PCC Group Quarterly Report 2/2019

- With sales holding stable, PCC posts half-year revenues of € 383.9 million, almost the same figure as in the previous year
- EBITDA for the first six months of fiscal 2019 comes in at € 47.1 million, with earnings before taxes (EBT) reaching € 13.8 million
- Dimethyl ether (DME) plant in Russia passes final proving test
- Improvements to silicon metal plant in Iceland show success
- Redemption of maturing bond

The Group subsidiary PCC Intermodal S.A. dominates our Logistics division, which in Q2 again exceeded the high sales figure posted in the previous quarter. The photo shows the gantry cranes of the PCC terminal in Kutno, one of the most advanced container transshipment facilities in Poland.

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Overall Business Development

The PCC Group recorded stable revenue development in the second quarter of 2019. At €190.2 million, Group sales were at the level of the previous quarter (€193.6 million), accumulating to €383.9 million as of June 30, 2019 (first half of 2018: €387.5 million), figures that fall well short of our revenue targets. The main reason lay in the continued lack of sales from the Silicon Metal business area. Although PCC BakkiSilicon hf., Húsavík (Iceland), is already producing and selling silicon metal, the corresponding revenues can still not be added to Group sales for the period, since we have not yet officially taken the plant on stream for regular operations (see also page 4). Among other things, sales in the commodity trading business and in the Polyols segment were also down on the previous year – and also below our expectations – due to significantly lower average commodity price levels prevailing compared to 2018. In the Chlorine segment, on the other hand, higher sales volumes as a result of capacity expansion led to an increase in revenues compared to the prior-year period. The Intermodal Transport business unit also recorded significant revenue growth year on year. On the earnings side, the second quarter was again positive for the majority of PCC SE's affiliates, although overall not as successful as in the preceding quarter. Scheduled plant shutdowns due to maintenance and repair work, as well as production stoppages resulting from a temporary interruption in the supply of raw materials from a key source were contributory factors in this regard. Group earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA) in the second quarter amounted to €18.5 million. This gave a cumulative total of €47.1 million as of June 30, 2019, representing a decline of €4.8 million versus the prior-year period (€51.9 million). Earnings before taxes (EBT) rose only marginally by €1.1 million to €13.8 million at the end of the first half of the year (first half of 2018: €19.6 million). However, both figures still represented a significant improvement on original expectations.

Segment Performance

The Chemicals division of the PCC Group doubled its sales total during the second quarter of 2019, adding €161.1 million to give €325.2 million as of June 30, 2019 (first half of 2018: €333.9 million). However, this again fell below our revenue expectations for the current year, due primarily – as already mentioned – to lower sales in the Polyols segment and the commodity trading business. By contrast, earnings continued to develop successfully in the second quarter, coming in better than expected. All segments – with the exception of Consumer Products – once again made a positive contribution to this development.

Polyols

The Polyols segment again closed the quarter with a positive set of Q2 results overall. Despite the persistently difficult market environment affecting its polyether polyols business, the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), remained by far the main contributor to sales and earnings in this segment. However, results fell short of the exceptionally good figures generated in the previous year. Conversely and gratifyingly, the earnings situation of the systems business of PCC Prodex Sp. z o.o., Brzeg Dolny, improved significantly year on year, with declining purchase prices for isocyanates a key factor. At our German system house PCC Prodex GmbH, Essen, a further milling machine for polishing discs was commissioned in the second quarter of 2019. This should enable production efficiency there to be significantly increased in the coming months, with a correspondingly positive effect on earnings development. By contrast, the performance of the polyester polyols business and of the affiliates managed under the intermediate holding company PCC Insulations GmbH, Duisburg (Germany), which are active in the field of thermal insulation panels, remained unsatisfactory in the second quarter of 2019.

Surfactants

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The Surfactants segment likewise closed the second quarter of 2019 with a successful set of figures. However, the largest affiliate in this segment, PCC Exol SA, Brzeg Dolny, recorded a decline in sales, particularly in relation to products for applications in the cosmetics field. The decrease was only partially offset by sales growth in respect of products for industrial applications. In June, moreover, production was interrupted by a scheduled shutdown for maintenance purposes. As a result, the sales and earnings of PCC Exol came in below the exceptionally good figures for the first quarter of 2019. Overall, however, the earnings performance of this affiliate remained thoroughly positive, showing a substantial improvement year on year. Still of minor relevance for the Surfactants segment as a whole, the other affiliates managed in this segment recorded a slight decline in earnings in the second quarter of 2019.

Chlorine

The Chlorine segment continued its strong performance through the second quarter of 2019. Although selling prices for the chlorine by-product sodium hydroxide monohydrate and also caustic soda showed a downward trend, and despite the negative impact on sales and earnings

Key financials by segment [1] (per IFRS)		Polyols			Surfactants			Chlorine			Specialty Chemicals		
		Q2/2019	6M/2019 [6]	6M/2018	Q2/2019	6M/2019	6M/2018	Q2/2019	6M/2019	6M/2018	Q2/2019	6M/2019	6M/2018
Sales [2]	€ m	**34.0**	70.2	76.7	**30.2**	64.0	64.1	**35.7**	76.7	71.4	**56.3**	104.0	110.7
EBITDA [3]	€ m	**0.9**	2.6	5.4	**3.1**	7.5	4.8	**10.4**	26.9	28.4	**2.5**	5.1	4.9
EBIT [4]	€ m	**0.0**	0.9	4.3	**1.8**	5.7	3.7	**7.1**	20.3	22.8	**1.6**	3.4	3.4
EBT [5]	€ m	**−0.3**	0.3	4.2	**1.1**	4.4	2.9	**6.2**	17.9	18.3	**1.3**	2.8	2.9
Employees	(at June 30)	**260**	260	263	**290**	290	292	**380**	380	375	**402**	402	369

Notes: Rounding differences possible. Quarterly and cumulative figures unaudited. Subject to change without notice. | **1** The segment Holding/Projects has not been separately listed. | **2** The sales indicated relate exclusively to net external sales; consolidation procedures have already been taken into account. | **3 EBITDA** (earnings before interest/financial result, taxes, depreciation and amortization) | **4 EBIT** (earnings before interest/financial result and taxes) = Operating profit = EBITDA – depreciation and amortization | **5 EBT** (earnings before taxes) = Pre-tax profit = EBIT – interest/financial result | **6** "M" = months caused by temporary production shutdowns due to maintenance and repair issues at the Chlorine business unit of PCC Rokita SA, that business unit remained the main source of sales and earnings in the Chlorine segment as of the end of the second quarter and continued to make by far the largest contribution to Group earnings overall. Production at PCC MCAA Sp. z o.o., Brzeg Dolny, which is also part of the Chlorine segment, likewise experienced intermittent interruptions. Contributory factors included work carried out on modifying the catalyst, together with other process optimizations. Gratifyingly, these activities have led to a further improvement in product quality and also an increase in production capacity. The cost efficiency of the MCAA (monochloroacetic acid) plant should further increase as a result going forward. PCC MCAA Sp. z o.o. was further strengthened in the second quarter of 2019 by a capital measure undertaken by PCC SE: A total of PLN 30 million in shareholder loans was converted into equity as part of a debt-equity swap. The corresponding entry in the commercial register was made at the beginning of July 2019.

Specialty Chemicals

The Specialty Chemicals segment posted another positive earnings performance in the second quarter of 2019. However, revenues in this segment at the end of June were still well below the previous year's level. The sales figure also again failed to hit our expectations. On the earnings side, however, the affiliates managed in this segment were able to match the good figures of the previous year overall and even significantly exceed our expectations for the first two quarters of 2019. With the exception of the two Germany-based start-ups involved in product development for customer-specific applications, namely PCC Specialties GmbH, Kamp-Lintfort, and PolyU GmbH, Essen, all of our affiliates in the Specialty Chemicals segment again made a positive contribution to the results achieved in the second quarter. The largest trading company within the PCC Group, PCC Trade & Services GmbH, Duisburg, remained the main contributor to revenue, increasing its sales significantly in the second quarter compared to the first three months of the current fiscal year. The main reasons for this lay in at least temporarily rising prices for the coking plant by-product crude benzene, and sales of coke and anthracite, which continued to exceed our expectations. As already mentioned, however, the cumulative sales of this affiliate remained below our expectations and also below the level of the previous year. PCC Trade & Services GmbH was also able to post an increase in earnings in the second quarter, almost closing the gap to the exceptionally good figures of the previous year and actually exceeding our earnings expectations for 2019. The Russian port company AO Novobalt Terminal, Kaliningrad, likewise generated a positive quarterly earnings result thanks to the high volumes of coke and anthracite transshipped for its parent company PCC Trade & Services GmbH and for a Russian third-party customer. And the trading business of the Czech affiliate PCC Morava-Chem s.r.o., Český Těšín, also performed positively, with results coming in slightly better than expected in the second quarter of 2019.

The positive sales and earnings trend likewise continued in the second quarter of 2019 at the Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA and at the alkylphenol producer PCC Synteza S.A., Kędzierzyn-Koźle (Poland). The same applies to PCC Silicium S.A., Zagórze (Poland). Although the quartzite deliveries to Iceland remained below our expectations due to the delays in our silicon metal project there, sales of quartzite grades not suitable for silicon metal production to customers in the ferroalloy industry continued at a high level. In addition, sales of ballast for road and rail track construction rose sharply in the second quarter due to seasonal factors. PCC Silicium S.A. was therefore again able to post a positive result for both the end of the second quarter and the end of the first half of 2019, exceeding both the corresponding figures for the previous year and our earnings expectations.

Consumer Products

The sales and earnings generated by the PCC Consumer Products subgroup in the second quarter of 2019 fell short of our expectations. With the exception of the Belarusian company PCC Consumer Products Navigator, Grodno, all the affiliates in this segment continued to record losses. However, at least at PCC Consumer Products Kosmet Sp. z o.o. (PCC CP Kosmet), Brzeg Dolny, the segment's largest subsidiary, these deficits were significantly lower than in the same period of the previous year. Contributory factors here include the personnel reductions initiated, which are now starting to have an effect. In addition, at the end of the second quarter there were signs of an increase in orders from a large discounter, which should lead to a further improvement in the sales and earnings situation of PCC CP Kosmet in the months to come. At the matches factory of PCC Consumer Products Czechowice, Czechowice-Dziedzice (Poland), on the other hand, deliveries to a major Spanish customer planned for the second quarter of 2019 failed to materialize. This affiliate is currently considering reallocating part of its machinery to alternative production purposes (including the manufacture of wooden cutlery) and will draw up a corresponding business plan in the course of the third quarter.

Key financials by segment[1]	(per IFRS)	Consumer Products			Energy			Logistics			PCC Group total		
		Q2/2019	6M/2019[6]	6M/2018	Q2/2019	6M/2019	6M/2018	Q2/2019	6M/2019	6M/2018	Q2/2019	6M/2019	6M/2018
Sales[2]	€ m	**4.9**	10.3	10.9	**3.2**	6.8	6.6	**23.9**	47.6	41.5	**190.2**	383.9	387.5
EBITDA[3]	€ m	**−0.8**	−1.6	−2.5	**−0.2**	0.7	2.2	**5.0**	10.7	4.3	**18.5**	47.1	51.9
EBIT[4]	€ m	**−1.1**	−2.3	−3.2	**−1.2**	−1.2	0.7	**2.7**	6.1	2.2	**6.8**	24.7	35.6
EBT[5]	€ m	**−1.4**	−2.9	−3.8	**−1.4**	−1.5	0.6	**2.3**	6.1	−0.1	**1.1**	13.8	19.6
Employees	(at June 30)	**399**	399	513	**180**	180	183	**545**	545	475	**3,516**	3,516	3,440

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Energy

The Energy division of the PCC Group generated net external quarterly sales of €3.2 million in the second quarter of 2019. By the end of the first half of the year, therefore, divisional revenues had accumulated to €6.8 million (previous year: €6.6 million). The main contributions to sales continued to come from the Conventional Energies business unit comprising PCC Rokita SA's combined heat and power plant (and the corresponding business unit) and the electricity and heat utility PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle. However, by the end of the second quarter, this business unit had been just "overtaken" on the earnings side by the Renewable Energies business unit. Overall, the performance of the Energy division was in line with our expectations and remained of subordinate importance in terms of its impact on Group earnings as a whole. Construction work on the fifth small hydropower plant in North Macedonia has again been delayed, but is now nearing completion.

Logistics

With sales of €23.9 million in the second quarter of 2019, the Logistics division saw a repeat of the high revenue level posted in the preceding quarter. By the end of June, external divisional sales had thus accumulated to €47.6 million. Compared to the corresponding prior-year period (€41.5 million), this represents a revenue increase of 14.7 %, reflecting in particular the increase in sales generated by PCC Intermodal S.A., Gdynia (Poland). The foundation stone for this growth had already been laid in the first quarter of 2019 through the successful implementation of price increases at many of PCC Intermodal S.A.'s customers. There was also a further increase in container transshipment numbers. As a result, PCC Intermodal S.A. generated another exceptionally successful set of results in the second quarter of 2019, significantly exceeding both the corresponding prior-year figures and our expectations.

The same applies to the tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, and the Russian freight car operator ZAO PCC Rail, Moscow. With its cash flows holding steady, the latter affiliate was able in the second quarter to make a further repayment of €0.7 million on the investment loans granted to it by PCC SE.

Holding/Projects

As expected, earnings before taxes (EBT) in the Holding/Projects division turned strongly positive in the second quarter of 2019. PCC SE also reported results well in positive territory in its single-entity financial statements as at the end of the first half-year. This was due to the dividends received in the course of the second quarter. As in the previous year, PCC Rokita SA made by far the biggest contribution to this inflow. Dividends were also paid in by PCC Exol SA, PCC Synteza S.A., PCC Trade & Services GmbH, PCC Energetyka Blachownia S.A. and PCC IT S.A. At Group level, however, such dividend income is eliminated as part of the consolidation procedure.

In addition to PCC SE, a number of internal service companies as well as the two internet start-ups distripark.com Sp. z o.o., Brzeg Dolny (Poland), and distripark GmbH, Kamp-Lintfort (Germany), are managed within the Holding/Projects division. All these entities continued to make no or only marginal contributions to Group sales and earnings in the second quarter. The same applies to the project company DME Aerosol, Pervomaysky (Russia), which also belongs to this division. The second major project company of the PCC Group, PCC BakkiSilicon hf., again reported losses at the end of the second quarter. However, due to the fact that this company has not yet been able to commence regular operations, these losses have remained lower than expected overall, with a large part of the costs incurred currently still being capitalized. For further details on these two project companies see below:

DME plant passes final proving test

The final performance test for the production plant for high-purity, aerosol-grade dimethyl ether (DME) in Russia's Tula region was successfully completed in May 2019. In the meantime, the first deliveries of this odorless and environmentally acceptable propellant have been made to customers for whom qualification has already been completed. Further qualification procedures are currently ongoing.

Improvements to silicon metal plant in Iceland show success

The remedial measures for the dust extraction system were implemented in the second quarter in collaboration with the plant constructor. As a consequence, however, operations were restricted to just one furnace over lengthy periods of time. During this phase, our team improved the means of intervention in plant operations so as to enable immediate response to changing operating conditions. Through statistical analysis of the furnace parameters, charge materials, for example, can be metered more precisely, enabling a significant increase in furnace performance. Unscheduled furnace downtimes since the plant was commissioned have been subjected to a thorough cause analysis, allowing preventative measures to be introduced. Full-load operation with both furnaces has now been achieved, although further technical adjustments are still required.

Redemption of maturing bond

On July 1, 2019, PCC SE repaid on maturity the 3.00 % bond ISIN DE000A2AAY93 (WKN: A2AAY9). The redemption amount was around €22.6 million.

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