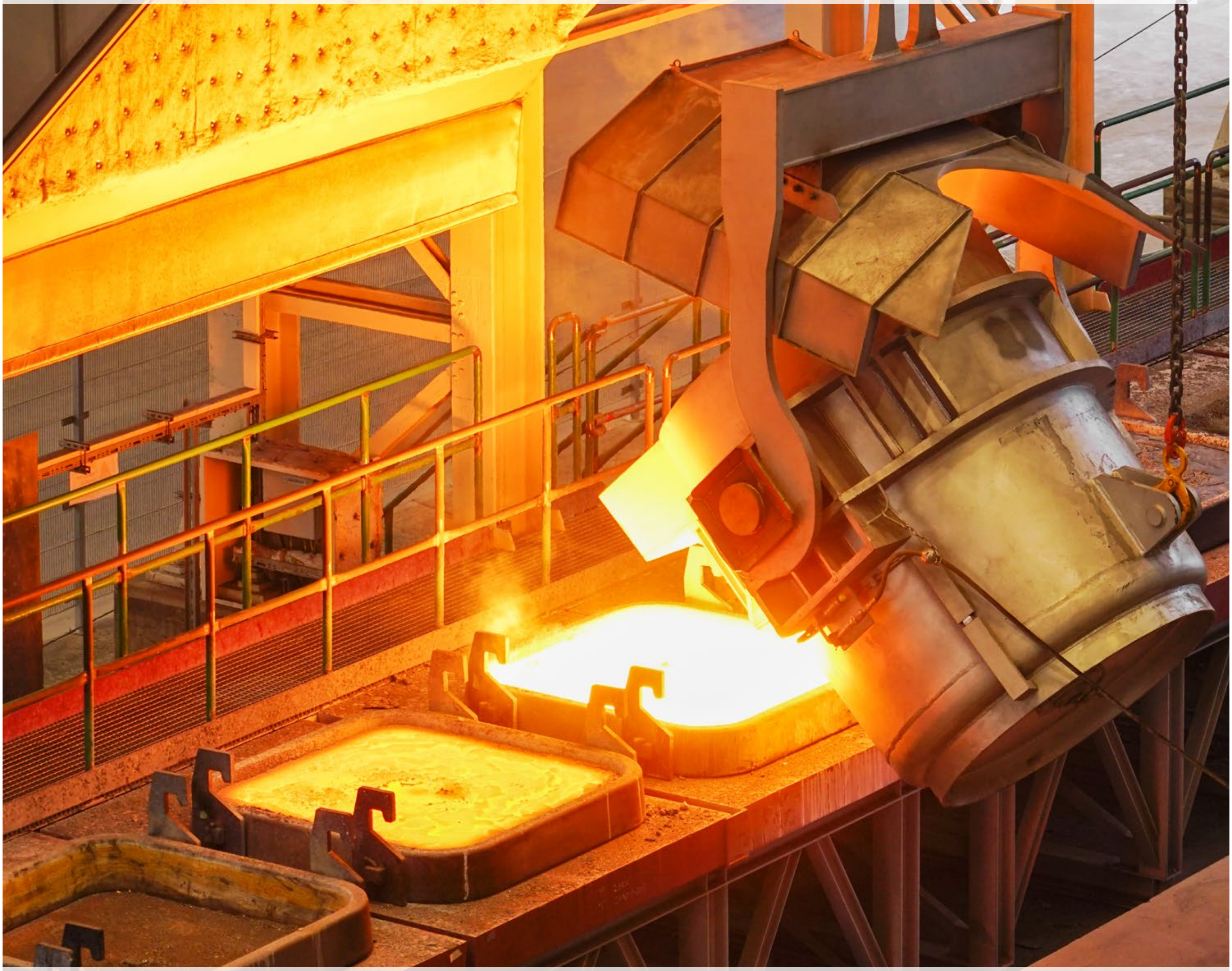
PCC Group Quarterly Report 3/2019

- Sales and earnings performance of PCC trends upward in Q3
- At € 583.2 million, consolidated sales as of September 30, 2019 roughly flat year on year
- Earnings before taxes (EBT) significantly exceed expectations with € 22.0 million as of September 30
- Business performance in the Consumer Products segment shows appreciable improvement versus prior year
- Intermodal Transport business unit continues its strong performance



Our new silicon metal plant in Iceland commenced regular operations on October 30, 2019. The photo shows the teeming of the approximately 1,500 degree Celsius hot, liquid silicon metal into the casting frames, from which the metal is broken out after cooling and hardening. The metal is then further treated and prepared according to customer specifications.

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Overall Business Development

PCC Group sales and earnings performance showed an upward trend in the third quarter of 2019. Consolidated sales rose to €199.4 million in Q3 following a total of €190.2 million in the preceding quarter. As of September 30, 2019, accumulated sales amounted to €583.2 million. Compared to the previous year (€590.7 million) this represents a marginal decrease of 1.3 %. However, the figures achieved fell well short of our revenue targets. Sales in both the Polyols segment and the Specialty Chemicals segment (including commodity trading activities) were below expectations, in particular due to the significantly lower average commodity price levels prevailing compared to 2018. The largest negative deviation from our sales targets was once again attributable to the Silicon Metal business area. Although PCC BakkiSilicon hf., Húsavík (Iceland), again produced and sold silicon metal in the third quarter, the corresponding revenues could not yet be added to consolidated sales. Such aggregation has only occurred since the plant was handed over for regular operations. The Final Acceptance Certificate required for this was signed on October 30, 2019 (see also page 4). Sales performance in the Intermodal Transport business unit continued to be extremely positive, with results far exceeding not only the corresponding figures for the previous year but also our revenue expectations. The PCC Group was able to significantly increase its earnings in Q3 compared to the preceding quarter: Coming in within the parameters of our expectations, consolidated earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA) improved by €26.3 million to a total of €73.4 million as of September 30, 2019, just below the €77.6 million reported the same time last year. However, this prior-year figure included a positive exceptional item in the amount of some €9.6 million resulting from default penalties collected at the time in connection with our silicon metal project. Earnings before taxes (EBT) were similarly affected. This figure rose in the third quarter by €8.2 million to €22.0 million (previous year: €29.5 million). EBT at the end of September 2019 was thus significantly better than originally expected.

Segment Performance

In the third quarter of 2019, the Chemicals division of the PCC Group increased cumulative sales by €169.5 million to €494.7 million as of September 30, 2019 (previous year: €509.2 million). The figures again fell below our revenue expectations for the current year, due primarily – as already mentioned – to lower sales in the segments Polyols and Specialty Chemicals (including the commodity trading business). This was compounded by declining prices for sodium hydroxide monohydrate and caustic soda at the Chlorine business unit of PCC Rokita SA, Brzeg Dolny (Poland). However, earnings continued to develop successfully in the third quarter, coming in better than expected. All segments – with the exception of Consumer Products – once again made a positive contribution to this earnings performance.

Polyols

Despite a persistently difficult market environment, the Polyols segment posted further positive figures in the third quarter. The sales and earnings performance of the Polyols business unit of PCC Rokita SA, Brzeg Dolny, in the Polyether Polyols business area continued to be adversely affected by the sharp decline in demand for flexible foams, particularly from the mattress and furniture industries, exacerbated by the current weakness of the automotive industry. On the other hand, declining raw material purchase prices had a positive effect. Overall, the Polyols business unit was therefore able to close the third quarter of 2019 successfully and remained by far the biggest contributor to revenues and earnings in this segment. The system house PCC Prodex Sp. z o.o. (Brzeg Dolny) likewise made a positive contribution to earnings, benefiting in the third quarter particularly from its strong roof-insulation spray-foam business in Poland. At our German system house PCC Prodex GmbH, Essen, on the other hand, the third quarter again brought little in the way of satisfactory business development. The latter also applies to the Polyester Polyols business area and the portfolio entities managed under the intermediate holding company PCC Insulations GmbH, Duisburg (Germany), which are active in the field of thermal insulation panels.

Surfactants

The Surfactants segment again put in a strong performance in the third quarter of 2019. PCC Exol SA, Brzeg Dolny, the segment's largest affiliate, continued to benefit from sales growth in surfactants for industrial applications. In addition, declining raw material procurement prices had a favorable impact on earnings development. PCC Exol SA therefore closed the third quarter of 2019 successfully and significantly up on the previous year. This also applies to the Surfactants segment as a whole. Gratifyingly, the sales and earnings performance of US affiliate PCC Chemax, Inc., Piedmont (S.C.), also picked up again in the third quarter.

Chlorine

In the Chlorine segment, business continued to develop positively in the third quarter of 2019, although the trend was downward. Sales prices for the chlorine by-products sodium hydroxide monohydrate and caustic soda continued to come under pressure in the third quarter. However, the Chlorine business unit of PCC Rokita SA was able to counter this trend, at least in part, by increasing sales volumes as

Key financials by segment [1] (per IFRS)		Polyols			Surfactants			Chlorine			Specialty Chemicals		
		Q3/2019	9M/2019 [6]	9M/2018	Q3/2019	9M/2019	9M/2018	Q3/2019	9M/2019	9M/2018	Q3/2019	9M/2019	9M/2018
Sales [2]	€ m	**36.6**	106.8	112.0	**30.9**	94.9	98.2	**41.1**	117.8	113.5	**55.4**	159.3	169.2
EBITDA [3]	€ m	**2.0**	4.6	5.7	**3.0**	10.5	8.2	**14.4**	41.3	47.6	**1.8**	6.9	7.9
EBIT [4]	€ m	**1.1**	2.0	4.0	**2.4**	8.1	6.5	**11.1**	31.5	38.1	**0.7**	4.1	5.6
EBT [5]	€ m	**1.0**	1.3	3.2	**1.9**	6.3	5.0	**8.6**	26.5	32.9	**0.2**	3.1	4.7
Employees	(at Sept. 30)	**261**	261	257	**283**	283	294	**388**	388	367	**395**	395	380

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 a result of increased production capacities. It therefore remained the main source of sales and earnings for the Chlorine segment and the PCC Group as a whole as of the end of the third quarter. At PCC MCAA Sp. z o.o., Brzeg Dolny, which is also part of the Chlorine segment, additional steps were taken in the third quarter to optimize the production process and further improve the efficiency of the MCAA plant (MCAA = monochloroacetic acid). This affiliate also benefited from declining raw material purchase prices. As a result, PCC MCAA Sp. z o.o. was able to achieve significant earnings increases in the third quarter. Compared to the previous year, sales and earnings development also improved appreciably overall.

Specialty Chemicals

The Specialty Chemicals segment posted another positive earnings performance in the third quarter of 2019. Although sales in this segment at the end of September were still well below the level of the prior-year period and also below our expectations, we continued to well exceed our earnings targets. The largest commodity trading company within the PCC Group, PCC Trade & Services GmbH, Duisburg, remained the main revenue and earnings generator. In the third quarter, this affiliate benefited from, among other things, a major order for Russian anthracite coal for delivery to Canada. And overall, too, sales of coke and anthracite continued to exceed our expectations. In addition, the prices for the main chemical trading products of this affiliate initially remained at a high level. On the earnings side, PCC Trade & Services GmbH was therefore able to post further growth in the third quarter and almost match the previous year's excellent level as of the end of September. Our earnings expectations for 2019 have actually been exceeded. 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. In the course of the quarter, however, there were increasing signs of an economic slowdown, including in the steel industry. The trading business of the Czech company PCC Morava-Chem s.r.o., Český Těšín, which had previously been positive, was directly affected by this: Due to the unexpected application for insolvency filed by a long-standing major customer, this affiliate had to recognize a value adjustment on its receivables in the third quarter, as a consequence of which its earnings result slipped significantly into the red as of the end of the quarter.

By contrast, the positive sales and earnings performance of the Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA and the alkylphenol producer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), continued through the third quarter of 2019. Gratifyingly the same applies – at least at the operating level – to PCC Silicium S.A., Zagórze (Poland), despite quartzite deliveries to Iceland remaining below expectations due to the delays in our silicon metal project there. Sales to customers in the ferroalloy industry of quartzite qualities not suitable for silicon metal production also showed a declining trend in the third quarter due to the economic downturn. However, sales of aggregates and ballast, particularly for the construction of railway lines, rose sharply again in the course of the third quarter. PCC Silicium S.A. was therefore again able to generate a positive EBITDA in the third quarter and maintain its EBT at approximately the level shown in the first half of 2019. Both figures were thus significantly higher than in the previous year and also above our expectations. The two start-ups involved in product development for customer-specific applications, namely PCC Specialties GmbH, Kamp-Lintfort, and PolyU GmbH, Essen (both Germany), are still in their infancy and thus remained in deficit. However, the losses of these two companies and of PCC Morava-Chem s.r.o. were more than offset by the positive results of the other affiliates in this segment.

Consumer Products

The results of the PCC Consumer Products Group remained below our expectations in the third quarter of 2019, but improved significantly compared to the previous year. This applies in particular to the largest affiliate in this segment, PCC Consumer Products Kosmet Sp. z o.o. ("PCC CP Kosmet"), Brzeg Dolny. The cost-cutting measures that have now been introduced there exerted a favorable influence on earnings development. Plus, successfully implemented price increases for some customers and further growth in the volume of incoming orders from a large discounter led to positive sales and earnings effects. As a result, PCC CP Kosmet was able for the first time in a long while to post a positive EBITDA figure at the end of September, with earnings before taxes (EBT) at break-even. As of September 30, PCC CP Kosmet remained in accumulated loss territory, but was able to more than halve the deficit compared to the previous year. The Belarusian company PCC Consumer Products Navigator, Grodno, achieved a slightly positive result as of the end of September. The matches factory PCC Consumer Products Czechowice S.A., Czechowice-Dziedzice (Poland), remained the biggest "problem child" in this segment. In the third quarter, sales and earnings from this affiliate continued to come in well below our expectations due to the fact that the market for matches is generally shrinking. Planned deliveries for a major Spanish customer again failed to materialize in the third quarter of 2019. PCC SE, together with the management of the matches factory, has therefore decided to add wooden cutlery to the product portfolio of this affiliate. The necessary investments in the expansion of the

Key financials by segment [1] (per IFRS)		Consumer Products			Energy			Logistics			PCC Group total		
		Q3/2019	9M/2019 [6]	9M/2018	Q3/2019	9M/2019	9M/2018	Q3/2019	9M/2019	9M/2018	Q3/2019	9M/2019	9M/2018
Sales [2]	€ m	**5.5**	15.8	16.3	**2.3**	9.1	9.2	**25.2**	72.8	64.9	**199.4**	583.2	590.7
EBITDA [3]	€ m	**−0.4**	−2.0	−3.8	**−0.3**	0.4	2.8	**5.5**	16.2	7.8	**26.3**	73.4	77.6
EBIT [4]	€ m	**−0.7**	−3.0	−4.8	**−1.2**	−2.4	0.5	**3.1**	9.2	4.6	**15.2**	39.8	51.9
EBT [5]	€ m	**−1.2**	−4.1	−5.9	**−1.4**	−2.9	0.2	**2.3**	8.4	1.3	**8.2**	22.0	29.5
Employees	(at Sept. 30)	**400**	400	479	**185**	185	175	**554**	554	494	**3,562**	3,562	3,443

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 machine pool in Czechowice-Dziedzice – due in the near future – are expected to remain within a very manageable range, with the financing being provided in the form of loans from PCC SE.

Energy

The Energy division of the PCC Group generated net external sales of €2.3 million in the third quarter of 2019. By the end of September, therefore, divisional revenues had accumulated to €9.1 million (previous year: €9.2 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. On the earnings side, however, the Renewable Energies business unit held its lead. Overall, the performance of the Energy division as of the end of September was slightly below our expectations, with results either way remaining of subordinate importance in terms of their impact on Group earnings as a whole.

Logistics

With quarterly sales of €25.2 million, the Logistics division actually succeeded in topping the high sales level of the preceding quarter (€23.9 million). By the end of September, therefore, net external divisional sales had accumulated to €72.8 million. Compared to the figure for the corresponding prior-year period (€64.9 million), this represents a revenue increase of 12.3 %, reflecting in particular the increase in sales generated by PCC Intermodal S.A., Gdynia (Poland). As already indicated in previous quarterly reports, 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. In addition, the further rise in the number of container handling operations made a positive contribution to the development of sales and earnings. Although the imbalance between exports from and imports to Poland caused some problems for PCC Intermodal S.A. in the third quarter, overall this affiliate was extremely successful, significantly exceeding both the corresponding figures for the previous year and our expectations. The third quarter also saw PCC Intermodal S.A. put plans in place for further growth going forward: Together with a Russian partner, it has established a train service to the Far East for the transportation of goods primarily from Japan and Korea to Europe and vice versa. The road tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, and the Russian rail freight car operator ZAO PCC Rail, Moscow, also closed the third quarter on a positive note, with results overall better than expected. The earnings of these two affiliates as of the end of September also exceeded their respective good prior-year figures. With cash flows holding steady in the third quarter, ZAO PCC Rail was again able to make regular monthly repayments on the investment loans granted to it by PCC SE.

Holding/Projects

As expected, earnings before taxes (EBT) in the Holding/Projects division declined in the third quarter. This also applies to the earnings recognized in the separate-entity financial statements of PCC SE. However, due to the dividends received in the second quarter, PCC SE was still able to report a clearly positive result as of the end of September 2019. At Group level, 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, and distripark GmbH, Kamp-Lintfort, are managed within the Holding/Projects division. Although still posting losses, both start-ups were able to significantly increase their sales compared to the previous year. Together with PCC Rokita SA, PCC SE therefore decided in the third quarter to strengthen the equity base of Polish distripark.com Sp. z o.o. to provide a solid platform for further growth. A total equity increase of PLN 1.5 million (around €350 k) was agreed, of which PLN 775 k is attributable to PCC SE. With this capital increase having been implemented in October 2019, PCC SE and PCC Rokita SA each now hold 50 % of the shares in this company. In addition to the aforementioned affiliates, the Holding/Projects segment also includes the two major project companies PCC BakkiSilicon hf. and DME Aerosol, Pervomaysky (Russia).

Silicon metal plant in Iceland commences regular operations

As already mentioned, the new silicon metal plant of PCC BakkiSilicon hf. in Iceland commenced regular operations on October 30, 2019. Production has since remained stable for several weeks running: Both the plant's electric arc furnaces have been continuously producing silicon metal to the required quality standards. The volumes manufactured have been sold in their entirety. However, market prices are currently at an all-time low, which is why further measures have been taken to increase efficiency and thereby reduce costs. And in this area too, we plan to produce increasingly higher-quality and thus higher-margin grades.

PCC Intermodal GmbH receives license for EU-wide transportation

In July 2019, PCC Intermodal GmbH, Duisburg, received a ten-year license for cross-border commercial road haulage within the European Union. This will enable the Group subsidiary to handle container transport operations to and from Poland independently via its combined transport terminal in Frankfurt (Oder).

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