PCC Group Quarterly Report 2/2023

- **PCC Group registers significant decline in revenue and earnings in Q2 2023 due to cyclical headwinds**
- **Cheap supplies from China hinder sales of European products, including in the Silicon & Derivatives segment**
- **PCC quarterly sales decline by nearly a quarter to €236.2 million, with half-year revenues decreasing by 17.8 % to €548.9 million**
- **Half-year EBITDA of the PCC Group at €67.9 million; operating profit (EBIT) at €29.6 million**
- **Redemption of maturing bond**

Overall Business Development

The revenue and earnings of the PCC Group experienced a substantial decline in the second quarter of 2023. One of the main factors was the reduced demand across various industrial sectors due to the weak economic conditions. Additionally, elevated inventory levels among numerous customers led to significant purchasing restraint. Continuing heavy competition from China further exacerbated the situation, causing selling prices in Europe, our primary market, to face mounting pressure. The Silicon & Derivatives segment was particularly affected by this trend. However, our three chemicals-producing segments – Polyols & Derivatives, Surfactants & Derivatives, and Chlorine & Derivatives – were likewise impacted by this downturn in a trend that was reflected across European industry as a whole. As a consequence of these developments, the PCC Group's quarterly revenue declined by almost a quarter, from €312.6 million in the prior-year period to €236.2 million. At the halfway point of 2023, consolidated sales totaled €548.9 million. Compared to the record revenue total posted in the first six months of 2022 (€667.6 million), this represents a decrease of €118.7 million, or 17.8 %. There was also a significant decline on the earnings side. Although the gross margin of 33.2 % in the second quarter once again exceeded expectations, absolute gross profit remained below projections at €70.4 million due to lower sales volumes. The PCC Group achieved a gross profit of €182.6 million in the first half of 2023 compared to €246.5 million in the prior-year period. On all other earnings levels, both in the second quarter and in the first half of 2023, the PCC Group was generally unable to match the exceptionally strong comparable figures of the previous year. The second quarter's EBITDA – earnings before interest/financial result, depreciation and amortization – stood at €14.1 million, accumulating to €67.9 million as of the end of the first half of fiscal 2023. In the previous year, the EBITDA figure for the first half year was more than double at €141.6 million. Apart from the lower gross profit in 2023, factors such as increased personnel and external service-provider costs negatively impacted earnings. As a result, the PCC Group actually recorded a loss at the operating level (EBIT) of €5.0 million in the second quarter, albeit with the EBIT figure for the first half of the year remaining in clearly positive territory at €29.6 million. Nevertheless, this too represents a 71.9 % decrease from the exceptionally high figure of the previous year (€105.4 million). The pre-tax profit (EBT) was also negative in the second quarter of 2023, at € –17.7 million, resulting in a half-year EBT of €0.4 million (previous year: €104.5 million). Conversely and gratifyingly, operational cash flow for the half-year period improved from €57.9 million in the previous year to €77.1 million as of June 30, 2023.

The numbers presented in this report are preliminary and unaudited consolidated figures as of the half-year mark. They are currently undergoing a review by the auditors. Following this examination, the final data will be published on our website, www.pcc-financialdata.eu / www.pcc-finanzinformationen.eu, in September 2023.

Segment Performance

Polyols & Derivatives

Overall, the Polyols & Derivatives segment posted marginal losses in the second quarter of 2023. Business performance again varied among the individual affiliates and business units within this segment. Following a weak start to the quarter, the dominant business unit in this segment, the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), at least saw a temporary increase in demand for its polyether and polyester polyols in May 2023. However, demand weakened again in June. Moreover, competition from producers in China and other Asian countries remained high. However, this business unit managed to end the first half of 2023 with a positive earnings result, although without reaching the exceptional figures of the previous year. The Polish systems house, PCC Prodex Sp. z o.o., Brzeg Dolny, the product range of which includes spray foams for interior roof insulation, again achieved a positive result due to the seasonal increase in construction activity in the second quarter. However, its performance also fell short of the previous year's figures. On the other hand, the performance of PCC Prodex GmbH, PCC's Essen-based German manufacturer of specialty foam blocks and polishing pads, showed a slight improvement compared to the previous year, albeit remaining in loss-making territory overall, as expected. Developments were similar in the subsidiaries and business units operating in the field of thermal insulation panels. The revenue and earnings performance of PCC Synteza S.A., Kędzierzyn-Koźle (Poland), was once again significantly weaker than expected in the second quarter, falling steadily to well below the (exceptionally strong) level of the previous year. One contributory factor was persistently weak demand for alkylphenols. Sales of the polyol-based specialty chemicals manufactured by PCC Synteza S.A. in cooperation with Oberhausen-based German affiliate PolyU GmbH since April 2022, also remained at a low level in Q2 2023. As a result, both affiliates incurred losses once again in the second quarter and ended the first half of 2023 with an overall deficit, although a slight increase in the order intake has been registered since the end of Q2. Moreover, PolyU GmbH remains committed to successively expanding the range of applications of the specialty chemicals it is developing, with these efforts expected to yield new long-term market opportunities and future growth prospects for both PolyU GmbH and PCC Synteza S.A. going forward.

Surfactants & Derivatives

The Surfactants & Derivatives segment concluded also the second quarter of 2023 in positive territory. However, it was once again unable to match the high level of results achieved in the prior-year quarter; and the ambitious targets set for the current fiscal year likewise remained elusive. A significant factor in this development was persistently strong competition from countries outside Europe, particularly China and India, coupled with declining demand. Despite this difficult market environment, the largest affiliate in the segment, PCC Exol SA, Brzeg Dolny, managed to further diversify its customer portfolio, enabling it to also conclude the second quarter of 2023 with a successful set of figures. US affiliate PCC Chemax Inc., located in Piedmont (SC), likewise achieved positive results in Q2 2023. However, due to the weak demand in the USA arising from the economic headwinds there, both the sales and earnings of this affiliate remained below both the previous year's figures and our expectations. Gratifyingly, the business performance of the Consumer Products business, which is also managed within the Surfactants & Derivatives segment, continued to excel in the second quarter, surpassing expectations. The primary reason for this was once again persistently robust demand for private label products. This benefited both the leading affiliate in this area, PCC Consumer Products Kosmet Sp. z o.o., Brzeg Dolny, and the Belarusian affiliate PCC Consumer Products Navigator, Grodno. PCC Consumer Products Kosmet Sp. z o.o. commissioned a new automated filling plant toward the end of the second quarter, with expanded production capacity, accelerated workflows and reduced personnel costs ensuing. Additional investments in this direction are planned for the coming months, with further growth for PCC Consumer Products Kosmet Sp. z o.o. expected.

Chlorine & Derivatives

The Chlorine & Derivatives segment posted a positive performance in the second quarter of 2023. However, both sales and earnings decreased compared to the exceptionally strong previous quarter and also fell significantly below the level of the prior-year period. The Chlorine business unit of PCC Rokita SA continued to be the main revenue and profit generator for the segment. However, the average selling prices for chlorine products decreased further in the second quarter of 2023. The routine maintenance shutdown of the chlorine electrolysis facility toward the end of the quarter had an additionally adverse impact on results. The Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA also experienced a decline in business performance in the second quarter, with persistent, heavy competitive pressure from China, especially with respect to phosphorus-based flame retardants, and weak demand from the construction industry as the primary factors. Our monochloroacetic acid (MCAA) manufacturer, PCC MCAA Sp. z o.o., Brzeg Dolny, likewise faced further declining demand volumes, including

Key financials by segment	(per IFRS)	Polyols & Derivatives			Surfactants & Derivatives			Chlorine & Derivatives			Silicon & Derivatives		
		Q2/2023	6M/2023[5]	6M/2022	Q2/2023	6M/2023	6M/2022	Q2/2023	6M/2023	6M/2022	Q2/2023	6M/2023	6M/2022
Sales[1]	€ million	47.3	101.4	136.4	49.8	107.3	118.1	63.0	164.6	161.4	15.5	44.5	73.9
EBITDA[2]	€ million	1.1	4.4	25.3	5.6	13.9	21.8	14.5	64.7	66.0	−11.5	−22.2	17.8
EBIT[3]	€ million	−0.6	1.3	22.6	4.5	11.7	19.7	9.8	54.5	56.7	−15.8	−30.8	9.3
EBT[4]	€ million	−2.1	−0.8	22.7	2.5	8.3	18.1	5.5	48.3	56.4	−18.1	−39.5	7.2
Employees	(at June 30)	357	357	380	514	514	499	457	457	458	213	213	218

Notes: Consolidation effects not separately shown. Rounding differences possible. Quarterly and cumulative 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 from suppliers to the construction industry, during the second quarter of 2023. Demand for certain other areas of application also declined during this period. Moreover, there was a scheduled maintenance-related production shutdown at PCC MCAA Sp. z o.o. toward the end of the second quarter and extending beyond the quarterly transition. In the face of these challenging conditions, PCC MCAA Sp. z o.o. was able to just break even at the operating level in the second quarter, enabling it to maintain a positive earnings result, also at the pre-tax level, for the first half of the year.

Silicon & Derivatives

The Silicon & Derivatives segment continued to operate at a deficit in the second quarter of 2023. Consequently, this segment, led by its dominant affiliate PCC BakkiSilicon hf., Húsavík (Iceland), had moved further into the loss zone by the end of the first half of the year, contrasting with the positive earnings result in the mid-single-digit million euro range on a pre-tax basis posted in the first half of 2022. During that time, silicon metal prices initially surged significantly, but they proceeded to plummet after mid-2022. Presently, silicon metal prices remain at a very low level due to persistent, strong competitive pressure from China, Malaysia, and Brazil. Furthermore, demand in the second quarter of 2023 remained weak, partly due to lingering high customer inventories. In response, PCC BakkiSilicon hf. has decided to operate only one of its two furnaces throughout the third quarter of 2023. While the second furnace was restarted at the end of the second quarter, the one previously operated was shut down under controlled conditions in the ensuing days, with the downtime being utilized for maintenance work. The production of silicon metal has remained (and still remains) stable, with output of a persistently high quality. Moreover, further production process optimization measures were implemented in the second quarter, along with improvements in raw material procurement. Despite the challenging market environment, a few new customers were acquired during the second quarter, with trial deliveries to them already having been successfully completed. Assuming a recovery in the silicon metal market, PCC BakkiSilicon hf. plans to resume production with both furnaces from the fourth quarter of 2023. PCC Silicium S.A., located in Zagórze (Poland), posted a positive quarterly earnings result in the second quarter of 2023, despite lower quartzite sales to Iceland, and concluded the first half of the year with a positive set of figures overall. The primary factor contributing to this encouraging development was the resumption of regular quartzite deliveries to a Slovak ferroalloy manufacturer. Additionally, larger quantities of ballast for road and railway construction were sold in response to seasonal demand.

Trading & Services

The Trading & Services segment generated sales of €29.3 million in the second quarter of 2023. The figure thus once again fell significantly below that of the prior-year quarter. Similarly, a substantial decrease in cumulative revenue was recorded as of June 30, 2023. Primarily, this is a reflection of the performance of the largest trading company within the PCC Group, PCC Trade & Services GmbH, Duisburg (Germany), whose half-year revenues fell by 50 % versus the comparable prior-year period. The main reason for this was the discontinuation of trading activities involving commodities of Russian origin; these had to be completely suspended in mid-2022 due to the Russia-Ukraine war and related sanctions. The lower pricing level of chemical feedstocks further contributed to the decline. Nonetheless, PCC Trade & Services GmbH managed to conclude the second quarter of 2023 with a clearly positive set of figures and much better than expected. This was partly due to a higher proportion of transport services in the portfolio of this affiliate, which positively influenced its earnings performance. Turkish sales and distribution company PCC Exol Kimya of Istanbul also achieved a positive earnings result in the second quarter of 2023. However, the trading business of Czech company PCC Morava-Chem s.r.o., Český Těšín, experienced a slight decline in the second quarter of 2023. The same applies to the online trading platform distripark.com, Brzeg Dolny. Consequently, both companies reported marginal losses as of June 30, 2023. The Trade & Services segment also includes various companies that predominantly offer services in areas such as energy supply, information technology, environmental protection, site management, engineering and maintenance, and also finance. The Headquarters business unit of PCC Rokita SA, also part of the Trading & Services segment, received dividend income from some of these service companies in the second quarter, leading to a significant improvement in the segment's quarterly results compared to the previous quarter. However, this dividend effect is eliminated at Group level.

Logistics

The revenue of the Logistics segment amounted to €30.5 million in the second quarter of 2023. This figure was €2.3 million lower than that of the previous year's quarter and also came in below expectations. The conditions for the main business area of this segment, that of international container logistics, remained

Key financials by segment (per IFRS)		Trading & Services			Logistics			Holding & Projects			PCC Group totals		
		Q2/2023	6M/2023[5]	6M/2022	Q2/2023	6M/2023	6M/2022	Q2/2023	6M/2023	6M/2022	Q2/2023	6M/2023	6M/2022
Sales[1]	€ million	29.3	66.4	113.2	30.5	63.5	64.3	0.8	1.3	0.2	236.2	548.9	667.6
EBITDA[2]	€ million	1.0	−1.1	0.4	4.1	9.2	11.4	−2.2	−2.7	0.4	14.1	67.9	141.6
EBIT[3]	€ million	−2.3	−7.2	−5.5	0.3	1.7	4.3	−2.5	−3.4	−0.3	−5.0	29.6	105.4
EBT[4]	€ million	3.4	−2.4	−2.1	1.3	0.4	7.4	76.9	73.0	119.7	−17.7	0.4	104.5
Employees	(at June 30)	1,107	1,107	1,051	662	662	641	90	90	86	3,400	3,400	3,333

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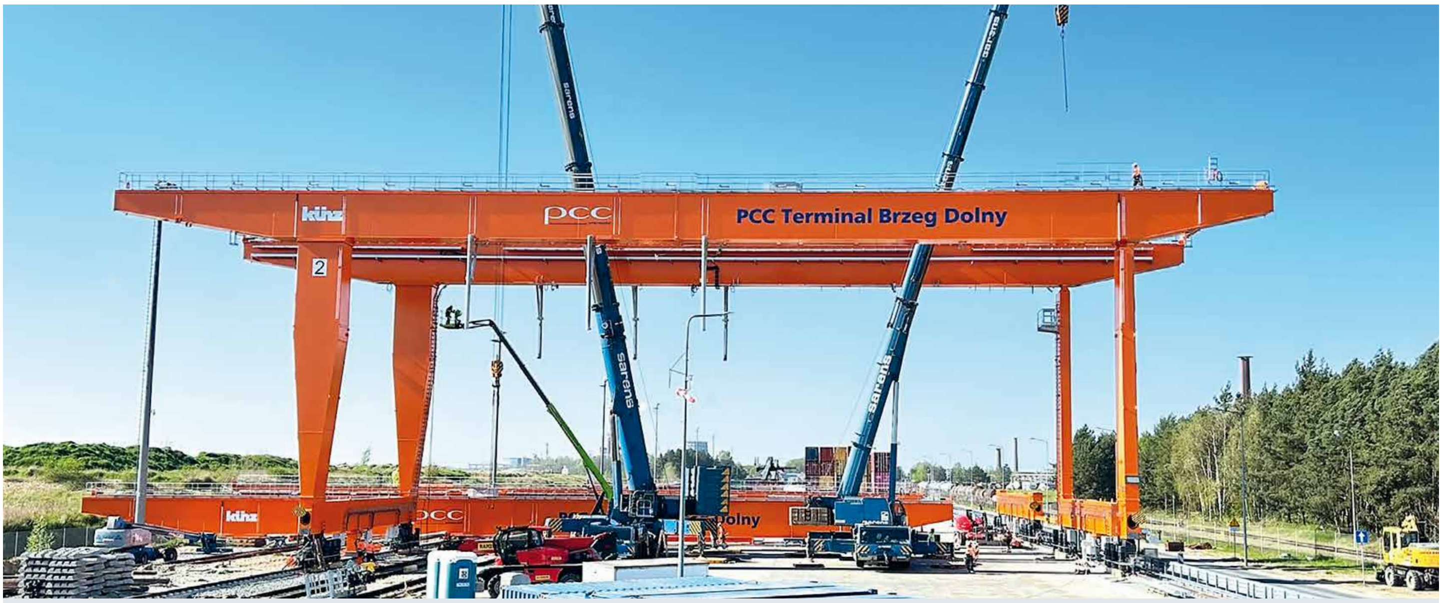

Despite persistently challenging conditions, PCC Intermodal SA successfully concluded the second quarter of 2023 on a clearly positive note. Comprehensive expansion investments are currently being implemented at its terminals, as depicted here with the installation of two gantry cranes at PCC's Brzeg Dolny terminal.

challenging in the second quarter of 2023. Numerous rail track engineering works, irregular flows of goods to and from the Far East, and further increasing competition from road transport were some of the challenges faced by PCC Intermodal SA, Gdynia (Poland), and its German affiliate PCC Intermodal GmbH, Duisburg, in the second quarter of 2023. Nevertheless, PCC Intermodal SA managed to conclude this quarter with its financials in clearly positive territory, albeit falling short both of the exceptional figures achieved in the previous year and of our ambitious projections. April 2023 finally saw the commencement of long-planned transport services on behalf of a major customer in Eastern Germany. Furthermore, increasing demand was also being observed on other service routes by the end of the quarter. The revenue and earnings development of the tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, remained positive in the second quarter of 2023. The Russian company ZAO PCC Rail, Moscow, which ceased transport activities at the end of 2022, continued in the second quarter of 2023 to make monthly repayments as scheduled on the loan previously granted to it by PCC SE.

Holding & Projects

As anticipated, the Holding & Projects segment achieved a significantly positive pre-tax earnings result in the high double-digit million euro range in the second quarter of 2023. This outcome largely reflects the dividend income received during the quarter from PCC Chemicals GmbH, Duisburg. In the following quarter, this intermediate holding company will distribute a dividend in the mid-double-digit million euro range to PCC SE from profit carried forward from fiscal 2022, which will then also take the earnings result of PCC SE in its separate financial statements into significantly positive territory. This income is of no relevance to the Group earnings result. The oxyalkylates project in Malaysia continued to make progress in the second quarter of 2023. However, the commissioning of the production plant in Kerteh in the federal state of Terengganu, annual capacity 70,000 metric tons, with which PCC SE is seeking to expand its core business also in the Asian market, will be somewhat delayed. This is a result of a maintenance-related shutdown of the ethylene oxide plant of our joint venture partner, PETRONAS Chemicals Group Berhad, scheduled for the third quarter of 2023. Careful analysis of the proposed oxyalkylates project in the USA continued in the second quarter, as did close examination of other growth options related to the core activities of the PCC Group.

Redemption of maturing bond

On July 1, 2023, PCC SE fully repaid the 3.00 % bond ISIN DE000A3H2VT6 issued in November 2020. The redemption amount totaled €14.7 million.

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

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

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