PCC Group Quarterly Report 4/2023

- **PCC Group posts slight upward trend in revenues and operating profit in fourth quarter of 2023**
- **Quarterly sales marginally up on previous quarter to € 224.3 million; at € 992.3 million, total revenues for fiscal 2023 down 25 % on prior-year figure**
- **EBITDA in fourth quarter at € 28.5 million, almost double the Q3 figure; however, full-year total of € 107.8 million significantly below the record set in the previous year**
- **Ongoing economic frailty continues to suppress sales volumes and selling prices, with aggressive export policies of, in particular, China adding to the pressure**
- **Redemption of three maturing bonds**

Overall Business Development

Overall, the sales and operating earnings performance of the PCC Group showed a slight upward trend in the fourth quarter of 2023. Consolidated revenues amounted to €224.3 million and were thus almost 2 % higher than in the previous quarter (€220.1 million) despite a rather weak December. Group sales totaled €992.3 million as of the end of fiscal 2023. Compared to the record revenues of €1.3 billion in 2022, this represents a decline of €332.4 million or 25.1 %. Our targets for the 2023 financial year were therefore missed by some distance. The main reasons for this development were lower sales volumes, in some cases, compared to the previous year, and the lower average selling prices that resulted from weaker demand in many industrial sectors due to the prevailing economic situation. However, this lower level of demand also led to declining prices in some cases on the raw materials purchasing side. The PCC Group generated gross profit of €317.9 million in fiscal 2023. Compared to the previous year (€490.4 million), this represents a decline of 35.2 %. In the fourth quarter, gross profit increased compared to the previous quarter to €75.2 million versus €73.5 million. At 32.0 %, gross yield as at December 31, 2023 was slightly above our expectations. Earnings before interest/financial result, taxes, depreciation and amortization (EBITDA) amounted to €28.5 million in the fourth quarter, almost double that of the previous quarter (€14.8 million). Overall, EBITDA of the PCC Group in 2023 amounted to €107.8 million, thus undershooting the record figure of the previous year (€292.0 million) by 63.1 %. In addition to significantly lower gross profit compared to the previous year, this reflects a sharp rise incurred in payroll costs and expenses arising through the use of external service providers in 2023. Among other things, however, government compensation payments in the low double-digit million euro range received in the fourth quarter of 2023 for high CO_2 certificate prices exerted a countervailing effect, with the result that the operating profit (EBIT) of the PCC Group improved in the fourth quarter of 2023 by €8.2 million to €30.1 million. In the exceptionally good previous year, total EBIT amounted to €217.3 million. At the pre-tax level (EBT), a loss of €–12.8 million was again recorded in the fourth quarter. Overall, EBT amounted to €–21.8 million in 2023. By contrast, earnings before taxes of €192.6 million were achieved in the previous year. Operating cash flow also declined compared to the previous year, but remained clearly positive at €147.9 million.

The business performance of the PCC Group in fiscal 2023 was essentially characterized by the frailty of the economy, particularly in Germany, but also in the European Union as a whole, in other words: our main sales markets. This situation was further exacerbated by the aggressive export policy of certain non-European countries, and particularly China. Due to China's own low growth rates by Chinese standards – partly due to the real estate crisis there – Chinese products were offered at prices that were sometimes lower than manufacturing costs in Europe, with polyols, surfactants and flame retardants, and also silicon metal in particular, suffering. These developments affected many areas of European industry. Exports of European products to non-European markets were likewise impacted by the very high competitive pressures from China also being exerted there. The only exception was the US market, which is sealed off by, for example, high protective tariffs on Chinese goods. With the start of the new Middle East conflict at the beginning of the fourth quarter of 2023 and the resulting renewed concern about disruptions to supply chains, demand for European products began to rise somewhat. In addition, the increasing attacks by Houthi rebels on merchant ships in the Suez Canal and the Red Sea in the fourth quarter of 2023 led many shipping companies to avoid this region. This has not only extended delivery times for Chinese products, but also significantly increased transportation costs. The effects on the PCC Group can be seen in the following overview of the individual segments.

Aerial view of our chemicals site in Brzeg Dolny where, primarily, the majority of the manufacturing operations of our major subgroups PCC Rokita SA and PCC Exol SA are located

Segment Performance

Polyols & Derivatives

The Polyols & Derivatives segment saw both sales and operating profit improve slightly in the fourth quarter of 2023. However, a loss was recorded at the pre-tax level for both Q4 and for fiscal 2023 as a whole, with earnings adversely impacted by, among other things, negative currency effects. The dominant operational entity in this segment is the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland), with its polyether and polyester polyols. The increase in demand for these polyols seen since September continued in the fourth quarter. However, demand was still mainly for standard products with lower margins. Despite the difficult market environment, this business unit ended fiscal 2023 with a positive overall result at all levels, albeit without matching the very good prior-year figures achieved. The Polish systems house PCC Prodex Sp. z o.o., Brzeg Dolny, the manufacturing portfolio of which includes spray foams for roof insulation, posted an exceptionally gratifying set of figures for the fourth quarter. Routine plant shutdowns and, in some cases, unexpected production problems at several European manufacturers of MDI (methylene diphenyl isocyanate) led to a shortage of this essential raw material for foam production. As a result, some system houses also had to restrict their production. PCC Prodex Sp. z o.o. was not affected by this temporary shortage, as the company sources its MDI primarily from Korea. Due to the long transportation route, it generally maintains higher stocks of this feedstock at its site in Brzeg Dolny and was therefore able to benefit from the significant increase in selling prices for its products that resulted from this particular market situation. As a result, PCC Prodex Sp. z o.o. was able to close the fourth quarter of 2023 successfully and even match the very good results of the previous year. By contrast, all other affiliates and business units managed within the Polyols & Derivatives segment ended the past fiscal year with a loss, as had been expected.

Surfactants & Derivatives

Although the performance of the Surfactants & Derivatives segment weakened slightly in the fourth quarter, it remained in clearly positive territory. Average selling prices for surfactants remained under heavy pressure. In addition to persistently strong competition from China and India, the increasingly aggressive pricing policy of a European supplier following the commissioning of its new production capacities also had an impact on the local market. In addition, prices for fatty alcohols, an important raw material for the manufacture of surfactants, remained at a high level in the fourth quarter due to ongoing production problems at a major supplier. However, PCC Exol SA, Brzeg Dolny, the largest affiliate of the Surfactants & Derivatives segment, was less affected by this, as it procures fatty alcohols mainly from other sources under long-term supply agreements. Despite the difficult market conditions, this company closed both the fourth quarter and fiscal 2023 in clearly positive territory overall. The US company PCC Chemax, Inc., Piedmont (SC), also ended the past fiscal year with a positive set of figures but, like its parent company PCC Exol SA, fell well short of the very good prior-year results. In the Consumer Products division, which is also managed under the Surfactants & Derivatives segment, business performance in the fourth quarter was again better than expected. The largest affiliate in this business unit, PCC Consumer Products Kosmet Sp. z o.o., Brzeg Dolny, commissioned a new filling line in December 2023, thus laying the foundation for further efficiency improvements in its production.

Chlorine & Derivatives

The Chlorine & Derivatives segment was once again the main sales and earnings driver of the PCC Group in the fourth quarter of 2023. This also applies to fiscal 2023 as a whole. The Chlorine business unit of PCC Rokita SA accounted for by far the largest share on all counts. However, the record figures of the previous year, which were characterized by high sales volumes coupled with exceptionally high selling price levels, were clearly undershot

Key financials by segment	(per IFRS)	Polyols & Derivatives			Surfactants & Derivatives			Chlorine & Derivatives			Silicon & Derivatives		
		Q4/2023	2023	2022	Q4/2023	2023	2022	Q4/2023	2023	2022	Q4/2023	2023	2022
Sales [1]	€ million	**46.2**	**192.7**	259.8	**48.5**	**206.0**	231.8	**54.6**	**273.6**	388.5	**14.9**	**72.1**	112.4
EBITDA [2]	€ million	**2.4**	**8.8**	36.1	**5.0**	**25.0**	40.0	**24.9**	**101.3**	204.9	**−14.4**	**−45.0**	−1.2
EBIT [3]	€ million	**1.0**	**2.8**	31.1	**3.8**	**20.6**	35.7	**20.0**	**81.4**	185.7	**−18.8**	**−62.3**	−18.7
EBT [4]	€ million	**−0.5**	**−0.6**	30.5	**2.3**	**14.6**	30.0	**17.6**	**72.8**	181.8	**−32.4**	**−80.7**	−27.0
Employees	(at Dec. 31)	**353**	**353**	351	**496**	**496**	513	**441**	**441**	464	**207**	**207**	223

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 both at the level of this business unit and across the segment as a whole. This is because chlorine production and, hence, the volume of chlorine by-products fell in 2023 compared to the previous year, due primarily to lower internal demand for chlorine within the PCC Group which, in turn, resulted in part from the weak demand for phosphorus derivatives. Chlorine demand from our monochloroacetic acid (MCAA) manufacturer PCC MCAA Sp. z o.o., Brzeg Dolny, was also significantly lower than in the previous year. This resulted from, among other things, significantly lower sales of MCAA to several customers in the crop protection industry – a consequence of high customer-stocked inventories accumulated in previous years in the wake of supply chain problems. Nevertheless, PCC MCAA Sp. z o.o. closed the fourth quarter of 2023 and also the past fiscal year as a whole with a positive set of financials. The Phosphorus and Naphthalene Derivatives business unit likewise ended fiscal 2023 in positive territory overall.

Silicon & Derivatives

The Silicon & Derivatives segment remained in deficit in the fourth quarter of 2023. The performance of PCC BakkiSilicon hf., Húsavík (Iceland), the dominant affiliate in this segment, actually weakened further compared to the previous quarter. Overall, this affiliate (and therefore the Silicon & Derivatives segment as a whole) posted a pre-tax loss in the high double-digit million euro range in 2023. This led to Group EBT as a whole also slipping into the red in the low double-digit millions in 2023. PCC BakkiSilicon hf. continued to produce with only one furnace through the fourth quarter of 2023. The production process remained stable throughout and was further optimized leading to, for example, an improvement in the raw material input factors and an increase in silicon metal yield. In addition, the purchase prices for some raw materials continued to fall. As a result, the production costs per ton of silicon metal once again declined. At the same time, selling prices for silicon metal rose significantly over the course of the fourth quarter. One of the reasons for this was the conflict situation in the Suez Canal/Red Sea region. In addition, a fire at the production facility of a European competitor led to an expected lengthy outage at this plant. Due to this changed market situation in Europe, PCC BakkiSilicon hf. decided to recommission its second furnace in January 2024. This will also further improve the cost position of this affiliate, as fixed costs will increase only insignificantly with dual-furnace operations. The expected production volume for the first quarter of 2024 had already sold out by the end of 2023. It was also possible to reduce stocks. In the future, PCC BakkiSilicon hf. will focus on the production of higher-value grades. Although these are in lower demand, they are also exposed to less intense competition. The expectation is thus that the economic situation of PCC BakkiSilicon hf. will be sustainably strengthened by this policy shift. PCC Silicium S.A., Zagórze (Poland), which is likewise managed under the Silicon & Derivatives segment, closed the fourth quarter and also fiscal 2023 as a whole with a positive set of financials. It also showed an improvement on the previous year despite lower quartzite sales to Iceland. Regular quartzite deliveries to a Slovakian ferroalloy manufacturer and higher sales of ballast for the construction of roads and railroad lines are the main reasons for this gratifying development.

Trading & Services

Sales revenue in the Trading & Services segment remained flat at €26.5 million in the fourth quarter of 2023. However, sales once again fell well short of the corresponding quarter of the previous year. Cumulatively, 2023 also saw a significant drop in sales compared to the previous year. The main reason for this is the substantial fall in revenues at the largest trading company of the PCC Group, PCC Trade & Services GmbH, Duisburg (Germany), attributable in particular to the sanctions-related discontinuation of the trading business with commodities of Russian provenance. PCC Trade & Services GmbH still posted a successful earnings performance, at least in operational terms, both in the fourth quarter and across fiscal 2023 as a whole. The figures achieved also came in better than expected, with changes in the product portfolio having a positive influence. However, due to the derecognition of loan and interest receivables in the mid-single-digit million euro range, this affiliate ended fiscal 2023 with a loss overall. These write-offs mainly relate to receivables from the Russian affiliate AO Novobalt Terminal, Kaliningrad. This company, through which a large proportion of the commodities sourced in Russia was handled in the past, has only been conducting its own domestic business since mid-2022. Although this has so far enabled the company to cover its running costs locally, repayment of the interest and loan receivables of PCC Trade & Services GmbH does not appear likely in the foreseeable future. The conversion of part of the loan into equity, which was already planned before the outbreak of the Russia-Ukraine war, has since failed due to a lack of the necessary approval of the Russian authorities. A possible sale of AO Novobalt Terminal is also dependent on their approval. The trading business of the Czech company PCC Morava-Chem s.r.o., Český Těšín, and the online platform

Key financials by segment	(per IFRS)	Trading & Services			Logistics			Holding & Projects			PCC Group totals		
		Q4/2023	2023	2022	Q4/2023	2023	2022	Q4/2023	2023	2022	Q4/2023	2023	2022
Sales [1]	€ million	26.5	119.1	191.5	33.2	127.8	137.9	0.3	1.8	2.8	224.3	992.3	1,324.7
EBITDA [2]	€ million	7.3	7.9	−9.6	5.9	19.1	30.3	−4.9	−10.1	−7.0	28.5	107.8	292.0
EBIT [3]	€ million	4.0	−4.8	−22.1	1.5	3.0	16.0	−5.4	−11.6	−8.3	8.2	30.1	217.3
EBT [4]	€ million	2.2	−2.4	−23.3	3.9	1.3	14.5	−7.9	60.1	103.7	−12.8	−21.8	192.6
Employees	(at Dec. 31)	1,067	1,067	1,099	647	647	652	90	90	89	3,301	3,301	3,391

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 distripark.com, Brzeg Dolny, remained at a low level in the fourth quarter of 2023. Both entities therefore closed the past fiscal year with slight losses. By contrast, the Turkish sales and distribution company PCC Exol Kimya, Istanbul, ended both the fourth quarter and fiscal 2023 in profit. The Trading & Services segment also includes various service companies that primarily provide internal services in areas such as energy supply, information technology, environmental protection, site management, engineering and maintenance, and finance.

Logistics

The Logistics segment recorded an upward trend in its sales and earnings performance in the fourth quarter of 2023. Quarterly sales amounted to €33.2 million and were therefore slightly higher than in Q3 (€31.1 million). The earnings situation improved substantially, thanks primarily to the significantly stronger performance of PCC Intermodal SA, Gdynia (Poland), the dominant company in the Logistics segment. Despite the persistently difficult market environment, the operating rate of the train services offered by this affiliate rose ever more steeply in the fourth quarter compared to the preceding months, with a correspondingly positive impact on earnings performance. As a result, PCC Intermodal SA closed the fourth quarter and also fiscal 2023 as a whole with clearly positive numbers at all earnings levels. However, its results still fell somewhat short of matching the extremely good prior-year figures and also its ambitious earnings expectations. This likewise applies to its German subsidiary PCC Intermodal GmbH, Duisburg, which ended the past fiscal year with a slight loss overall. The tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, posted a negative set of financials in the fourth quarter, with results therefore coming in below expectations; across fiscal 2023, however, the company posted positive results at all earnings levels. The Russian affiliate ZAO PCC Rail, Moscow, which had already discontinued its business activities at the end of 2022, was deconsolidated retroactively as of January 1, 2023, a move recognized in the 2023 annual financial statements. In the fourth quarter of 2023, the company again made scheduled monthly repayments on the loan granted to it by PCC SE.

Holding & Projects

While earnings in the Holding & Projects segment fell as expected in the fourth quarter of 2023, the balance remained clearly positive due to the dividend income received in the course of that year. This income stream is of no relevance to the consolidated result. In this segment, the focus remained on the commissioning of our production plant for oxyalkylates, which we operate together with our joint venture partner, PETRONAS Chemicals Group Berhad, in Kertih in the federal state of Terengganu in Malaysia. The first commissioning phase involving a raw material charge input took place in the fourth quarter. However, the start of commercial production operations was delayed beyond the turn of the year, partly due to a maintenance-related shutdown of our joint venture partner's ethylene oxide production facility. Further focal points in the fourth quarter were the expansion of our core business in the US market and the project involving PCC Thorion GmbH, Duisburg. This affiliate is working in cooperation with Fraunhofer ISE on the development of a silicon-carbon composite material designed to increase the performance of lithium-ion batteries. The starting point for this high-tech material is a nano-silicon powder produced from the silicon metal of PCC BakkiSilicon hf. The latter could therefore also benefit from the successful implementation of this project. The Russian joint venture DME Aerosol, Pervomaysky, likewise managed under the Holding & Projects segment, began regular loan repayments to PCC SE in the fourth quarter.

Publication of Annual Report 2023

The financials for full fiscal 2023 stated in this quarterly report are still subject to final review by the auditor. Its main audit began in mid-February 2024 and is scheduled to be completed by the end of April 2024. The publication of our Annual Report 2023 on our website with the final, audited figures is planned immediately following approval by the Supervisory Board, which is expected on May 14, 2024.

Redemption of maturing bonds

On January 1, 2024, PCC SE redeemed the bonds carrying the ISIN codes DE000A2YPFX3 and DE000A3E5MD5 representing a total principal amount of €14.1 million. The two bonds were issued in December 2019 and July 2021 respectively and each offered a coupon of 3.00 %. The 2.00% bullet bond issued in March 2022 with the ISIN code DE000A3MQA80 was redeemed on February 1, 2024 in the amount of €1.4 million.

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