PCC Group Quarterly Report 4/2019

- PCC consolidated sales for fiscal 2019 slightly below prior year at € 767.8 million
- PCC Group sales in fourth quarter down due to seasonal factors
- Earnings before taxes (EBT) as of year-end above expectations at € 20.2 million
- Logistics company PCC Intermodal S.A. posts strong performance for both the fourth quarter and the year as a whole
- Redemption of maturing bonds

The expanded propylene oxide (PO) plant of PCC Rokita SA at our Brzeg Dolny chemicals site has an annual production capacity of 57,000 metric tons. This facility uses a major proportion of the chlorine we manufacture as an input material. PO in turn serves as a feedstock for our polyols production. The Chlorine and Polyols segments both recorded positive numbers in the fourth quarter of 2019.

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Overall Business Development

In the fourth quarter of 2019, the PCC Group generated consolidated sales of €184.5 million. That made this quarter the slowest in the past fiscal year in revenue terms. The main reason for this was the significant decline in sales in December due to the relatively long interruption of the Christmas period in 2019. As of year-end, cumulative consolidated sales came in at €767.8 million. Compared to the previous year (€779.2 million), this represents only a marginal minus of 1.5 %; however, it also means sales fell well short of budget. This is largely due to the fact that sales in the Chemicals division were significantly below our expectations, due in particular to the substantially lower average price levels prevailing for chemical feedstocks compared to 2018. The largest negative deviation from our sales targets in 2019 was, however, attributable to the Silicon Metal business area. Although PCC BakkiSilicon hf., Húsavík (Iceland), again produced and sold silicon metal throughout the year, the corresponding revenues only started to be booked to consolidated sales once the plant had been accepted for regular operations, which occurred in November 2019. Sales performance in the Intermodal Transport business unit was extremely positive overall, with results far exceeding not only the corresponding figures for the previous year but also our revenue expectations.

In terms of earnings, the fourth quarter of 2019 was particularly influenced by the commencement of regular operations in Iceland, which led to start-up losses being incurred by PCC BakkiSilicon hf. from November onwards. Thanks to the continued good performance of the majority of PCC SE's subsidiaries and affiliates, consolidated earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA) of €21.1 million were nevertheless generated in the fourth quarter. As of December 31, 2019, cumulative EBITDA amounted to €94.5 million, just short of our earnings expectations. This figure likewise represents a decrease of €10.8 million versus the prior-year EBITDA figure of €105.3 million. However, this prior-year total included a positive one-time effect of around €9.6 million due to default penalties collected at the time in connection with our silicon metal project. This amount therefore needs to be deducted from the 2018 figure to give a true comparison. Earnings before taxes (EBT) were similarly affected. These amounted to €–1.9 million in the fourth quarter, resulting in a total EBT of €20.2 million for 2019 (previous year: €41.5 million, unadjusted). The main reasons for the slight decline compared to the previous quarters were higher depreciation and amortization and the increased interest burden resulting from the commencement of regular operations in Iceland. EBT at the end of 2019 was nonetheless significantly better than originally expected.

The above disclosures represent preliminary figures for the consolidated financial statements. The final, audited financial data will be published on our websites www.pcc-financialdata.eu / www.pcc-finanzinformationen.eu in the second quarter of 2020 once the consolidated financial statements have been approved and certified.

Segment Performance

The Chemicals division of the PCC Group generated sales of €151.5 million in the fourth quarter of 2019 and cumulative sales of €646.2 million as of December 31, 2019 (previous year: €668.7 million). This annual total therefore falls well short of our sales expectations for the past fiscal year. Ultimately, none of the Chemicals segments was able to achieve the revenue figures budgeted for 2019. The main reason for this was – as already mentioned – the significantly lower average price levels prevailing for chemical feedstocks compared to 2018. The earnings trend also fell short of our expectations overall, despite a gratifying upswing in the fourth quarter. All segments of this division – with the exception of Consumer Products – once again made a positive contribution to the earnings total.

Polyols

The Polyols segment posted further positive figures in the fourth quarter. The main sales and earnings driver remained the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), which continued to perform well in a persistently difficult market environment for polyether polyols. The competitiveness of this business unit is to be further strengthened by the systematic expansion of its product portfolio, with a special focus on higher-value specialty polyols. To this end, a pilot plant was commissioned in 2019 with mini-reactors in which a wide range of product synthesis experiments can be carried out. This represents a major milestone on the road to future growth. The sales and earnings performance of the systems house PCC Prodex Sp. z o.o., Brzeg Dolny, declined in the fourth quarter of 2019 due to seasonal factors. Overall, however, business at this affiliate in 2019 developed significantly better than in the previous year, with results just falling short of the targeted turnaround. Our German systems house PCC Prodex GmbH, Essen, also improved its performance versus the previous year. However, the results for both the fourth quarter and for fiscal 2019 as a whole were still not entirely satisfactory. 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 put in a strong overall performance both in the fourth quarter of 2019 and over the fiscal year as a whole. PCC Exol SA, Brzeg Dolny, the segment's largest affiliate, continued to benefit from the growing share of higher-value products in its portfolio. In addition, declining raw material procurement prices had a favorable impact on earnings.

Key financials by segment [1] (per IFRS)		Polyols			Surfactants			Chlorine			Specialty Chemicals		
		Q4/2019	2019	2018	Q4/2019	2019	2018	Q4/2019	2019	2018	Q4/2019	2019	2018
Sales [2]	€ m	35.5	142.3	145.4	28.3	123.2	124.5	36.9	154.7	155.5	45.0	204.3	222.1
EBITDA [3]	€ m	2.2	6.9	7.2	2.3	12.8	10.2	13.0	54.3	67.6	3.1	10.0	9.3
EBIT [4]	€ m	1.1	3.1	4.7	1.7	9.8	8.0	9.3	40.8	54.3	0.9	5.1	6.2
EBT [5]	€ m	0.6	1.8	1.7	1.0	7.3	5.7	8.9	35.4	47.3	0.6	3.6	5.5
Employees	(at Dec. 31)	267	267	247	289	289	289	399	399	384	401	401	393

Notes: Rounding differences possible. Fiscal 2019 figures taken from provisional consolidated financial statements and therefore currently unaudited. Quarterly 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

PCC Exol SA therefore closed the fourth quarter of 2019 successfully and significantly up on the previous year. This also applies to the Surfactants segment as a whole. The US subsidiary of PCC Exol SA, PCC Chemax, Inc. of Piedmont (S.C.), likewise made a positive contribution to the results achieved.

Chlorine

The Chlorine segment also closed the fourth quarter of 2019 in positive territory. However, the sales performance of the Chlorine business unit of PCC Rokita SA again revealed a downward trend. In particular, selling prices for the chlorine by-product caustic soda remained under considerable pressure in the fourth quarter due to strong competition from China and India. The prices for sodium hydroxide monohydrate, on the other hand, recovered at least temporarily due to periodical interruptions in production experienced by the local competitors of PCC Rokita SA. The Chlorine business unit therefore increased its production of sodium hydroxide monohydrate in the fourth quarter at the expense of caustic soda volumes, enabling it to match the earnings level of the previous quarter. As of the end of 2019, therefore, this business unit remained the main contributor to the sales and earnings of the Chlorine segment and of the PCC Group as a whole. PCC MCAA Sp. z o.o., Brzeg Dolny, which is also managed within the Chlorine segment, posted another successful sales and earnings performance in the fourth quarter of 2019, again considerably improving on the figures of the previous year. As a result, PCC MCAA Sp. z o.o. was able to generate a net profit for the first time in 2019. This success was clouded by an investigation launched at the end of October 2019 by the European Commission against the Polish government for granting state subsidies in 2012 and 2013. As a result of these support measures, PCC MCAA Sp. z o.o. received direct financial aid amounting to the equivalent of around €16 million. The proceedings are directed against the Polish government and are being conducted in an open-ended manner. A negative decision by the EU Commission could lead to these subsidies being clawed back, together with loss of the tax benefits granted within this support framework. However, the tax burden incurred could be offset against the losses carried forward from previous years by PCC MCAA Sp. z o.o., so that this at least does not represent a financial risk for this affiliate.

Specialty Chemicals

The Specialty Chemicals segment posted another positive earnings performance in the fourth quarter of 2019. Although sales in this segment at the end of December were still well below the level of the prior-year period and also below our expectations, we continued to far exceed the budgeted earnings figures. The largest commodity trading company within the PCC Group, PCC Trade & Services GmbH, Duisburg, remained the main revenue and earnings generator. Gratifyingly, sales of coke and anthracite from this affiliate again exceeded our expectations in the fourth quarter. However, selling prices came under increasing pressure due to the ongoing deterioration of the steel economy. The prices of the main chemical commodities handled by PCC Trade & Services GmbH also initially showed a tendency to decline due to the slowdown in economic growth, but by the end of the year they had begun to rise again. On the earnings side, PCC Trade & Services GmbH was able to post further growth in the fourth quarter, exceeding our expectations for 2019 as a whole. However, earnings fell short of the exceptionally good level achieved in the previous year. 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. It thus also closed fiscal 2019 with a successful set of figures. The commodity trading business of the Czech company PCC Morava-Chem s.r.o., Český Těšín, made a loss in 2019 due to the insolvency of one of its main customers, as already outlined in the previous quarterly report. The positive sales and earnings trends posted by 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 fourth quarter of 2019. Gratifyingly, the same applies to PCC Silicium S.A., Zagórze (Poland) – despite lower-than-expected shipments of quartzite to Iceland. Although sales of quartzite grades not suitable for our silicon metal production in Iceland to customers in the ferroalloy industry continued to decline, sales of ballast and aggregates for the construction of roads and railway lines increased. PCC Silicon S.A. therefore closed the fourth quarter and also fiscal 2019 on a positive note, well above the revenue of the previous year while likewise exceeding our earnings expectations. The two start-ups involved in product development for customer-specific applications, namely PCC Specialties GmbH, Oberhausen (formerly: 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

Thanks to the continuously improving performance of PCC Consumer Products Kosmet Sp. z o.o. (PCC CP Kosmet), Brzeg Dolny, the PCC Consumer Products subgroup as a whole was able to post sales in 2019 matching the previous year's level. The earnings trend actually showed a significant improvement compared to the previous year, but overall remained below our expectations both for the fourth quarter and for fiscal 2019 as a whole. The matches factory PCC Consumer Products

Key financials by segment[1] (per IFRS)		Consumer Products			Energy			Logistics			PCC Group total		
		Q4/2019	2019	2018	Q4/2019	2019	2018	Q4/2019	2019	2018	Q4/2019	2019	2018
Sales[2]	€ m	5.8	21.6	21.3	3.3	12.4	12.3	24.3	97.1	88.7	184.5	767.8	779.2
EBITDA[3]	€ m	−0.6	−2.6	−5.6	0.8	1.2	4.3	5.5	21.7	11.0	21.1	94.5	105.3
EBIT[4]	€ m	−1.0	−4.0	−6.9	−0.3	−2.6	1.1	2.7	11.9	6.7	4.6	44.5	68.9
EBT[5]	€ m	−1.4	−5.5	−8.4	−0.5	−3.4	0.6	2.7	11.1	2.3	−1.9	20.2	41.5
Employees	(at Dec. 31)	390	390	431	185	185	178	559	559	509	3,577	3,577	3,476

Notes: Rounding differences possible. Fiscal 2019 figures taken from provisional consolidated financial statements and therefore currently unaudited. Quarterly 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

Czechowice S.A., Czechowice-Dziedzice (Poland) remained the biggest "problem child" in this segment, with losses in fiscal 2019 coming in even higher that in the previous year. At PCC CP Kosmet, by contrast, the positive trend of recent months continued in the fourth quarter of 2019, supported by a further increase in order intake from a major discounter. Although PCC CP Kosmet also posted further losses in the fourth quarter of 2019, these were significantly lower than in the same quarter of the previous year. As of the end of the year, the annual deficit had been halved compared to the previous year. The fourth quarter also saw PCC CP Kosmet step up its efforts to diversify its customer portfolio in order to establish a broader platform for growth. To support this positive trend, PCC SE decided in the fourth quarter of 2019 to strengthen the equity base of PCC CP Kosmet. A capital increase was effected at PCC CP Kosmet by means of a long-term loan to the intermediate holding company PCC Consumer Products S.A. In return, PCC CP Kosmet repaid its loan of the same amount that had previously been granted directly by PCC SE.

Energy

The Energy division of the PCC Group generated net quarterly external sales of €3.3 million in the fourth quarter of 2019. By the end of December, therefore, divisional revenues had accumulated to €12.4 million (previous year: €12.3 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 its corresponding business unit) and the electricity and heat utility PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle. Within the Renewable Energies business unit, the number of small hydropower plants connected to the grid in the fourth quarter remained unchanged at five. The start of commissioning of the sixth power plant in Kriva Reka (North Macedonia) was further delayed beyond the turn of the year and finally took place in March. The power plant is currently undergoing operational trials. The sales and earnings of the Energy division remained of secondary relevance for the Group.

Logistics

At €24.3 million, the Logistics division achieved its second-highest quarterly revenue total in fiscal 2019 in the fourth quarter. By the end of December, net external divisional sales had accumulated to €97.1 million. Compared to the corresponding prior-year figure (€88.7 million), this represents an increase of 9.5 %. Once again, PCC Intermodal S.A., Gdynia (Poland), the largest affiliate in the Logistics division, made the major contribution to this growth. The company continued to benefit from the high operating rate posted by its train services between Rotterdam and Poland, with capacity utilization actually showing an upward trend in the fourth quarter. The operating rate on the route to and from Hamburg remained stable, while domestic transport operations within Poland experienced a slight decline. Overall, PCC Intermodal S.A. was able to close the fourth quarter as well as fiscal 2019 with an exceptionally successful set of figures. Both the comparable numbers for the previous year and our expectations were significantly exceeded. The tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, also closed the fourth quarter with a successful set of results, ending fiscal 2019 in positive territory and in line with our expectations. The Russian freight car operator ZAO PCC Rail, Moscow, likewise recorded steadily positive business performance in the fourth quarter, with operating profit at the level of the previous year. ZAO PCC Rail also generally benefited from positive foreign currency translation effects resulting from the end-of-period valuation of the loans granted to it by PCC SE in euros. As a result, this affiliate achieved a significantly better earnings result as of the end of December 2019 than in the previous fiscal year. Our earnings expectations for 2019 were likewise exceeded. With cash flows holding steady in the fourth 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 further in the fourth 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 distinctly positive result as of the end of December 2019. At Group level, such dividend income is eliminated as part of the consolidation procedure. Aside from PCC SE, the Holding/Projects division also serves as the management umbrella for a number of internal service companies as well as the two major project companies PCC BakkiSilicon hf. and DME Aerosol, Pervomaysky (Russia).

As already mentioned, the state-of-the-art silicon metal plant of PCC BakkiSilicon hf. in Iceland commenced regular operations on October 30, 2019. Although there were temporary interruptions to production in the fourth quarter, partly due to power outages caused by a severe snowstorm, production at the plant's two electric arc furnaces was largely stable overall. Nevertheless, start-up losses were recorded in the fourth quarter, which were exacerbated by a historic low in silicon metal prices. Encouragingly, a distinctive upward trend in market prices has now begun. In addition, various measures were adopted to increase efficiency and thus reduce costs. These are to be successively implemented in 2020 in order to consistently improve the earnings situation of PCC BakkiSilicon hf. over the long term. The production of increasingly higher-quality grades should provide a further boost in this respect.

PCC SE redeemed bonds on final maturity as of October 1, 2019 (DE000A13R7S2) and February 1, 2020 (DE000A2E4ZZ4). The redemption amounts were €20.0 million and €7.5 million respectively.

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Published by
PCC SE
Moerser Str. 149
47198 Duisburg
Germany
www.pcc.eu

Public Relations contact
Baumstr. 41, D-47198 Duisburg
Phone: +49 (0)2066 20 19 35
Fax: +49 (0)2066 20 19 72
Email: pr@pcc.eu
www.pcc-financialdata.eu

Direktinvest contact
Baumstr. 41, D-47198 Duisburg
Phone: +49 (0)2066 90 80 90
Fax: +49 (0)2066 90 80 99
Email: direktinvest@pcc.eu
www.pcc-direktinvest.eu