# PCC Group Quarterly Report 2/2020

- **PCC posts improved Q2 earnings versus previous quarter, despite coronavirus impact**
- **EBITDA reaches € 21.2 million.**
- **Marginally positive operating profit (EBIT) signals successful turnaround**
- **At € 168.3 million, Group revenues decline versus the previous quarter due to a sharp drop in commodity prices, with gross profit remaining flat**
- **Redemption of a maturing bond**

## Overall Business Development

**Despite the coronavirus crisis, the business performance of the PCC Group in the second quarter of 2020 was generally better than in the previous quarter.** Although losses continued to be posted at the pre-tax level (EBT), a turnaround to a marginally positive profit result was nevertheless achieved at the operating level (EBIT). Quarterly sales amounted to € 168.3 million and were thus 16.1 % below the figure for the first quarter (€200.6 million). As of June 30, cumulative consolidated sales amounted to € 368.9 million. Compared to the corresponding half-year period in 2019 (€ 383.9 million), this represents a decrease of 3.9 %, thus falling well short of our sales expectations for the first six months of 2020. One of the main reasons for this was that sales in the Chemicals division were down on budget, partly as a result of declining selling prices for the chlorine by-product caustic soda. In addition, the drastic decline in crude oil prices in April 2020 led to a sharp drop in the prices of many other chemical commodities, which resulted in a considerable slump in sales, particularly in our trading business. However, this price fall had a positive effect on the purchasing side, with the result that, at € 51.9 million, gross profit held stable, matching the level of the first quarter. Gross margin actually improved versus the preceding quarter, from 26.8 % to 30.8 %. As of the end of the first half year, cumulative gross profit amounted to € 105.6 million.

**Thanks to the boom in demand for ultra-pure monochloroacetic acid (MCAA), the plant of PCC MCAA Sp. z o.o. in Brzeg Dolny (Poland), which has a rated annual output of 50,000 metric tons, has continued to operate at high capacity.**

Consolidated earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA) showed a significant improvement versus Q1 2020. The Q2 figure amounted to €21.2 million, with cumulative EBITDA at €33.3 million for the first half year (previous year: € 47.1 million). Lower personnel expenses due to Covid-19-related job cuts and short-time working were among the factors exerting a favorable effect on earnings. Plus, maintenance and repair costs and travel expenses were also significantly below their comparable levels due to the Covid-19 restrictions. There was a further positive effect on earnings in the single-digit million euro range arising from the compensation payment agreed as part of the settlement negotiations with the constructor of our silicon metal plant, which amount was received by PCC BakkiSilicon hf. of Húsavík (Iceland) in April 2020. As already mentioned above, there was a turnaround in operating profit (EBIT) to a marginally positive balance of €0.4 million. However, earnings before taxes (EBT) again showed a loss in the second quarter. Nevertheless, at €–3.5 million, this deficit was significantly lower than in the preceding quarter. As of June 30, cumulative EBT totaled €–21.8 million (previous year: € 13.8 million). The second quarter also saw recovery of a portion of the book losses reported in the first quarter that arose from negative exchange rate effects.

While business development in the second quarter was generally impacted by the global restrictions resulting from the coronavirus pandemic, production capacity utilization within the PCC Group nevertheless remained at a high level, with the trend holding beyond the half-year period.

## Segment Performance

**Overall, the five segments of the Chemicals division of the PCC Group closed the second quarter of 2020 in clearly positive territory, with results coming in above expectations**. Quarterly sales amounted to €135.0 million, with cumulative revenues at €295.4 million as of June 30. Although this is below the corresponding figure for the previous year (€325.2 million), with sales for the current fiscal year falling well short of budget, earnings for the second quarter and the first half of 2020 were better overall than initially expected (i.e. pre-coronavirus). Gratifyingly, all five segments again made a positive contribution to EBITDA in the second quarter. And with the exception of Consumer Products, all segments again achieved positive quarterly results at both the operating and the pre-tax levels.

### Polyols

**The Polyols segment continued to show positive overall development in the second quarter of 2020.** However, due to Covid-19, sales volumes and revenues fell short of our expectations in the first weeks of the quarter, with the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), having to cope with a sharp decline in demand for polyether polyols, particularly from the furniture and mattress industries. Also in relation to roof spray foams for insulation purposes, thermal insulating panels and polishing discs, customers adopted more of a wait-and-see attitude at the beginning of Q2 due to the coronavirus pandemic. Gratifyingly, however, there was a marked revival in demand as the quarter progressed. This applies particularly to the Polyether Polyols business area of the Polyols business unit of PCC Rokita SA, which – as a consequence – was once again able to close the second quarter of 2020 successfully, with results showing an improvement versus the prior-year quarter and coming in above our expectations. The Thai joint venture in this segment, IRPC Polyol Company Ltd., Bangkok, also made a positive contribution to earnings thanks to continued high demand from the countries of the Southeast Asia region. At the end of the second quarter, the German systems house PCC Prodex GmbH, Essen, recorded a significant increase in demand for polishing discs and was thus able to substantially increase its operating rate. Overall, however, developments in sales and earnings at this affiliate remained unsatisfactory. This also applies to the other business units in the Polyols segment.

### Surfactants

**The Surfactants segment again put in a strong performance in the second quarter of 2020.** In the wake of the coronavirus pandemic, demand for surfactants for the manufacture of detergents and cleaning agents held stable at a high level. However, as a result of the Covid-19-related lockdown in many branches of industry, this effect bypassed products for industrial applications. On the procurement side, PCC Exol SA of Brzeg Dolny, the largest subsidiary of this segment, was also able to benefit from more favorable feedstock purchase prices in the second quarter of 2020, enabling it to close Q2 successfully and with results up on the prior-year period. The US affiliate PCC Chemax, Inc., Piedmont (SC), likewise ended the second quarter in positive territory. However, due to the lockdown in the USA, results were marginally down on the exceptionally good first quarter.

### Chlorine

**The Chlorine segment also closed the second quarter of 2020 with a positive earnings result,** but overall fell well short of matching the exceptionally good figures of the previous year. At the Chlorine business unit of PCC Rokita SA, responsibility for the negative impact on sales – and thus also on earnings – lay primarily with the significantly lower selling prices achieved for the chlorine by-product caustic soda compared to the previous year. In the course of the second quarter, however, these prices at least stabilized at the current level, with the prices for caustic soda lye actually on the upturn. And there was even a clear upward trend in the selling prices of other chlorine derivatives such as hydrochloric acid and monochlorobenzene. Overall, the Chlorine business unit therefore also ended the second quarter of 2020 in clearly positive territory, albeit with earnings still below the level of the previous year. By contrast, PCC MCAA Sp. z o.o., Brzeg Dolny, which is also managed within the Chlorine segment, was able to significantly exceed its good results for the previous year at the operating level as of the end of June, benefiting in the second quarter of 2020 from continuing high demand for ultra-pure monochloroacetic acid. Gratifyingly, our assumption that the increased volume of orders in March was an indication that many customers expected a possible interruption in their supply chains due to the coronavirus pandemic proved to be unfounded. On the contrary, in fact: The boom in demand for ultra-pure monochloroacetic acid, which is used among other things in the production

| Key financials by segment [1] (per IFRS) | | Polyols | | | Surfactants | | | Chlorine | | | Specialty Chemicals | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Q2/2020 | 6M/2020 [6] | 6M/2019 | Q2/2020 | 6M/2020 | 6M/2019 | Q2/2020 | 6M/2020 | 6M/2019 | Q2/2020 | 6M/2020 | 6M/2019 |
| Sales [2] | € m | **27.5** | 65.8 | 70.2 | **27.8** | 62.0 | 64.0 | **34.3** | 68.8 | 76.7 | **38.5** | 85.6 | 104.0 |
| EBITDA [3] | € m | **3.3** | 5.8 | 2.6 | **4.1** | 8.5 | 7.5 | **9.5** | 17.3 | 26.9 | **2.5** | 4.9 | 5.1 |
| EBIT [4] | € m | **2.0** | 3.5 | 0.9 | **3.5** | 7.3 | 5.7 | **5.7** | 9.7 | 20.3 | **1.4** | 2.4 | 3.4 |
| EBT [5] | € m | **1.4** | 3.4 | 0.3 | **2.6** | 6.0 | 4.4 | **4.8** | 5.3 | 17.9 | **0.2** | 0.5 | 2.8 |
| Employees | (at June 30) | **263** | 263 | 260 | **287** | 287 | 290 | **390** | 390 | 380 | **385** | 385 | 402 |

**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 of skin-friendly surfactants (betaines) and in the food and pharmaceutical industries, continued in the second quarter of 2020, with correspondingly positive effects on sales and earnings development. As a result, this affiliate was able, for the first time, to make partial repayments in the second quarter on the investment loan granted to it by PCC SE. Thanks to a marginally positive exchange rate movement between the Polish złoty and the euro, the book losses from negative currency translation effects were also partially recovered as of the end of the second quarter.

## Specialty Chemicals

**The business units of the Specialty Chemicals segment experienced widely differing developments in revenues and earnings during the second quarter of 2020.** The main sales driver of this segment, the commodity trading company PCC Trade & Services GmbH, Duisburg (Germany), closed the month of April with an exceptionally positive set of results. However, the dramatic slump in crude oil prices as a result of the coronavirus crisis triggered a marked downward trend in many other commodity prices as well. Our commodity trading activities therefore suffered from significant revenue losses in May and June 2020, with correspondingly negative effects on earnings development. Overall, however, this affiliate was still able to close the first half of 2020 in profit. In the meantime, many commodity prices have been experiencing an upswing. In addition, a major order for Russian coke breeze and anthracite for a Canadian customer was concluded for the third quarter, so that the sales and earnings curve for this affiliate should rise again in the coming months. The trading business of the Czech company PCC MoravaChem s.r.o., Český Těšín, was boosted in the second quarter by an unscheduled major order for Russian anthracite. This led to a positive performance overall, with results significantly better than expected. By contrast, the Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA encountered a sharp decline in demand during the second quarter, including from the construction industry. Nevertheless, this business unit was also able to close the second quarter in positive territory and well above the earnings level of the previous year, benefiting in particular from a substantial drop in raw material purchase prices. The alkylphenol producer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), was also faced with declining demand in the second quarter, especially for nonylphenol. While this was partly due to the Covid-19 pandemic, there has also been a general decline in demand for print media, a major user segment for nonylphenol which is employed in the production of printer cartridges. PCC Synteza S.A. is therefore focusing increasingly on expanding its sales portfolio through the addition of specialty products. To this end, this affiliate is cooperating closely with our start-up PolyU GmbH, Essen (Germany), under whose umbrella PCC SE in the second quarter pooled its German activities aligned to the development of customer-specific specialty solutions. The sales revenue and operating profit of PCC Silicium S.A., Zagórze (Poland), were again better than anticipated in the second quarter, despite lower shipment volumes of quartzite to Iceland, the main reason being the sale of quartzite to customers in the ferroalloy industry, which was again well above our expectations. Sales of ballast and aggregates for the construction of roads and railways likewise remained at a high level. At the end of the second quarter, this company was also able to make up part of the book losses that had previously resulted from negative currency translation effects.

## Consumer Products

**The performance posted by the PCC Consumer Products subgroup in the second quarter of 2020 was again significantly better than in the prior-year period and above our expectations.** PCC Consumer Products Kosmet Sp. z o.o. (PCC CP Kosmet), Brzeg Dolny, benefited particularly at the beginning of the second quarter from the sustained boom in demand for antibacterial soaps and hand sanitizers. Although this Covid-19-related surge subsided significantly over the course of the quarter, with all customers having apparently built up sufficient inventories, PCC CP Kosmet's Q2 results still topped the exceptionally good figures of the previous quarter. Our profit expectations were also far exceeded. The previous year saw this affiliate consistently operate at a substantial deficit. Thanks to this positive development, PCC CP Kosmet was able in the second quarter to repay part of the loan granted to it by PCC SE. Our Belarusian affiliate PCC Consumer Products Navigator also closed the second quarter and the first half of 2020 with a positive result overall. By contrast, the other companies belonging to the PCC Consumer Products subgroup continued to operate at a loss.

## Energy

**The Energy division of the PCC Group generated net quarterly external sales of €2.7 million in the second quarter of 2020.** Cumulative consolidated sales for the first half year came in at €6.2 million (previous year: €6.8 million). The main revenue generator was once again the Conventional Energies business unit comprising PCC Rokita SA's combined heat and power plant (and its corresponding business unit) and the electricity and heat utility PCC En-

| Key financials by segment [1] (per IFRS) | | Consumer Products | | | Energy | | | Logistics | | | PCC Group total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **Q2/2020** | 6M/2020 [6] | 6M/2019 | **Q2/2020** | 6M/2020 | 6M/2019 | **Q2/2020** | 6M/2020 | 6M/2019 | **Q2/2020** | 6M/2020 | 6M/2019 |
| **Sales** [2] | € m | **6.9** | 13.2 | 10.3 | **2.7** | 6.2 | 6.8 | **22.3** | 45.4 | 47.6 | **168.3** | 368.9 | 383.9 |
| **EBITDA** [3] | € m | **0.4** | 0.5 | −1.6 | **−0.7** | −2.1 | 0.7 | **4.7** | 8.9 | 10.7 | **21.2** | 33.3 | 47.1 |
| **EBIT** [4] | € m | **0.1** | −0.2 | −2.3 | **−1.5** | −3.9 | −1.2 | **1.8** | 3.1 | 6.1 | **4.7** | 0.4 | 24.7 |
| **EBT** [5] | € m | **−0.2** | −1.4 | −2.9 | **−1.8** | −4.2 | −1.5 | **2.3** | −0.1 | 6.1 | **−3.5** | −21.8 | 13.8 |
| **Employees** | (at June 30) | **365** | 365 | 399 | **174** | 174 | 180 | **545** | 545 | 545 | **3,416** | 3,416 | 3,516 |

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## Logistics

**The Q2 sales of the Logistics division remained flat at €22.3 million, with the cumulative total at the end of June coming in at €45.4 million.** Falling somewhat short of our expectations, sales were thus €2.2 million below the prior-year period (€ 47.6 million). In terms of earnings, however, the business development of this division in the second quarter was significantly better than in the preceding quarter. Although neither the corresponding figures for the previous year nor the budget expectations set for the first half of the year were achieved, operating profit improved by 36.2 % compared to Q1. And at the pre-tax level, the losses of the previous quarter were almost completely offset by the end of June. PCC Intermodal S.A., Gdynia (Poland), made a major contribution to this positive development. In the course of the quarter, the operating rate of many of the train services offered by this affiliate returned to around the same good level as in the prior-year period. The only exception was the service from Hamburg to Poland, which suffered from a Covid-19-related downturn in import volumes from Asia. On the domestic Polish routes, PCC Intermodal S.A. was also faced with increased competition from road transport, as many road haulage companies significantly reduced their freight rates due to lower fuel prices. Nevertheless, PCC Intermodal S.A. was able to successfully hold its own in this difficult market environment, thanks in particular to the good operating rates of its services between Rotterdam/Antwerp and Poland. In the second quarter, the container terminal in Frankfurt (Oder) operated by this affiliate actually recorded the highest freight turnover figures in its history. In addition, the frequency of container train services from China and Japan to Poland also again showed a rising trend in the second quarter. Overall, PCC Intermodal S.A. had a successful second quarter, making a clearly positive earnings contribution at the pre-tax level. The tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, closed the second quarter and also the first half year with performance overall at the expected positive level. At the Russian freight car operator ZAO PCC Rail, Moscow, however, sales and earnings remained well below the level of the previous year, and also short of our expectations, due to declining rail tariffs. Its operating result decreased in the second quarter of 2020, but remained positive as of June 30. At the pre-tax level, the exchange rate development of the Russian ruble against the euro also reversed a portion of the book losses from currency translation effects reported in the first quarter.

## Holding/Projects

**The Holding/Projects division continued to report a deficit in the second quarter of 2020.** This was due in particular to the losses posted by PCC BakkiSilicon hf. After an initial recovery in silicon metal prices at the beginning of the year, the market slumped again very sharply in the second quarter as a result of the Covid-19 restrictions and the associated global economic weakness. Like many other silicon metal producers worldwide, PCC BakkiSilicon hf. was therefore forced to cut back production. One of the two electric arc furnaces was shut down in the second quarter of 2020. The second furnace was then also taken out of service in August 2020 in preparation for the scheduled reconstruction of the plant's filter house roof by the contractor responsible for the facility build. This rehabilitation project will take several weeks to complete. In addition to regular maintenance work during this shutdown period, PCC BakkiSilicon hf. and the plant construction company will also carry out outstanding and contractually guaranteed modification and repair activities while also implementing technical adjustments to enhance production efficiency. Concurrently, there will be a push to achieve product qualification with further customers, with negotiations aligned to gaining improvements on the commercial side also on the agenda. All these measures are intended to contribute to a long-term, sustainable improvement in the earnings situation of PCC BakkiSilicon hf. The second major project company in the Holding / Projects segment, DME Aerosol, Pervomaysky (Russia), further increased sales to various customers in Central and Southeast Europe in the second quarter of 2020. As a result of the qualification of our product at another major customer, we expect to see additional growth in this business in the coming months. Due to the receipt of dividends from various affiliates, the separate financial statements of PCC SE showed a clearly positive upturn in the second quarter. At the Group level, however, this income is eliminated by consolidation procedures.

## Redemption of a Maturing Bond

On July 1, 2020, PCC SE repaid on maturity the 3.00 % bond carrying the code ISIN DE000A2E4HH0, which was issued in October 2017. The redemption amount was €19.2 million.

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