Quarterly Report IV/2012

Business Development

Following a good start in the first weeks of the fourth quarter of 2012, business slackened considerably in the course of November and December, remaining below our expectations in an overall perspective. Consolidated sales of the PCC Group decreased by €12 million compared with the previous quarter (€179 million), ad reached €167 million. As per December 31, 2012, consolidated sales totalled €678 million, some €6 million below the last forecast for fiscal 2012. The main reasons for this were the lower than planned Chemicals Division sales – primarily in the business segments of chemical commodities trading and surfactants production – and in the intermodal transport business of the Logistics Division. Another reason was exchange rate effects.

The overall result of the fourth quarter of 2012 must be considered unsatisfactory. While the Chemicals Division continued to improve its results in the fourth quarter – mainly due to the persisting strong performance of PCC Rokita SA, Brzeg Dolny (Poland) – ending fiscal 2012 just slightly below forecast, the unfavourable development of the Logistics Division continued throughout the fourth quarter. The on-going intense price competition in the intermodal transport business inflicted further losses on PCC Intermodal S.A., Gdynia (Poland), which the company was not able to offset by means of cost cuts that were implemented in the fourth quarter of 2012. Results were additionally under strain from the high debt service costs of PCC SE, Duisburg (Germany), as well as the company's comparatively high project development costs, which will be countered by revenues only in the coming years. On the operating level, before interest, taxes, depreciation and amortisation (EBITDA), earnings increased by €7 million to +€36 million in the fourth quarter of 2012. However, when it comes to earnings before taxes (EBT), a slight decrease was recorded again in the fourth quarter of 2012. In all likelihood, EBT as per December 31, 2012 will be zero. Both figures will thus come in below the results of the previous year, and below our expectations for fiscal 2012.

The above-mentioned figures do not reflect a write-down that is likely to become necessary on securities being part of our financial fixed assets – our shares in Oltchim – amounting to some €20 million. Regular insolvency proceedings have been opened at the end of January 2013 concerning the assets of this Romanian chemical company. Currently, a restructuring plan for S.C. Oltchim S.A. is being prepared, and the company will be given three years to implement this plan. At the same time, negotiations are underway with the creditors – mainly the Romanian government, state-owned companies and banks – on debt restructuring. Thus, the procedure does offer prospects for a favourable development of S.C. Oltchim S.A., as well as for a successful privatisation in the future. However, these prospects are currently hard to quantify. Apart from that, PCC SE has limited influence options as it is a minority shareholder of S.C. Oltchim S.A., holding some 32 per cent of the company's shares. Therefore, in line with commercial prudence, we will likely acknowledge the above-mentioned write-down by some €20 million, which will not affect liquidity, but will mean a (one-time) charge corresponding to this amount in the stand-alone and consolidated statements of PCC SE for 2012. Currently all annual statements of our group companies and the consolidated statement are being audited by our auditors. The final, audited figures will be published on our website immediately after final approval of the 2012 annual financial statement.

Relating to the development of the individual business divisions, the following can be said about the fourth quarter of 2012:

In the Chemicals Division of the PCC Group, which continued to be the main source of revenues and earnings in the fourth quarter of 2012, we continued to work on the consolidation of our individual product segments. In a first step in the fourth quarter of 2012, the polyurethane systems house PCC Prodex Sp. z o.o., Warsaw, was transferred to the polyols business of PCC Rokita SA – PCC Prodex manufactures so-called polyurethane systems from materials including polyols produced by PCC Rokita. At the end of 2012, we prepared the integration of PCC Chemax, Inc., Piedmont (USA), into PCC Exol SA, Brzeg Dolny. This new structure was implemented in January 2013. As a result, the group companies doing business in the area of surface-active agents (surfactants) have now also been consolidated, which allows for a more effective and efficient management of the individual product segments in the future. Both the polyols and the surfactants businesses closed fiscal 2012 with a profit. This also applies to the chlor-alkali business of PCC Rokita, which is the third of the three large product segments within the PCC Group.

Key Figures of the PCC Group*	Q4/2012	Fiscal 2012
Consolidated sales:	**€167 million**	**€678 million**
Chemicals division sales:	€151 million	€613 million
Energy division sales:	€3 million	€11 million
Logistics division sales:	€11 million	€46 million
Sales of Other Shareholdings division:	€2 million	€8 million
EBITDA (operating result):	**+€7 million**	**+€36 million**
EBT (earnings before taxes):	**–€23 million****	**–€21 million****

Rounding differences may occur

* preliminary financial data

** The main reason for the negative result is a book value write-down amounting to some €20 million (one-off effect).

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In fiscal 2012 again, positive contributions to earnings were added by the two trading companies, Petro Carbo Chem GmbH, Duisburg, and PCC Morava-Chem s.r.o., Český Těšín (Czech Republic), as well as the subgroup PCC Consumer Products S.A., Warsaw. Overall, the Chemicals division of the PCC Group generated external sales of some €613 million in fiscal 2012, of which €151 million in the fourth quarter. Adjusted for one-off effects, the operating result before interest, taxes, depreciation and amortisation (EBITDA) amounted to some +€45 million.

However, less satisfying business results were achieved in the Logistics division, whose external sales reached € 11 million in the fourth quarter of 2012, or €46 million in the year ended 31 December 2012. The division's profit was again on the decline as a result of the complicated market situation in the intermodal transport business in the fourth quarter of 2012. On the level of the operating result before interest, taxes, depreciation and amortisation (EBITDA), a marginal profit of €0.6 million was recorded as per December 31, 2012. Apart from PCC Intermodal S.A., Russian wagon operator ZAO PCC Rail, Moscow, also recorded shrinking profits in the last quarter of 2012 due to tariff adjustments by Russian Railways and an at least temporary economic downswing of the Russian economy. PCC Autochem Sp. z o.o., the tank trucking company from Brzeg Dolny, however, was able to at least generate a profit on the level of the previous quarter.

The Energy division, which still focuses mainly on the development of power plant projects in the renewable energies sector, and the other portfolio companies of the PCC Group, continued to be of rather minor relevance for consolidated revenues and consolidated earnings in fiscal 2012.

Expansion of the "PCC Consumer Products" subgroup

The "PCC Consumer Products" group, founded in 2011, has seen continuous growth in recent months due to the acquisition of shares in other companies and the establishment of new subsidiaries. This subgroup of PCC comprises companies manufacturing consumer goods, primarily private label products in various segments, such as household and industrial cleaners, laundry detergents, specialised car care products, and matches. Sales amounted to some €36 million in 2012. Cleaner and laundry detergent production volumes alone increased by 28 per cent compared with the previous year, exceeding 66,000 tonnes.

PCC currently has production companies and sales offices in Poland and Belarus as well as a trading company in Russia. For the time being, its sales territory remains focused on Central and Eastern Europe. Future plans envisage an expansion of sales to include food retailers, chains of discount stores, and chemists also in the German-speaking countries. In addition, it is planned to complement the product range of the "PCC Consumer Products" group with other consumer goods.

Polish business daily distinguishes PCC Manager

In its ranking "The 500 Managers of the Year 2012", the Polish business daily "Puls Biznesu" distinguished those managers who achieved the most spectacular profit increases between 2010 and 2011. The winner in the category "Companies with annual sales in the PLN 10-50 million range" (some €2.5-12.5 million) was Artur Papis, Chief Executive Officer of PCC's subsidiary PCC Prodex Sp. z o.o., Warsaw. Artur Papis, who has headed the polyurethane systems house since 2007, managed to increase its profit by more than 835 per cent in the above-mentioned period.

As mentioned above, PCC Prodex, which has been fully owned by the PCC Group since September 2010, manufactures polyurethane systems. These are primarily used for the manufacture of PU foams for thermal and acoustic insulation. Apart from that, PCC Prodex also sells specialised polyurethane foaming equipment.

Construction proceeds at PCC's small hydropower plants in Macedonia

As reported before, PCC started construction of the "Gradečka" small hydropower plant in Macedonia in July 2012. To date, about half of the pipeline totalling 3 kilometres in length has been laid, while the water intake and sand trap have been concreted. Currently structural works on the powerhouse are nearing completion.

"Galičnik", the second power plant project in Macedonia, is located in the north-west of the country, southwest of the town of Gostivar. At this site, construction of the site access roads started back in November 2012. After the onset of thawing conditions, excavation work for the pipeline continued in February 2013.

The largest project, "Brajčino", is located 125 km south-southwest of Skopje, near the Macedonian-Greek border. Following the start of construction in January 2013, the foundations of the powerhouse have now been concreted. Additionally, excavation works for the pipeline have commenced.

Owner of the Macedonian projects is PCC's local project entity, PCC HYDRO DOOEL Skopje. Construction of the Gradečka power plant is expected to be completed by July 2013, while construction works at the Brajčino and Galičnik plants should be finished by the end of 2013. Our current plans envisage the construction of a total of five power plants with an overall capacity of 6 megawatts.

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