	16.4	24.6	21.7
EBIT[3]	€ m	−0.2	−0.2	0.3	1.2	2.6	1.8	0.2	0.5	0.9	10.6	13.2	10.9
EBT[4]	€ m	−0.5	−0.8	−0.1	1.1	2.5	1.9	0.5	1.6	−0.1	1.2	3.7	0.6
Employees	(at June 30)	576	576	630	178	178	179	350	350	323	2,894	2,894	2,847

Notes: Rounding differences possible; Quarterly and half-year figures unaudited | **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 amortisation | **4 EBT** (earnings before taxes) = EBIT - financial result (pre-tax profits) generator was once again PCC Intermodal S.A., Gdynia (Poland). Despite the occasionally rather adverse effect of expansion work on operating conditions at the container handling terminal, this portfolio company was again able to close the second quarter well in profit. The increasing utilisation rate of the transport routes available, combined with an increasing number of terminal handling operations, are the main causes behind this encouraging development. The operating business of the tanker-based haulage company, PCC Autochem Sp. z o.o., Brzeg Dolny, also developed well in the second quarter, and the Russian wagon operator ZAO PCC Rail, Moscow, likewise posted a positive earnings result as of June 30. This latter development is, however, once again primarily due to positive foreign exchange effects resulting from the strengthening of the Russian ruble. At the operating level, the company was only able to achieve marginal earnings improvements due to the continuing economic crisis in Russia.

Holding

The holding company, PCC SE, closed the second quarter of 2015 and also the first half year with an overall positive earnings result. This was primarily due to the dividend payments received in the second quarter and the aforementioned sale of the telecommunication and data centre activities. The corresponding closing of the sale of our shares in 3S S.A. and in 3Services Factory S.A., both headquartered in Katowice (Poland), occurred as planned at the end of June 2015.

Investment financing by KfW IPEX-Bank for the silicon metal project

In line with the announcement made in our Quarterly Report 1/2015, our project company PCC BakkiSilicon hf (PCC SE shareholding: 86.5%), Húsavík, received in June 2015 the investment financing from KfW IPEX-Bank in the amount of USD194 million (approximately €170 million) for the construction in the north of Iceland of one of the world's most advanced production facilities for silicon metal. In total, the investment volume of the project amounts to some USD300 million (approximately €265 million). The external finance package with a term of 15 years is based on a Hermes export credit guarantee combined with untied loan guarantees under Germany's UFK scheme. The German government is thus supporting this commodity project as an undertaking deemed to be economically beneficial to Germany. The requisite equity capital has been provided by a consortium of 20 Icelandic pension funds and a local Icelandic bank. From 2018, the plant is expected to produce 32,000 metric tons of ultra-pure silicon metal per year, much of which has already been earmarked for German companies on the basis of long-term supply contracts. Site preparations began in June 2015, with construction work also already underway by the end of June. The official site opening ceremony is due to take place on September 17, 2015.

Propylene oxide production plant of PCC Rokita SA in Brzeg Dolny

Increase in propylene oxide plant production capacity

Within our Chlorine segment, PCC Rokita SA completed work in June 2015 on the expansion of its propylene oxide production plant, increasing capacity there from 36,000 to 48,000 metric tons per year. Propylene oxide is required for the production of polyols. In conjunction with the purchase contracts currently in place with established partners, this capacity upgrade goes a long way to securing the feedstock base for the current polyols production activities of PCC Rokita SA while also further enabling the growth targeted for PCC's Polyols segment.

Container terminal of PCC Intermodal S.A. in Kutno

Expansion of Kutno container terminal successfully completed

With the installation of two gantry cranes completed, PCC Intermodal S.A. was able to bring the expansion and optimisation work on its container terminal in Kutno (Poland) to a successful conclusion in June 2015. The annual capacity of the terminal has now more than doubled, from 100,000 TEU to 250,000 TEU (unit of measurement for 20-foot ISO containers). There are also six reach-stackers operating at the terminal for loading and unloading the container trains at the four 700 metre long spur tracks. The terminal's handling area is 80,000 sq. m. and its storage capacity amounts to 4,000 TEU. PCC's Kutno terminal counts among Poland's most advanced combined transport handling facilities.

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