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ANNUAL REPORT 2021 | PCC ROKITA

LETTER FROM THE MANAGEMENT BOARD

Dear Investors, Ladies and Gentlemen,

Below is a summary of 2021 at the Company. We achieved the highest results since the beginning of our operations. All production segments noted increased outcomes, with a uniquely favourable situation occurring on the polyurethanes market, which has been significant in our business.

We reported consolidated EBITDA at a record level of almost PLN
671 million, which is nearly 102% higher than in 2020. The Group's
net profit was also at record highs of PLN 417 million, which is an increase of over 255%.

The most significant contributing factor to these outstanding results was the Polyurethanes segment. EBITDA in the segment was 203% higher than that in 2020. Product prices remained at a high level due to the limited availability of polyols and high demand for them on the market. As a result, we also noted record profitability in this product group.

In the near future, the situation on the polyurethanes market may be unclear. In the first half of March, the Group noted an increase in orders compared with the previous two months. In addition, in the second quarter of this year, longer renovation shutdowns are planned by some manufacturers in Europe. In normal circumstances, this would be a factor enabling an increase in margins; however, the situation related to the war in Ukraine does not currently allow for a more precise estimation of market behaviours. It is also worth remembering that the appearance of a new producer in Central and Eastern Europe – the Hungarian petrochemical company MOL – may impact the market situation.

The Chlorine Derivatives segment also noted increases. In 2021, EBITDA for this segment was over 59% higher compared with 2020. A contributing factor to the better results was also higher production levels related to the high demand for chemical raw materials, as well as an intensification in the sale of chlorine derivative products. Over the entire year, the average sales prices were insignificantly higher than in the previous year. At present, the price of chloralkalis is continuing to rise. This trend may also continue in the near future. Currently, there is an imbalance in the two-way flow of goods on the east-west line, and it is difficult to estimate how this situation will develop and how it will affect the results of the segment. At the same time, it must be noted that a significant cost for the Chlorine Derivatives market is electricity, the price of which is currently dynamically changing.

The year 2021 was also a successful period for the Other Chemical Activities segment. The size of turnover, margins, and financial results all achieved record highs. EBITDA increased by over 240% compared with 2020. This growth is mainly due to the still-favourable market situation in the phosphorus derivatives sector and the increase in the sales volume of specialty products. In addition, the increase production capacity of the new installation also contributed to such good results. The beginning of 2022 is, however, characterised by a drop in market demand. At the same time, there is a rise in the price of key raw materials, but this increase is still lower than the increase in the price of products. Due to the war in Ukraine, there may be interruptions in the raw material logistics of this segment, but currently, there are none.

As regards the investment in December last year, a decision was made about the construction of a new, universal plant for the production of alkoxylates and other chemical compounds in Brzeg LIST ZARZĄDU



Dolny. The project will be carried out by PCC BD, whose partners are PCC Rokita and PCC EXOL, which both hold 50% of shares. This investment is expected to not only increase the volume of products that can be offered but also expand the product portfolio of the PCC Rokita Group.

In 2021, the Company also implemented investment in the construction of a hydrogen and gas boiler station, producing process steam for its own needs. The project contains solutions that improve energy efficiency by recovering heat from flue gas.

At present, we are continuing to analyse the Company's potential development directions aimed at securing its energy needs in subsequent years.

Due to the dynamic situation in Ukraine, it is very difficult for the PCC Rokita Group to predict how the current crisis may impact its future activities, including its investments. It should be added that an increasing challenge for the chemical industry in Europe, and

therefore also for the Group, is the tightening environmental and climate standards.

For some time now, PCC Rokita has been developing GREENLINE[™] products. Currently, they constitute approximately 20% of all products offered by the PCC Group. Thanks to RES, the energy used in the process of producing these products is "green".

In implementing the goals of the European Union's climate policy, PCC Rokita adopted the assumptions to the decarbonisation strategy for 2022-2050. They focus on decarbonising electricity used in such a way as to conduct environmentally sustainable economic activity.

The current war in Ukraine is creating new rapidly and unpredictably changing circumstances for the entire economy. In 2021, less than 2% of total sales revenues came from Russia, Belarus, and Ukraine. The Group saw similar sales levels in the first two months of 2022. Currently, sales to Russia and Belarus have been suspended. However, indirect purchases of raw materials from Russia used for the needs of the Group constituted approximately 6% of costs. For this year, we planned to decrease these purchases. The supply chains in the petrochemicals industry may be interrupted due to the direct and indirect effects of the war in Ukraine, and this may apply to ethylene oxide and propylene. This situation has already currently translated into an increase in the price of raw materials in Europe and the world, and further potential scenarios vary significantly.

The years 2020 and 2021 showed that the Group coped in a changing

Rafał Zdon Vice President of the Management Board and uncertain environment. We closely analyse the ongoing situation and make every effort to meet the expectations of our stakeholders.

We would like to thank our investors, customers, employees, and other stakeholders. Please read the full annual report.



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THE DEVELOPMENT STRATEGY OF THE PCC ROKITA GROUP

The main pillars of the PCC Rokita Group's strategy are the development of specialty products and increasing the size and level of the business through investments.

The PCC Rokita Group intends to increase its market value by improving the level of sales of currently manufactured products while diversifying the portfolio with new, specialty, high-margin, and innovative products, as well as seeking to increase the share of these products in sales. In response to the systematically increasing demand, the Group is striving to optimise its product portfolio. At the same time, it's looking for market niches and taking advantage of the opportunities they create.

STRATEGIA ROZWOJU PCC ROKITA

The Group aims to achieve these goals by increasing the production capacity of the plant, i.e. building new installations, and expanding existing ones, as well as by researching and developing specialty products and their applications.

In addition, the Group's assumption is to further strengthen its competitive position in the highly developed European market, which is where it is mainly present. Simultaneously, the Group is constantly seeking further development opportunities, including increasing activity on new markets. In terms of geography, it assumes growth of its market share in regions that have to date been serviced to a lesser extent, and expansion into new, rapidly developing markets. The Company expects further organic growth and is not ruling out acquisitions.

It should be highlighted that in the near future, investment decisions may depend on market conditions beyond the Group's control. These encompass factors involving the macro-economic environment in which the Group operates, including recent events related to the war in Ukraine. The PCC Rokita Group allows the possibility of reorganising its organisational structure, which may involve the merger of subsidiaries, selling them outside of the Group, separating some assets of subsidiaries (including the organised parts of enterprises) and transferring them to other companies, including subsidiaries, as well as purchasing new entities that complement the portfolio of the Company's products and services.

Specialty products



SHARE OF SALES OF SPECIALTY PRODUCTS IN THE POLYETHER POLYOLS GROUP

THE DEVELOPMENT STRATEGY OF THE PCC ROKITA GROUP



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SHARE OF SPECIALTY PRODUCTS IN THE OTHER CHEMICAL ACTIVITY SEGMENT

Decarbonisation strategy assumptions

PCC Rokita seeks to minimise its impact on the climate by significantly reducing carbon dioxide-equivalent emissions of the electricity consumed. This will be achieved mainly by changing the structure of the electricity used and gradually moving away from fossil fuels towards renewable energy, both in terms of self-produced energy and energy purchased from external sources.

Assumed goals of the decarbonisation strategy

- by the end of 2025: 20% or more of electricity used at PCC Rokita will come from renewable energy sources or will be covered with RES guarantees of origin,
- by the end of 2030: at least a 50% reduction in the emissivity of electricity used at PCC Rokita compared with the value of this coefficient in 2020,
- by the end of 2030: ending the use of coal for energy purposes at PCC Rokita,
- by the end of 2040: reducing the emissivity of electricity used at PCC Rokita

to below 270g carbon dioxide-equivalent/ kWh (in line with the EU Taxonomy for chlorine production),

- by the end of 2050: keeping electricity consumption for electrolysis and chlorine treatment purposes below 2.45 MWh per tonne of chlorine,
- by the end of 2050: PCC Rokita will strive to achieve net climate neutrality.

Implementation plan

PCC Rokita estimates that the assumed strategic goals will be achieved by implementing a series of complementary initiatives as regards produced and purchased electricity. The key objectives are:

- purchase of guarantees of origin being from RES,
- modernisation of own electricity and heat sources, enabling them to be powered by hydrogen and natural gas,
- construction of photovoltaic and wind farms,

 signing CPPA and RES agreements, nitiatives to increase energy efficiency.

Conditions

The implementation of these assumptions depends on:

- the rate of energy transformation in Poland. The assumptions of the strategy are that the transformation will progress at the rate accepted in "Polityka Energetyczna Polski do 2040" ("Polish Energy Policy to 2040"),
- legal, political, and economic conditions, in particular, the availability and prices of natural gas, the price of electricity originating from various sources, and the
- price of CO₂ emissions allowances.

Investments

Given the demanding environment, the Group analyses the level of investment outlays on an ongoing basis, taking into account their profitability, availability of financing sources and the current financial situation. In implementing its assumed business strategy, the PCC Rokita Group is seeking a balance between the economic profitability of the business and the widely defined social interest and responsible management of the organisation.

In December 2021, a decision was made about the implementation of an investment involving the construction of a new universal plant for the production of alkoxylates and other chemical compounds in Brzeg Dolny. The project will be carried out by PCC BD Sp. z o.o., whose partners are PCC Rokita S.A. and PCC EXOL, which both hold 50% of shares. This investment project will significantly increase the volume of products that can be offered. The new installation will produce products that can have broad applications in many sectors and be a raw material for further industrial processes. It will make a wide range of ethoxylates, polyalkylene glycols, polyether polyols and other alkoxylated products.

Given the changes in the climate policy of the European Union regarding an increased CO_2 emission reduction target by 2030 and in the light of rapidly rising prices on the CO_2 emissions allowance market, the Company cannot rule out future investment in the scope of changing units producing thermal energy (process steam, heating water) and electricity.

In relation to the decarbonisation assumptions, we are analysing the Company's potential further development directions aimed at securing its energy needs in subsequent years. The Company is considering, among other things, the possibility of converting its grate boilers from coal to gas and investing in its own renewable energy sources in the form of building a photovoltaic farm, as well as building a wind farm in other locations.

At the same time, the Company is carrying out

and planning a series of investment projects related to the technical modernisation of installations allowing further optimisation of the process. They also contribute to meeting increasing environmental requirements. In addition, the investment expenditure also includes the purchase of CO_2 emission allowances.

The Company is running its investments in such a way that the production plants are always adapted to the applicable legal standards for environmental protection. However, the constant tightening of these norms may in the future result in a situation where they cannot be met, and production in the given technology will need to be limited or, in the worst-case scenario, completely stopped.





POLYURETHANES SEGMENT

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Summary of operations in 2021

Polyether polyols

The year 2021 was the best in the history of the Polyurethanes segment in terms of profitability and demand for polyether polyols. The Company took maximum advantage of the favourable circumstances created by the market to consolidate its position and to achieve record results.

The first six months of the previous year saw monthly price increases and the Company seeking to optimise the customer and product portfolio so as to efficiently take advantage of the economic situation and strengthen the business foundations for the future when demand and supply normalise.

In June last year, the demand for polyols was still high, although there was a noticeable cooling in the purchase of furniture and mattresses.

After the holiday period, the market did not return to the demand boom. From July, there were decreases in the prices of polyols despite still-increasing prices of raw materials needed in polyol production.

The price drops were, however, limited, and in October last year they even slowed down, which was caused by further production problems experienced by PCC Rokita's major competitors. Hence, supply adapted to demand.

In the near future, the situation on the polyurethanes market may be unclear. Currently, there is a distinct, large increase in production costs both in terms of utilities and raw materials, and further potential rises are expected. At present, all raw materials produced on the base of hydrocarbons are exposed to drastic price increases, the magnitude of which is unpredictable. This may affect the costs of the segment. The consequences of this situation may also impact the Group's investment plans. It is very difficult to estimate how to possibly translate the increase in the price of raw materials into an increase in the price of the segment's products.

It cannot be ruled out that major European corporations will limit or suspend supplies to Russia, which can cause an increased supply of polyols on the European market in the medium term. The result may be a decrease in the profitability of the polyols offered by the Group.

The beginning of the first quarter of 2022 no longer showed such high market demand. At present, the Segment noted an increase in orders compared with the previous two months. Currently, no increased orders are noted for stock related to concerns about possible limitations of the availability of polyols or an increase in their prices resulting from the war in Ukraine.

In the fourth quarter of 2022, a new player is expected to debut – the Hungarian company MOL – which will impact the competitive structure on the market.

Polyester polyols (PCC PU)

The year 2021 was a period of a clear increase in sales. The volume placed on the market increase by over 30% compared with the previous year and was the largest in the Company's history. Unlike polyether polyols, polyesters did not see any events or circumstances that would significantly fluctuate the market situation, including demand and profitability.

Polyurethane systems (PCC Prodex)

In terms of polyure than esystems manufactured by PCC Prodex, 2021 was a challenge, mainly due to the acquisition of raw materials from outside the PCC Group.

In the last year, there was an increase in prices and raw materials on the construction market, which is a strategic market for the Company. Demand for polyurethane spray systems was less than anticipated. As regards industrial insulation and other polyurethane systems, the Company consistently fulfilled its customers' orders.

Despite the challenges outlined, in 2021 PCC Prodex realised sales volumes 3% higher and revenues 50% higher compared with 2020.

Polyurethanes segment outside of Europe (IRPC Polyol)

Significant improvement in results was also recorded in the Thai company IRPC Polyols, in which PCC Rokita holds 50% of shares together with a local IRPC company. The company noted clear profits, which after several very difficult years instils hope for a further positive development of its operations.

Summary of the financial situation

In 2021, the segment's EBITDA was at PLN 359.7 million, increasing by PLN 240.9 compared with 2020.

The biggest contributing factor was the large demand for polyether polyols, which we have seen since the end of the third quarter of 2020. Following the rising demand, polyol prices were increasing, which resulted in a record increase in

margins. Another contributor to the results from this period was the weakening of the PLN to the EUR. In addition, the segment saw a rise in the sale of polyether polyols designed for construction



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POLYURETHANES SEGMENT IN 2021 IN TERMS OF GEOGRAPHY

Innovations

The Company owns a modern pilot installation enabling the scaling of production processes. In addition, in application laboratories, tests of new products are carried out in the context of the end user. This enables a simulation, under laboratory conditions, of the obtaining of mattresses, insulation materials, processing of plastics and the obtaining of building materials. Moreover, modern analytical laboratories allow a thorough analysis of chemical compounds obtained.

The development of new polyols in the PCC Rokita Group covers a wide range of application areas, including flexible foams, rigid foams, adhesives, and lubricants.



In recent years, the segment's R&D department has developed and launched over 80 products for the Polyurethanes segment.

Investments

In 2021, the raw material – ethylene oxide – storage base was expanded to include another two tanks. A new intermediate product tank for one of the most important products with twice the volume was also put into operation, which will allow the optimisation of production. Last year, design work was completed, and construction commenced of a new polyol blender that will enable the mixing of various types of polyols and will allow for further development of specialty products. The commissioning of the new device is planned at the turn of the first and second quarters of 2022.

In addition, in December 2021, a decision was made about the investment involving the creation of a new universal plant for the production of alkoxylates and other chemical compounds in Brzeg Dolny. The estimated value of outlays for this investment project is approximately PLN 351 million. The project is expected to be completed in mid-2026. The initial new average annual production capacity anticipated with the assumed portfolio thanks

to the investment is estimated at 50,000-55,000 tonnes.

The investment in the new installation is expected to not only increase the volume of products that can be offered but also expand the product portfolio of the PCC Rokita Group. The new installation will produce many different products that can have broad applications in many sectors because they can be a raw material for further industrial processes. It will make a wide range of ethoxylates, polyalkylene glycols, polyether polyols and other alkoxylated products.

The products made on the new installation will be characterised by lower emissions of volatile organic compounds and a shorter and lowwaste production process, and some of them will have a lower carbon footprint. In addition, the shorter production process will decrease energy consumption.

As regards the implementation of the abovementioned investment called "Construction of a new universal plant for the production of alkoxylates and other chemical compounds", the affiliated company PCC BD signed an agreement with the State Treasury on granting public aid under the Programme for Supporting Investments of Significant Importance for the Polish Economy for 2011-2030 and received a decision from the Legnica Special Economic Zone on support under the Polish Investment Zone.

The dynamic situation in Ukraine makes it very difficult to predict how it will potentially impact the future operations of the PCC Rokita Group, including investments.

In 2021, the outlays incurred for investments in the Polyurethanes segment were PLN 10.2 million.

CHLORINE DERIVATIVES SEGMENT

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Summary of operations in 2021

In 2021, the Chlorine Derivatives segment noted higher EBITDA than the year before. A contributing factor to the better results in the said period was also higher production levels related to the large demand for chemical raw materials, as well as an intensification in the sale of chlorine derivative products. Over the entire year, the average sales prices were insignificantly higher than in the previous year; however, it must be highlighted that they were impacted mainly by the last quarter, in which there was strong growth.

The dynamic situation in Ukraine is causing an imbalance in the two-way flow of goods on the east-west line, and it is difficult to estimate how this situation will develop and how it will affect the results of the segment. At present, the changing energy prices have the largest impact on the segment's operations

Sodium lye

The Company is focusing on the sale of sodium lye on the domestic and neighbouring markets, particularly Germany and CEE (Central and Eastern Europe) countries.

Thanks to the long-term strategy of building a broad customer portfolio diversified by industry, the sales volume of sodium lye in 2021 rose by 10.7% compared with 2020. In the analysed period, the Company also enjoyed good demand from the industries to which it sells the product, including the chemical, food, and paper sectors.

Over the entire year, the average sales price was at a similar level to the previous year. However, in the fourth quarter of 2021, the energy crisis intensified, and the price of sodium lye in this period was 20% higher than in the last quarter of 2020. The Company is currently seeing a continued rise in the prices of this product, mainly due to the dynamically increasing prices of energy on the European market.

Caustic soda

The global overseas soda market on which the Company operates is dominated by its main competitors from China and India that have the greatest impact on global prices. However, the Company significantly increased its market share in countries that are most influenced by producers from Asia, such as Central African countries and those on the west coast of South America. As a result, the sales volume increased by 19% compared with the same period in the previous year, with the average price approximately 17% higher. Despite the high costs of sea freight, the Company also recorded the highest sale prices in history in the last months of the year.

Chlorine

The goal of the PCC Rokita Group is first and foremost to internally balance chlorine consumption, and so the Group is carrying out a series of analyses of how to best manage this. The segment is seeking to achieve this goal by expanding production in the other plants of the segment, as well as by increasing supplies to the Other Chemical Activities segment and to PCC MCAA Sp. z o.o., which is an entity from outside the PCC Rokita Group.

In the analysed period, due to the high demand in the construction, plastics, and organic chemistry production industries, i.e. the main recipients of chlorine, the Company significantly increased revenues from chlorine sales.

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Chlorobenzenes

As regards chlorobenzene, in 2021 there was an over 37.2% rise in the sales volume compared with 2020. In the past year, the Company, among other things, began actively selling products in the US. The share of the volume sold on the American market increased from 4% to 8%, and the Company is expecting further growth in 2022.

Hydrogen

Hydrogen is produced by membrane electrolysis. It is used in the installation to produce caustic soda and as a raw material in the production of hydrochloric acid in two hydrochloric acid synthesis installations. In addition, it is delivered to PCC MCAA. PCC Rokita is also planning to use the available hydrogen volume to fire the gas and hydrogen boiler, which investment is being carried out in the Energy segment.

Summary of the financial situation

In the last 12 months, 2021 compared with the same period in 2020 saw a drop in sodium lye prices and a rise in caustic soda prices, which impacted **the EBITDA achieved – an increase of 59.1%.** The key factors affecting the 2021 EBITDA were also higher sales volumes and intensified sales of chlorine derivative products.



EXTERNAL SALES OF THE CHLORINE DERIVATIVES SEGMENT IN 2021 EXPRESSED QUANTITATIVELY [IN 1.000 TONNES] EXTERNAL SALES OF THE CHLORINE DERIVATIVES SEGMENT IN 2021 IN TERMS OF GEOGRAPHY

Investments

In 2021, in the Chlorine Derivatives segment, the investment project aimed at improving energy efficiency, i.e. heat recovery from lime leachate to heat boiler feedwater, was completed. A confirmation of the efficiency achieved was the granting of energy efficiency certificates (white certificates).

In 2021, the construction of a new installation for the production of sodium hypochlorite was underway. PCC Rokita sees sales development opportunities on the market for this product. Completion of the project is scheduled the first half of 2022.

In the Chlorine Derivatives segment, PCC Rokita has prepared a concept to increase the production capacity of membrane electrolysis and other chlorine-absorption installations. These investment projects are expected to result in huge advantages related to the reduction of specific electricity consumption.

The Company is also considering building a new installation for the production of hydrochloric acid. In the last two years, sales of this product increased by approximately 40%.

The dynamic situation in Ukraine makes it very difficult to predict how it will potentially impact the future operations of the PCC Rokita Group, including investments.

The Company is running its investments in such a way that the production plants are always adapted to the applicable legal standards for environmental protection. However, the constant tightening of these norms may in the future result in a situation where they cannot be met, and production in the given technology will need to be limited or, in the worst-case scenario, completely stopped. In 2021, the outlays incurred for investments in the Chlorine Derivatives segment were PLN 28.6 million.





OTHER CHEMICAL ACTIVITIES SEGMENT

Summary of operations in 2021

The year 2021 was a very successful period for the Other Chemical Activities segment. Both the size of revenues and the financial results achieved were at record highs. First and foremost, the favourable situation in the competitive environment in the phosphorus derivatives sector continued, the first signs of which were already seen in the fourth quarter of 2020.

Currently, as a result of the balance of demand and supply, product prices are continuing to reach record highs due to the market situation and resulting low availability of this group of products from China, while the demand for them is high.

In terms of raw materials, 2021 was a very unstable period. There were problems with both crude oil-derived raw materials, as well as those of plant and coal origin, and even packaging. Currently, there is a rise in the price of key raw materials, but this increase is still lower than the increase in the price of products. Since the beginning of 2022, we have been dealing with a continuing increasing trend in the price of raw materials, which is associated with a global shortage of some base materials, as well as a significant increase in energy costs and disrupted logistics chains. For a long time, the market has been struggling with, among other things, an unstable situation with a key raw material – phosphorus – which is imported to Europe from Asian countries. Due to the war in Ukraine, there may be interruptions in the raw material logistics of this segment, but currently, there are none.

The very good results of the segment were also impacted by the steadily growing sales in highly specialised additives to sectors such as plastics processing, production of technical protective coatings, specialised PU applications and production of lubricants and hydraulic fluids. Current orders are still at a high level. It is worth highlighting that throughout the year, the new installation was gradually used in an increasing manner, and at present, it is already operating using the vast majority of its nominal potential. In its development plans, the Company places extensive emphasis on modern and specialised solutions thanks to which it consistently builds its reputation as a competent supplier, strengthens its market position, and improves the results of the Other Chemical Activity segment.

The segment sells its products mainly on the European market and, to a lesser extent, in Asia and North America.

The current dynamic situation in Ukraine may also affect the situation on the market serviced by the segment, including a reduction in customer orders.



Summary of the financial situation

In 2021, the Other Chemical Activity segment increased the level of sales revenues to external customers by 64.5% compared with 2020.

Thanks to the increase in the share of sales of specialty products and favourable market conditions, the Group in the Other Chemical Activity segment achieved much better results compared with the corresponding period in the previous year. The

advantageous structure of the product portfolio enabled a significantly higher margin and, consequently, a better result from operating activities.

The sales structure and the achieved margin translated into a record **EBITDA result, which increased by** PLN 41.4 million compared with 2020.



ACTIVITY SEGMENT IN 2021 EXPRESSED QUANTITATIVELY [IN 1.000 TONNES]

ACTIVITY SEGMENT IN 2021 IN TERMS OF GEOGRAPHY

Innovations

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Over recent years, the R&D department of the Other Chemical Activity segment developed and launched over 60 products for this segment.

In 2021, research works continued on expanding the PCC Rokita Group's offer to include new, specialised solutions that supplement the portfolio aimed at customers in the plastics and hydraulic fluids sectors. Research works were also conducted in relation to the development of existing products in new areas of application.

The sale of flame retardants and flameretardant plasticisers for technologically advanced formulations developed in recent years is being successfully developed, and the specialist application competences of the team of technical consultants are the basis for the success of implementation works.

In addition, the pilot line launched in the second half of 2020, which is aimed at

demonstrating technologies for obtaining innovative products developed in recent years by the R&D department, enables the validation of a dozen or so innovative technologies developed by the research and development department during laboratory tests. The acquired knowledge may allow us to implement the developed possible solutions for the potential construction of a full-size production line.

In 2021, the pilot line was successfully used to further optimise technological processes, thanks to which products in the segment have increasingly better quality and application efficiency and are made in a more and more eco-friendly and economical manner.

Investments

In 2021, modernisation works were carried out. At the same time, work is ongoing on additional optimisations aimed at achieving the full planned production capacity of the pilot line used to demonstrate technologies for obtaining innovative products, which was commissioned last year.

The Group, as part of the Other Chemical Activity segment, is not ruling out further investments to increase production capacities. The dynamic situation in Ukraine makes it very difficult to predict how it will potentially impact the future operations of the PCC Rokita Group, including investments.

In 2021, the outlays incurred for investments in the Other Chemical Activity segment were PLN 3.9 million.

ENERGY SEGMENT

ANNUAL REPORT 2021 | PCC ROKITA

Summary of operations in 2021

Energy costs are the key component of the cost of making chemical products. At present, the Polish chemical industry is facing very high electricity prices. In 2021, increases electricity prices on the electricity market were significant compared with the prices in 2020. This behaviour of prices was influenced by the increase in the prices of CO₂ emission allowances, increases in the prices of basic fuels (gas and coal), a rise in the demand for electricity resulting from the recovery of economies after the pandemic in 2020, and low-wind months (RES). The upward trend in electricity prices affects all European countries.

In 2021, the operations of the Energy segment were mostly uninterrupted. Compared with the previous year, the demand for heat in process steam for chemical installations was approximately 1% higher, while the demand for household heating was approximately 22% higher. The production of electricity was 4% higher than the previous year. PCC Rokita's production of electricity constituted 16% of the entire electricity consumption of the Group for its own needs.

Summary of the financial situation

The results of the Energy segment largely depend on the prices of bituminous coal. Since the beginning of 2021, we have seen a continuous rise in the prices of steam coal on global markets, and almost every month is noting price records for this raw material. This results in increased interest in coal mined in Poland, which may affect not only its availability next year, and a significant increase in the costs associated with the purchase of pulverised coal compared with the costs currently incurred for this purpose. Coal purchase prices in 2021 resulting from an agreement concluded by the Company were lower than in the corresponding period in the previous year and had a positive impact on the segment's results.

In 2021, compared with 2020 there was an 11.1% increase in revenues from sales to other segments and a 20.6% increase in sales to external customers. The total revenues for the segment rose by 14.1% compared with the previous year.

Investments

Investments in the Energy segment are related to the technical modernisation of installations and allow further optimisation of the process.

In 2021, the Company implemented investment in the construction of a hydrogen and gas boiler station, producing process steam for its own needs. In addition, works were carried out in relation to the construction of a new gas connection. The handover of both projects is planned for 2022.

The hydrogen and gas boiler station investment project includes the expansion of the fuel combustion installation to include a boiler room with a capacity of 10.5 MW. The boiler room can use as heating fuel the excess hydrogen produced by the existing production plant as part of the Chlorine Business Unit (Chlorine Derivatives segment) in an amount up to a maximum of 3600 Nm3/h. It can also be fired by a mixture of hydrogen and natural gas, as well as by natural gas only.

In December 2021, an agreement was signed

for the construction of a gas boiler station powered only by natural gas. The planned handover date is the turn of 2022/2023. The boiler station will have mainly a peak load and reserve function.

At present, we are continuing to analyse the Company's potential development directions aimed at securing its energy needs in subsequent years. The Company is considering, among other things, the possibility of converting its grate boilers from coal to gas and investing in its own renewable energy sources in the form of building a photovoltaic farm, as well as building a wind farm in other locations. In addition, the Company is not ruling out the possibility of concluding a long-term contract for the purchase of energy from renewable sources.

The dynamic situation in Ukraine makes it very difficult to predict how it will potentially impact the future operations of the PCC Rokita Group, including investments. In 2021, the outlays incurred on investments in the Energy segment were PLN 96.3 million, which included the purchase of CO_2 emission allowances of PLN 66.1 million.



THE GROUP'S GREEN INVESTMENTS

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ANNUAL REPORT 2021 | PCC ROKITA

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"We are here to satisfy our customers' requirements with our chemical products while caring for the environment."

Today, more than ever, Poland, Europe and the world are facing the challenges of climate change caused by greenhouse gas emissions. The basis of the European Green Deal is to limit global warming well below 2°C, and ultimately 1.5°C.

The European Union sets itself ambitious challenges in the area of preventing climate change:

- greenhouse gas emissions and removals across the EU will be sustainable by 2050 at the latest,
- reducing net greenhouse gas emissions in the European Union by at least 55% by 2030 compared with 1990 levels.

PCC Rokita, conducting global operations in a responsible manner, naturally complies with the climate framework set by the UN, European Union, and local regulations. To meet the challenges set for 2030-2050, it is already planning adequate measures to limit the impact of the enterprise on climate change. To this end, assumptions have been developed for the decarbonisation strategy based on three pillars:

- The European Union's climate policy until 2050,
- Classification of environmentally sustainable economic activity,
- The company's mission.

The assumptions of PCC Rokita's decarbonisation strategy respond to the challenges of the climate transformation set by the European Union. The Company's assumptions are in line with initiatives involving renewable energy, energy efficiency and greenhouse gas emissions from industry.

The Company has set ambitious climate goals that will significantly contribute to a reduction carbon dioxide emission in economic operations while at the same time meet the expectations of customers and other stakeholders of the Company. This will be achieved mainly by changing the structure of the electricity used and gradually moving away from fossil fuels towards renewable energy, both in terms of self-produced energy and energy purchased from external sources. The achievement of the assumed goals will be possible thanks to implemented, in-progress or planned investments.

One of PCC Rokita's flagship investments aimed at – in addition to environmental criteria – significant reduction of energy consumption in the production process was the investment into the conversion of the electrolysis installation into membrane technology. In 2015, the second stage of membrane electrolysis used in the production of chlorine and sodium lye was implemented. This project was a continuation

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of the conversion of the electrolysis installation into membrane technology that commenced in 2010 – changing the chlorine production technology to membrane technology. The electrolysis installation is continually expanded to include more electrolysers that increase production capacity while keeping to the most modern, economical, and environmentally friendly method currently used around the world for the production of chlorine, sodium lye and hydrogen. This modern installation allowed PCC Rokita to avoid CO_2 emissions of over 140,000 tonnes per year.

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In addition, in recent years, PCC Rokita implemented several projects aimed at increasing the energy efficiency at the level of consumption of electricity utilities and improvement of the state of energy infrastructure. As part of the system of implementing intelligent solutions in the management of electricity distribution networks, there have been several projects completed:

- "Construction of an intelligent 6/0.4 kV power station at PCC Rokita S.A. (D-0)" – the project was carried out in 2017-2019. The total value of the project was PLN
 5.8 million, of which PLN 2.1 million was sourced from European funds,
- "Construction of power stations at PCC Rokita S.A.'s sewage treatment plants" – the project was carried out in 2017-2021. The total value of the project was PLN 18.1 million, of which PLN 6.5 million was sourced from European funds in the form of subsidies.

Currently, as part of the system of implementing intelligent solutions in the management of electricity distribution networks, PCC Rokita is implementing other projects. They are aimed at ensuring energy security in the scope of the development of PCC Rokita S.A.'s distribution network using the functionalities of an intelligent network and implementation of the Smart Grid system. As part of these projects, two 110kV GIS technology stations are being built. Both investments have been underway since 2018, and completion is expected in 2022 and 2023. The total value of the two projects is almost PLN 100 million, of which PLN 35.9 million is sourced from European funds. These investments will also support the preparation of infrastructure for RES projects planned at the Company.

In 2021, other ventures were also implemented, aimed at improving the energy efficiency of processes, i.e.:

- "Construction of a heat substation tasked with collecting heat from the lime leachate from the propylene oxide installation and pre-heating demineralised water used to power the boilers of the Electrical Power and Heating Plant at PCC Rokita,
- "Improvement of the efficiency of the cogeneration system of the electrical power and heating plant working together with the OP-130 boiler by building a feedwater regenerative exchanger to increase the efficiency of

production in the cogeneration system".

There are also other investments being carried out in the Energy segment.

On the one hand, they are related to the technical modernisation of installations and allow further optimisation of the process. On the other, they contribute to meeting increasing environmental requirements. In addition, the investment expenditure of this segment also includes the purchase of CO_2 emission allowances.

In 2021, the Company implemented the abovementioned investment in the construction of a hydrogen and gas boiler station. Completion of a gas boiler station powered only by natural gas is planned for the turn of 2022 and 2023.

Given the changes in the climate policy of the European Union regarding an increased CO_2 emission reduction target by 2030 (including the presentation of the Fit for 55 package in

July 2021) and in the light of rapidly rising prices on the CO₂ emissions allowance market, the Company cannot rule out future investment in the scope of changing units producing thermal energy (process steam, heating water) and electricity. At present, we are continuing to analyse the Company's potential directions for further development aimed at securing its energy needs in subsequent years. The Company is considering, among other things, the possibility of converting its grate boilers from coal to gas and investing in its own renewable energy sources in the form of building a photovoltaic farm, as well as building a wind farm in other locations.

It is also considering purchasing energy from already existing and planned photovoltaic and wind farms. At the same time, analyses are underway regarding efficiency and energy projects aimed at limiting the need for thermal energy and electricity. In addition, the Company is not ruling out the possibility of concluding a long-term contract for the purchase of energy from renewable sources.

PCC Rokita seeks to minimise its impact on the climate by significantly reducing carbon dioxide-equivalent emissions of the electricity consumed. This will be achieved by decreasing the energy consumption of technological processes, as well as by changing the structure of the electricity used and gradually moving away from fossil fuels towards renewable energy, both in terms of self-produced energy and energy purchased from external sources.





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