

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

ORION ENGINEERED CARBONS S.A.

(Exact name of registrant as specified in its charter)

Grand Duchy of Luxembourg

001-36563

00-0000000

(State or other jurisdiction of incorporation or organization)

(Commission file number)

(I.R.S. Employer Identification No.)

4501 Magnolia Cove Drive Suite 106

Houston,

Texas

77345

(Address of Principal Executive Offices)

(Zip Code)

(281) 318-2959

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, no par value	OEC	New York Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

☒

Accelerated filer

☐

Non-accelerated filer

☐

Smaller reporting company

☐

Emerging growth company

☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The registrant had 60,487,117 shares of common stock outstanding as of August 4, 2020.

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PART I - Financial Information

Item 1. Financial Statements and Supplementary Data (Unaudited)

Consolidated Statements of Operations of Orion Engineered Carbons S.A. (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(In thousands, except per share amounts)				
Net sales	\$ 202,648	\$ 399,016	\$ 538,655	\$ 783,730
Cost of sales	168,704	294,978	414,518	581,723
Gross profit	33,944	104,038	124,137	202,007
Selling, general and administrative expenses	38,547	52,117	83,066	107,694
Research and development costs	4,449	4,914	9,405	10,043
Other expenses, net	3,826	4,503	7,002	6,978
Restructuring expenses	—	1,034	—	1,123
Income/(loss) from operations	(12,879)	41,470	24,664	76,169
Interest and other financial expense, net	8,277	7,566	17,888	14,009
Reclassification of actuarial losses from AOCI	2,654	—	5,052	—
Income/(loss) from operations before income taxes and equity in earnings of affiliated companies	(23,810)	33,904	1,724	62,160
Income tax expense/(benefit)	(5,879)	9,309	1,756	18,748
Equity in earnings of affiliated companies, net of tax	151	153	285	290
Net income/(loss)	\$ (17,780)	\$ 24,748	\$ 253	\$ 43,702
Weighted-average shares outstanding (in thousands of shares):				
Basic	60,487	59,984	60,361	59,752
Diluted	61,263	61,125	61,307	61,119
Earnings/(loss) per share:				
Basic	\$ (0.30)	\$ 0.41	\$ —	\$ 0.73
Diluted	\$ (0.29)	\$ 0.40	\$ —	\$ 0.72
Dividends per share	\$ —	\$ 0.20	\$ 0.20	\$ 0.40

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income of Orion Engineered Carbons S.A. (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In thousands)			
Net income/(loss)	\$ (17,780)	\$ 24,748	\$ 253	\$ 43,702
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	631	(4,844)	(23,440)	(3,381)
Unrealized net gains/(losses) on hedges of a net investment in a foreign operation	(31)	—	5	—
Unrealized net losses on cash flow hedges	(1,609)	(4,375)	(2,265)	(6,600)
Gains/(losses) on defined benefit plans	1,595	(36)	3,442	17
Other comprehensive income (loss)	585	(9,255)	(22,259)	(9,964)
Comprehensive income/(loss)	\$ (17,195)	\$ 15,493	\$ (22,006)	\$ 33,738

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets of Orion Engineered Carbons S.A. (Unaudited)

	June 30, 2020	December 31, 2019
	(In thousands, except share amounts)	
Current assets		
Cash and cash equivalents	\$ 143,374	\$ 63,726
Accounts receivable, net of expected credit losses of \$6,379 and \$6,632	145,305	212,565
Other current financial assets	9,434	11,347
Inventories, net	135,310	164,799
Income tax receivables	11,710	17,924
Prepaid expenses and other current assets	34,782	37,358
Total current assets	479,914	507,718
Property, plant and equipment, net	556,689	534,054
Operating lease right-of-use assets	28,943	27,532
Goodwill	77,093	77,341
Intangible assets, net	47,081	50,596
Investment in equity method affiliates	4,944	5,232
Deferred income tax assets	54,796	48,720
Other financial assets	715	2,501
Other assets	3,086	3,701
Total non-current assets	773,346	749,676
Total assets	\$ 1,253,260	\$ 1,257,394
Current liabilities		
Accounts payable	\$ 90,134	\$ 156,298
Current portion of long term debt and other financial liabilities	136,969	36,410
Current portion of employee benefit plan obligation	905	908
Accrued liabilities	36,122	44,931
Income taxes payable	15,339	14,154
Other current liabilities	35,639	32,509
Total current liabilities	315,108	285,211
Long-term debt, net	625,799	630,261
Employee benefit plan obligation	71,180	71,901
Deferred income tax liabilities	48,772	43,308
Other liabilities	41,583	40,701
Commitments and contingencies	Note N	
Total non-current liabilities	787,333	786,171
Stockholders' equity		
Common stock		
Authorized: 65,035,579 and 65,035,579 shares with no par value		
Issued – 60,992,259 and 60,729,289 shares with no par value		
Outstanding – 60,487,117 and 60,224,147 shares	85,323	85,032
Less 505,142 and 505,142 shares of common treasury stock, at cost	(8,515)	(8,515)
Additional paid-in capital	64,128	65,562
Retained earnings	66,504	78,296
Accumulated other comprehensive loss	(56,621)	(34,362)
Total stockholders' equity	150,819	186,013
Total liabilities and stockholders' equity	\$ 1,253,260	\$ 1,257,394

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows of Orion Engineered Carbons S.A. (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(In thousands)				
Cash flows from operating activities:				
Net income/(loss)	\$ (17,780)	\$ 24,748	\$ 253	\$ 43,702
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:				
Depreciation of property, plant and equipment and amortization of intangible assets	21,876	25,404	45,722	49,499
Amortization of debt issuance costs	500	555	1,001	1,090
Share-based incentive compensation	1,199	1,559	60	5,112
Deferred tax (benefit)/provision	(4,634)	839	(6,499)	(2,074)
Foreign currency transactions	(988)	(645)	231	290
Reclassification of actuarial losses from AOCI	2,654	—	5,052	—
Other operating non-cash items	548	3,264	908	4,292
Changes in operating assets and liabilities, net of effects of businesses acquired:				
(Increase)/decrease in trade receivables	90,568	(6,550)	59,471	(19,173)
(Increase)/decrease in inventories	36,883	(847)	25,201	7,099
Increase/(decrease) in trade payables	(50,133)	2,996	(45,742)	6,864
Increase/(decrease) in provisions	3,833	5,995	(7,532)	(14,826)
Increase/(decrease) in tax liabilities	(3,392)	(4,084)	8,624	(2,336)
Increase/(decrease) in other assets and liabilities that cannot be allocated to investing or financing activities	4,576	(5,276)	3,865	(5,410)
Net cash provided by operating activities	\$ 85,709	\$ 47,958	\$ 90,615	\$ 74,129
Cash flows from investing activities:				
Cash paid for the acquisition of intangible assets and property, plant and equipment	\$ (38,550)	\$ (38,370)	\$ (89,401)	\$ (60,857)
Net cash used in investing activities	\$ (38,550)	\$ (38,370)	\$ (89,401)	\$ (60,857)
Cash flows from financing activities:				
Payments for debt issue costs	\$ —	\$ (1,721)	\$ —	\$ (1,721)
Repayments of long-term debt	(2,015)	(2,029)	(4,022)	(4,047)
Cash inflows related to current financial liabilities	41,538	41,605	151,351	78,687
Cash outflows related to current financial liabilities	(52,359)	(36,509)	(52,359)	(59,332)
Dividends paid to shareholders	—	(12,042)	(12,045)	(23,946)
Taxes paid for shares issued under net settlement feature	—	(6,475)	(1,202)	(6,475)
Net cash provided by/(used in) financing activities	\$ (12,836)	\$ (17,171)	\$ 81,723	\$ (16,834)
Increase/(decrease) in cash, cash equivalents and restricted cash	\$ 34,323	\$ (7,583)	\$ 82,937	\$ (3,562)
Cash, cash equivalents and restricted cash at the beginning of the period	110,215	65,425	68,231	61,604
Effect of exchange rate changes on cash	1,570	(146)	(5,060)	(346)
Cash, cash equivalents and restricted cash at the end of the period	\$ 146,108	\$ 57,696	\$ 146,108	\$ 57,696
Less restricted cash at the end of the period	2,734	4,537	2,734	4,537
Cash and cash equivalents at the end of the period	\$ 143,374	\$ 53,159	\$ 143,374	\$ 53,159
Cash paid for interest, net	\$ (5,161)	\$ (3,142)	\$ (9,506)	\$ (9,166)
Cash (paid)/refund for income taxes	\$ (2,260)	\$ (9,116)	\$ (1)	\$ (17,880)
Supplemental disclosure of non-cash activity:				
Liabilities for leasing - current	\$ (1,441)	\$ 1,782	\$ (446)	\$ 6,926
Liabilities for leasing - non-current	\$ 446	\$ (1,632)	\$ 1,688	\$ 23,955

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity of Orion Engineered Carbons S.A. (Unaudited)

(In thousands, except per share amounts)	Common stock		Treasury shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total equity
	Number of common shares	Amount					
Balance at January 1, 2020	60,224,147	\$ 85,032	\$ (8,515)	\$ 65,562	\$ 78,296	\$ (34,362)	\$ 186,013
Net income	—	—	—	—	18,032	—	18,032
Other comprehensive loss, net of tax	—	—	—	—	—	(22,844)	(22,844)
Dividends paid - \$0.20 per share	—	—	—	—	(12,045)	—	(12,045)
Share based compensation	—	—	—	(2,632)	—	—	(2,632)
Issuance of stock under equity compensation plans	262,970	291	—	—	—	—	291
Balance at March 31, 2020	60,487,117	\$ 85,323	\$ (8,515)	\$ 62,930	\$ 84,283	\$ (57,206)	\$ 166,815
Net loss	—	—	—	—	(17,780)	—	(17,780)
Other comprehensive income, net of tax	—	—	—	—	—	585	585
Share based compensation	—	—	—	1,199	—	—	1,199
Balance at June 30, 2020	60,487,117	\$ 85,323	\$ (8,515)	\$ 64,128	\$ 66,504	\$ (56,621)	\$ 150,819

(In thousands, except per share amounts)	Common stock		Treasury shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total equity
	Number of common shares	Amount					
Balance at January 1, 2019	59,518,498	\$ 84,254	\$ (8,683)	\$ 63,544	\$ 39,409	\$ (19,628)	\$ 158,896
Net income	—	—	—	—	18,954	—	18,954
Other comprehensive loss, net of tax	—	—	—	—	—	(709)	(709)
Dividends paid - \$0.20 per share	—	—	—	—	(11,904)	—	(11,904)
Share based compensation	—	—	—	3,553	—	—	3,553
Balance at March 31, 2019	59,518,498	\$ 84,254	\$ (8,683)	\$ 67,097	\$ 46,459	\$ (20,337)	\$ 168,790
Net income	—	—	—	—	24,748	—	24,748
Other comprehensive loss, net of tax	—	—	—	—	—	(9,255)	(9,255)
Dividends paid - \$0.20 per share	—	—	—	—	(12,042)	—	(12,042)
Share based compensation	—	—	—	(5,737)	—	—	(5,737)
Issuance of stock under equity compensation plans	693,710	778	—	43	—	—	821
Balance at June 30, 2019	60,212,208	\$ 85,032	\$ (8,683)	\$ 61,403	\$ 59,165	\$ (29,592)	\$ 167,325

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements of Orion Engineered Carbons S.A. (Unaudited)

Note A. Organization, Description of the Business and Summary of Significant Accounting Policies

Orion Engineered Carbons S.A.'s unaudited condensed consolidated financial information include Orion Engineered Carbons S.A. and its subsidiaries ("Orion" or the "Company"). The unaudited condensed consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. These financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019. The accompanying unaudited condensed consolidated financial statements include all adjustments that are necessary for the fair presentation of our results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for the full year.

The Company is a leading global manufacturer of carbon black products and is incorporated in Luxembourg. Carbon black is a powdered form of carbon that is used to create the desired physical, electrical and optical qualities of various materials. Carbon black products are primarily used as consumables and additives for the production of polymers, printing inks and coatings ("Specialty Carbon Black" or "Specialties") and in the reinforcement of rubber polymers ("Rubber Carbon Black" or "Rubber").

The Company manufactures Specialty Carbon Black for a broad range of specialized applications such as polymers, printing systems and coatings applications. The various production processes result in a wide range of different Specialty Carbon Black pigment grades with respect to their primary particle size, structure and surface area/surface chemistry. These parameters affect jetness, tinting strength, undertone, dispersibility, oil absorption, electrical conductivity and other characteristics.

The types of Rubber Carbon Black used in the rubber industry are manufactured according to strict specifications and quality standards. Structure and specific surface area are the key factors in optimizing reinforcement properties in rubber polymers.

As of June 30, 2020, the Company operates 13 wholly owned production facilities in Europe, North and South America, Asia and South Africa and three sales companies and another nine holding companies and six service companies, as well as two former operating entities in Portugal and France (currently in dissolution). Additionally, the Company operates a joint venture with one production facility in Germany.

The Company's global presence enables it to supply Specialty Carbon Black customers as well as international customers in the tire and rubber industry with the full range of carbon black grades and particle sizes. Sales activities are supported by sales and representative offices all around the globe. Integrated sales activities with key account managers and customer services are carried out in the United States, Brazil, South Korea and Germany and China.

Risks and Uncertainties

Our global operations expose us to risks associated with public health crises and outbreaks of epidemic, pandemic, or contagious diseases, such as the current outbreak of a novel strain of coronavirus (COVID-19). The COVID-19 pandemic has negatively impacted the global economy and created significant volatility and disruption of financial markets. We have experienced significant and unpredictable reductions in the demand for our products as a result of the COVID-19 pandemic and further economic uncertainty may cause additional delays, cancellation, or redirections of planned orders. Policymakers around the globe have responded with fiscal and economic policy actions to support the economy. The ultimate magnitude and overall effectiveness of these actions remains uncertain.

The ultimate severity of the impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Company's customers and suppliers, all of which are uncertain and cannot be predicted. The Company's future results of operations and liquidity could be adversely impacted by delays in payments of outstanding receivable amounts beyond normal payment terms, supply chain disruptions, lower demand for our products, commodity price volatility, heightened price sensitivity among customers, higher competitive intensity, inventory revaluations, and the impact of any initiatives or programs that the Company may undertake to address financial and operations challenges faced by its customers. As of the date of issuance of these condensed consolidated financial statements, the ultimate extent to which the COVID-19 pandemic will impact the Company's financial condition, liquidity, or results of operations remains uncertain.

Summary of Significant Accounting Policies

Revenue and Income Recognition

The Company recognizes revenue when or as it satisfies a performance obligation by transferring a good or a service to a customer. Revenue is only recognized when control is transferred to the customer. The amount of consideration we receive and revenue we recognize is based upon the terms stated in the sales contract, which may contain variable consideration such as discounts or rebates. We also give our customers a limited right to return product that has been damaged or does not satisfy their specifications, or for other specific reasons. Payment terms on product sales to our customers typically range from 30 to 90 days. Although certain exceptions exist where standard payment terms are exceeded, these instances are infrequent and do not exceed one year.

Revenue is recognized according to the five-step model prescribed in ASC 606. Under the first step, the entity has to identify the contract entered with a customer granting the right to receive goods or service in exchange for consideration. The second step requires the identification of distinct performance obligations within a contract. The transaction price of the arrangement is defined in Step 3 of ASC 606. In addition to the contractual fixed price the entity has to take variable considerations into account. If the entity identified more than one separate performance obligation under step 2, it has to account for this contract as a multiple element arrangement resulting in an allocation of revenues to the obligations identified. If these conditions are satisfied, revenue from the sale of goods is recognized when control has been transferred to the buyer, either at a point in time, or over time.

The Company derives a substantial majority of revenues from selling carbon black to industrial customers for further processing. Revenue recognition and measurement is governed by the following principles. The amount of revenue and the transaction price is contractually specified between the parties and measured at the amount expected be received less value-added tax and any trade discounts and volume rebates granted. Discounts and volume rebates are accounted for as estimates of variable consideration and deducted from revenue.

With respect to the sale of goods, sales are recognized at the point in time control over the good transfers to the customer. The timing of the transfer of control varies depending on the individual terms of the sales agreement.

The Company's business is organized by its two carbon black product types. For corporate management purposes and all periods presented the Company had "Rubber" and "Specialty" as reportable operating segments. Rubber carbon black is used in the reinforcement of rubber in tires and mechanical rubber goods; Specialties are used as pigments and performance additives in coatings, polymers, printing and special applications.

Adoption of accounting standards

In March 2020, the FASB issued ASU No. 2020-03, Codification Improvements to Financial Instruments (ASU 2020-03). The amendments in this update affect a wide variety of topics in the codification and represent changes to clarify or improve the codification. The amendments make the codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. Issues 1, 2, 4 and 5 within the standard are conforming amendments and are effective upon issuance of ASU 2020-03. Issue 3 is also a conforming amendment and is effective for fiscal years beginning after December 15, 2019. Issues 6 and 7 relate to ASU No. 2016-13 and are effective for fiscal years beginning after December 15, 2019 since Orion previously adopted ASU No. 2016-13 on January 1 2019. The Company adopted ASU 2020-03 as of January 1, 2020. The adoption of this guidance did not have any impact on the Company's financial statements.

In February 2020, the FASB issued ASU No. 2020-02, Financial Instruments - Credit Losses (Topic 326) and Leases (Topic 842)- Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842) (SEC Update) (ASU 2020-02). The new standard as it relates to Topic 326 is effective upon a registrant's adoption of FASB ASC Topic 326 (adopted by Orion on January 1, 2019). The new standard as it relates to Topic 842 is not applicable. The adoption of ASU 2020-02 did not have any impact on the Company's financial statements.

In November 2019, the FASB issued ASU No. 2019-11, Codification Improvements to Topic 326, Financial Instruments - Credit Losses (ASU 2019-11). The amendments in this update represents changes to clarify, correct errors in, or improve the codification, and make the codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. For entities that have adopted ASU 2016-13, the amendments in ASU 2019-11 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period after the issuance of ASU 2019-11 as long as the entity has adopted the amendments in ASU No. 2016-13. The Company adopted ASU 2019-11 as of January 1, 2020. The adoption of this guidance did not have a material impact on the Company's financial statements.

In May 2019, the FASB issued ASU No. 2019-05, Financial Instruments - Credit Losses (Topic 326) (ASU 2019-05). The amendments in this ASU provide entities that have certain instruments within the scope of Subtopic 326-20, Financial Instruments - Credit Losses - Measured at Amortized Cost, with an option to irrevocably elect the fair value option in Subtopic 825-10, Financial Instruments - Overall, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of Topic 326. For entities that have adopted the amendments in ASU No. 2016-13, the amendments in ASU 2019-05 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period after the issuance of ASU 2019-05 as long as the entity has adopted the amendments in ASU No. 2016-13. The Company adopted ASU 2019-05 as of January 1, 2020. The adoption of this guidance did not have a material impact on the Company's financial statements.

In April 2019, the FASB issued ASU No. 2019-04, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments (ASU 2019-04). The updates contained in this ASU provide clarification and correction to ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, and is intended to improve the Codification or correct its unintended application. The amendments in ASU 2019-04 related to ASU No. 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of ASU 2019-04 as long as the entity has adopted all of the

amendments in ASU No. 2016-01. For entities that have adopted the amendments in update 2016-13, the amendments in ASU 2019-04 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of ASU 2019-04 as long as the entity has adopted the amendments in ASU No. 2016-13. For entities that have adopted the amendments in ASU No. 2017-12 as of the issuance date of ASU 2019-04, the effective date is as of the beginning of the first annual period beginning after the issuance of ASU 2019-04 (January 1, 2020 for Orion). For those entities, early adoption is permitted, including adoption on any date on or after the issuance of ASU 2019-04. The Company adopted ASU 2019-04 as of January 1, 2020. The adoption of this guidance did not have a material impact on the Company's financial statements.

In August 2018, the FASB issued ASU No 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. The guidance changes the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. It eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new ones that the FASB considers pertinent. The guidance is effective for financial statements issued for fiscal years ending after December 15, 2020 for public business entities and fiscal years ending after December 15, 2021 for all other entities. Early adoption is permitted. Entities will apply the amendments retrospectively. The Company adopted ASU No 2018-14 as of January 1, 2020. The adoption of this guidance did not have a significant impact on the Company's financial statements.

Principles of consolidation

The consolidated financial statements include all subsidiaries indirectly or directly controlled by Orion. Entities are consolidated from the date Orion obtains control, which generally is the acquisition date, and are deconsolidated when control is lost.

Control is achieved when Orion is exposed, or has the right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Orion re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these three elements of control.

The Company's consolidated financial statements are prepared in accordance with uniform accounting policies. Income and expenses, intercompany profits and losses, and receivables and liabilities between consolidated subsidiaries are eliminated.

Use of estimates

The preparation of consolidated financial statements in conformity U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Foreign currency translation

Foreign currency transactions are measured at the exchange rate at the date of initial recognition. Any gains or losses resulting from the valuation of foreign currency monetary assets and liabilities using the currency exchange rates as of the reporting date are recognized in other expenses, net.

Currency exchange differences relating to financing activities are recognized in interest and other financial income and interest and other financial expense.

The assets and liabilities of foreign operations with functional currencies different from the presentation currency U.S. dollars are translated using closing rates as of the reporting date. Income and expense items are translated at average monthly exchange rates for the respective period. The translation of equity is performed using historical exchange rates. The overall foreign currency impact from translating the statement of financial position and income statement of all the foreign entities is recognized in accumulated other comprehensive income (loss) ("AOCT").

Note B. Recent Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04). The amendments in this update provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The amendments in this update are effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the potential impact the adoption of this standard will have on its financial statements.

In January 2020, the FASB issued ASU No. 2020-01, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*. The amendments in this update clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The amendments in this update are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company is currently evaluating the potential impact the adoption of this standard will have on its financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12)*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

Note C. Leases

Orion has entered into lease contracts as a lessee and is not acting as a lessor. The vast majority of Orion's lease contracts are concerning operational items such as rail cars, company cars, offices and office equipment.

The recorded right-of-use assets as of June 30, 2020 amounted to \$28.9 million, and the corresponding lease liabilities amounted to \$30.3 million, of which \$7.2 million were recorded within other current liabilities and \$23.2 million as other liabilities.

The weighted remaining average minimum lease period is 2.5 years.

The undiscounted minimum lease payments are due in and reconcile to the discounted lease liabilities as follows:

	June 30, 2020
	(In thousands)
Next 12 months	\$ 7,152
1 to 2 years	6,883
2 to 3 years	6,328
3 to 4 years	5,668
4 to 5 years	4,984
More than 5 years	3,849
Total undiscounted minimum lease payments	34,865
Discount	(4,562)
Lease liability (current and non-current)	\$ 30,303

The weighted average discount rate applied to the lease liabilities is 5.97%.

Finance lease costs were immaterial for the three and six months ended June 30, 2020 and June 30, 2019, respectively. Operating lease costs for the three and six months ended June 30, 2020 amounted in total to \$2.4 million and to \$5.5 million, respectively, and were recorded as operating expenses under cost of sales, selling, general and administrative expenses and under research and development cost. The operating lease costs for the three and six months ended June 30, 2019 recorded as operating expenses amounted in total to \$2.7 million and \$5.3 million, respectively, and were recorded under cost of sales, selling, general and administrative expenses and under research and development cost. Cash paid for amounts included in the measurement of lease liabilities from operating leases was \$2.1 million and \$2.6 million for the three months June 30, 2020 and 2019, respectively, and \$4.4 million and \$5.2 million for the six months ended June 30, 2020 and 2019, respectively. Cash paid for finance leases was immaterial during the same periods.

In addition to the above, we entered into a forward-starting lease agreement in October 2016, for a district heating facility in Cologne, Germany, where we plan to operate the equipment to generate the required heat energy. The lessor, the public utility of our neighbor city and its agents, is currently constructing the facilities at our location, with the lease scheduled to commence by the end of 2020 after construction is completed. The lease agreement will have a total of approximately \$35 million in undiscounted future lease payments over a 20-year term. In May 2020, after a building permit was obtained by the lessor, we entered into a forward-starting lease agreement for a new warehouse at our facility in Cologne, Germany. The lessor, a logistics and distribution service provider, is currently constructing the warehouse at our location, with the lease scheduled to commence by the end of 2020 after construction is completed. The lease agreement will have a total of approximately \$6 million in undiscounted future lease payments over the 10-year term of the lease.

Note D. Inventories

Inventories, net of obsolete, unmarketable and slow-moving reserves are as follows:

	June 30, 2020	December 31, 2019
	(In thousands)	
Raw materials, consumables and supplies, net	\$ 62,911	\$ 69,168
Work in process	115	148
Finished goods, net	72,284	95,483
Total	\$ 135,310	\$ 164,799

Orion periodically reviews inventories for both obsolescence and loss in value. In this review, Orion makes assumptions about the future demand for and the future market value of the inventory and, based on these assumptions, estimates the amount of obsolete, unmarketable or slow-moving inventory.

Note E. Accounts Receivable

The company had the following accounts receivable as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
	(In thousands)	
Accounts receivable	\$ 151,684	\$ 219,197
Expected credit losses	(6,379)	(6,632)
Accounts receivable, net of expected credit losses	\$ 145,305	\$ 212,565

The expected credit losses developed as follows in the periods indicated:

	Fiscal Year 2020	Fiscal Year 2019
	(In thousands)	
Allowance for credit losses as of January 1,	\$ (6,632)	\$ (5,081)
Credit loss expense	(1,929)	(1,633)
Credit loss income and utilization	1,989	601
Foreign currency translation effects	193	519
Allowance for credit losses as of June 30,	\$ (6,379)	\$ (5,594)

Note F. Debt and Other Obligations

The company had the following debt arrangements in place as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
	(In thousands)	
Current		
Term loan	\$ 8,048	\$ 8,057
Deferred debt issuance costs - term loan ⁽¹⁾	(1,387)	(1,409)
Other short-term debt and obligations	130,308	29,762
Current portion of long term debt and other financial liabilities	136,969	36,410
Non-current		
Term loan	629,827	634,994
Deferred debt issuance costs - term loan ⁽¹⁾	(4,028)	(4,733)
Long-term debt, net	625,799	630,261
Total	\$ 762,768	\$ 666,671

(1) According to ASU 2015-03, adopted on January 1, 2016, the Company presents debt issuance costs related to a recognized liability as a direct deduction from the carrying amount of that liability.

(a) Term Loan

On July 25, 2014, Orion entered into a refinancing of its indebtedness. The initial term loan credit facility in U.S. Dollars of \$895.0 million was allocated to a term loan facility denominated in U.S. Dollars of \$358.0 million and a term loan facility denominated in Euros of €399.0 million with both having an original maturity date of July 25, 2021 (the "Term Loans"). Initial interest was calculated based on three-month EURIBOR (for the Euro denominated loan), or three-month USD-LIBOR (for the USD denominated loan) plus a 3.75% - 4.00% margin depending on leverage ratio. For both EURIBOR and USD-LIBOR a floor of 1.0% applied. At least 1% of the principal amount is required to be repaid per annum; Orion may make additional voluntary repayments. In the years 2015 to 2017 Orion executed several voluntary repayments totaling €56.0 million and \$58.0 million.

After several amendments to the Credit Agreement, dated as of July 25, 2014, among the Company, Orion Engineered Carbons Holdings GmbH, Orion Engineered Carbons Bondco GmbH, Orion Engineered Carbons GmbH, OEC Finance US LLC, the revolving borrowers named therein, the guarantors named on the signature page thereto, the lenders named therein, and Goldman Sachs Bank USA as administrative agent, as amended (the Credit Agreement"), Orion repriced the Term Loans during the years 2016 to 2018, achieving a

significant reduction of both interest margins to currently 2.00% for the U.S. Dollar term loan and 2.25% for the Euro term loan. In addition, the interest margin is no longer linked to Orion's net leverage ratio and the EURIBOR and USD-LIBOR floors were reduced to 0.00%. Moreover the durations of both term loans were extended by another three years to July 25, 2024. Other provisions of the Credit Agreement relating to the Term Loans remained unchanged.

Transaction costs incurred directly in connection with the incurrence of the Euro and U.S. Dollar denominated term loans, thereby reducing their carrying amount, are amortized as finance costs over the term of the loans. Transaction costs incurred in connection with the modifications of the term loan in the years 2016 to 2018 were directly expensed as incurred as the modified terms were not substantially different. In connection with the repricing described above further transaction costs of \$0.7 million in 2018 and \$3.5 million equivalent in 2017 and \$2.1 million equivalent in 2016 were incurred and directly expensed. For the three and six months ended June 30, 2020, an amount of \$0.3 million and \$0.7 million equivalent, respectively, related to capitalized transaction costs was amortized and recognized as finance costs in this regard (prior year: \$0.4 million and \$0.7 million equivalent, respectively).

On May 11, 2018, Orion entered into a \$235.0 million cross currency swap to synthetically convert its U.S. Dollar liabilities into Euros to mitigate foreign currency risk. This swap transaction impacted both principal and interest payments associated with debt service and resulted in annual interest savings of approximately \$4.7 million. The swap became effective on May 15, 2018 and will expire on July 25, 2024, in line with maturity of the term loan.

A portion of the U.S. Dollar-denominated term loan was designated as a hedge of the net investment in a foreign operation to reduce the Company's foreign currency exposure. Since January 1, 2015 the Company had designated \$180.0 million of the total U.S. Dollar-denominated term loan held by a Germany based subsidiary as the hedging instrument to hedge the change in net assets of a US subsidiary, which is held by a Germany based subsidiary, to manage foreign currency risk. Due to the new hedging approach utilizing cross currency swap as described above, hedge accounting for the net investment hedge was discontinued in May, 2018. An unrealized loss of \$2.2 million remains within other comprehensive income until it is recycled through profit and loss upon divestment of the hedged item.

The carrying value of the Term Loans as of June 30, 2020 includes their nominal amounts plus accrued unpaid interest less deferred debt issuance costs of \$5.4 million (December 31, 2019: \$6.1 million).

(b) Revolving credit facility

To fund operating activities and generally safeguard the Company's liquidity, the Company has entered into a revolving credit facility ("RCF").

As part of the July 25, 2014 refinancing the then-existing revolving facility was replaced by a €115.0 million multicurrency RCF with an original maturity date July 25, 2019. Interest is calculated based on EURIBOR (for EUR drawings), and USD-LIBOR (for USD drawings) plus 2.5% - 3.0% margin (depending on leverage ratio). Transaction costs in the amount of \$3.3 million originally incurred in connection with the RCF were recorded as deferred expenses and amortized as finance costs on a straight-line basis over the term of the facility (until July 25, 2019).

An amendment to the Credit Agreement entered into on May 5, 2017 (i) reduced the commitment fee paid on the unused commitments from 40% of the Applicable Rate (as defined in the Credit Agreement) to 35% of the Applicable Rate, (ii) extended the maturity date for the RCF to April 25, 2021 and (iii) increased the aggregate amount of revolving credit commitments to €175.0 million. All other terms of the Credit Agreement remained unchanged.

Transaction costs in conjunction with the RCF of \$2.3 million related to the 2017 amendment to the Credit Agreement are recorded as deferred expenses and amortized as finance costs on a straight-line basis over the term of the facility (until April 25, 2021).

On April 2, 2019, the Company entered into the eighth amendment (the "Eighth Amendment") to the Credit Agreement, among the Company and certain of its subsidiaries, as Borrowers or Guarantors, the Lenders from time to time party thereto and Goldman Sachs Bank US, as administrative agent for the Lenders. The Eighth Amendment related to the RCF provided by the Credit Agreement and became effective on April 10, 2019.

The Eighth Amendment:

(i) extended the maturity date for the RCF by three years to April 25, 2024,

(ii) increased the aggregate amount of revolving credit commitments in Euro by €75.0 million to €250.0 million, and

(iii) reduced revolving credit interest expense by way of a new pricing grid that entitles an initial margin of 0.019 when the Company's leverage ratio is between 2.25x and 1.75x (formerly 2.5% when leverage ratio was < 2.30x); during the second quarter of 2020 the margin was 2.15% as the Company's leverage ratio was between 2.75x and 2.25x. As of June 30, 2020 the leverage ratio increased to levels greater than 2.75x which will lead to an increase of the margin by another 25bps to 2.40% effective after provision of the quarterly compliance certificate to the administrative agent under the Credit Agreement.

All other terms of the Credit Agreement relating to the RCF remained substantially unchanged, including the commitment fee, which remains at 35% of applicable margin. As of June 30, 2020, \$44.8 million was drawn under the RCF while \$44.9 million in

borrowings under ancillary facilities further reduced the overall amount available under the RCF. For further details see *Note F. (c) Local bank loans and other short-term borrowings*.

During the three and six months ended June 30, 2020, transaction costs of \$0.2 million and \$0.3 million, respectively, were amortized (prior year: \$0.2 million and \$0.4 million, respectively). Unamortized transaction costs that were incurred in conjunction with the RCF in July 2014, the amendment on May 30, 2017 and the amendment on April 2, 2019, amount to \$3.1 million as of June 30, 2020. Unamortized transaction costs as of December 31, 2019 amounted to \$3.4 million and were incurred in conjunction with the RCF in July 2014 and the amendment on May 30, 2017.

(c) Local bank loans and other short-term borrowings

Orion has fully drawn its uncommitted local credit lines in Korea of \$39.5 million (as of December 31, 2019: zero) and Brazil amounting to \$1.1 million (as of December 31, 2019: zero).

Orion has also established ancillary credit facilities by converting the commitments of select lenders under the €250 million RCF into bilateral credit agreements (usually overdraft facilities). Borrowings under ancillary lines reduce availability under the RCF but do not count toward debt drawn under the RCF for the purposes of determining whether the financial covenant under the Credit Agreement must be tested.

As of June 30, 2020, the ancillary facilities had \$44.9 million (as of December 31, 2019: \$28.6 million) outstanding. The general terms of these ancillary credit facilities are linked to the terms in the RCF.

During the quarter ended June 30, 2020 the Company established two additional ancillary facilities in an aggregate amount of €40 million (bringing the number of banks included in the RCF bank group with whom ancillary facilities have been established to six out of the ten banks and amounting to €170 million). By establishing such ancillary credit facilities the Company is able to borrow 100% of its revolver capacity (currently composed of 68% ancillary credit facilities as of June 30, 2020, with 32% additional RCF commitments) without violating its sole financial covenant. Using exchange rates applicable for the quarter ended June 30, 2020, the €250 million RCF amounted to approximately \$280 million.

(d) Covenant Compliance

The Credit Agreement maturing April 25, 2024, contains certain non-financial covenants that, among other things, limit the Company's ability and the ability of certain of its subsidiaries to (i) incur additional debt, (ii) pay dividends, repurchase shares or make certain other restricted payments or investments, (iii) incur liens, (iv) sell assets, (v) to pay dividends or to make other payments to the Company, (vi) enter into affiliate transactions, (vii) engage in sale and leaseback transactions, and (viii) consolidate, merge, sell or otherwise dispose of all or substantially all of the Company's assets. These covenants are subject to significant exceptions and qualifications.

In addition, there is one financial covenant under the Credit Agreement, the First Lien Leverage Ratio ("FLLR"), defined as Consolidated First Lien Debt divided by Consolidated Adjusted EBITDA for the trailing twelve months ("TTM"). The FLLR is not allowed to exceed 5.5x TTM EBITDA and is tested each quarter RCF utilization exceeds 35%, as defined in the Credit Agreement (the "Covenant Trigger"). Notably, not all debt counts toward RCF utilization for purposes of calculating the Covenant Trigger, namely, term debt, debt drawn under ancillary credit facility lines and debt drawn under any uncommitted local lines of credit are excluded. FLLR, Consolidated First Lien Debt and Consolidated Adjusted EBITDA have the meanings given to them in the Credit Agreement.

Note G. Financial Instruments and Fair Value Measurement

The Company measures financial instruments, such as derivatives, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the following fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Unadjusted quoted market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 — Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices such as quoted prices for similar items in active markets, quoted prices for identical or similar items

in markets that are not active, inputs other than quoted prices that are observable such as interest rate and yield curves), and market-corroborated inputs.

Level 3 — Unobservable inputs for the asset or liability.

For financial assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

The following table shows the fair value measurement at June 30, 2020 and December 31, 2019. All measurements are based on observable inputs such as interest rates and are classified as Level 2 within the fair value hierarchy:

	Fair Value Hierarchy	June 30, 2020	December 31, 2019
(In thousands)			
Receivables from hedges / derivatives		\$ 6,430	\$ 8,436
Prepaid expenses and other current assets	Level 2	6,428	8,434
Other financial assets (non-current)	Level 2	2	1
Liabilities from derivatives		\$ 10,425	\$ 9,425
Other current liabilities	Level 2	342	109
Other liabilities (non-current)	Level 2	10,082	9,316
Term loan	Level 2	\$ 637,875	\$ 643,051
Local bank loans	Level 2	\$ 130,308	\$ 29,762

Note H. Employee Benefit Plans

Provisions for pensions are established to cover benefit plans for retirement, disability and surviving dependents' pensions. The benefit obligations vary depending on the legal, tax and economic circumstances in the various countries in which the Company operates. Generally, the level of benefit depends on the length of service and the remuneration.

Net periodic defined benefit pension benefit costs include the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(In thousands)				
Service cost	\$ 267	\$ 418	\$ 570	\$ 729
Interest cost	282	425	578	857
Amortization of actuarial loss	2,654	—	5,052	—
Net periodic pension cost	\$ 3,203	\$ 843	\$ 6,199	\$ 1,586

Service costs were recorded within income from operations under selling, general and administrative expenses, interest cost in interest and other financial expense, net.

The actuarial losses associated with the pension obligations recorded in prior years in accumulated other comprehensive income exceeding 10% of the defined benefit obligation are recorded ratably over the current year through profit and loss separately from income from operations and amounted to \$5.1 million in the six months ended June 30, 2020.

There are also defined contribution pension plans in Germany and the United States for which our Group companies make regular contributions to off-balance sheet pension funds managed by third party insurance companies.

In South Korea, the Company's pension plan provides, at the option of employees for either projected benefit or defined contribution benefits. Plan assets relating to this plan reduce the pension provision disclosed.

Note I. Stock-Based Compensation

On an annual basis since 2015, the Company has implemented a long-term incentive plan ("LTIP") which grants awards to employees and officers selected by the Compensation Committee of the Board of Directors (the "Compensation Committee"). PSU awards are earned based on achievement against one or more performance metrics established by the Compensation Committee in respect of a specified performance period. Earned PSUs range from zero to a specified maximum percentage of a participant's target award based on the performance of applicable performance metrics, and are subject to vesting terms based on continued employment.

The first performance period ran from January 1, 2015 through December 31, 2017, with PSUs earned based on achievement of EBITDA metrics established by the Compensation Committee and total shareholder return relative to a peer group. Once earned and vested, PSUs were settled in one common share per vested PSU (or, at the Company's election, cash equal to the fair market value thereof). There is no exercise price. The first vesting period ran through March 31, 2018 (the "2015 Plan"). All PSUs are granted under, and are subject to the terms and conditions of, the Company's 2014 Omnibus Incentive Compensation Plan, and do not increase the number of shares previously reserved for issuance under that plan. On August 2, 2016 the Compensation Committee established a consecutive LTIP (the "2016 Plan") having consistent terms as compared to the 2015 Plan. On March 31, 2019 the vesting period ended for the "2016 Plan" and earned and vested PSUs settled in one common share of the Company per vested PSU - issued to participants on April 30, 2019, except for certain PSUs settled in cash at fair market value to cover wage taxes or as substitute for share transfer restrictions. On July 31, 2017 the Compensation Committee established another consecutive LTIP (the "2017 Plan") having consistent terms as compared to the 2015 and 2016 Plan. On July 12, 2018 the Compensation Committee established a consecutive LTIP (the "2018 Plan") and on July 16, 2019 the Compensation Committee established a consecutive LTIP (the "2019 Plan"). The achievement metrics have changed for the 2019 Plan from EBITDA performance to a return on capital employed and a total shareholder return target. All PSUs are granted under, and are subject to the terms and conditions of, the Company's 2014 Omnibus Incentive Compensation Plan (the "Omnibus Plan").

In its 2019 Plan, in addition to PSUs, the Company also issued a tranche of restricted share units ("RSUs") for select employees and officers. The RSUs vest by one-third on each of the first, second and third anniversary of the grant date. The RSUs are subject to certain further restrictions after vesting. Settlement of selected employees and officer RSUs is within 75 days following the third anniversary of the grant date.

Specific Members of our Executive Committee received RSUs upon signing. These sign-on RSUs vest by one-third on each of the first, second and third anniversary of the grant date.

In April 2018 the Compensation Committee established a stock compensation plan for the Board of Directors under the existing Omnibus Incentive Compensation Plan.

The following table provides detail as to expenses recorded within operating income with respect to stock-based compensation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In thousands)			
2016 Plan	\$ —	\$ —	\$ —	\$ 1,083
2017 Plan	—	(94)	—	1,101
Stock compensation plan for Board of Directors	—	488	—	488
2018 Plan	763	901	(479)	2,176
Sign on RSU incentive	134	264	268	264
2019 Plan	302	—	272	—
Total expenses	\$ 1,199	\$ 1,559	\$ 60	\$ 5,112

Due to lowered expectations for EBITDA and ROCE for the full year 2020 and upcoming year 2021, performance conditions of the 2018 Plan and the 2019 Plan are no longer expected to be met. As a result, expenses recorded in prior years for the 2018 Plan and the 2019 Plan were partly reversed for the six months ended June 30, 2020.

The following table summarizes the activity of our PSUs for the six months ended June 30, 2020:

Period granted	Performance period	PSUs outstanding at January 1,	PSUs granted	Performance based adjustment	PSUs settled	PSUs forfeited	PSUs outstanding at June 30,	PSUs expected to vest	Weighted average grant date fair value
2017	2017 - 2019	418,252	—	(40,087)	(378,165)	—	—	—	\$ 24.89
2018	2018 - 2020	355,766	—	—	—	(4,044)	351,722	171,903	\$ 39.24
2019	2019 - 2021	229,727	—	—	—	(3,403)	226,324	108,059	\$ 11.48
	Total 2020	1,003,745	—	(40,087)	(378,165)	(7,447)	578,046	279,962	

The following table summarizes the activity of our RSUs for the six months ended June 30, 2020:

Period granted	Vesting period	RSUs outstanding January 1,	RSUs granted	Performance based adjustment	RSUs settled	RSUs forfeited	RSUs outstanding at June 30,	RSUs expected to vest	Weighted average grant date fair value
Sign-on RSUs:									
2018	2018 - 2020	23,878	—	—	—	—	23,878	23,878	\$ 25.81
2019	2019 - 2021	45,257	—	—	—	—	45,257	45,257	\$ 15.89
2019 Plan:									
2019	2019 - 2021	128,447	—	—	—	(3,403)	125,044	125,044	\$ 14.74
	Total 2020	197,582	—	—	—	(3,403)	194,179	194,179	

Certain members of our Board of Directors receive compensation in form of restricted shares (“RSs”) in accordance with the 2014 Non-employee Director Plan. Under this plan no RSs are currently outstanding.

At June 30, 2020, we had unrecognized compensation cost of \$4.5 million, based on the target amounts, related to unvested PSUs, RSUs and RSs, which is expected to be recognized over a weighted average period of 1.2 years.

The closing price of the Company's shares and therefore the intrinsic value of one PSU or RSU outstanding was \$10.59 as of June 30, 2020, \$21.41 as of June 30, 2019 and \$30.85 as of June 30, 2018. Total intrinsic value of PSUs and RSUs amounted to \$8.2 million and \$18.5 million as of June 30, 2020 and June 30, 2019, respectively.

The following table lists the inputs to the valuation model used for calculating the grant date fair values under the 2019, 2018 and 2017 Plans:

	2017 Plan	2018 Plan	2019 Plan PSU
Expected term (in years)	3	3	3
Dividend yield (%)	1.88%	1.94%	4.65%
Expected volatility OEC (%)	33.77%	30.22%	33.30%
Expected volatility peer group (%)	17.30%	20.09%	17.62%
Correlation	0.4574	0.3659	0.5205
Risk-free interest rate (%)	1.45%	1.46%	1.83%
Model used	Monte Carlo	Monte Carlo	Monte Carlo
Weighted average fair value of PSUs granted	\$24.89	\$39.24	\$11.48

In March 2020, 378,165 PSUs (after a performance adjustment reduction of 40,087 PSUs) were settled for the 2017 Plan. In April 2019, 977,106 PSUs (including performance adjustment of 299,499 PSUs) were settled for the 2016 Plan. The expected term of share awards represents the weighted average period the share awards are expected to remain outstanding. The remaining contractual terms of share units outstanding is March 2021 for the 2018 Plan and December 2021 for the 2019 Plan.

The Company used a combination of historical and implied volatility of its traded shares, or blended volatility, in deriving the expected volatility assumption. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of stock options. The dividend yield assumption is based on the Company's history.

Stock-based compensation expense is comprised of the following line items:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In thousands)			
Cost of sales	\$ 62	\$ (1)	\$ 92	\$ 11
Selling expenses	142	122	(29)	859
General and administrative expenses	916	1,387	7	3,984
Research and development costs	78	52	(9)	258
Stock-based compensation expense	\$ 1,199	\$ 1,559	\$ 60	\$ 5,112

The assumption for estimating expected forfeitures is based on previous experience and based on a 3% leavers rate per year. Actual forfeitures are recorded as they occur. For the six months ended June 30, 2020 expenses recorded in prior years for 2018 and 2019 Plan were partly reversed as the performance condition for the EBITDA and ROCE metrics are no longer expected to be met.

Note J. Restructuring Expenses

Details of restructuring activities and the related reserves for June 30, 2020 were as follows:

	Personnel expenses	Demolition and Removal costs	Ground remediation costs	Other	Total
	(In thousands)				
Provision at January 1, 2020	\$ 3,400	\$ 561	\$ 488	\$ 317	\$ 4,765
Charges	—	—	—	—	—
Cost charged against liabilities (assets)	—	—	—	—	—
Cash paid	(514)	(402)	(252)	(263)	(1,432)
Foreign currency translation adjustment	(81)	(11)	(14)	(6)	(113)
Provision at March 31, 2020	\$ 2,805	\$ 147	\$ 221	\$ 48	\$ 3,221
Charges	—	—	—	—	—
Cost charged against liabilities (assets)	—	—	—	—	—
Cash paid	(486)	(74)	(148)	—	(708)
Foreign currency translation adjustment	53	2	2	1	59
Provision at June 30, 2020	\$ 2,373	\$ 75	\$ 75	\$ 49	\$ 2,572

Orion's reserves for restructuring are reflected in accrued liabilities on the Consolidated Balance Sheets while the expenses related to the Company's effort to restructure its Rubber segment in particular in the years 2016 and 2018.

Note K. Accumulated Other Comprehensive Income/(Loss)

Comprehensive income (loss) combines net income (loss) and other comprehensive income items, which are reported as components of stockholders' equity in the accompanying Consolidated Balance Sheets.

Changes in each component of AOCI, net of tax, are as follows for the three months ended June 30, 2020 and 2019.

	Currency Translation Adjustments	Hedging Activities Adjustments	Pension and Other Postretirement Benefit Liability Adjustment	Total
(In thousands)				
Balance at January 1, 2020	\$ (12,281)	\$ (10,891)	\$ (11,189)	\$ (34,362)
Other comprehensive loss before reclassifications	(22,735)	(1,241)	—	(23,976)
Income tax effects before reclassifications	(1,336)	426	—	(910)
Amounts reclassified from AOCI	—	—	2,398	2,398
Income tax effects on reclassifications	—	—	(776)	(776)
Currency translation AOCI	—	195	225	420
Balance at March 31, 2020	(36,353)	(11,511)	(9,342)	(57,206)
Other comprehensive income/(loss) before reclassifications	800	(2,224)	—	(1,424)
Income tax effects before reclassifications	(169)	708	—	539
Amounts reclassified from AOCI	—	—	2,654	2,654
Income tax effects on reclassifications	—	—	(904)	(904)
Currency translation AOCI	—	(125)	(155)	(280)
Balance at June 30, 2020	\$ (35,722)	\$ (13,152)	\$ (7,747)	\$ (56,621)

	Currency Translation Adjustments	Hedging Activities Adjustments	Pension and Other Postretirement Benefit Liability Adjustment	Total
(In thousands)				
Balance at January 1, 2019	\$ (10,650)	\$ (6,147)	\$ (2,831)	\$ (19,628)
Other comprehensive income/(loss) before reclassifications	1,532	(3,767)	—	(2,235)
Income tax effects before reclassifications	(69)	1,462	—	1,393
Currency translation AOCI	—	80	53	133
Balance at March 31, 2019	(9,187)	(8,372)	(2,778)	(20,337)
Other comprehensive loss before reclassifications	(4,954)	(5,951)	—	(10,905)
Income tax effects before reclassifications	110	1,730	—	1,840
Currency translation AOCI	—	(154)	(36)	(190)
Balance at June 30, 2019	\$ (14,031)	\$ (12,747)	\$ (2,814)	\$ (29,592)

The amounts reclassified out of AOCI and into the Consolidated Statement of Operations for the three and six months ended June 30, 2020 and 2019 are as follows:

Affected Line Item in the Consolidated Statements of Operations		Three Months Ended June 30,		Six Months Ended June 30,	
		2020	2019	2020	2019
(In thousands)					
Amortization of actuarial losses	Reclassification of actuarial losses from AOCI	\$ 2,654	\$ —	\$ 5,052	\$ —
Total before tax		2,654	—	5,052	—
Tax impact		(904)	—	(1,680)	—
Total after tax		\$ 1,750	\$ —	\$ 3,372	\$ —

The amounts recorded in prior years in AOCI exceeding 10% of the defined benefit obligation are recorded ratably as reclassification of actuarial losses over the current year through profit and loss separately from income from operations and amounted to \$5.1 million for the six months ended June 30, 2020.

Note L. Earnings Per Share

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit for the year (numerator) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares arising from exercising all dilutive ordinary shares (denominator).

The following table reflects the income and share data used in the basic and diluted EPS computations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income/(loss) for the period - attributable to ordinary equity holders of the parent (in thousands)	\$ (17,780)	\$ 24,748	\$ 253	\$ 43,702
Weighted average number of ordinary shares (in thousands of shares)	60,487	59,984	60,361	59,752
Basic EPS	\$ (0.30)	\$ 0.41	\$ —	\$ 0.73
Dilutive effect of share based payments (in thousands of shares)	776	1,141	946	1,367
Weighted average number of diluted ordinary shares (in thousands of shares)	61,263	61,125	61,307	61,119
Diluted EPS	\$ (0.29)	\$ 0.40	\$ —	\$ 0.72

In 2019 and 2020, new shares were generated and transferred for settlement of stock based compensation, which was also included in the weighted number of shares. The dilutive effect of the share-based payment transaction is the weighted number of shares considering the grant date, forfeitures and executions during the respective fiscal years. The effect is determined by using the treasury stock method.

Note M. Income Taxes

The Company records its tax provision or benefit on an interim basis using an estimated annual effective tax rate. This rate is applied to the current period ordinary income to determine the income tax provision or benefit allocated to the interim period. Losses from jurisdictions for which no benefit can be recognized, and the income tax effects of unusual and infrequent items are excluded from the estimated annual effective tax rate and are recognized in the impacted interim period as discrete items. Valuation allowances are provided against the future tax benefits that arise from the losses in jurisdictions for which no benefit can be recognized. The estimated annual effective tax rate may be significantly impacted by nondeductible expenses and the Company's projected earnings mix by tax jurisdiction. Adjustments to the estimated annual effective income tax rate are recognized in the period when such estimates are revised.

The development of deferred tax assets and liabilities relates to changes in temporary differences and tax loss carry forwards. Income tax receivables decreased from \$17.9 million at December 31, 2019 to \$11.7 million at June 30, 2020 due to tax refunds received from tax authorities. Income taxes payable increased from \$14.2 million at December 31, 2019 to \$15.3 million at June 30, 2020 mainly due to the current tax expense for the period ended June 30, 2020, less payments to the tax authorities.

Income tax expense for the six months ended June 30, 2020 amounted to \$1.8 million compared to \$18.7 million for the six months ended June 30, 2019, reflecting the income in these periods.

Income tax benefit for the three months ended June 30, 2020 amounted to \$5.9 million compared to the income tax expense of \$9.3 million for the three months ended June 30, 2019, reflecting the income in these periods.

For the six months ended June 30, 2020, the impact of discrete tax items included discrete tax expense of \$0.5 million, due to tax return filings and deferred tax expense of \$0.7 million due to the revaluation of realizability of certain deferred tax assets. The discrete tax items compared to the low income from operations before taxes resulted in an effective tax rate of 87.4% for the six months ended June 30, 2020. The estimated annual tax rate is 28.91% for 2020.

For the three months ended June 30, 2020, the impact of discrete tax items included a net discrete tax expense of \$1.2 million primarily due to tax return filings and other prior year adjustments, offset by the favorable deferred tax gain of \$0.2 million due to the reassessment of recoverability of deferred tax assets. Therefore, the effective tax rate of 24.85% for the three months ended June 30, 2020 deviated from the estimated annual tax rate of 28.91% for 2020.

For the six months ended June 30, 2019, the impact of discrete tax items included a net discrete tax expense of \$0.3 million and is primarily due to tax return filings and other prior year adjustments. Therefore the effective tax rate of 30.0% for the six months ended June 30, 2019 deviated from the estimated annual tax rate of 29.6% for 2019.

For the three months ended June 30, 2019, the impact of discrete tax items included a net discrete tax gain of \$0.7 million and is primarily due to tax return filings and other prior year adjustments. Therefore the effective tax rate of 27.3% for the three months ended June 30, 2019 deviated from the estimated annual tax rate of 29.6% for 2019.

Note N. Commitments and Contingencies

Other Long-Term Commitments

To safeguard the supply of raw materials, contractual purchase commitments under long-term supply agreements for raw materials, primarily oil and gas, are in place with the following maturities:

Maturity	June 30, 2020 (In thousands)
Less than one year	\$ 110,836
One to five years	85,736
More than five years	—
Total	\$ 196,572

For details regarding lease obligations see *Note C. Leases*.

Environmental Matters

EPA Action

During 2008 and 2009, the U.S. Environmental Protection Agency (“EPA”) contacted all U.S. carbon black producers as part of an industry-wide EPA initiative, requesting extensive and comprehensive information under Section 114 of the U.S. Clean Air Act. The EPA used that information to determine, for each facility, that either: (i) the facility has been in compliance with the Clean Air Act; (ii) violations have occurred and enforcement litigation may be undertaken; or (iii) violations have occurred and a settlement of an enforcement case is appropriate. In response to information requests received by the Company’s U.S. facilities, the Company furnished information to the EPA on each of its U.S. facilities. EPA subsequently sent notices under Section 113(a) of the Clean Air Act in 2010 alleging violations of Prevention of Significant Deterioration (“PSD”) and Title V permitting requirements under the Clean Air Act at the Company’s Belpre (Ohio) facility. In October 2012, the Company received a corresponding notice and finding of violation (a “NOV”) alleging the failure to obtain PSD and Title V permits reflecting Best Available Control Technology (“BACT”) at several units of the Company’s Ivanhoe (Louisiana) facility, and in January 2013 the Company also received a NOV issued by the EPA for its facility in Borger (Texas) alleging the failure to obtain PSD and Title V permits reflecting BACT during the years 1996 to 2008. A comparable NOV for the Company’s U.S. facility in Orange (Texas) was issued by the EPA in February 2013; and EPA issued an additional NOV in March 2016 alleging more recent non-PSD air emissions violations primarily at the dryers and the incinerator of the Orange facility.

In 2013, Orion began discussions with the EPA and the U.S. Department of Justice about a potential settlement to resolve the NOV’s received, which ultimately led to a consent decree executed between Orion Engineered Carbons LLC (for purpose of this note M. “Orion”) and the United States (on behalf of the EPA), as well as the Louisiana Department of Environmental Quality. The consent decree

(the “EPA CD”) became effective on June 7, 2018. The consent decree resolves and settles the EPA’s claims of noncompliance set forth in the NOV’s and in a respective complaint filed in court against Orion by the United States immediately prior to the filing of the consent decree.

All five U.S. carbon black producers have settled with the U.S. government.

Under Orion’s EPA CD, Orion will install certain pollution control technology in order to further reduce emissions at its four U.S. manufacturing facilities in Ivanhoe (Louisiana), Belpre (Ohio), Borger (Texas), and Orange (Texas) over approximately five years. The EPA CD also requires the continuous monitoring of emissions reductions that Orion will need to comply with over a number of years. Orion has commenced the installation works for its Ivanhoe and Orange facilities. While the construction at Orange has been completed according to schedule despite COVID-19 related impacts, the construction at the Ivanhoe facility has been subject to COVID-19-related delays, and as a result we have declared force majeure with respect to the EPA CD and requested an extension of the timeline for completion of installations. The EPA has not confirmed our extension request, at this time. We continue to provide the EPA regular updates. Under the EPA CD, Orion can choose either its Belpre or Borger facilities as the next site for installation of pollution control equipment with comparable effectiveness. We expect the capital expenditures for installation of pollution control equipment in the remaining Orion facilities to decrease due to economies of scale and synergies from prior installations. We also expect that the third and fourth plants will require significantly less costly pollution control equipment given the requirements of the EPA CD. We estimate the installations of monitoring and pollution control equipment at all four Orion plants in the U.S. will require capital expenditures in an approximate range between \$230 million to \$270 million of which approximately \$98 million has been spent to date. To narrow this range, the Company pursues further scope design and estimation efforts. However, the actual total capital expenditures we might need to incur in order to fulfill the requirements of the EPA CD remain uncertain. The EPA CD allows some flexibility for Orion to choose among different technology solutions for reducing emissions and the locations where these solutions are implemented. The solutions Orion ultimately chooses to implement at its facilities other than Ivanhoe (Louisiana) and Orange (Texas), may differ in scope and operation from those it currently anticipates (including those discussed in the next paragraph) and, for any and all of its three facilities, factors, such as timing, locations, target levels, changing cost estimates and local regulations, could cause actual capital expenditures to exceed or be lower than current expectations or affect Orion’s ability to meet the agreed target emission levels or target dates for installing required equipment as anticipated or at all. Orion also agreed to and paid a civil penalty of \$0.8 million and agreed to perform environmental mitigation projects totaling \$0.6 million. Noncompliance with applicable emissions limits could lead to further penalty payments to the EPA.

As part of Orion’s compliance plan under the EPA CD, in April 2018 Orion signed a contract with Haldor Topsoe group to install its SNOX™ emissions control technology to remove SO₂, NO_x and dust particles from tail gases at Orion’s Ivanhoe, Louisiana Carbon Black production plant. The SNOX™ technology has not been used previously in the carbon black industry.

Orion’s Share Purchase Agreement with Evonik in connection with the Acquisition provides for a partial indemnity from Evonik against various exposures, including, but not limited to, capital investments, fines and costs arising in connection with Clean Air Act violations that occurred prior to July 29, 2011. Except for certain less relevant allegations contained in the second NOV received for the Company’s facility in Orange (Texas) in March 2016, all of the other allegations made by the EPA with regard to all four of the Company’s U.S. facilities - as discussed above - relate to alleged violations before July 29, 2011. The indemnity provides for a recovery from Evonik of a share of the costs (including fines), expenses (including reasonable attorney’s fees, but excluding costs for maintenance and control in the ordinary course of business and any internal cost of monitoring the remedy), liabilities, damages and losses suffered and is subject to various contractual provisions including provisions set forth in the Share Purchase Agreement with Evonik, such as a de minimis clause, a basket, overall caps (which apply to all covered exposures and all covered environmental exposures, in the aggregate), damage mitigation and cooperation requirements, as well as a statute of limitations provision. Due to the cost-sharing and cap provisions in Evonik’s indemnity, the Company expects that substantial costs it has already incurred and will incur in this EPA enforcement initiative and the EPA CD likely will exceed the scope of the indemnity in the tens of millions of US dollars. In addition, Evonik signaled that it is not honoring Orion’s claims under the indemnity. In June 2019, Orion initiated arbitration proceedings to enforce its rights against Evonik. Evonik in turn has submitted certain counterclaims related to a tax indemnity and cost reimbursement against Orion, which counterclaims we do not believe to be material. Although Orion believes that it is entitled to the indemnity and that its rights thereunder are enforceable, there is no assurance that the Company will be able to recover costs or expenditures incurred under the indemnity as it expects or at all.

Pledges and guarantees

The Company has pledged the majority of its assets (amongst others shares in affiliates, bank accounts and receivables) within the different regions excluding China serving as collateral under the Credit Agreement. The current principal amounts of the outstanding term loans under the Credit Agreement are \$279.5 million (U.S. Dollar Term Loan), and €358.4 million (Euro Term Loan).

As of June 30, 2020 Orion Engineered Carbons GmbH has five guarantees issued by Euler Hermes S.A. with a total volume of \$9.6 million (as of December 31, 2019 three guarantees by Euler Hermes S.A. of \$9.2 million); one guarantee issued by Liberty Mutual Insurance with a volume of \$3.1 million (December 31, 2019: none) and one guarantee insurance issued by Deutsche Bank AG with a volume of \$2.2 million (one guarantee issued by Deutsche Bank AG with a volume of \$2.2 million as of December 31, 2019). None of these guarantees reduce RCF utilization available. Orion also has four guarantees issued by UniCredit AG amounting to \$0.3 million that reduce RCF utilization available.

Note O. Financial Information by Segment

Segment information

The Company's business is organized by its two carbon black product types. For corporate management purposes and all periods presented the Company had Rubber Carbon Black and Specialty Carbon Black as reportable operating segments. Rubber carbon black is used in the reinforcement of rubber in tires and mechanical rubber goods, Specialties are used as pigments and performance additives in coatings, polymers, printing and special applications.

The following table shows the percent of revenue recognized in each of the Company's reportable segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Rubber	53 %	65 %	60 %	65 %
Specialty	47 %	35 %	40 %	35 %

The senior management team, which is composed of the CEO, CFO and certain other senior management members is the chief operating decision maker ("CODM"). The senior management team monitors the operating segments' results separately in order to facilitate decisions regarding the allocation of resources and determine the segments' performance. Orion uses Adjusted EBITDA as the segments' performance measure. The CODM does not review reportable segment asset or liability information for purposes of assessing performance or allocating resources.

Adjustment items are not allocated to the individual segments as they are managed on a group basis.

Segment reconciliation for the three months ended June 30, 2020 and 2019:

	Rubber	Specialties	Corporate	Total segments
(In thousands)				
2020				
Net sales from external customers	\$ 108,261	\$ 94,388	\$ —	\$ 202,648
Adjusted EBITDA	\$ (1,233)	\$ 16,471	\$ —	\$ 15,238
Corporate charges	—	—	(6,089)	(6,089)
Depreciation and amortization of intangible assets and property, plant and equipment	(12,261)	(9,616)	—	(21,876)
Excluding equity in earnings of affiliated companies, net of tax	(151)	—	—	(151)
Income/(loss) from operations before income tax expense and finance costs	(13,645)	6,855	(6,089)	(12,879)
Interest and other financial expense, net	—	—	(8,277)	(8,277)
Reclassification of actuarial losses from AOCI	—	—	(2,654)	(2,654)
Income tax expense/(benefit)	—	—	5,879	5,879
Equity in earnings of affiliated companies, net of tax	151	—	—	151
Net income/(loss)				\$ (17,780)
2019				
Net sales from external customers	\$ 259,731	\$ 139,285	\$ —	\$ 399,016
Adjusted EBITDA	\$ 40,493	\$ 31,035	\$ —	\$ 71,528
Corporate charges	—	—	(4,501)	(4,501)
Depreciation and amortization of intangible assets and property, plant and equipment	(14,213)	(11,191)	—	(25,404)
Excluding equity in earnings of affiliated companies, net of tax	(153)	—	—	(153)
Income/(loss) from operations before income tax expense and finance costs	26,127	19,844	(4,501)	41,470
Interest and other financial expense, net	—	—	(7,566)	(7,566)
Reclassification of actuarial losses from AOCI	—	—	—	—
Income tax expense/(benefit)	—	—	(9,309)	(9,309)
Equity in earnings of affiliated companies, net of tax	153	—	—	153
Net income/(loss)				\$ 24,748

Segment reconciliation for the six months ended June 30, 2020 and 2019:

	Rubber	Specialties	Corporate	Total segments
	(In thousands)			
2020				
Net sales from external customers	\$ 324,489	\$ 214,167	\$ —	\$ 538,655
Adjusted EBITDA	\$ 34,535	\$ 44,547	\$ —	\$ 79,082
Corporate charges	—	—	(8,412)	(8,412)
Depreciation and amortization of intangible assets and property, plant and equipment	(27,554)	(18,168)	—	(45,722)
Excluding equity in earnings of affiliated companies, net of tax	(285)	—	—	(285)
Income/(loss) from operations before income tax expense and finance costs	6,697	26,379	(8,412)	24,664
Interest and other financial expense, net	—	—	(17,888)	(17,888)
Reclassification of actuarial losses from AOCI	—	—	(5,052)	(5,052)
Income tax expense/(benefit)	—	—	(1,756)	(1,756)
Equity in earnings of affiliated companies, net of tax	285	—	—	285
Net income				\$ 253
2019				
Net sales from external customers	\$ 512,859	\$ 270,871	\$ —	\$ 783,730
Adjusted EBITDA	\$ 75,658	\$ 60,437	\$ —	\$ 136,095
Corporate charges	—	—	(10,137)	(10,137)
Depreciation and amortization of intangible assets and property, plant and equipment	(27,978)	(21,521)	—	(49,499)
Excluding equity in earnings of affiliated companies, net of tax	(290)	—	—	(290)
Income/(loss) from operations before income tax expense and finance costs	47,390	38,916	(10,137)	76,169
Interest and other financial expense, net	—	—	(14,009)	(14,009)
Reclassification of actuarial losses from AOCI	—	—	—	—
Income tax expense/(benefit)	—	—	(18,748)	(18,748)
Equity in earnings of affiliated companies, net of tax	290	—	—	290
Net income				\$ 43,702

The sales information noted above relates to external customers only. 'Corporate and other' includes income and expense that cannot be directly allocated to the business segments or are managed on corporate level and includes finance income and expenses, taxes and items with less bearing on the underlying core business.

Income from operations before income taxes and finance costs of the segment 'Corporate and other' comprises the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In thousands)			
Restructuring expenses	\$ —	\$ 1,034	\$ —	\$ 1,123
Consulting fees related to Company strategy	—	589	—	1,505
Extraordinary expense items related to COVID-19	2,725	—	2,725	—
Long Term Incentive Plan	1,199	1,559	60	5,112
EPA-related expenses	977	690	3,566	1,408
Other non-operating	1,188	629	2,061	989
Expense from operations before income taxes and finance costs	\$ 6,089	\$ 4,501	\$ 8,412	\$ 10,137

Note P. Related Parties

As of June 30, 2020 related parties include one associate of Orion that is accounted for using the equity method, namely "Deutsche Gasrusswerke" (DGW) and one principal owner of more than 10%.

Related parties include key management personnel having authority and responsibility for planning, directing and monitoring the activities of the Company directly or indirectly and their close family members.

In the normal course of business Orion from time to time receives services from, or sells products to, related unconsolidated parties, in transactions that are either not material or approved in accordance with our Related Party Transaction Approval Policy.

	June 30, 2020		December 31, 2019	
	(In thousands)			
Trade receivables from DGW KG	\$	25	\$	478
Trade payables to DGW KG	\$	9,412	\$	16,505

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In thousands)			
Purchased carbon black products from DGW KG	\$ 10,671	\$ 23,309	\$ 31,993	\$ 46,075
Sales and services/(refund) provided to DGW KG	\$ (654)	\$ 829	\$ (21)	\$ 1,491

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis summarizes the significant factors affecting our results of operations and financial condition during the three and six months ended June 30, 2020 and 2019 and should be read in conjunction with the information included under *Item 1. Financial Statements and Supplementary Data (Unaudited)* included elsewhere in this report. We prepare our financial statements in accordance with accounting principles generally accepted in the United States.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Non-GAAP Financial Measures

In this report, we present certain financial measures that are not recognized by GAAP and that may not be permitted to appear on the face of GAAP-compliant financial statements or notes thereto. The non-GAAP financial measures contained in this report are unaudited and have not been prepared in accordance with GAAP or the accounting standards of any other jurisdiction and may not be comparable to other similarly titled measures of other companies. For a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures, see below.

The non-GAAP financial measures used in this report are Contribution Margin, Contribution Margin per Metric Ton (collectively, "Contribution Margins"), Adjusted EBITDA, Net Working Capital and Capital Expenditures. We define Contribution Margin as revenue less variable costs (such as raw materials, packaging, utilities and distribution costs). We define Contribution Margin per Metric Ton as Contribution Margin divided by volume measured in metric tons. We define Adjusted EBITDA as operating result (EBIT) before depreciation and amortization, adjusted for acquisition related expenses, restructuring expenses, consulting fees related to Company strategy, share of profit or loss of joint venture and certain other items. Adjusted EBITDA is defined similarly in the Credit Agreement. Adjusted EBITDA is used by our management to evaluate our operating performance and make decisions regarding allocation of capital because it excludes the effects of items that have less bearing on the performance of our underlying core business. We define Net Working Capital as inventories plus current trade receivables minus trade payables. We define Capital Expenditures as cash paid for the acquisition of intangible assets and property, plant and equipment as shown in the consolidated financial statements.

We also use Segment Adjusted EBITDA Margin, which we define as Adjusted EBITDA for the relevant segment divided by the revenue for that segment.

We use Adjusted EBITDA, Contribution Margins and Net Working Capital, as well as Adjusted EBITDA by segment and Segment Adjusted EBITDA Margin, as internal measures of performance to benchmark and compare performance among our own operations. We use these measures, together with other measures of performance under GAAP, to compare the relative performance of operations in planning, budgeting and reviewing the performance of our business. We believe these measures are useful measures of financial performance in addition to consolidated net income for the period, income from operations (EBIT) and other profitability measures under GAAP because they facilitate operating performance comparisons from period to period and company to company and, with respect to Contribution Margin, eliminate volatility in feedstock prices. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization methods, historic cost and age of assets, financing and capital structures and taxation positions or regimes, we believe that Adjusted EBITDA can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA-based measures are often used by the investment community as a means of comparison of companies in our industry. By deducting variable costs (such as raw materials, packaging, utilities and distribution costs) from revenue, we believe that Contribution Margins can provide a useful basis for comparing the current performance of the underlying operations being evaluated by indicating the portion of revenue that is not consumed by these variable costs and therefore contributes to the coverage of all costs and profits.

Different companies and analysts may calculate measures based on EBITDA, contribution margins and working capital differently, so making comparisons among companies on this basis should be done carefully. Adjusted EBITDA, Contribution Margins and Net Working Capital are not measures of performance under GAAP and should not be considered in isolation or construed as substitutes for revenue, consolidated net income for the period, income from operations (EBIT), gross profit and other GAAP measures as an indicator of our operations in accordance with GAAP.

Reconciliation of Non-GAAP Financial Measures

We use Contribution Margin and Adjusted EBITDA as supplemental measures of our operating performance. Contribution Margin and Adjusted EBITDA presented in this Management Discussion and Analysis have not been prepared in accordance with GAAP or the accounting standards of any other jurisdiction. Other companies may use similar non-GAAP financial measures that are calculated differently from the way we calculate these measures. Accordingly, our Contribution Margin and Adjusted EBITDA may not be comparable to similar measures used by other companies and should not be considered in isolation, or construed as substitutes for, revenue, consolidated net income for the period, income from operations (EBIT), gross profit and other GAAP measures as indicators of our results of operations in accordance with GAAP.

Contribution Margin and Contribution Margin per Metric Ton (Non-GAAP Financial Measures)

We calculate Contribution Margin by subtracting variable costs (such as raw materials, packaging, utilities and distribution costs) from our revenue. We believe that Contribution Margin is useful because we see this measure as indicating the portion of revenue that is not consumed by such variable costs and therefore contributes to the coverage of all other costs and profits. The following table reconciles Contribution Margin and Contribution Margin per Metric Ton to gross profit:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In millions, unless otherwise indicated)		(In millions, unless otherwise indicated)	
Revenue ⁽¹⁾	\$ 202.6	\$ 399.0	\$ 538.7	\$ 783.7
Variable costs ⁽²⁾	(128.3)	(255.6)	(332.5)	(504.0)
Contribution margin	74.3	143.4	206.2	279.7
Freight	11.6	20.2	30.8	41.4
Fixed Costs ⁽³⁾	(52.0)	(59.6)	(112.8)	(119.1)
Gross profit ⁽¹⁾	\$ 33.9	\$ 104.0	\$ 124.1	\$ 202.0
Volume (in kmt)	156.9	270.5	392.0	533.3
Contribution margin per metric ton	\$ 473.6	\$ 530.3	\$ 525.9	\$ 524.6
Gross profit per metric ton	\$ 216.3	\$ 384.7	\$ 316.6	\$ 378.8

(1) Separate line item in Condensed Consolidated Financial Statements.

(2) Includes costs such as raw materials, packaging, utilities and distribution.

(3) Includes costs such as depreciation, amortization and impairment of intangible assets and property, plant and equipment, personnel and other production related costs.

Adjusted EBITDA (Non-GAAP Financial Measure)

We define Adjusted EBITDA as income from operations (EBIT) before depreciation and amortization, adjusted for acquisition related expenses, restructuring expenses, consulting fees related to Company strategy, share of profit or loss of joint venture and certain other items. Adjusted EBITDA is defined similarly in our Credit Agreements. Adjusted EBITDA is used by our management to evaluate our operating performance and make decisions regarding allocation of capital because it excludes the effects of items that have less bearing on the performance of our underlying core business.

Our use of Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of our financial results as reported under GAAP. Some of these limitations are: (a) although Adjusted EBITDA excludes the impact of depreciation and amortization, the assets being depreciated and amortized may have to be replaced in the future and thus the cost of replacing assets or acquiring new assets, which will affect our operating results over time, is not reflected; (b) Adjusted EBITDA does not reflect interest or certain other costs that we will continue to incur over time and will adversely affect our profit or loss, which is the ultimate measure of our financial performance and (c) other companies, including companies in our industry, may calculate Adjusted EBITDA or similarly titled measures differently. Because of these and other limitations, Adjusted EBITDA should be considered alongside our other GAAP-based financial performance measures, such as revenue, consolidated net income for the period or income from operations (EBIT).

The following table presents a reconciliation of Adjusted EBITDA to consolidated net income for each of the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In millions)		(In millions)	
Net income/(loss)	\$ (17.8)	\$ 24.7	\$ 0.3	\$ 43.7
Add back income tax expense/(benefit)	(5.9)	9.3	1.8	18.7
Add back equity in earnings of affiliated companies, net of tax	(0.2)	(0.2)	(0.3)	(0.3)
Income/(loss) from operations before income taxes and equity in earnings of affiliated companies	(23.8)	33.9	1.7	62.2
Add back interest and other financial expense, net	8.3	7.6	17.9	14.0
Reclassification of actuarial losses from AOCI	2.7	—	5.1	—
Earnings/(loss) before income taxes and finance income/costs	(12.9)	41.5	24.7	76.2
Add back depreciation, amortization and impairment of intangible assets and property, plant and equipment	21.9	25.4	45.7	49.5
EBITDA	9.0	66.9	70.4	125.7
Equity in earnings of affiliated companies, net of tax	0.2	0.2	0.3	0.3
Restructuring expenses ⁽¹⁾	—	1.0	—	1.1
Consulting fees related to Company strategy ⁽²⁾	—	0.6	—	1.5
Extraordinary expense items related to COVID-19 ⁽³⁾	2.7	—	2.7	—
Long term incentive plan	1.2	1.6	0.1	5.1
EPA-related expenses	1.0	0.7	3.6	1.4
Other adjustments ⁽⁴⁾	1.2	0.6	2.1	1.0
Adjusted EBITDA	\$ 15.2	\$ 71.5	\$ 79.1	\$ 136.1
<i>Thereof Adjusted EBITDA Specialty Carbon Black</i>	<i>\$ 16.5</i>	<i>\$ 31.0</i>	<i>\$ 44.5</i>	<i>\$ 60.4</i>
<i>Thereof Adjusted EBITDA Rubber Carbon Black</i>	<i>\$ (1.2)</i>	<i>\$ 40.5</i>	<i>\$ 34.5</i>	<i>\$ 75.7</i>

(1) Restructuring expenses for the six months ended June 30, 2019 are related to our strategic realignment of our worldwide Rubber footprint.

(2) Consulting fees related to the Orion strategy include external consulting for establishing and executing Company strategies relating to Rubber footprint realignment, conversion to U.S. dollar and U.S. GAAP, as well as costs relating to our assessment of feasibility for inclusion in certain U.S. indices.

(3) Extraordinary expense items related to COVID-19 are costs incurred to address impacts associated with the global corona virus pandemic. These items include select production costs, expenses related to providing personal protection equipment and costs related to protective measures carried out at our facilities to ensure the safety of our employees, among other expenditures.

(4) Other adjustments in the three and six months ended June 30, 2020 mainly relate to legal fees associated with a dispute concerning intellectual property of \$0.6 million and \$0.8 million, respectively, and a non-income tax expense incurred during the construction phase of an asset in an amount of \$0.5 million and \$0.8 million, respectively. The asset under construction is expected to qualify for certain non-income tax credits once operational, since such credits were applied to the predecessor machine. This tax disadvantage cannot be capitalized as part of the project's capital expenditure.

Operating Results

Quarter and six months ended June 30, 2020 compared to quarter and six months ended June 30, 2019

The table below presents our historical results derived from our consolidated financial statements for the periods indicated.

Statement of operations data	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In millions)		(In millions)	
Net sales	\$ 202.6	\$ 399.0	\$ 538.7	\$ 783.7
Cost of sales	168.7	295.0	414.5	581.7
Gross profit	33.9	104.0	124.1	202.0
Selling, general and administrative expenses	38.5	52.1	83.1	107.7
Research and development costs	4.4	4.9	9.4	10.0
Other expenses, net	3.8	4.5	7.0	7.0
Restructuring expenses	0.0	1.0	0.0	1.1
Income/(loss) from operations	(12.9)	41.5	24.7	76.2
Interest and other financial expense, net	8.3	7.6	17.9	14.0
Reclassification of actuarial losses from AOCI	2.7	—	5.1	—
Income/(loss) from continuing operations before income tax expense and equity in earnings of affiliated companies	(23.8)	33.9	1.7	62.2
Income tax expense/(benefit)	(5.9)	9.3	1.8	18.7
Equity in earnings of affiliated companies, net of tax	0.2	0.2	0.3	0.3
Net income/(loss)	\$ (17.8)	\$ 24.7	\$ 0.3	\$ 43.7

Net sales

Net sales decreased by \$196.4 million, or 49.2%, from \$399.0 million (\$139.3 million in our Specialty Carbon Black segment and \$259.7 million in our Rubber Carbon Black segment) in the second quarter of 2019 to \$202.6 million (\$94.4 million in our Specialty Carbon Black segment and \$108.3 million in our Rubber Carbon Black segment) in the second quarter of 2020. Net sales decreased, driven primarily by lower volumes and, to a lesser extent, the effects of passing on lower feedstock costs to customers.

Net sales decreased overall by \$245.1 million, or 31.3%, from \$783.7 million in the six months ended June 30, 2019 to \$538.7 million in the six months ended June 30, 2020, driven primarily by the decrease of net sales in the second quarter of 2020.

Volume decreased by 113.5 kmt or 42.0% from 270.5 kmt (69.9 kmt in our Specialty Carbon Black segment and 200.6 kmt in our Rubber Carbon Black segment) in the second quarter of 2019 to 156.9 kmt (49.5 kmt in our Specialty carbon Black segment and 107.5 kmt in our Rubber Carbon Black segment) in the second quarter of 2020, with lower demand in both segments and in all regions, due to the effects of COVID-19 on the overall global economy.

Volume decreased by 141.2 kmt, or 26.5%, from 533.3 kmt in the six months ended June 30, 2019 to 392.0 kmt in the six months ended June 30, 2020, with lower demand in both segments and in all regions, due to the effects of COVID-19 on the overall global economy.

Cost of sales and Gross profit

Cost of sales decreased by \$126.3 million, or 42.8%, from \$295.0 million in the second quarter of 2019 to \$168.7 million in the second quarter of 2020, mainly as a result of lower volumes.

Cost of sales decreased by \$167.2 million, or 28.7%, from \$581.7 million in the six months ended June 30, 2019 to \$414.5 million in the six months ended June 30, 2020. The 26.5% decrease in volume in the six months ended June 30, 2020 compared to the six months ended June 30, 2019 resulted in a decrease of cost of sales of 25.9%, or \$150.4 million in the six months ended June 30, 2020 compared to the six months ended June 30, 2019 while the remaining decrease is primarily related to changes in oil prices.

Gross profit decreased for reasons described above by \$70.1 million, or 67.4% from \$104.0 million (\$44.4 million in our Specialty Carbon Black segment and \$59.6 million in our Rubber Carbon Black segment) in the second quarter of 2019 to \$33.9 million (\$24.2 million in our Specialty Carbon Black segment and \$9.7 million in our Rubber Carbon Black segment) in the second quarter of 2020.

Primarily as a result of the decrease in the second quarter of 2020, gross profit decreased by \$77.9 million, or 38.5%, from \$202.0 million in the six months ended June 30, 2019 to \$124.1 million in the six months ended June 30, 2020 for reasons described above.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased by \$13.6 million, or 26.0%, from \$52.1 million in the second quarter of 2019 to \$38.5 million in the second quarter of 2020, driven primarily by lower freight costs due reductions in volumes as a result of the effects of COVID-19 on the overall global economy and countermeasures implemented to reduce our costs.

Selling, general and administrative expenses decreased by \$24.6 million, or 22.9%, from \$107.7 million in the six months ended June 30, 2019 to \$83.1 million in the six months ended June 30, 2020, driven primarily by lower freight costs due to lower volumes as a result of the effects of COVID-19 on the overall global economy and countermeasures implemented to reduce our costs.

Research and development costs

R&D expenses decreased by \$0.5 million from \$4.9 million in the second quarter of 2019 to \$4.4 million in the second quarter of 2020 driven by the timing of expenditures for individual development of programs.

R&D expenses decreased by \$0.6 million, from \$10.0 million in the six months ended June 30, 2019 to \$9.4 million in the six months ended June 30, 2020 driven by the timing of expenditures for individual development of programs.

Other expenses, net

Other expenses, net, which comprises other operating income and other operating expenses, decreased from \$4.5 million in the second quarter of 2019 to \$3.8 million in the second quarter of 2020 driven by the timing of expenditures in the second quarter of 2019.

Other expenses, net which comprises other operating income and other operating expenses, amounted to \$7.0 million in the six months ended June 30, 2020 and 2019, respectively, unchanged year over year.

In the six months ended June 30, 2020, other operating income amounted to \$3.9 million and included, among other items, a gain related to the release of bonus accruals. Other operating expenses in the six months ended June 30, 2020 amounted to \$10.9 million, comprised primarily of \$3.6 million of EPA-related expenses and \$2.7 million of COVID-19 related expenses.

In the six months ended June 30, 2019, other operating income amounted to \$1.3 million. Other operating expenses in the six months ended June 30, 2019 amounted to \$8.3 million, comprised primarily of \$1.5 million consulting fees related to Company strategy, EPA-related expenses of \$1.4 million as well as allowances and asset disposal expenses.

Restructuring expenses/(income), net

In the six months ended June 30, 2019, restructuring expenses amounted to \$1.1 million and related to follow-up expenses associated with the strategic repositioning of the Rubber business footprint. Those activities in the fiscal years 2016 to 2019 generated annualized savings of approximately \$16 million per year on a consolidated basis since the end of fiscal year 2018 from the facility shutdown in Ambès, France, the facility consolidations in Seoul, South Korea, the related headcount reductions, and to a lesser extent, to operational efficiencies. These anticipated savings came essentially in full from our Rubber segment.

Income/(loss) from operations

Income from operations decreased by \$54.3 million from \$41.5 million in the second quarter of 2019 to a loss from operations of \$12.9 million in the second quarter of 2020, due to the effects of COVID-19 on the overall global economy and carbon black demand.

Income from operations decreased by \$51.5 million, or 67.6%, from \$76.2 million in the six months ended June 30, 2019 to \$24.7 million in the six months ended June 30, 2020. The decrease year over year in the six months ended June 30, 2020 is primarily due to lower volumes related to the impact of COVID-19 during the second quarter of 2020.

Interest and other financial expense, net

Interest and other financial expense, net comprises interest and other financial income and interest and other financial expenses and increased by \$0.7 million from \$7.6 million in the second quarter of 2019 to \$8.3 million in the second quarter of 2020, reflecting the impact of bolstering our cash position by drawing under our ancillary lines of credit and RCF.

Interest and other financial expense, net comprises interest and other financial income and interest and other financial expenses. Interest and other financial expense, net amounted to \$17.9 million in the six months ended June 30, 2020 compared to \$14.0 million in the six months ended June 30, 2019.

Interest and other financial expense, net in the six months ended June 30, 2020 included, among other items, \$7.2 million of interest expenses, \$1.0 million of amortization of capitalized transaction costs, \$0.9 million of interest expenses on pension obligations and \$7.3 million of net foreign currency revaluation related expenses.

Interest and other financial expense, net in the six months ended June 30, 2019 amounted to \$14.0 million and included, among other items, \$8.5 million of interest expenses, \$1.1 million amortization of capitalized transaction costs, \$0.9 million of interest expenses on pension obligations and \$0.8 million of net foreign currency revaluation related expenses.

Reclassification of actuarial losses from AOCI

The actuarial losses associated with our pension obligations recorded in prior years in accumulated other comprehensive income exceeding 10% of the defined benefit obligation are recorded ratably over the current year through profit and loss separately from income from operations and amounted to \$5.1 million in the six months ended June 30, 2020.

Income/(loss) from continuing operations before income tax expense and equity in earnings of affiliated companies

Income from operations before income taxes and equity in earnings of affiliated companies decreased by \$57.7 million from \$33.9 million in the second quarter of 2019 to a loss from operations before income taxes of \$23.8 million in the second quarter of 2020, due to the effects of COVID-19 on the overall global economy.

Income from operations before income tax expense and equity in earnings of affiliated companies decreased by \$60.4 million, or 97.2%, from \$62.2 million in the six months ended June 30, 2019 to \$1.7 million in the six months ended June 30, 2020, due to the effects of COVID-19 on the overall global economy in the second quarter of 2020.

Income tax expense/(benefit)

Income taxes decreased by \$15.2 million from \$9.3 million in the second quarter of 2019 to tax income of \$5.9 million in the second quarter of 2020, as a result of decreased income before taxes.

Income tax expense amounted to \$1.8 million in the six months ended June 30, 2020 compared to \$18.7 million in the six months ended June 30, 2019, as a result of decreased income before taxes.

In the six months ended June 30, 2020, the impact of discrete tax items included discrete tax expense of \$0.5 million, primarily due to tax return filings and other prior year adjustments and an unfavorable deferred tax expense of \$0.7 million due to revaluation of realizability of certain deferred tax assets. The discrete tax items compared to the low income from operations before taxes resulted in an effective tax rate of more than 87% for the six months ended June 30, 2020. The estimated annual tax rate is 28.91% for 2020. For details regarding this deviation see *Note M. Income Taxes* to the unaudited condensed consolidated financial statements.

In the six months ended June 30, 2019, the effective tax rate of 30.0% deviated from our estimated annual effective tax rate of 30.1% in particular due to a net discrete tax expense of \$0.3 million. For details regarding this deviation see *Note M. Income Taxes* to the unaudited condensed consolidated financial statements.

Equity in earnings of affiliated companies, net of tax

Equity in earnings of affiliated companies represents the equity income from our German JV, which was comparable in the six months ended June 30, 2020 and the six months ended June 30, 2019.

Net income/(loss)

Net income decreased by \$42.5 million from \$24.7 million in the second quarter of 2019 to \$17.8 million in the second quarter of 2020, reflecting all the items described above.

Our net income in the six months ended June 30, 2020 amounted to \$0.3 million, a decrease of \$43.4 million, reflecting all the factors described above.

Contribution Margin and Contribution Margin per Metric Ton (Non-GAAP Financial Measures)

Contribution Margin decreased by \$69.1 million, or 48.2%, from \$143.4 million in the second quarter of 2019 to \$74.3 million in the second quarter of 2020, primarily due to lower volumes, partially offset by favorable base price increases in the Rubber segment, in particular. Contribution Margin per Metric Ton decreased by 10.7%, from \$530.3 per Metric Ton for the second quarter of 2019 to \$473.6 per Metric Ton in the second quarter of 2020.

Contribution Margin decreased by \$73.5 million, or 26.3%, from \$279.7 million in the six months ended June 30, 2019 to \$206.2 million in the six months ended June 30, 2020. The decrease of \$73.5 million year over year is primarily attributable to the decrease in Contribution Margin in the second quarter of 2020 in an amount of \$69.1 million. Contribution Margin per Metric Ton increased by 0.3%, from \$524.6 per Metric Ton in the six months ended June 30, 2019 to \$525.9 per Metric Ton in the six months ended June 30, 2020.

Adjusted EBITDA (Non-GAAP Financial Measure)

Adjusted EBITDA decreased by \$56.3 million, or 78.7%, from \$71.5 million in the second quarter of 2019 to \$15.2 million in the second quarter of 2020, primarily due to lower volume, partially offset by lower fixed costs and base price increases in the Rubber segment, in particular.

Adjusted EBITDA decreased by \$57.0 million, or 41.9%, from \$136.1 million in the six months ended June 30, 2019 to \$79.1 million in the six months ended June 30, 2020, mainly reflecting the COVID-19 impacts of the second quarter of 2020.

2019 Compared to 2018

The comparison of the three and six months ended June 30, 2019 and the three and six months ended June 30, 2018 can be found in our quarterly report filed as Exhibit to Form 6-K for the six months ended June 30, 2019 located within “*Part I, Item 2. Management’s Discussions and Analysis — Operating Results*”, which is incorporated by reference herein.

Segment Discussion

Our business operations are divided into two operating segments: the Specialty Carbon Black segment and the Rubber Carbon Black segment. We use segment revenue, segment gross profit, segment volume, Segment Adjusted EBITDA and Segment Adjusted EBITDA Margin as measures of segment performance and profitability.

The table below presents our segment results derived from our audited consolidated financial statements for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,					
	2020	2019	2020	2019				
	(In millions, unless otherwise indicated)		(In millions, unless otherwise indicated)					
Specialty Carbon Black								
Net sales	\$	94.4	\$	139.3	\$	214.2	\$	270.9
Cost of sales		(70.2)		(94.9)		(150.2)		(185.1)
Gross profit	\$	24.2	\$	44.4	\$	63.9	\$	85.8
Volume (kmt)		49.5		69.9		107.8		133.8
Adjusted EBITDA	\$	16.5	\$	31.0	\$	44.5	\$	60.4
Adjusted EBITDA Margin (%) ⁽¹⁾		17.5		22.3		20.8		22.3
Rubber Carbon Black								
Net sales	\$	108.3	\$	259.7	\$	324.5	\$	512.9
Cost of sales		(98.5)		(200.1)		(264.3)		(396.7)
Gross profit	\$	9.7	\$	59.6	\$	60.2	\$	116.2
Volume (kmt)		107.5		200.6		284.2		399.4
Adjusted EBITDA	\$	(1.2)	\$	40.5	\$	34.5	\$	75.7
Adjusted EBITDA Margin (%) ⁽¹⁾		(1.1)		15.6		10.6		14.8

(1) Defined as Adjusted EBITDA divided by net sales.

Specialty Carbon Black

2020 Compared to 2019

Three months ended June 30, 2020 compared to three months ended June 30, 2019

Lower volumes drove a decline in net sales of the Specialty Carbon Black segment by \$44.9 million, or 32.2%, from \$139.3 million in the second quarter of 2019 to \$94.4 million in the second quarter of 2020.

Volume of the Specialty Carbon Black segment decreased by 20.4 kmt, or 29.2%, from 69.9 kmt in the second quarter of 2019 to 49.5 kmt in the second quarter of 2020. All regions were down.

Gross profit of the Specialty Carbon Black segment decreased by \$20.2 million, or 45.5%, from \$44.4 million in the second quarter of 2019 to \$24.2 million in the second quarter of 2020, as well as a result of lower volumes.

Adjusted EBITDA of the Specialty Carbon Black segment decreased by \$14.6 million, or 46.9%, from \$31.0 million in the second quarter of 2019 to \$16.5 million in the second quarter of 2020, primarily due to lower volumes, partially offset by mix. Adjusted EBITDA margin decreased 480 basis points to 17.5% in the second quarter of 2020 compared to 22.3% in the second quarter of 2019.

Six months ended June 30, 2020 compared to six months ended June 30, 2019

Net sales of the Specialty Carbon Black segment decreased by \$56.7 million, or 20.9%, from \$270.9 million in the six months ended June 30, 2019 to \$214.2 million in the six months ended June 30, 2020, primarily due to lower volumes.

Volume of the Specialty Carbon Black segment decreased by 26.0 kmt, or 19.5%, from 133.8 kmt in the six months ended June 30, 2019 to 107.8 kmt in the six months ended June 30, 2020. All regions were down.

Gross profit of the Specialty Carbon Black segment decreased by \$21.9 million, or 25.5%, from \$85.8 million in the six months ended June 30, 2019 to \$63.9 million in the six months ended June 30, 2020, mainly due to lower volumes and foreign exchange rate translation effects, partially offset by a positive product mix.

Adjusted EBITDA of the Specialty Carbon Black segment decreased by \$15.9 million, or 26.3%, from \$60.4 million in the six months ended June 30, 2019 to \$44.5 million in the six months ended June 30, 2020, reflecting primarily the decrease in gross profit and slightly increased fixed costs year over year.

2019 Compared to 2018

The comparison of the three and six months ended June 30, 2019 and the three and six months ended June 30, 2018 can be found in our quarterly report filed as Exhibit to Form 6-K for the six months ended June 30, 2019 located within “*Part I, Item 2. Management’s Discussions and Analysis — Operating Results*”, which is incorporated by reference herein.

Rubber Carbon Black

2020 Compared to 2019

Three months ended June 30, 2020 compared to three months ended June 30, 2019

Net sales of the Rubber Carbon Black segment decreased by \$151.5 million, or 58.3%, from \$259.7 million in the second quarter of 2019 to \$108.3 million in the second quarter of 2020, primarily due to lower volumes and, to a much lesser extent, the pass through of lower feedstock costs to customers, partially offset by base price increases.

Volume of the Rubber Carbon Black segment decreased by 93.1, or 46.4%, from 200.6 kmt in the second quarter of 2019 to 107.5 kmt in the second quarter of 2020. All regions were down. Volumes were down primarily due to COVID-19, but also reflect our commercial strategy as part of 2019 contract negotiations to emphasize raising price over volume.

Gross profit of the Rubber Carbon Black segment decreased by \$49.9 million, or 83.7%, from \$59.6 million in the second quarter of 2019 to \$9.7 million in the second quarter of 2020, driven by lower volumes, partially offset by base price increases.

Adjusted EBITDA of the Rubber Carbon Black segment decreased by \$41.7 million, or 103.0%, from \$40.5 million in the second quarter of 2019 to \$(1.2) million in the second quarter of 2020, primarily driven by lower volume and the unfavorable impact on margins of lower feedstock costs, partially offset by lower freight costs and fixed costs.

Six months ended June 30, 2020 compared to six months ended June 30, 2019

Net sales of the Rubber Carbon Black segment decreased by \$188.4 million, or 36.7%, from \$512.9 million in the six months ended June 30, 2019 to \$324.5 million in the six months ended June 30, 2020, primarily due to lower volumes and, to a much lesser extent, the pass through of lower feedstock costs to customers, somewhat offset by base price increases.

Volume of the Rubber Carbon Black segment decreased by 115.2 kmt, or 28.8%, from 399.4 kmt in the six months ended June 30, 2019 to 284.2 kmt in the six months ended June 30, 2020, continuing the sharp decline in sales volumes that emerged in mid-March as tire and auto manufacturing plants closed due to COVID-19. Lower volumes also reflected the impact of a deliberate Rubber commercial strategy as part of 2019 contract negotiations to emphasize raising price over volume.

Gross profit of the Rubber Carbon Black segment decreased by \$56.0 million, or 48.2%, from \$116.2 million in the six months ended June 30, 2019 to \$60.2 million in the six months ended June 30, 2020, primarily as a result of the decrease in gross profit of \$49.9 million in the second quarter of 2020.

Adjusted EBITDA of the Rubber Carbon Black segment decreased by \$41.1 million, or 54.4%, from \$75.7 million in the six months ended June 30, 2019 to \$34.5 million in the six months ended June 30, 2020, reflecting the development of gross profit partially offset by lower freight cost.

2019 Compared to 2018

The comparison of the three and six months ended June 30, 2019 and the three and six months ended June 30, 2018 can be found in our quarterly report filed as Exhibit to Form 6-K for the six months ended June 30, 2019 located within “*Part I, Item 2. Management’s Discussions and Analysis — Operating Results*”, which is incorporated by reference herein.

Liquidity and Capital Resources

Historical Cash Flows

The tables below present our historical cash flows derived from our unaudited consolidated financial statements for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
	(In millions)		(In millions)	
Net cash provided by operating activities	\$ 85.7	\$ 48.0	\$ 90.6	\$ 74.1
Net cash used in investing activities	\$ (38.5)	\$ (38.4)	\$ (89.4)	\$ (60.9)
Net cash provided by/(used in) financing activities	\$ (12.8)	\$ (17.2)	\$ 81.7	\$ (16.8)
Cash, cash equivalents and restricted cash at the end of the period	\$ 146.1	\$ 57.7	\$ 146.1	\$ 57.7
Less restricted cash at the end of the period	2.7	4.5	2.7	4.5
Cash and cash equivalents at the end of the period	\$ 143.4	\$ 53.2	\$ 143.4	\$ 53.2

2020

Net cash provided by operating activities for the second quarter 2020 amounted to \$85.7 million and consisted primarily of a consolidated loss for the period of \$17.8 million offset by adjustments primarily for depreciation of \$21.9 million and cash inflows from changes in operating assets and liabilities, including changes in net working capital, of \$82.3 million, primarily related to changes in Net Working Capital.

Net cash used in investing activities for the second quarter 2020 amounted to \$38.5 million. It comprises capital expenditure projects mainly related to preservation and overhaul projects as well as expenditures associated with our efforts to meet the EPA requirements in the U.S. in an amount of \$12.9 million.

Net cash used in financing activities for the second quarter 2020 amounted to \$12.8 million. \$10.8 million, net, were used for repayments of current borrowing and \$2.0 million were used for regular debt repayment.

Net cash provided by operating activities in the six months ended June 30, 2020 amounted to \$90.6 million and consisted of a consolidated profit for the period of \$0.3 million, adjustments primarily for depreciation of \$45.7 million and cash inflows from changes in operating assets and liabilities of \$43.9 million, primarily related to changes in Net Working Capital.

Net cash used in investing activities in the six months ended June 30, 2020 amounted to \$89.4 million comprised of \$53.8 million capital expenditure for maintenance and overhaul projects and expenditures associated as well as \$35.6 million environmental improvements of our U.S. based facilities to address the EPA requirements.

Net cash provided by financing activities in the six months ended June 30, 2020 amounted to \$81.7 million. Cash inflows during the six months of \$99.0 million are related to local bank loan facilities to bolster the liquidity of the Company in light of the current COVID-19 uncertainties while cash outflows were used for regular debt repayment of \$4.0 million and a \$12.0 million dividend payment in the first quarter of 2020.

2019

Net cash provided by operating activities for the second quarter 2019 amounted to \$48.0 million and consisted primarily of a consolidated profit for the period of \$24.7 million, adjustments primarily for depreciation of \$25.4 million and cash outflows from changes in operating assets and liabilities of \$7.8 million.

Net cash used in investing activities for the second quarter 2019 amounted to \$38.4 million. It comprises capital expenditure projects mainly related to preservation and overhaul projects as well as expenditures associated with our efforts to meet the EPA requirements in the U.S.

Net cash used in financing activities for the second quarter 2019 amounted to \$17.2 million. \$2.0 million were used for regular debt repayment, \$12.0 million were used for dividend payments and \$6.5 million were used for taxes paid for shares issued under net settlement feature. Cash inflow, net, of \$5.1 million are related to local short-term financing facilities.

Net cash provided by operating activities for the six months ended June 30, 2019 amounted to \$74.1 million and consisted primarily of a consolidated profit for the period of \$43.7 million, adjustments primarily for depreciation of \$49.5 million and cash outflows from changes in operating assets and liabilities of \$27.8 million.

Net cash used in investing activities for the six months ended June 30, 2019 amounted to \$60.9 million. It comprises capital expenditure projects mainly related to preservation and overhaul projects as well as expenditures associated with our efforts to meet the EPA requirements in the U.S.

Net cash used in financing activities for the six months ended June 30, 2019 amounted to \$16.8 million. \$4.0 million were used for regular debt repayment, \$23.9 million were used for dividend payments and \$6.5 million were used for taxes paid for shares issued under net settlement feature. Cash inflow, net, of \$19.4 million are related to local short-term financing facilities.

Sources of Liquidity

Our principal sources of liquidity are the net cash generated (i) from operating activities, primarily driven by our operating results and changes in working capital requirements, and (ii) from financing activities, primarily driven by, borrowing amounts available under our committed multicurrency, senior secured RCF, and related ancillary facilities as well as various uncommitted local credit lines and, from time to time, term loan borrowings.

Our RCF allows the conversion of revolver capacity to ancillary line capacity. Because ancillary lines are bilateral agreements directly with individual bank group participants, borrowings under such lines reduce overall RCF availability but do not count towards the 35% RCF utilization test governing our financial covenant. As of June 30, 2020, we had converted 68% of our RCF into ancillary capacity, resulting in our ability to borrow the full amount of commitments under the RCF at any net leverage level.

While we continue to closely monitor our working capital management and capital spending in light of continuing uncertainties in the global economy, we anticipate that cash on hand and cash provided by operating activities and borrowings will be sufficient to pay our operating expenses, satisfy debt service obligations and fund any capital expenditures for the foreseeable future.

Net Working Capital (Non-GAAP Financial Measure)

We define Net Working Capital as the total of inventories and current trade receivables, less trade payables. Net Working Capital is a non-GAAP financial measure, and other companies may use a similarly titled financial measure that is calculated differently from the way we calculate Net Working Capital. The following tables set forth the principal components of our Net Working Capital as of the dates indicated.

	June 30, 2020	December 31, 2019
	(In millions)	
Inventories	\$ 135.3	\$ 164.8
Trade receivables	145.3	212.6
Trade payables	(90.1)	(156.3)
Net working capital	\$ 190.5	\$ 221.1

Our Net Working Capital position can vary significantly from month to month, mainly due to fluctuations in oil prices and receipts of carbon black oil shipments. In general, increases in the cost of raw materials lead to an increase in our Net Working Capital requirements, as our inventories and trade receivables increase as a result of higher carbon black oil prices and related sales levels. These increases are partially offset by related increases in trade payables. Due to the quantity of carbon black oil that we typically keep in stock, such increases in Net Working Capital occur gradually over a period of two to three months. Conversely, decreases in the cost of raw materials lead to a decrease in our Net Working Capital requirements over the same period of time. Based on 2020 Net Working Capital requirements and normalized business activities, we estimate that a \$10 per barrel movement in the Brent crude oil price correlates to a movement in our Net Working Capital of approximately \$27 million to \$30 million within about a two to three month period.

Our Net Working Capital decreased from \$221.1 million as of December 31, 2019 to \$190.5 million as of June 30, 2020, primarily due to lower volumes and oil prices.

Capital Expenditures (Non-GAAP Financial Measure)

We define Capital Expenditures as cash paid for the acquisition of intangible assets and property, plant and equipment as shown in the consolidated financial statements.

Our Capital Expenditures amounted to \$60.9 million in the six months ended June 30, 2019 and \$89.4 million in the six months ended June 30, 2020. We plan to finance our Capital Expenditures with cash generated by our operating activities. With the exception of required expenditures in association with our settlement with the EPA we currently do not have any material obligatory commitments to make Capital Expenditures outside the ordinary course of our business. See “*Note N. Commitments and Contingencies*” for further details regarding the EPA settlement.

Capital Expenditures in the six months ended June 30, 2020 amounted to \$89.4 million and were mainly comprised of maintenance and overhaul projects including \$35.6 million expenditures associated with our efforts to commence environmental investments required to address the EPA requirements in the United States.

Capital Expenditures in the six months ended June 30, 2019 amounted to \$60.9 million and were mainly composed of preservation and overhaul projects and in an amount of \$12.9 million for expenditures associated with our efforts for investments required to address the EPA requirements in the United States.

Contractual Obligations

The following table sets forth our contractual obligations as of June 30, 2020:

	Less than 1 year	1-3 years	4-5 years	More than 5 years	Total
	In million				
Long-term debt obligations ⁽¹⁾	\$ 157.2	\$ 51.5	\$ 641.1	\$ —	\$ 849.8
Revolving credit facility ⁽²⁾	89.7	—	—	—	89.7
Local credit lines ⁽³⁾	40.6	—	—	—	40.6
Term loan ⁽⁴⁾	8.1	16.1	613.7	—	637.9
Interest expense on long-term debt ⁽⁵⁾	18.8	35.3	27.4	—	81.6
Purchase commitments ⁽⁶⁾	110.8	85.7	—	—	196.6
Operating leases ⁽⁷⁾	7.2	13.2	10.7	3.8	34.9
Total contractual obligations⁽⁸⁾	\$ 275.2	\$ 150.4	\$ 651.8	\$ 3.8	\$ 1,081.2

⁽¹⁾ Sets forth obligations to repay principal and interest under our long-term debt obligations.

⁽²⁾ Represents the obligation under the RCF. As of June 30, 2020, total drawing was \$89.7 million either through our RCF or related ancillary facilities. The RCF can be drawn up to a total amount of €250.0 million (USD equivalent: \$280.0 million).

⁽³⁾ Currently in Korea and Brazil.

⁽⁴⁾ Represents the Term Loans and includes the outstanding principal amounts of \$279.5 million (U.S. Dollar term loan) and \$358.4 million (EUR term loan) which has been translated at an exchange rate at the reporting date of \$1.1198 per €1.00. The borrowing costs on the principal of the Euro-denominated Term Loan have been translated applying the same exchange rate.

⁽⁵⁾ Represents interest expenses related to indebtedness from our Term Loans, assuming future interest based on a forward rate assumption.

⁽⁶⁾ Represents purchase commitments under long-term supply agreements for the supply of raw materials, mainly oil and gas.

⁽⁷⁾ Represents current leases, for forward-starting leases see “*Note C. Leases.*”

⁽⁸⁾ This amount does not reflect the Company’s obligations under its existing pension arrangements, which as of June 30, 2020 amounted to \$71.2 million (non-current) and \$0.9 million (current) (see “*Note H. Employee Benefit Plans*” with regard to pension provisions and post-retirement benefits included in the unaudited financial statements).

The level of performance bonds, guarantees and letters of credit required for carbon black oil purchasing could increase as a result of increasing oil prices or other factors. As of June 30, 2020 Orion Engineered Carbons GmbH had entered into eight guarantees from various financial institutions amounting to \$14.9 million compared with five guarantees amounting to \$11.4 million as of December 31, 2019. Neither of these guarantees reduce the utilization limit of the current RCF. Orion also had entered during the second quarter of 2020 into four guarantees issued by UniCredit AG amounting to \$0.3 million that reduce financing headroom under the RCF.

Borrowings under our Credit Agreement are at variable rates of interest based on USD-LIBOR or EURIBOR rates. In July 2017, the U.K. Financial Conduct Authority announced that it intends to stop collecting LIBOR rates from banks after 2021. The announcement indicates that LIBOR will not continue to exist on the current basis. We are unable to predict the effect of any changes to LIBOR, the establishment and success of any alternative reference rates, or any other reforms to LIBOR or any replacement of LIBOR that may be enacted in the United Kingdom or elsewhere. Such changes, reforms or replacements relating to LIBOR could have an adverse impact on the market for or value of any LIBOR-linked securities, loans, derivatives or other financial instruments or extensions of credit held by us.

Off-Balance Sheet Arrangements

As of June 30, 2020, we did not have any off-balance sheet arrangements.

Note Regarding Forward-Looking Statements

This report contains and refers to certain forward-looking statements with respect to our financial condition, results of operations and business. These statements constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are statements of future expectations that are based on management’s current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. Forward-looking statements include, among others, statements concerning the potential exposure to market risks, statements expressing management’s expectations, beliefs, estimates, forecasts, projections and assumptions and statements that are not limited to statements of historical or present facts or conditions.

Forward-looking statements are typically identified by words such as “anticipate,” “assume,” “assure,” “believe,” “confident,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “objectives,” “outlook,” “probably,” “project,” “will,” “seek,” “target,” “to be,” and other words of similar meaning. These forward-looking statements include, without limitation, statements about the following matters:

- our strategies for (i) mitigating the impacts of the global outbreak of the coronavirus, (ii) strengthening our position in specialty carbon blacks and rubber carbon blacks, (iii) increasing our rubber carbon black margins and (iv) strengthening the competitiveness of our operations;
- the ability to pay dividends at historical dividend levels or at all;
- cash flow projections;
- the installation of pollution control technology in our U.S. manufacturing facilities pursuant to the EPA consent decree described herein;
- the outcome of any in-progress, pending or possible litigation or regulatory proceedings; and
- our expectation that the markets we serve will continue to grow.

All these forward-looking statements are based on estimates and assumptions that, although believed to be reasonable, are inherently uncertain. Therefore, undue reliance should not be placed upon any forward-looking statements. There are important factors that could cause actual results to differ materially from those contemplated by such forward-looking statements. These factors include, among others:

- the effects of the COVID-19 pandemic on our business and results of operations;
- negative or uncertain worldwide economic conditions;
- volatility and cyclicity in the industries in which we operate;
- operational risks inherent in chemicals manufacturing, including disruptions as a result of severe weather conditions and natural disasters;
- our dependence on major customers and suppliers;
- our ability to compete in the industries and markets in which we operate;
- our ability to address changes in the nature of future transportation and mobility concepts which may impact our customers and our business;
- our ability to develop new products and technologies successfully and the availability of substitutes for our products;
- our ability to implement our business strategies;
- volatility in the costs and availability of raw materials (including but not limited to any and all effects from restrictions imposed by the MARPOL convention and respective International Maritime Organization (IMO) regulations in particular to reduce sulfur oxides (SOx) emissions from ships) and energy;
- our ability to respond to changes in feedstock prices and quality;
- our ability to realize benefits from investments, joint ventures, acquisitions or alliances;

- our ability to realize benefits from planned plant capacity expansions and site development projects and the potential delays to such expansions and projects;
- information technology system failures, network disruptions and breaches of data security;
- our relationships with our workforce, including negotiations with labor unions, strikes and work stoppages;
- our ability to recruit or retain key management and personnel;
- our exposure to political or country risks inherent in doing business in some countries;
- geopolitical events in the European Union, and in particular the ultimate future relations between the European Union and the United Kingdom resulting from “Brexit” which may impact the Euro;
- environmental, health and safety regulations, including nanomaterial and greenhouse gas emissions regulations, and the related costs of maintaining compliance and addressing liabilities;
- possible future investigations and enforcement actions by governmental or supranational agencies;
- our operations as a company in the chemical sector, including the related risks of leaks, fires and toxic releases;
- market and regulatory changes that may affect our ability to sell or otherwise benefit from co-generated energy;
- litigation or legal proceedings, including product liability and environmental claims;
- our ability to protect our intellectual property rights and know-how;
- our ability to generate the funds required to service our debt and finance our operations;
- fluctuations in foreign currency exchange and interest rates;
- the availability and efficiency of hedging;
- changes in international and local economic conditions, including with regard to the Euro, dislocations in credit and capital markets and inflation or deflation;
- potential impairments or write-offs of certain assets;
- required increases in our pension fund contributions;
- the adequacy of our insurance coverage;
- changes in our jurisdictional earnings mix or in the tax laws or accepted interpretations of tax laws in those jurisdictions;
- our indemnities to and from Evonik (as defined below);
- challenges to our decisions and assumptions in assessing and complying with our tax obligations; and
- potential difficulty in obtaining or enforcing judgments or bringing actions against us in the United States.

In light of these risks, our results could differ materially from the forward-looking statements contained in this report and no undue reliance should be placed on those forward-looking statements. For further information regarding factors that could affect our business and financial results and the related forward-looking statements, see “*Item 1A. Risk Factors.*”

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information about market risks for the period ended June 30, 2020 does not differ materially from that discussed under Item 7A of our 2019 Form 10-K.

Item 4. Controls and Procedures

As of June 30, 2020, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures pursuant to

Rule 13a-15 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of that date.

There were no changes in our internal control over financial reporting that occurred during our fiscal quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

We become involved from time to time in various claims and lawsuits arising in the ordinary course of our business, such as employment related claims and asbestos litigation, against some of which we have limited indemnification from Evonik under the agreements relating to the Acquisition. Some matters involve claims for large amounts of damages as well as other relief. With respect to our settlement of the EPA's enforcement initiative and the arbitration proceedings with Evonik see "*Item 1. Business—Environmental, Health and Safety Matters—Environmental—Environmental Proceedings.*" and "*Item 1A. Risk Factors—Legal and Regulatory Matter—Litigation or legal proceedings could expose us to significant liabilities and thus adversely affect our business, financial condition, results of operations and cash flows.*" as well as "*Item 1A. Risk Factors—Legal and Regulatory Matter—We may not be able to protect our intellectual property rights successfully*" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, and is incorporated herein by reference. We believe, based on currently available information, that the results of the proceedings referenced above, in the aggregate, will not have a material adverse effect on our financial condition, but may be material to our operating results and cash flow for any particular period when the relevant costs are incurred. We note that the outcome of legal proceedings is inherently uncertain, and we offer no assurances as to the outcome of any of these matters or their effect on the Company.

Item 1A. Risk Factors

You should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, which could materially affect our business, financial position, or future results of operations. The risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial position, or future results of operations. The risk factors set forth below update, and should be read together with, the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Risks Related to Our Business

The COVID-19 pandemic has had and could continue to have an adverse effect on our business and results of operations.

Our global operations expose us to risks associated with public health crises and outbreaks of epidemic, pandemic, or contagious diseases, such as the current outbreak of a novel strain of coronavirus (COVID-19). The COVID-19 pandemic has negatively impacted the global economy and created significant volatility and disruption to financial markets. Many state and local jurisdictions have imposed "shelter-in-place" orders, quarantines and restrictions on travel and mass gatherings to slow the spread of the virus and have required many "non-essential" businesses to close operations or shift to a remote working environment.

To date, the COVID-19 pandemic has adversely impacted our operations in a number of ways, including as a result of disruptions to our supply chain, disruptions and restrictions on the ability of many of our employees to work effectively because of illness, quarantines, government actions, facility closures and other restrictions, as well as temporary closures of certain of our facilities and those of certain of our customers and suppliers. If we continue to experience operational or supply chain disruptions, or such disruptions are exacerbated or prolonged in the future, our business, results of operations and liquidity may be adversely impacted. In particular, the inability of our suppliers to meet our supply needs in a timely manner or our quality standards could cause delays in delivery to our customers, which could result in the cancellation of orders, customers' refusal to accept deliveries, a reduction in purchase prices, and termination of customer relationships, any of which could have a material adverse effect on our business, financial condition, results of operations and liquidity. Even if we are able to find alternate sources for our supply needs, they may cost more, which could adversely impact our profitability and financial condition.

In addition, we have experienced significant and unpredictable reductions in the demand for our products as a result of the COVID-19 pandemic and further economic uncertainty may cause additional delays, cancellation, or redirections of planned orders.

The COVID-19 pandemic has adversely affected, and may continue to adversely affect, the economies and financial markets of many countries, as well as unemployment levels, resulting in a period of regional, national, and global economic recession that has curtailed or delayed spending by our customers' customers, in particular in the automotive industry, as well as increased risk of customer defaults or delays in payments. Our customers may terminate or amend their agreements for the purchase of our products due to decline in their demand and production, bankruptcy, lack of liquidity, lack of funding, operational failures, or other reasons. COVID-19 and the current financial, economic, and capital markets environment, and future developments in these and other areas present material uncertainty and risk with respect to our performance, financial condition, volume of business, results of operations, and cash flows.

The foregoing and other continued disruptions to our business as a result of COVID-19 could have an adverse effect on our business, financial condition and results of operations. The extent of the impact of COVID-19 on our operational and financial performance will depend on future developments, including the duration and spread of the COVID-19 outbreak, which is highly uncertain and cannot be predicted at this time.

The capital expenditures we might need to incur under the EPA consent decree remain uncertain; timing, locations, target levels and other factors could also affect our ability to meet target emission levels and target dates under the EPA consent decree.

On June 7, 2018, a consent decree (the “EPA CD”) between Orion Engineered Carbons LLC (for purposes of this risk factor, “Orion”) and the United States on behalf of U.S. Environmental Protection Agency (“EPA”), as well as the Louisiana Department of Environmental Quality became effective. The consent decree resolves and settles the EPA’s claims of noncompliance set forth in the notices and finding of violations from the EPA with respect to the Company’s U.S. facilities.

Under Orion’s EPA CD, Orion will install certain pollution control technology in order to further reduce emissions at its four U.S. manufacturing facilities in Ivanhoe (Louisiana), Belpre (Ohio), Borger (Texas), and Orange (Texas) over approximately six years. The EPA CD also requires the continuous monitoring of emissions reductions that Orion will need to comply with over a number of years. While the construction at Orange has been completed according to schedule despite COVID-19 related impacts, the commenced construction work at the Ivanhoe facility has been subject to COVID-19-related delays, and as a result we have declared force majeure with respect to the EPA CD and requested an extension of the timeline for completion of installations. The EPA has not confirmed our extension request, at this time. We continue to provide the EPA regular updates. Under the EPA CD, Orion can choose either its Belpre or Borger facilities as the next site for installation of pollution control equipment with comparable effectiveness to Ivanhoe. We expect the capital expenditures for installation of pollution control equipment in the remaining Orion facilities to decrease due to economies of scale and synergies from prior installations. We estimate the installations of monitoring and pollution control equipment at all four Orion plants in the U.S. will require capital expenditures of approximately \$230 million to \$270 million, subject to the results of further scope design and estimation efforts presently underway of which approximately \$98 million has been spent to date. However, the actual total capital expenditures we might need to incur in order to fulfill the requirements of the EPA CD remain uncertain. In addition, the COVID-19-related delays may continue for an indefinite period and the EPA may ultimately reject our force majeure extension request. The EPA CD allows some flexibility for Orion to choose among different technology solutions for reducing emissions and the locations where these solutions are implemented. The solutions Orion ultimately chooses to implement at its facilities other than Ivanhoe (Louisiana), may differ in scope and operation from those it currently anticipates for any and all of its four facilities, and factors, such as timing, locations, target levels, changing cost estimates and local regulations, could cause actual capital expenditures to significantly exceed current expectations or affect Orion’s ability to meet the agreed target emission levels or target dates for installing required equipment as anticipated or at all. Noncompliance with applicable emissions limits could lead to payments to the EPA or other penalties.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	<u>Description</u>
31.1 *	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
31.2 *	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.1 **	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2 **	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350.
101.0 *	XBRL
*	Filed herewith
**	Furnished herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORION ENGINEERED CARBONS S.A.

August 4, 2020

By /s/ Lorin Crenshaw

Name: Lorin Crenshaw

Title: Chief Financial Officer

Exhibit 31.1 Certification by Corning F. Painter pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

I, Corning Painter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Orion Engineered Carbons S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2020

/s/ Corning Painter
Chief Executive Officer

Exhibit 31.2 Certification by Lorin Crenshaw pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

I, Lorin Crenshaw, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Orion Engineered Carbons S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2020

/s/ Lorin Crenshaw
Chief Financial Officer

Exhibit 32.1 Certification by Corning F. Painter pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
CERTIFICATION

In connection with the Quarterly Report of Orion Engineered Carbons S.A. on Form 10-Q for the quarterly period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Corning Painter, Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2020

/s/ Corning Painter
Chief Executive Officer

Exhibit 32.2 Certification by Lorin Crenshaw pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

CERTIFICATION

In connection with the Quarterly Report of Orion Engineered Carbons S.A. on Form 10-Q for the quarterly period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Lorin Crenshaw, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2020

/s/ Lorin Crenshaw
Chief Financial Officer