PCC Group Quarterly Report 3/2021

- **PCC Group continues markedly positive business performance in fiscal 2021 through Q3**
- **PCC increases Group sales in the first nine months to € 702.0 million, a rise of 30.9 % versus previous year**
- **EBITDA up 137.6 % year on year to € 126.5 million as of end of September**
- **Chemicals division significantly exceeds sales and earnings expectations**
- **Redemption of maturing bond**

Overall Business Development

The PCC Group was again able to maintain its markedly positive business performance in fiscal 2021 through the third quarter. The enormous influence exerted by China on the global economy as a whole was once again made abundantly clear as the quarter progressed. The rationing of energy supplies there and the partial shutdown of industrial production led to a significant decline in Chinese exports, as a result of which prices for products such as silicon metal and, more recently, the chlorine by-product caustic soda registered a rapid increase. The PCC Group was certainly able to benefit from these developments in some segments. By contrast, various plant outages in Europe and bad weather phenomena in Europe and North America, as well as elsewhere, resulted in negative impacts during the third quarter with temporary shortages in the supply of various basic raw materials ensuing. The situation was further exacerbated by rising energy costs and the ongoing turbulence in the international transport market. Despite this volatile market environment, the PCC Group performed very well in the third quarter of 2021 and, with consolidated sales at €253.6 million, actually outperformed the preceding two quarters. As of September 30, cumulative consolidated sales amounted to €702.0 million. Compared to the corresponding prior-year period (€ 536.5 million), this represents an increase of 30.9 %. Consolidated sales as of the end of the third quarter were thus well above our expectations. Earnings also significantly exceeded both the previous year's results (impacted by the pandemic) and the targets set for the current fiscal year. Gross profit amounted to €84.8 million in the third quarter of 2021, reaching a total of €248.4 million for the first nine months of 2021 (previous year: €157.5 million). Earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA) for the third quarter came in at €40.4 million. Overall, EBITDA for the first nine months of 2021 accumulated to €126.5 million, showing an improvement of 137.6 % compared to the corresponding prior-year figure of €53.3 million. In the third quarter of 2021, the PCC Group generated an operating profit (EBIT) of €23.1 million. EBIT over the first nine months of 2021 came in at €73.9 million. The figure for the comparable prior-year period was €3.0 million. Earnings before tax (EBT) amounted to €16.0 million in the third quarter of 2021, reaching a total of €49.7 million for the first nine months of 2021. This compares to a loss of €–30.3 million posted for the first nine months of 2020. Cash flow from operating activities as of the end of the third quarter also improved year on year, with the figure per September 30, 2021 at €91.4 million (prior-year quarter: €59.9 million).

Key financials PCC Group (per IFRS)	Q3/2021	9M/2021 [5]	9M/2020
Sales revenue (net external sales only)[1]	**€ 253.6 m**	€ 702.0 m	€ 536.5 m
EBITDA (earnings before interest/financial result, taxes, depreciation and amortization)[2]	**€ 40.4 m**	€ 126.5 m	€ 53.3 m
EBIT (operating profit)[3]	**€ 23.1 m**	€ 73.9 m	€ 3.0 m
EBT (earnings before taxes)[4]	**€ 16.0 m**	€ 49.7 m	€ – 30.3 m
Employees (at September 30)	**3,289**	3,289	3,292

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

Segment Performance

The Chemicals division of the PCC Group succeeded in maintaining the high revenue performance of the preceding quarter with sales in Q3 coming in at €202.1 million. As of September 30, cumulative divisional sales amounted to €582.4 million. This well exceeded both the corresponding figure for the previous year of €429.6 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

Sales and earnings in the Polyols segment continued to develop extremely successfully in the third quarter. The Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), once again made a major contribution in this regard. Although selling prices for polyether polyols declined somewhat during the quarter, they nevertheless remained at a high level thanks to continued strong demand from the furniture and mattress industries. Demand also remained strong for the polyester polyols produced by PCC PU Sp. z o.o., Brzeg Dolny, which are used particularly in the construction industry. Sales and earnings at this affiliate therefore also showed a significant year-on-year improvement in the third quarter. Our expectations for the current fiscal year were likewise substantially exceeded. This also applies to the Thai joint venture of PCC Rokita SA, IRPC Polyol Company Ltd., Bangkok, and to the Polish systems house PCC Prodex Sp. z o.o., Brzeg Dolny, even though the sales volumes of the latter remained slightly below those of the previous year due, among other things, to delays in some raw material deliveries. PCC Prodex GmbH, Essen (Germany), which operates in the fields of specialty foam blocks and polishing discs, likewise improved its performance compared to the prior-year period, although – as expected – still trading at a deficit as of the end of September. All the other business units in the Polyols segment remained in the start-up phase during the third quarter of 2021 and thus continued to operate at a loss. However, PCC Therm Sp. z o.o., Brzeg Dolny, which is managed under the intermediate holding company PCC Insulations GmbH, Duisburg (Germany), was able to achieve a number of significant milestones in the development of its insulation board manufacturing capability. The construction of the new production hall, which had been delayed by several months due to the pandemic, was completed. Thermal insulation boards made from purchased foam blocks are currently produced at, and marketed from, this facility. The development of a proprietary foam system was also successfully advanced. The system is currently in the certification phase, which should be completed by the beginning of 2022 at the latest.

Surfactants

The Surfactants segment likewise closed the third quarter of 2021 with a successful set of figures. This positive development was driven by continued strong demand for surfactants for the manufacture of detergents, cleaners and personal care products, and increasingly for previously depressed industrial applications. This quarter was also characterized by sharply rising purchase prices for raw materials such as synthetic alcohols, palm kernel oil and, in particular, ethylene. Here, not only the high market prices for oil but also the booming demand for ethylene from other application areas (polyethylene, HDPE and LDPE) contributed to the rise in input cost. For the largest affiliate in this segment, PCC Exol SA, Brzeg Dolny, there was also a temporary supply shortage of ethylene oxide at the beginning of the third quarter resulting from short-term problems experienced by the main supplier of this raw material in restarting its production plant following a maintenance-related shutdown. Gratifyingly and despite all the difficulties, PCC Exol SA was even able to acquire new customers during this period, enabling it to close the third quarter clearly in profit and also well up on the previous year. This also applies to the Surfactants segment as a whole. The US affiliate of PCC Exol SA, PCC Chemax, Inc., Piedmont (SC), and the Turkish sales company PCC Exol Kimya, Istanbul, also made positive contributions in excess of those of the previous year.

Chlorine

The Chlorine segment again put in a strong performance in the third quarter of 2021. Demand for chlorine remained high, both within the PCC Group and from external customers. Consequently, selling prices for chlorine continued to rise, with volumes and selling prices for hydrochloric acid and monochlorobenzene also showing an upward trend. Toward the end of the quarter, prices for the chlorine by-product caustic soda recorded a similarly strong upsurge due to a lack of supply volumes from China. As a result of these developments, the Chlorine business unit of PCC Rokita SA was able – despite a production shutdown lasting several days in August for maintenance reasons – to conclude the third quarter of 2021 with a successful set of figures. The business performance of PCC MCAA Sp. z o.o., Brzeg Dolny, was also highly positive in the third quarter of 2021. This affiliate had to halt production of monochloroacetic acid (MCAA) for a few days during the scheduled maintenance shutdown of the chlor-alkali electrolysis facility. In addition, the second important raw material for MCAA, acetic acid, remained in short supply and expensive due to temporary force-majeure-related production problems at no less than two suppliers. Nevertheless, PCC MCAA Sp. z o.o. was able to exceed both its prior-year figures and the sales and earnings expectations for the current fiscal year as at the end of September 2021. The company also benefited from rising sales of MCAA flakes to Turkey, the

Key financials by segment (per IFRS)		Polyols			Surfactants			Chlorine			Specialty Chemicals		
		Q3/2021	9M/2021[5]	9M/2020	**Q3/2021**	9M/2021	9M/2020	**Q3/2021**	9M/2021	9M/2020	**Q3/2021**	9M/2021	9M/2020
Sales [1]	€ m	**59.6**	177.4	99.5	**38.1**	110.2	91.5	**40.9**	116.8	98.9	**57.3**	161.3	119.7
EBITDA [2]	€ m	**18.5**	61.5	10.4	**4.9**	13.4	12.0	**9.5**	28.8	28.9	**6.0**	16.7	7.2
EBIT [3]	€ m	**17.5**	58.4	6.9	**4.0**	11.2	10.1	**5.3**	15.4	16.6	**4.4**	11.9	3.4
EBT [4]	€ m	**17.5**	57.6	6.5	**3.8**	10.1	8.6	**4.7**	13.5	10.3	**4.1**	10.8	1.1
Employees	(at Sept. 30)	**255**	255	266	**304**	304	290	**391**	391	385	**391**	391	378

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 and other financial items, taxes, depreciation and amortization) | **3 EBIT** (earnings before interest and other financial items and taxes) = Operating profit = EBITDA – depreciation and amortization | **4 EBT** (earnings before taxes) = Pre-tax profit = EBIT – interest and other financial items | **5** "M" = months

USA and Australia, among others – likewise a consequence of a lack of exports from China. Thanks to its positive performance, PCC MCAA Sp. z o.o. was able to successfully conclude negotiations relating to the partial refinancing of the shareholder loan granted to it by PCC SE, and also to make a corresponding partial repayment to PCC SE in the third quarter.

Specialty Chemicals

Seen as a whole, the sales and earnings of the Specialty Chemicals segment in the third quarter of 2021 were again significantly above both prior-year levels and our expectations. Within this segment, 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 shortfall in import volumes from China. Alkylphenol manufacturer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), saw its sales and earnings performance further improve compared to the second quarter of 2021. This was due, among other things, to further dodecylphenol orders from the same customer that placed a major order with PCC Synteza S.A. in the first quarter as a result of problems arising from Brexit. Renewed delivery difficulties on the part of its UK-based regular supplier led to these follow-up orders in a situation that could form the basis for a long-term business relationship. Commodity trading company PCC Trade & Services GmbH, Duisburg, likewise again performed well in the third quarter. And its results could have been even better. However, the exceptional summer heat in Russia meant that producers there had to scale back their capacities in order to ensure adequate cooling of their production facilities. As a result, it was not possible for them to fully satisfy all the delivery requests made by PCC Trade & Services GmbH. Nevertheless, this affiliate closed the third quarter and also the first nine months of 2021 with results overall significantly above the previous year and better than expected. The company benefited from the continuing high prices for basic chemical feedstocks, plus rising demand for coke and anthracite. In addition, the third quarter again saw PCC Trade & Services GmbH handle a second consignment, shipped via a Finnish port, of around 33,000 metric tons of Russian anthracite for a major Canadian customer. PCC Silicium S.A., Zagórze (Poland), was also able to substantially increase sales and earnings compared to the previous year. In addition to the resumption of quartzite deliveries to Iceland to supply our silicon metal production facility there, the rising demand for quartzite from the ferroalloy industry, and continuing high demand for ballast for the construction of roads and railroad lines, also contributed to this positive development.

Consumer Products

The PCC Consumer Products subgroup was again unable to meet its sales and earnings expectations in the third quarter of 2021. The main reason for this was that sales of this segment's largest affiliate, PCC Consumer Products Kosmet Sp. z o.o. ("PCC CP Kosmet"), Brzeg Dolny, initially continued to fall short of our expectations. The situation was exacerbated by sharp increases in raw material purchase prices, which could only be passed on to customers with a time lag. Toward the end of the third quarter of 2021, however, deliveries by PCC CP Kosmet, particularly to its key accounts, picked up significantly. The second operating company of the PCC Consumer Products subgroup in Poland, PET bottle manufacturer PCC Packaging Sp. z o.o., Brzeg Dolny, was merged with PCC CP Kosmet and thus with its previous main customer with effect from September 1, 2021. The purpose of this merger is to reduce the administrative workload while also cutting costs. PCC Consumer Products Navigator, Grodno, Belarus, again posted a marginally positive result in the third quarter of 2021; however, this affiliate remains 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 €2.4 million in the third quarter of 2021. Over the first nine months of 2021, sales accumulated to €8.6 million, thus matching the level of the previous year and exceeding our expectations. On the earnings side, the Energy division continued to operate at a deficit for the reasons already described in the previous quarterly report. However, this remained of minor relevance to Group earnings. Alongside the Conventional Energies business unit, comprising the combined heat and power plant (and the corresponding business unit) of PCC Rokita SA and the electricity and heat utility PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle, the Energy division also includes the renewable energies company PCC DEG Renewables GmbH, Duisburg, with its affiliates in North Macedonia and Bosnia and Herzegovina. In September 2021, following lengthy negotiations with its co-shareholder DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne (Germany), PCC SE acquired the latter's 40-percent stake in PCC DEG Renewables GmbH. The next step will be to change the name of this subsidiary to "PCC Renewables GmbH". Looking forward, the departure of DEG should give PCC SE greater flexibility

Key financials by segment (per IFRS)		Consumer Products			Energy			Logistics			Holding/Projects		
		Q3/2021	9M/2021[5]	9M/2020	Q3/2021	9M/2021	9M/2020	Q3/2021	9M/2021	9M/2020	Q3/2021	9M/2021	9M/2020
Sales[1]	€ m	**6.2**	16.8	20.1	**2.4**	8.6	8.5	**30.1**	83.5	70.4	**19.0**	27.5	28.0
EBITDA[2]	€ m	**0.0**	−0.2	0.4	**−1.8**	−2.3	−1.9	**6.4**	16.1	13.8	**−3.1**	−7.3	−17.4
EBIT[3]	€ m	**−0.2**	−0.9	−0.5	**−2.7**	−5.5	−4.5	**3.1**	6.7	4.9	**−8.4**	−23.4	−34.0
EBT[4]	€ m	**−0.6**	−2.0	−2.4	**−2.8**	−6.0	−4.9	**2.4**	5.9	−0.7	**−13.1**	−19.4	−30.4
Employees	(at Sept. 30)	**207**	207	356	**168**	168	172	**610**	610	569	**963**	963	902

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Logistics

The third quarter of 2021 saw the Logistics division once again achieve record sales with a total of €30.1 million. On the earnings side, too, the already exceptionally good figures of the two preceding quarters were once again exceeded. The primary sales and profits driver remained the Intermodal Transport business unit – despite persistently difficult conditions prevailing on the international container logistics market. The backlog of containers resulting from the days-long blockage of the Suez Canal in April has still not been resolved to date; in fact, it has been exacerbated by, among other things, the pandemic-related temporary closure in August of a major Chinese container port. In addition, there were (and are) not enough inland waterway vessels in Europe to transport away the containers piled up in the seaports, and the numerous construction sites on the rail routes in Germany, Poland and elsewhere, are causing further delays. In this difficult market environment, PCC Intermodal SA, Gdynia (Poland), was able to successfully hold its own and further expand both its domestic transport operations and, in particular, its services from Poland to Rotterdam and Antwerp. On the latter routes, this company, as a private operator, was also able to benefit temporarily from the railroad workers' strike in Germany. Again, therefore, PCC Intermodal SA closed the third quarter of 2021 successfully, with results up on the previous year. The (ambitious) earnings targets for the current fiscal year were also exceeded. In line with our expectations, the tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, again made a steady, positive contribution to earnings in the third quarter of 2021. The sales and earnings performance at ZAO PCC Rail, Moscow, Russia, improved significantly compared to the preceding quarters as a result of freight car tariffs having once again risen. In addition, ZAO PCC Rail benefited from improvements in the Russian ruble exchange rate, moving its pre-tax result at the end of September into marginally positive territory supported by positive currency translation effects. Nevertheless, its sales and earnings remained below 2021 expectations.

The plant of our joint venture DME Aerosol for the production of high-purity aerosol-grade dimethyl ether (DME) in the Tula region of Russia has driven successful business development since its start-up at the end of 2018.

Holding/Projects

While the Holding/Projects division continued – as expected – to operate at a deficit in the third quarter of 2021, it showed a significant improvement compared to the preceding quarters. This is largely due to the positive performance of PCC BakkiSilicon hf., Húsavík (Iceland). In the first week of July, this affiliate began the start-up of its second furnace and is now producing to a stable, high-quality standard. The sharp rise in demand for silicon metal coupled with a lack of supplies from China has also led to a rapid upward trend in selling prices for this commodity. Although purchase prices for raw materials (including coal) and transport costs also increased substantially, PCC BakkiSilicon hf. was nevertheless able at least at the operating level to generate a marginal profit for the first time in September 2021. And it is expected that this positive trend will accelerate in the coming months. The second major project company in the Holding/Projects segment, DME Aerosol, Pervomaysky (Russia), again succeeded in significantly increasing its sales volumes in the third quarter of 2021. As a result, this joint venture was also able to end the third quarter of 2021 on a positive note, significantly exceeding its earnings expectations for the current fiscal year to date.

Redemption of maturing bond

On October 1, 2021, PCC SE repaid on maturity the 6.75 % bond carrying the code ISIN DE000A13SH30 issued in December 2014. The redemption amount was €19.9 million.

Duisburg, November 2021

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