PCC Group Quarterly Report 4/2020

- **Significant improvement in PCC Group sales and earnings performance in Q4 2020 versus previous quarters**
- **2020 consolidated sales exceed €700 million despite coronavirus-related decline in commodity prices**
- **PCC generates gross profit of €64.8 million in the fourth quarter, bringing the total for fiscal 2020 to €222.3 million**
- **EBITDA of €27.1 million in the fourth quarter, €80.4 million for the full year**
- **Progress in the project for a new chemicals production plant in Malaysia**
- **Redemption of maturing bond**

Overall Business Development

The sales and earnings performance of the PCC Group showed a significant improvement in the fourth quarter of 2020 compared to the two preceding quarters. Consolidated sales amounted to €179.7 million in the fourth quarter (previous quarters Q2/2020: €168.3 million and Q3/2020: €167.6 million), with the accumulated total at €716.2 million as of year-end. Year on year, this represents a decrease of 6.7 %, with the figures also falling short of our sales expectations for 2020. As already described in the previous quarterly report, one of the main reasons for this was the sharp drop in average selling prices caused by the coronavirus crisis. However, prices picked up again in the fourth quarter, due in part to rising demand in many business areas. As a result, gross profit increased by almost 25% compared to the previous quarter, to €64.8 million. Overall, the PCC Group generated gross profit of €222.3 million in fiscal 2020 (previous year: €252.6 million). In terms of consolidated earnings before interest and other financial items, taxes, depreciation and amortization (EBITDA), PCC achieved an even more significant improvement compared to the previous quarter (Q3/2020: €19.9 million), with the Q4 figure coming in at €27.1 million (previous year: €25.5 million). As of year-end 2020, EBITDA had accumulated to €80.4 million (previous year: €99.0 million). At €8.1 million, operating profit (EBIT) more than tripled in the fourth quarter compared to the previous quarter, with the cumulative figure coming in at €11.1 million as of December 31, 2020 (previous year: €43.3 million). Earnings before taxes (EBT) remained negative in the fourth quarter at €–1.8 million. However, the loss was far smaller than in the previous quarters. EBT for fiscal 2020 amounted to €–32.1 million (previous year: €19.3 million). The aforementioned metrics very much reflect the losses incurred by PCC BakkiSilicon hf., Húsavík (Iceland). Adjusted for the results of this company, PCC Group EBITDA, EBIT and EBT were all slightly above the positive 2019 figures. Some core businesses of the Chemicals division even saw earnings significantly increase compared to 2019. Operating cash flow also showed a degree of improvement on 2019, with the figure amounting to €100.6 million as of December 31, 2020 (previous year: €93.0 million), despite the pandemic-related impacts and challenges.

Key financials PCC Group (per IFRS)	Q4/2020	2020	2019
Sales revenue (net external sales only)[1]	€179.7 m	€716.2 m	€767.5 m
EBITDA (earnings before interest/financial result, taxes, depreciation and amortization)[2]	€27.1 m	€80.4 m	€99.0 m
EBIT (operating profit)[3]	€8.1 m	€11.1 m	€43.3 m
EBT (earnings before taxes)[4]	€ – 1.8 m	€ – 32.1 m	€19.3 m
Employees (at Dec. 31)	3,301	3,301	3,583

For footnotes 1, 2, 3 and 4, see page 2. Rounding differences possible. Quarterly and cumulative figures for 2020 unaudited. Subject to change without notice.

All of the Group's key financials relating to fiscal 2020 as presented in this quarterly report are preliminary consolidated figures. The final, audited financial data will be published on our websites www.pcc-financialdata.eu / www.pcc-finanzinformationen.eu in the course of May 2021 once the consolidated financial statements have been approved and certified.

Segment Performance

The Chemicals division of the PCC Group closed the fourth quarter of 2020 largely successfully and also significantly better than expected even prior to the coronavirus crisis. Quarterly sales amounted to €148.3 million, with the cumulative total as of December 31 at €577.9 million. This thus fell significantly short both of the corresponding figure for the previous year of €646.2 million and of our sales expectations for the past fiscal year. On the earnings side, however, the Chemicals division clearly exceeded our expectations set prior to the outbreak of the coronavirus pandemic, both in terms of EBITDA and at the operating and pre-tax levels. With the exception of Consumer Products, all segments managed within the Chemicals division once again made a positive contribution to this performance.

Polyols

The Polyols segment again significantly exceeded its performance success of the previous quarter. Overall, this segment served as the main earnings driver of the PCC Group in the fourth quarter of 2020, with the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), making a major contribution. Due to the continued strong demand for polyether polyols from the mattress and furniture industries, all five production lines of this business unit continued to operate at their capacity limits in the fourth quarter, with a correspondingly positive impact on sales and earnings. This gratifying development was further boosted by an ongoing production standstill at a Spanish competitor which had to shut down its operations at the beginning of 2020 following an explosion at the Tarragona chemical park. This resulted in a corresponding reduction in the availability of polyether polyols on the European market. Demand for these polyols has also remained high beyond the turn of the year. The countries of Southeast Asia, where economic growth has already picked up again, likewise saw demand for polyols continue at a high level in the fourth quarter. The Thai joint venture in this segment, IRPC Polyol Company Ltd., Bangkok, was thus also able to further improved its performance, again making a positive contribution to earnings. By contrast, demand for specialty foam blocks and polishing discs declined in the fourth quarter for seasonal reasons. Although showing an overall improvement compared to the previous year, the sales and earnings performance of PCC Prodex GmbH, Essen (Germany), was therefore again unsatisfactory. The acquisition of a further milling machine for polishing discs, which was decided upon in the fourth quarter of 2020, should enhance the ongoing efficiency of this affiliate effective from spring 2021, thereby creating the basis of a turnaround. All the other business units in the Polyols segment, most of which are still in the start-up phase, continued to operate at a loss.

Surfactants

The Surfactants segment likewise posted an extremely successful earnings performance in the fourth quarter of 2020. Due to the coronavirus pandemic, demand for surfactants for the manufacture of detergents and cleaning agents remained at a high level. The largest affiliate in this segment, PCC Exol SA, Brzeg Dolny, also continued to benefit on the purchasing side from lower feedstock price levels. PCC Exol SA thus closed the fourth quarter and fiscal 2020 as a whole successfully and far better than expected prior to the outbreak of the coronavirus pandemic. The good prior-year figures were likewise well exceeded. The increasing proportion of higher-value specialty products in the portfolio of PCC Exol SA also had a positive effect. The same applies to its US affiliate, PCC Chemax, Inc., Piedmont (SC), which doubled its earnings compared to the previous year.

Having sustained its strong performance, the Surfactants segment closed both the fourth quarter and the full fiscal 2020 with a successful set of figures. Pictured here is the high-tech ethoxylation plant 2 of PCC Exol SA at its Płock site (Poland).

Chlorine

The Chlorine segment likewise closed the fourth quarter of 2020 in profit. However, the decline in market prices meant that results fell short of the exceptionally good prior-year figures. As stated in the previous quarterly report, this is primarily due to the continued and significant year-on-year decline in the selling prices for the chlorine by-products caustic soda and caustic soda lye produced by the Chlorine business unit of PCC Rokita SA. Nevertheless, the Chlorine business unit also ended the fourth quarter and the 2020 fiscal year in clearly positive territory, albeit with results down versus fiscal 2019. By contrast, PCC MCAA Sp. z o.o., Brzeg Dolny, which is likewise managed within the Chlorine segment, posted year-end results at the operating level in excess of both its good prior-year figures and our expectations for fiscal 2020. Thanks to the continuing high demand for monochloroacetic acid, which is also used in the manufacture of products such as skin-friendly surfactants (betaines), PCC MCAA Sp. z o.o. succeeded in almost fully offsetting the loss of a previous major customer following the latter's take-over by a competitor. Additional production process optimizations exerted a further positive influence on results. However, due to negative exchange rate effects resulting from the devaluation of the Polish złoty against the euro, PCC MCAA Sp. z o.o. was unable to avoid reporting a pre-tax loss in the low single-digit million range as of the end of December. These translation effects, which have no impact on liquidity, are mainly attributable to the foreign currency valuation at the reporting date of the euro loan granted to this affiliate by PCC SE. Part of

Key financials by segment (per IFRS)		Polyols			Surfactants			Chlorine			Specialty Chemicals		
		Q4/2020	2020	2019	**Q4/2020**	2020	2019	**Q4/2020**	2020	2019	**Q4/2020**	2020	2019
Sales [1]	€ m	**46.4**	145.9	141.1	**31.1**	122.6	123.2	**32.3**	131.2	154.8	**31.6**	151.3	205.6
EBITDA [2]	€ m	**12.9**	23.3	8.2	**3.7**	15.6	13.0	**9.6**	38.5	55.7	**2.4**	9.6	10.5
EBIT [3]	€ m	**11.8**	18.7	4.3	**3.0**	13.1	9.9	**4.9**	21.5	40.2	**0.9**	4.2	4.4
EBT [4]	€ m	**11.6**	18.1	1.4	**2.7**	11.3	7.6	**3.1**	13.4	34.9	**0.4**	1.5	2.9
Employees	(at Dec. 31)	**268**	268	265	**296**	296	289	**395**	395	399	**389**	389	403

Notes: Consolidation effects not separately disclosed. Rounding differences possible. Quarterly and cumulative figures for 2020 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 this loan was converted into equity within the framework of a debt-equity swap in the fourth quarter in order to strengthen the capital base of PCC MCAA Sp. z o.o. on a sustainable basis.

Specialty Chemicals

Sales and earnings development in the individual business units of the Specialty Chemicals segment during Q4 2020 showed a mixed picture, with the overall results nevertheless likewise remaining positive. The main revenue generator of this segment, the commodity trading company PCC Trade & Services GmbH, Duisburg (Germany), reported stable sales in the fourth quarter. However, with commodity price levels having declined, the figures remained significantly below the level of the previous year and also below our expectations. The same applies – at least in absolute terms – to the margins and hence likewise to the results of this affiliate. Despite this, PCC Trade & Services GmbH was able to end fiscal 2020 in positive territory overall. At the end of the fourth quarter, the prices of basic chemical commodities, which represent one of the core areas of activity of PCC Trade & Services GmbH, again showed a significant upward trend. Demand and therefore also prices for coke and anthracite likewise picked up again. The fourth quarter already saw the conclusion of several outline agreements covering such supplies for the following year. This has created a stable basis for business development in 2021 and thus also for future capacity utilization at AO Novobalt Terminal, the Kaliningrad port company of PCC Trade & Services GmbH. This transshipment company likewise closed 2020 with a positive result, despite lower throughput compared to the previous year. The results of Czech trading company PCC Morava-Chem s.r.o., Český Těšín, weakened further in the fourth quarter, causing it to slip into the red. By contrast, the fourth quarter was extremely successful for the Phosphorus and Naphthalene Derivatives business unit of PCC Rokita SA. Both the good figures of the previous year and earnings expectations for 2020 before the coronavirus crisis were significantly exceeded. Among other things, this business unit benefited from the sharp rise in prices for certain flame retardants due to the lack of imports from China. The expansion of production capacity for highly specialized phosphorus derivatives also had a positive impact on sales and earnings. The last stage of commissioning of the corresponding production facility with an annual capacity of 3,000 metric tons was successfully completed in the fourth quarter. Alkylphenol manufacturer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), marginally improved its results in the fourth quarter and ended fiscal 2020 in profit in line with expectations. However, results fell short of the exceptionally good figures generated in the previous year. The sales revenue and operating profit of PCC Silicium S.A., Zagórze (Poland), significantly exceeded our expectations again in the fourth quarter, despite the absence of quartzite deliveries to Iceland. In particular, sales of ballast for road and rail track construction remained at a high level, due in part to the mild weather conditions prevailing. Nevertheless, at the pre-tax level this affiliate again posted a deficit in the fourth quarter due to further non-cash currency translation losses. The situation in respect of fiscal 2020 as a whole was similar.

Consumer Products

The results of the PCC Consumer Products subgroup weakened significantly in the fourth quarter of 2020 due to a one-off effect. This exceptional item is attributable to the planned closure of the matches factory PCC Consumer Products Czechowice S.A., Czechowice-Dziedzice (Poland), as a consequence of the continuing losses attributable to this affiliate. Updated analyses revealed that any earnings from the expansion of the production portfolio to include items such as wooden cutlery would not have been sufficient to compensate for the steadily growing losses arising from the declining matches business. This applies particularly in view of the fact that PCC Consumer Products Czechowice S.A. would have had to undertake substantial future capital expenditure in the areas of, among others, fire protection and emission control as a result of new official directives. In preparation for the liquidation now resolved for the end of February, provisions had therefore already been set aside as of the end of December 2020 for the associated costs (including severance payments), as a result of which the earnings of this affiliate and thus also of the PCC Consumer Products subgroup as a whole slipped significantly into the red. In the case of PCC Consumer Products Kosmet Sp. z o.o. (PCC CP Kosmet), Brzeg Dolny, on the other hand, both sales and earnings continued to show gratifying development. Although PCC CP Kosmet again posted a slight loss in the fourth quarter, this affiliate was, for the first time, able to end a fiscal year with a significant plus overall, enabling it to distribute its first-ever dividend. At the end of 2020, PCC CP Kosmet acquired PCC Packaging Sp. z o.o., Brzeg Dolny, from PCC Rokita SA. The merger of these two companies is intended to make greater use of synergy effects as well as reduce costs. The Belarusian affiliate PCC Consumer Products Navigator registered a stable business performance in the fourth quarter.

Energy

The Energy division of the PCC Group generated net external sales of €2.9 million in the fourth quarter of 2020. Cumulative sales for the year came in at €11.4 million (previous year: €12.4 million). The main contributions to revenue continued to come from the Conventional Energies business unit comprising PCC Rokita SA's

Key financials by segment (per IFRS)		Consumer Products Q4/2020	Consumer Products 2020	Consumer Products 2019	Energy Q4/2020	Energy 2020	Energy 2019	Logistics Q4/2020	Logistics 2020	Logistics 2019	Holding/Projects Q4/2020	Holding/Projects 2020	Holding/Projects 2019
Sales [1]	€ m	**6.8**	26.9	21.6	**2.9**	11.4	12.4	**25.6**	96.0	97.1	**2.9**	30.9	11.6
EBITDA [2]	€ m	**−1.4**	−1.0	−2.6	**−1.8**	−3.7	1.2	**4.4**	18.2	21.8	**−3.6**	−21.0	−8.8
EBIT [3]	€ m	**−3.2**	−3.7	−3.9	**−2.7**	−7.2	−3.8	**1.4**	6.3	11.9	**−9.0**	−43.0	−19.7
EBT [4]	€ m	**−3.7**	−6.1	−5.5	**−2.9**	−7.8	−4.8	**0.8**	0.1	11.0	**−20.8**	−51.2	7.0
Employees	(at Dec. 31)	**346**	346	384	**172**	172	184	**576**	576	559	**887**	887	1,100

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Logistics

With sales of €25.6 million, the fourth quarter was the strongest of fiscal 2020 for the Logistics division in revenue terms. Overall, the division's sales as of December 31 amounted to €96.0 million and were thus only slightly below the figure for the previous year (€97.1 million). The earnings level of the Logistics division also developed extremely successfully, largely due to the continued strong performance of PCC Intermodal S.A., Gdynia (Poland). The operating rate of many train services run by this affiliate remained at a high level and even exceeded that of the previous year on the routes between Rotterdam/Antwerp and Poland; they were likewise higher than had been anticipated before the coronavirus crisis. At the leased container terminal at the Frankfurt (Oder) site, the threshold of 100,000 container throughputs per year was exceeded in the fourth quarter for the first time since the facility was taken over. PCC Intermodal S.A. closed fiscal 2020 in clearly positive territory overall, yet remained below the earnings level of the previous year, due primarily to the weak second quarter caused by the coronavirus epidemic. Moreover, PCC Intermodal S.A. created an important basis for its ongoing growth in the course of the fourth quarter by issuing a tender for further container platforms, which went into service at the beginning of 2021. 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 fourth quarter. The sales and earnings performance of Russian freight car operator ZAO PCC Rail in the fourth quarter was impacted by the continuing weakness of the Russian economy, coupled with declining rail tariffs. The operating result of ZAO PCC Rail therefore declined slightly over the course of the quarter, although it did at least remain at the break-even point as of the end of December. At the pre-tax level, however, this affiliate again disclosed significant book losses from currency translation effects as of the end of the year.

Holding/Projects

The Holding / Projects division once again reported a deficit in the fourth quarter of 2020. This reflects in particular the earnings situation of PCC BakkiSilicon hf., which in 2020 was impacted by the steep decline in silicon metal prices as a result of the Covid-19 restrictions and the associated global economic weakness. In the meantime, however, silicon metal prices have been rapidly trending upward. Following protracted negotiations in the fourth quarter, significant commercial improvements were also achieved on the purchasing side with some of the main suppliers, and these will likewise have a positive impact on the future earnings situation of this affiliate. PCC BakkiSilicon hf. is therefore presently working flat out to complete necessary upgrade and repair measures, which – due to the relatively long delivery times for some of the materials required – have dragged on into the first quarter of 2021 (see Quarterly Report 3/2020). The restart of the first furnace is currently planned for April 2021, with the second furnace to follow shortly after. In preparation for the start of production, work has now also begun on rehiring or recruiting employees and carefully putting them through their training programs. The second major project company in the Holding / Projects segment, DME Aerosol, Pervomaysky (Russia), further increased its sales to various customers in Central and Southeast Europe in the fourth quarter of 2020, enabling it to close both the fourth quarter and full fiscal 2020 with a positive earnings result, at least at the EBITDA level. The separate financial statements of PCC SE for 2020 again showed the company in profit. In the fourth quarter of 2020, PCC SE established the intermediate holding company PCC Chemicals GmbH, Duisburg, as a wholly owned subsidiary. The main operating businesses of the Chemicals division, PCC Rokita SA and PCC Exol SA, were transferred to this intermediate holding company. The purpose of this restructuring is to provide a stronger combined base for the core business of the PCC Group and to more effectively promote its development and growth potential.

Progress in our Malaysia project

On November 12, 2020, PCC SE completed the sale of 50% of its stake in the project company PCC Oxyalkylates Malaysia Sdn. Bhd. (PCC-OM). The shares were acquired by Petronas Chemicals Group Berhad (PCG), one of the leading chemical producers in Southeast Asia. Together with this strong partner, PCC SE is planning to establish a production facility for alkoxylates, particularly in the form of specialty chemical solutions for a wide range of industrial applications in the polyol and surfactant domains. This 50/50 joint venture is to drive expansion of the PCC Group's core business in the high-growth Southeast Asia region in 2021.

Redemption of maturing bond

On December 1, 2020, PCC SE repaid on maturity the 2.00 % bond carrying the code ISIN DE000A2TR422, which was issued in April 2019. The redemption amount was €4.5 million.

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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