PCC Group Quarterly Report 3/2020

- **PCC consolidated sales for Q3 2020 hold steady at € 167.6 million despite coronavirus**
- **Gross profit reaches € 51.9 million, as in the preceding quarter**
- **EBITDA, operating profit and earnings before taxes significantly up on the preceding quarter after adjusting for exceptional item**
- **Chemicals division exceeds profit expectations set before advent of the coronavirus pandemic**
- **Chemical production workloads remain heavy while the intermodal transport business experiences further growth**
- **Redemption of maturing bond**

Overall Business Development

Due to high demand, all five production lines for polyether polyols of PCC Rokita SA at the Brzeg Dolny site are currently operating at full capacity. Measured in terms of standard polyols, total capacity currently stands at 110,000 metric tons per year.

The PCC Group recorded steady revenue development in the third quarter of 2020. Consolidated sales amounted to €167.6 million (preceding quarter: €168.3 million), with the cumulative total as of September 30 at €536.5 million. Compared to the corresponding nine-month period in 2019 (€ 583.2 million), this represents a decrease of 8.0 %, with the total – due to coronavirus – well short of our sales expectations for 2020. One of the main causes remained the lower than expected average selling prices, which came under massive pressure in almost all business units of our Chemicals division due to the coronavirus pandemic. However, raw material prices also stayed lower on the purchasing side, with the result that the PCC Group again posted a steady quarterly gross profit of €51.9 million comparable with that of the preceding quarter. By the end of the third quarter, gross profit had accumulated to €157.5 million. Consolidated earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA) came in at €19.9 million in the third quarter (previous year: €26.3 million) and thus accumulated to €53.3 million in the first nine months of the fiscal year (previous year: €73.4 million). EBITDA for the third quarter was thus slightly down on the preceding quarter's figure of €21.2 million. When making this comparison, however, it should be noted that the figures for the second quarter included a positive exceptional item in the higher single-digit million range. This one-off effect resulted from the compensation payment which PCC BakkiSilicon hf., Húsavík (Iceland), received in April 2020 following agreement in the settlement negotiations with the constructor of our silicon metal plant. Adjusted for this effect, EBITDA increased significantly in the third quarter. Operating profit (EBIT) and earnings before taxes (EBT) were similarly affected. EBIT for the third quarter amounted to €2.6 million and accumulated to €3.0 million as at September 30, thus remaining positive despite a further increase in depreciation and amortization expense. In contrast, EBT for the third quarter showed a loss of €8.6 million. This figure accumulated to €–30.3 million at September 30, 2020 (previous year: €22.0 million). A portion of these losses resulted from negative exchange rate effects due to a further decline of the Polish złoty and Russian ruble against the euro as of the end of the quarter. In particular, PCC MCAA Sp. z o.o., Brzeg Dolny (Poland), PCC Silicium S.A., Zagórze (Poland), and the Russian company ZAO PCC Rail, Moscow, once again had to report non-cash accounting losses as of the end of September in the valuation of their euro-denominated loan accounts. Overall, the result from exchange rate effects culminated in a negative earnings contribution in the higher single-digit million range.

The utilization of production capacities within the PCC Group remained at a high level overall in the third quarter of 2020, and the intermodal transport business also continued to grow significantly.

Segment Performance

Overall, the Chemicals division of the PCC Group closed the third quarter of 2020 successfully, even exceeding the positive results of the two preceding quarters. Quarterly sales stabilized at €134.2 million (preceding quarter: €135.0 million) and accumulated to €429.6 million as of September 30. This thus fell significantly short both of the corresponding figure for the previous year of €494.7 million and of our sales expectations for the current fiscal year. On the earnings side, however, the Chemicals division clearly exceeded our expectations set before the outbreak of the coronavirus pandemic, both in terms of EBITDA and at the operating and pre-tax levels. With the exception of Consumer Products, all segments managed within the Chemicals division once again made a positive contribution to this performance.

Polyols

The Polyols segment significantly improved its overall performance in the third quarter of 2020 compared to the preceding two quarters, these also having been positive. One of the main reasons for this gratifying development is the increasing demand for polyether polyols emanating from the mattress and furniture industries. Already apparent at the end of Q2, it strengthened even more after the turn of the quarter. And this positive trend is also still showing an upward trajectory. All five production lines for polyether polyols of the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), have since been operating at their capacity limits, with correspondingly positive effects on sales and earnings. As of the end of September, both the positive figures for the previous year and our expectations were clearly exceeded on the earnings side. The Thai joint venture in this segment, IRPC Polyol Company Ltd., Bangkok, likewise made another positive contribution to earnings in the third quarter of 2020 thanks to continued high demand in the countries of Southeast Asia. The boom in demand for polishing discs also continued in the third quarter, with the result that PCC Prodex GmbH, Essen (Germany), has been operating in two shifts since the end of July. Although at least showing an improvement on previous quarters, the sales and earnings performance of this affiliate remained unsatisfactory overall. All the other business units in the Polyols segment, most of which are still in the start-up phase, continued to operate at a loss.

Surfactants

The Surfactants segment also closed the third quarter of 2020 in positive territory. In the wake of the coronavirus pandemic, demand for surfactants for the manufacture of detergents and cleaning agents held stable at a high level. The production facilities of the largest affiliate in this segment, PCC Exol SA, Brzeg Dolny, thus continued to operate at high capacity in the third quarter. In addition, raw material purchase prices remained at a relatively low level. Despite increasing competitive pressure, PCC Exol SA therefore also ended the third quarter successfully and with performance up year on year. This also applies to its US affiliate PCC Chemax, Inc., Piedmont (SC).

Chlorine

The Chlorine segment likewise showed positive earnings development in the third quarter of 2020, improving on the two preceding quarters. Overall, however, this segment still fell far short of matching the extraordinarily good figures of the previous year. This is primarily due to the continued and significant year-on-year decline in the selling prices for the chlorine by-product caustic soda produced by the Chlorine business unit of PCC Rokita SA. Prices for caustic soda lye also came under pressure due to increased availability from a new local competitor. Conversely, rising prices for other chlorine derivatives such as hydrochloric acid and monochlorobenzene, as well as more favorable energy purchasing costs, combined to exert a positive effect. Income was also generated in the form of a compensation payment for CO_2 certificates. Overall, the Chlorine business unit therefore also ended the third quarter of 2020 in clearly positive territory – and above the levels of the two preceding quarters – although with the earnings figure still down year on year. By contrast, PCC MCAA Sp. z o.o., Brzeg Dolny, which is also managed within the Chlorine segment, again significantly exceeded its good results from the previous year at the operating level as of the end of September. It was, however, unable to match the exceptionally good earnings performance it recorded in the pre-

Key financials by segment [1] (per IFRS)		Polyols			Surfactants			Chlorine			Specialty Chemicals		
		Q3/2020	9M/2020 [6]	9M/2019	Q3/2020	9M/2020	9M/2019	Q3/2020	9M/2020	9M/2019	Q3/2020	9M/2020	9M/2019
Sales [2]	€ m	**33.7**	99.5	106.8	**29.5**	91.5	94.9	**30.1**	98.9	117.8	**34.1**	119.7	159.3
EBITDA [3]	€ m	**4.6**	10.4	4.6	**3.4**	12.0	10.5	**11.6**	28.9	41.3	**2.3**	7.2	6.9
EBIT [4]	€ m	**3.4**	6.9	2.0	**2.8**	10.1	8.1	**6.9**	16.6	31.5	**1.0**	3.4	4.1
EBT [5]	€ m	**3.1**	6.5	1.3	**2.6**	8.6	6.3	**5.0**	10.3	26.5	**0.6**	1.1	3.1
Employees	(at Sept. 30)	**266**	266	261	**290**	290	283	**385**	385	388	**378**	378	395

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 ceding quarter. One of the reasons for this was a production stoppage lasting several days due to regular maintenance and repair work. Earnings were also adversely affected by the weakening of the Polish złoty against the euro, as a result of which PCC MCAA Sp. z o.o. posted currency translation losses as of the end of the third quarter. As expected, PCC MCAA Sp. z o.o. also had to cope in the third quarter with losing one of its previous major customers due to its takeover by a direct competitor. Gratifyingly, however, there are now signs that other customers are extensively compensating for this setback.

Specialty Chemicals

In the business units of the Specialty Chemicals segment, sales and earnings development in the third quarter of 2020 was predominantly positive. The main revenue driver in this segment, the commodity trading company PCC Trade & Services GmbH, Duisburg (Germany), again reported a significant increase in sales from August onward, and thus a return to rising margins – at least in absolute terms. A major order for Russian coke breeze and anthracite is worthy of particular mention in this regard. In addition, following their dramatic fall in the previous quarter as a result of Covid-19, commodity prices initially began to rise again, although the sustainability of this trend is currently difficult to assess in view of the ongoing coronavirus crisis. Nevertheless, PCC Trade & Services GmbH closed the third quarter in positive territory, although remaining well below the level of performance of the previous year and also below our expectations. By contrast, sales and earnings of the Czech trading company PCC MoravaChem s.r.o., Český Těšín, weakened slightly in the third quarter. However, thanks to the unscheduled major order for Russian anthracite, which was processed in the previous quarter, this affiliate still remained in positive territory as of the end of September. In the third quarter, the Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA was able to benefit from the upturn in demand – including from the construction industry – following abatement of the first wave of the coronavirus pandemic. In addition, the cheaper raw material purchase prices prevailing also had a positive impact here on earnings development. Despite a maintenance-related production stoppage in August, this business unit closed the third quarter of 2020 positively and significantly above the figure for the previous year. The alkylphenol producer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), on the other hand, remained unable to match the exceptionally good figures of the previous year. Here too, however, the development of sales and earnings improved significantly in the third quarter as a result of both an at least partial recovery in demand on the one hand and more favorable raw material purchase prices on the other. As a result, PCC Synteza S.A. was also able to turn its pre-tax earnings back into positive territory as of the end of September. The sales revenue and operating profit of PCC Silicium S.A. were once again better than anticipated in the third quarter, despite lower shipment volumes of quartzite to Iceland, However, pre-tax earnings slipped significantly into the red due to the aforementioned non-cash currency translation losses. In August 2020, PCC Silicium S.A. received a license valid until 2040 for quartzite extraction on a further 8.9 hectares (22 acres) of land. This is an important prerequisite for the long-term survival of this affiliate and for the supply of raw materials to PCC Bakki-Silicon hf.

Consumer Products

The performance of the PCC Consumer Products subgroup weakened in the third quarter of 2020, but was still well up on the previous year and above our expectations. Once again, developments were driven by PCC Consumer Products Kosmet Sp. z o.o. (PCC CP Kosmet), Brzeg Dolny. Although PCC CP Kosmet was unable to match its exceptionally good Q2 results in the third quarter, and indeed recorded a slight loss for the period, on a cumulative basis its earnings nevertheless remained in clearly positive territory as of the end of September, not least due to PCC CP Kosmet benefiting from rising sales to its principal customers in the third quarter. Deliveries of its own brands to Kazakhstan and other Eastern European countries also picked up significantly following the lifting of the Covid-19 lockdown there. In contrast, demand for antibacterial soaps and disinfectant hand sanitizers initially declined sharply at the beginning of the third quarter. As a result of the second coronavirus wave, however, this development has recently been reversed. In September, PCC CP Kosmet also won a tender for the supply of disinfectants for the internal use of a large supermarket chain. PCC CP Kosmet thus laid important foundations in Q3 for further successful business development in the coming months. The Belarusian affiliate PCC Consumer Products Navigator slipped back to record a slight pre-tax loss in the third quarter, and all the other companies belonging to the PCC Consumer Products subgroup likewise continued to operate at a deficit.

Key financials by segment [1] (per IFRS)		Consumer Products			Energy			Logistics			PCC Group total		
		Q3/2020	9M/2020 [6]	9M/2019	Q3/2020	9M/2020	9M/2019	Q3/2020	9M/2020	9M/2019	Q3/2020	9M/2020	9M/2019
Sales [2]	€ m	**6.8**	20.1	15.8	**2.3**	8.5	9.1	**25.0**	70.4	72.8	**167.6**	536.5	583.2
EBITDA [3]	€ m	**0.0**	0.4	−2.0	**0.2**	−1.9	0.4	**4.9**	13.8	16.2	**19.9**	53.3	73.4
EBIT [4]	€ m	**−0.4**	−0.5	−3.0	**−0.6**	−4.5	−2.4	**1.8**	4.9	9.2	**2.6**	3.0	39.8
EBT [5]	€ m	**−1.0**	−2.4	−4.1	**−0.7**	−4.9	−2.9	**−0.6**	−0.7	8.4	**−8.6**	−30.3	22.0
Employees	(at Sept. 30)	**356**	356	400	**172**	172	185	**569**	569	554	**3,292**	3,292	3,562

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Energy

The Energy division of the PCC Group generated net external sales of €2.3 million in the third quarter of 2020. Cumulative consolidated sales for the first nine months thus came in at €8.5 million (previous year: €9.1 million). The main contributions to revenue continued to come from 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 Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle. This business unit continued to show losses as of September 30, resulting from, among other things, provisions for the purchase of CO_2 certificates required in the course of 2020 (see Quarterly Reports 1/2020 and 2/2020). The Renewable Energies business unit reported earnings as of the end of the third quarter at the break-even point. The number of small hydropower plants connected to their respective grids remained at five. The final commissioning of the sixth hydropower plant in Kriva Reka (Northern Macedonia) has been postponed beyond the end of the quarter to 2021 due to delays in obtaining the final operating permit from the local authorities.

Logistics

Quarterly sales of the Logistics division amounted to some €25.0 million, accumulating to €70.4 million as of September 30 (previous year: €72.8 million). The third quarter of 2020 was thus the strongest of the current fiscal year in terms of sales to date. The operating result also exceeded the figures for the two preceding quarters. The main revenue and earnings generator of the Logistics division was again PCC Intermodal S.A., Gdynia (Poland). The operating rate on many of this affiliate's train services continued to show an upward trend during the quarter and even exceeded the previous year's good level on the routes between Rotterdam/Antwerp and Poland. Despite increasing competitive pressure from smaller operators and, particularly on the shorter, inner-Polish routes, also from road transport (a consequence of low fuel prices), PCC Intermodal S.A. was therefore again able to significantly improve its earnings in the third quarter. In the course of the third quarter, PCC Intermodal S.A. laid important foundations for its further growth with tenders for the purchase of more locomotives and the acquisition of additional reach stackers for container loading duties. Even before the outbreak of the coronavirus pandemic, this affiliate had also decided to invest in new container platforms, which were delivered in their entirety by the end of the third quarter. In line with our expectations, the tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, again made a steady, positive contribution to earnings in the third quarter. The Russian freight car operator ZAO PCC Rail managed at least to slightly improve its operating result in the third quarter. Seen overall, however, the figure remained well below the level of the previous year and also below our expectations due to declining rail tariffs. As of the end of the third quarter, this affiliate also again posted significant accounting losses due to currency translation effects.

Holding/Projects

The Holding / Projects division continued to report significant losses in the third quarter of 2020. These particularly reflect the earnings situation of PCC BakkiSilicon hf., which has been impacted by the sharp drop in silicon metal prices resulting from the Covid-19 restrictions and the associated global economic weakness (see Quarterly Report 2/2020). However, the scheduled roof reconstruction work on the filter house of the plant was at least fully completed by the plant constructor in August 2020. Furthermore, in addition to regular maintenance work, PCC BakkiSilicon hf. and the plant construction company also carried out (and are still carrying out) outstanding and contractually guaranteed conversion and repair measures, as well as technical adjustments to increase the efficiency of production. Due to the sometimes relatively long delivery times for the necessary materials, this work will probably not be fully completed until the first quarter of 2021. Parallel to this, PCC BakkiSilicon hf. with the support of PCC SE is working intensively on product qualification for further customers and on additional improvements on the commercial side in order to achieve a long-term and sustainable upturn in its earnings situation. 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 third quarter of 2020, with a positive EBITDA also ensuing. In addition, PCC SE sharpened its focus during the third quarter on the project planned together with Petronas Chemicals Group Berhad for the joint production of specialty chemicals in Malaysia. The earnings data in the separate financial statements of PCC SE remained clearly positive due to the dividends received in the previous quarter from various affiliates.

Redemption of maturing bond

On October 1, 2020, PCC SE repaid on maturity the 5.00 % bond carrying the code ISIN DE000A162AP6, which was issued in October 2015. The redemption amount was €25.0 million.

Duisburg, November 2020

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