PCC Group Quarterly Report 2/2021

- **PCC Group increases sales in first half of 2021 to €448.4 million, a rise of 21.6 % year on year**
- **Half-year EBITDA reaches €86.2 million, up 158.7 % on the previous year's figure**
- **Second-quarter operating profit (EBIT) improves on already successful Q1 figure to take half-year total to €50.8 million**
- **Progress in our Malaysia project**
- **PCC SE prepares long-term for generational change**
- **Redemption of maturing bond**

Overall Business Development

In the second quarter of 2021, the business performance of the PCC Group was again very successful, significantly outstripping expectations. Consolidated sales amounted to €239.5 million, more than €30 million above the figure for the first quarter (€209.0 million). As of June 30, cumulative consolidated sales amounted to €448.4 million. Compared to the corresponding prior-year period (€368.9 million), this represents an increase of 21.6 %, well exceeding our sales expectations for the first six months of 2021. The main reason for this development lies in continuing high demand combined with rising commodity prices. Earnings likewise beat both the already exceptionally good figures for the first quarter of 2021 and expectations for the second quarter. The previous year's results, which were heavily influenced by the coronavirus pandemic, were also significantly outstripped. Hence, gross profit rose by €88.4 million from €75.2 million to €163.6 million in the second quarter of 2021 (prior-year quarter: €105.6 million). Earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA) increased by €50.3 million to €86.2 million, representing a 158.7 % improvement on the corresponding figure for the previous year of €33.3 million. At the operating level (EBIT), we generated a profit of €31.6 million in the second quarter of 2021. EBIT for the first half-year came in at €50.8 million. The figure for the comparable prior-year period was €0.4 million. Earnings before taxes (EBT) in Q2 amounted to €21.6 million, accumulating to €33.7 million as of the end of the first six months of 2021. This compares to a loss of €–21.8 million posted for the first half of 2020. Cash flow from operating activities for the first six months also improved year-on-year, with the figure as of June 30, 2021 amounting to €43.4 million (previous half-year: €33.6 million).

Key financials PCC Group (per IFRS)	Q2/2021	6M/2021 [5]	6M/2020
Sales revenue (net external sales only)[1]	**€239.5 m**	€448.4 m	€368.9 m
EBITDA (earnings before interest/financial result, taxes, depreciation and amortization)[2]	**€50.3 m**	€86.2 m	€33.3 m
EBIT (operating profit)[3]	**€31.6 m**	€50.8 m	€0.4 m
EBT (earnings before taxes)[4]	**€21.6 m**	€33.7 m	€–21.8 m
Employees (at June 30)	**3,264**	3,264	3,416

For footnotes 1, 2, 3, 4 and 5, see page 2. Rounding differences possible. Quarterly figures unaudited. Subject to change without notice.

Segment Performance

The Chemicals division of the PCC Group remained by far our main revenue and earnings generator in the second quarter of 2021, with Q2 divisional sales amounting to €202.8 million. Sales for the first half-year came in at €380.4 million. This well exceeded both the corresponding figure for the previous year of €295.4 million and our revenue expectations for the current fiscal year. The earnings figures followed a similar pattern. With the exception of Consumer Products, all segments of the Chemicals division contributed to this successful development.

Polyols

The Polyols segment continued its strong performance in the second quarter of 2021. Thanks to the continuing boom in demand for polyether polyols for the furniture and mattress industries, the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), was once again a major contributor to this growth. PCC PU Sp. z o.o., Brzeg Dolny, which also operates in the polyester polyols sector inter alia, likewise continued to benefit from high demand in the second quarter of 2021, particularly from the construction industry. Despite rising prices on the raw material purchasing side, this affiliate was also able to significantly improve not only its sales but also its earnings position compared to the previous year. Our expectations for the current fiscal year were likewise significantly exceeded. The same applies to the Polish systems house PCC Prodex Sp. z o.o., Brzeg Dolny, and to the Thai joint venture of PCC Rokita SA, IRPC Polyol Company Ltd., Bangkok. PCC Prodex GmbH, Essen (Germany), which operates in the fields of specialty foam blocks and polishing discs, also improved its performance compared to the previous year. As expected, however, this affiliate still posted a slight loss as of the end of June. Nevertheless, with the commissioning of a further milling line for polishing discs and the associated increase in capacity to over 70,000 units per month, an important milestone on the road to turnaround was reached in the second quarter. All other business units in the Polyols segment remained in their start-up phase during the second quarter of 2021 and thus continued to operate at a deficit.

Surfactants

Sales and earnings development in the Surfactants segment was likewise positive in the second quarter of 2021. Demand for surfactants used in the manufacture of detergents, sanitizers, cleaners and personal care products remained stable at a high level. Moreover, with increasing relaxation of coronavirus restrictions, demand for surfactants for industrial applications, particularly in the construction sector, continued to rise. Consequently, the sales of PCC Exol SA, Brzeg Dolny, the largest affiliate operating in this segment, also exceeded both the level of prior-year and our expectations. The same applies to revenues generated by the Surfactants segment as a whole. On the feedstock purchasing side, the second quarter of 2021 was characterized by sharply rising prices for ethylene, synthetic alcohols and palm kernel oil, among others. In the case of PCC Exol SA, this was further aggravated by a temporary scheduled shutdown of its main ethylene oxide supplier. That said, PCC Exol SA and the Surfactants segment as a whole again closed the second quarter of 2021 in clear profit. Indeed, both the US affiliate of PCC Exol SA, PCC Chemax, Inc., Piedmont (SC), and the Turkish sales company PCC Exol Kimya, Istanbul, were gratifyingly again able to exceed their corresponding prior-year results and earnings targets.

Chlorine

The Chlorine segment also closed the second quarter of 2021 successfully and above the (already good) previous quarter. Demand for chlorine remained high in this quarter, both from external customers and within the PCC Group. Here, chlorine is used, among other things, for the production of monochloroacetic acid, or MCAA, as well as for the manufacture of propylene oxide, a feedstock for polyols production. As a result, chlorine production and thus also the volume and sales of the chlorine by-products caustic soda solid and caustic soda lye remained at a high level, with a correspondingly positive impact on the revenue and earnings performance of the Chlorine business unit of PCC Rokita SA. At PCC MCAA Sp. z o.o., Brzeg Dolny, sales volumes and sales revenue in the second quarter were likewise above both the level of the previous year and our expectations. In this business unit, too, the good results of the previous quarter were again exceeded. However, PCC MCAA Sp. z o.o. was exposed to further price increases (including for acetic acid) on the raw material purchasing side in the second quarter. Moreover, the upward pressure on input prices impacting the MCAA business became even greater as the result of a temporary, force-majeure-induced production stoppage at a key supplier. Nevertheless, PCC MCAA Sp. z o.o. ended the second quarter and also the first half of the year in clearly positive territory and better than expected overall.

Specialty Chemicals

Seen as a whole, the sales and earnings of the Specialty Chemicals segment in the second quarter of 2021 were again significantly above our expectations. Taken across all business units, this segment also slightly exceeded the good performance of the previous quarter. However, developments in the individual business units varied considerably. While the Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA continued to benefit from the sharp rise in selling prices for certain phosphorus-based flame retardants as a result of a lack of import volumes from China, the sales and earnings performance of alkylphenol manufacturer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), weakened significantly compared to the first quarter of 2021. However, the first quarter was dominated by a one-off Brexit-related special order for dodecylphenol, enabling PCC Synteza S.A. to "feed" off the associated exceptionally good earnings during the second quarter. Demand for dodecylphenol from regular customers was also still slightly above our expectations in the second quarter, while sales of nonylphenol remained below target. In addition, raw material purchase prices increased in the second quarter. Nevertheless, PCC Synteza S.A. was able to more or less maintain the good results of the previous quarter and

Key financials by segment (per IFRS)		Polyols			Surfactants			Chlorine			Specialty Chemicals		
		Q2/2021	6M/2021[5]	6M/2020	Q2/2021	6M/2021	6M/2020	Q2/2021	6M/2021	6M/2020	Q2/2021	6M/2021	6M/2020
Sales [1]	€ m	**63.2**	117.8	65.8	**36.4**	72.0	62.0	**41.1**	75.9	68.8	**57.3**	104.0	85.6
EBITDA [2]	€ m	**24.2**	43.0	5.8	**4.4**	8.5	8.5	**10.9**	19.3	17.3	**5.7**	10.7	4.9
EBIT [3]	€ m	**23.2**	40.9	3.5	**3.7**	7.1	7.3	**5.9**	10.1	9.7	**4.0**	7.4	2.4
EBT [4]	€ m	**22.5**	40.1	3.4	**3.1**	6.3	6.0	**5.4**	8.8	5.3	**3.6**	6.8	0.5
Employees	(at June 30)	**251**	251	263	**305**	305	287	**394**	394	390	**384**	384	385

Notes: Consolidation effects not separately shown. Rounding differences possible. Quarterly figures unaudited. Subject to change without notice. | **1** The sales indicated relate exclusively to net external sales; consolidation procedures have already been taken into account. | **2 EBITDA** (earnings before interest/financial result, taxes, depreciation and amortization) | **3 EBIT** (earnings before interest/financial result and taxes) = Operating profit = EBITDA – depreciation and amortization | **4 EBT** (earnings before taxes) = Pre-tax profit = EBIT – interest/financial result | **5** "M" = months thus still far exceed both the corresponding prior-year figures and our earnings expectations as of June 30, 2021. Commodity trading company PCC Trade & Services GmbH, Duisburg (Germany), again performed well in the second quarter thanks to rising prices for basic chemical commodities. In addition, a first consignment of around 33,000 metric tons of Russian anthracite was shipped to a major Canadian customer via a Finnish port. A further consignment is due for delivery in the third quarter. On a cumulative basis as of June 30, PCC Trade & Services GmbH was therefore able to significantly exceed the corresponding prior-year figures in terms of both sales and earnings. The targets set for the current fiscal year were also clearly exceeded. The Russian port company of PCC Trade & Services GmbH, AO Novobalt Terminal, Kaliningrad, posted minor losses in the second quarter, partly due to high repair costs for its loading cranes, with earnings therefore falling short of our expectations. By contrast, the sales and earnings performance of PCC Silicium S.A., Zagórze (Poland), was significantly better than in the previous quarter as a result of the resumption of quartzite shipments to Iceland to supply our silicon metal production operations there.

Consumer Products

The sales and earnings performance of the PCC Consumer Products subgroup weakened in the second quarter of 2021. The main reason for this lay in the lower-than-expected sales of this segment's largest affiliate, PCC Consumer Products Kosmet Sp. z o.o. ("PCC CP Kosmet"), Brzeg Dolny, to its two largest customers. As a result, PCC CP Kosmet has so far been unable to meet the sales and earnings expectations set for the current fiscal year. Its performance metrics also fell short of the good prior-year figures, which were temporarily boosted by the pandemic-related rise in demand for sanitizers and disinfectants. Thanks to the positive prior-year profit result, PCC CP Kosmet was nevertheless able in the second quarter of 2021 to distribute a dividend in the low single-digit million range to the intermediate holding company PCC Consumer Products S.A., which in turn repaid loans and other liabilities of a corresponding amount to PCC SE. In addition, PCC CP Kosmet concluded in the second quarter of 2021 a two-year contract with one of its two major customers covering increased purchase volumes, which should lead to sustainable growth at this affiliate from the following quarter onward. PCC Packaging Sp. z o.o., Brzeg Dolny, ended the second quarter and also the first half of 2021 with a marginal loss overall. By contrast, our Belarusian affiliate PCC Consumer Products Navigator, Grodno, posted a small profit. Either way, both companies remain of minor importance for the development of the Consumer Products segment as a whole.

Energy

The net external sales of the Energy division of the PCC Group amounted to €2.8 million in the second quarter of 2021. Cumulative divisional sales at the end of the first half-year came in at €6.2 million, thus remaining flat versus the prior-year period. Expectations for the current fiscal year were slightly exceeded. The main contributions to sales continued to come from the Conventional Energies business unit comprising PCC Rokita SA's combined heat and power plant (and its corresponding business unit) and the electricity and heat utility PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle. This business unit recorded losses in the second quarter, partly due to higher prices for CO_2 allowances and higher state-imposed electricity charges. By contrast, marginally positive results were once again posted in the Renewable Energies business unit. The profits generated did not, however, compensate for the losses incurred by the Conventional Energies segment. The Energy division remains of minor relevance to Group earnings.

Logistics

The Logistics division recorded sales of €28.3 million in the second quarter of 2021, once more exceeding the record levels of the previous two quarters. Earnings performance was again extremely positive and likewise even better than in the first quarter. The driver of this successful development remained the Intermodal Transport business unit – despite persistently difficult conditions prevailing on the international container logistics market arising as before from delivery delays and supply chain interruptions due to quarantine-related downtimes. The situation was further complicated by the temporary blockade of the Suez Canal by a damaged container ship. Nevertheless, PCC Intermodal S.A., Gdynia (Poland), was again able to move more containers than expected, closing the second quarter successfully and above the previous year's Q2 level. The (ambitious) earnings targets for the current fiscal year were also slightly exceeded. The tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, again made a steady, positive contribution to earnings in the second quarter, thus performing in line with our expectations. By contrast, our Russian affiliate ZAO PCC Rail, Moscow, was again unable to meet its sales and earnings expectations in the second quarter of 2021. Although rail tariffs increased during the quarter as the Russian economy began to recover, they did not approach the originally expected level until the end of the quarter. ZAO PCC Rail therefore remained in deficit at the operating level. However, as a result of positive foreign exchange effects, earnings held at break-even, at least at the pre-tax level. In the previous year, by contrast,

Key financials by segment	(per IFRS)	Consumer Products			Energy			Logistics			Holding / Projects		
		Q2/2021	6M/2021[5]	6M/2020	**Q2/2021**	6M/2021	6M/2020	**Q2/2021**	6M/2021	6M/2020	**Q2/2021**	6M/2021	6M/2020
Sales[1]	€ m	**4.9**	10.6	13.2	**2.8**	6.2	6.2	**28.3**	53.4	45.4	**5.6**	8.4	21.9
EBITDA[2]	€ m	**−0.4**	−0.2	0.5	**−1.1**	−0.5	−2.1	**5.2**	9.7	8.9	**1.4**	−4.2	−10.4
EBIT[3]	€ m	**−0.6**	−0.7	−0.2	**−2.5**	−2.7	−3.9	**2.0**	3.6	3.1	**−4.1**	−15.0	−21.7
EBT[4]	€ m	**−0.9**	−1.4	−1.4	**−2.8**	−3.2	−4.2	**2.4**	3.5	−0.1	**9.2**	−6.3	−12.8
Employees	(at June 30)	**214**	214	365	**168**	168	174	**595**	595	545	**953**	953	1,024

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Holding/Projects

As expected, the Holding / Projects division again reported negative earnings figures in the second quarter of 2021. However, the deficit was much lower than in the previous year, largely as a result of the significantly reduced losses incurred by PCC BakkiSilicon hf., Húsavík (Iceland). The last week in April saw this affiliate resume production of silicon metal with the renewed start-up of its first furnace. The second furnace was re-ignited in the first week of July. Both furnaces are now running reasonably stably and producing at near-full capacity. During the restart phase, which continued into the third quarter, this was naturally not yet the case. The still comparatively low revenues generated during this period were thus negated by the full personnel costs and other overheads already being incurred. Despite an exceptional gain in the mid-single-digit million range resulting from the retrospective waiver by the Icelandic electricity supplier of part of the take-or-pay obligation of PCC BakkiSilicon hf. from 2020, earnings performance therefore remained in negative territory. Gratifyingly, however, demand and prices for silicon metal are still on an upward trend. The second major project company in the Holding / Projects segment, DME Aerosol, Pervomaysky (Russia), again achieved a positive operating result in the second quarter of 2021, thanks to further increases in sales volumes. Pre-tax profit also turned marginally positive for the first time at the end of the half-year on the back of beneficial foreign exchange effects.

Progress in our Malaysia project

The oxyalkylates project of PCC Oxyalkylates Malaysia Sdn. Bhd., Kuala Lumpur, a 50/50 joint venture between PCC SE and Petronas Chemicals Group Berhad, is progressing to plan. In the second quarter of 2021, the so-called "Final Notice to Proceed" for project phase 2 was issued to the plant constructor. In addition, a major Malaysian bank came on board on the project financing side.

The silicon metal plant of PCC BakkiSilicon hf. in Húsavík (Iceland) resumed production in April with the start-up of the first furnace; the second furnace was subsequently re-ignited in July. Both furnaces are now producing at near-full capacity.

PCC SE prepares long-term for generational change

At the Universal Annual General Meeting of PCC SE held on August 10, 2021, a resolution was passed to amend the Articles of Association, converting the previous monistic organizational structure comprising an Administrative Board and Managing Directors into a dualistic system with an Executive Board and a Supervisory Board. For PCC SE, the main difference lies in the fact that the two corporate bodies are now strictly separated in terms of personnel, unlike previously when one person (or a minority of persons) could be represented at both former governance levels. Waldemar Preussner, sole shareholder of PCC SE and Chairman of the former Administrative Board, has assumed the chairmanship of the new Supervisory Board. The Vice Chairman of the Supervisory Board is Dr. Hans-Josef Ritzert. A chemist by profession, Dr. Ritzert has previously served as an advisor to PCC SE. The Supervisory Board is completed by Reinhard Quint, a long-standing member of the former Administrative Board. Effective immediately, the operational management of PCC SE consists of a three-member Executive Board with Dr. Peter Wenzel as Executive Board Chairman and Dr. Alfred Pelzer and Ulrike Warnecke as Executive Board Members. Mrs. Warnecke's and Dr. Pelzer's responsibilities remain unchanged. Previously the Head of Corporate Development at PCC SE, Dr. Wenzel is responsible in his new role for the areas of corporate and project development, research and development, and also for the increasingly important realm of sustainability / CSR. The Executive Board will continue to be supported by Riccardo Koppe, Head of Finance and Controlling (CFO), and Peter Berger, Head of Legal. This reorganization is intended to substantially strengthen the corporate structure of PCC SE as well as, in the long term, preparing it for a generational change. The amendment to the Articles of Association enters into force once recorded in the Commercial Register.

Redemption of maturing bond

On July 1, 2021, PCC SE repaid on maturity the 4.00 % bond carrying the code ISIN DE000A2AAY85, which was issued in October 2016. The redemption amount was €23.7 million.

Duisburg, August 2021

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