Ercros

ERCROS RESULTS
FIRST QUARTER 2022

(04/05/2022)

In the first quarter of 2022 Ercros earned profits of EUR 17 million with an adjusted ebitda of EUR 32 million

- **First quarter 2022 profits were EUR 17.2 million, nearly twice the EUR 8.7 million earned in the same quarter of 2021.**

- **The first quarter 2022 adjusted ebitda was EUR 31.8 million, 49% more than the EUR 21.3 million in the same quarter of 2021.**

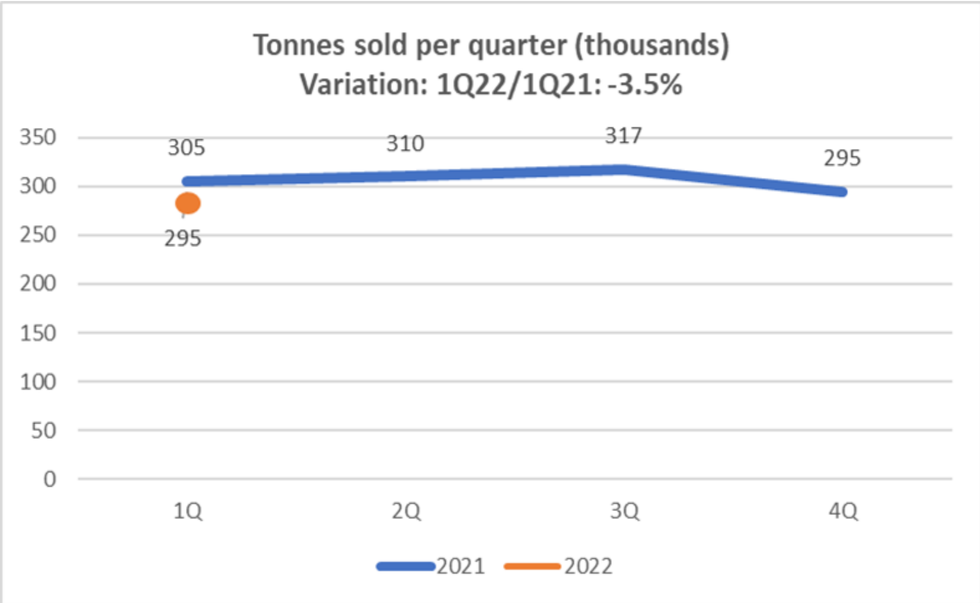
- **These results are in spite of the sharp spike in the cost of energy, raw materials, and transport, thanks to the company's proven ability to keep up with the demand for its products.**

- **Just as in 2021, the company's active engagement in the markets for chemical products combined with high production rates at its manufacturing plants were key to attaining the outstanding results recorded in the first quarter of 2022.**

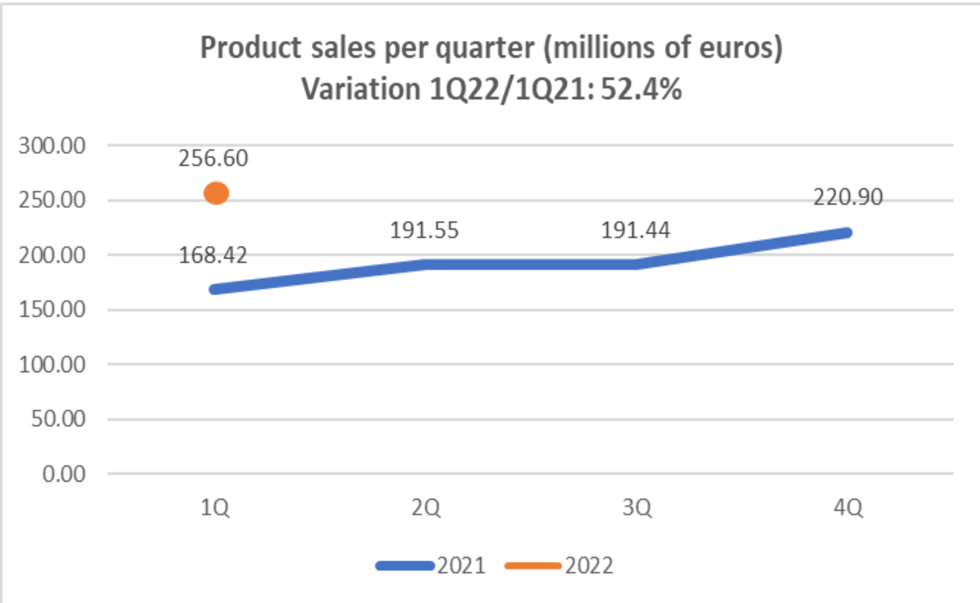
- **We expect the trends observed in 2021 to continue in the first half of 2022, even making allowance for the war in the Ukraine and the situation in international energy markets. The second half of the year is hazier, and it is harder to make a distinct forecast.**

A. KEY FACTS IN THE FIRST QUARTER OF 2022

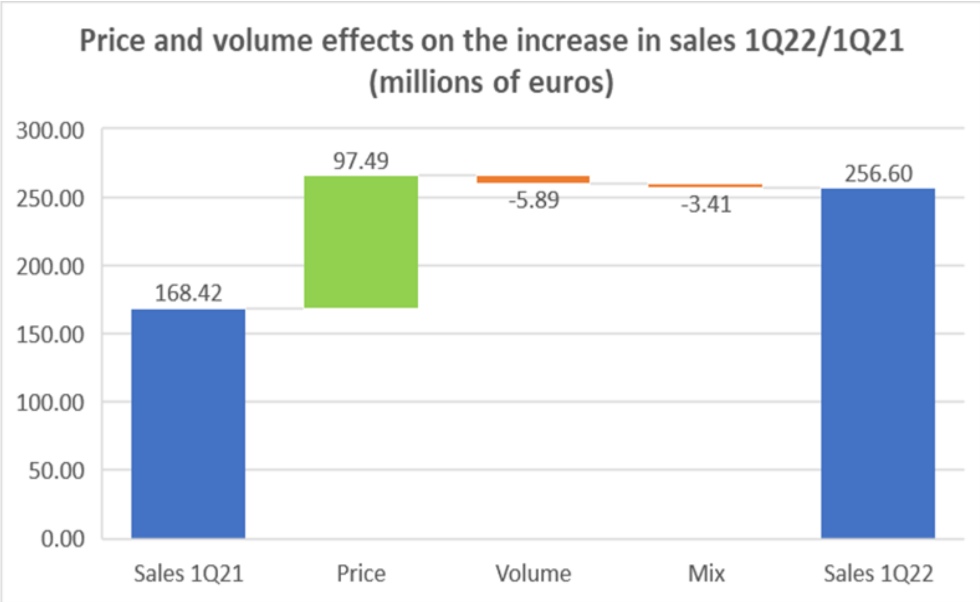
1. In the first quarter of 2022 (1Q22), Ercros sold 295 thousand tonnes of chemicals, compared with the 305 thousand tonnes sold in that same quarter in 2021 (1Q21), a 3.5% decrease.



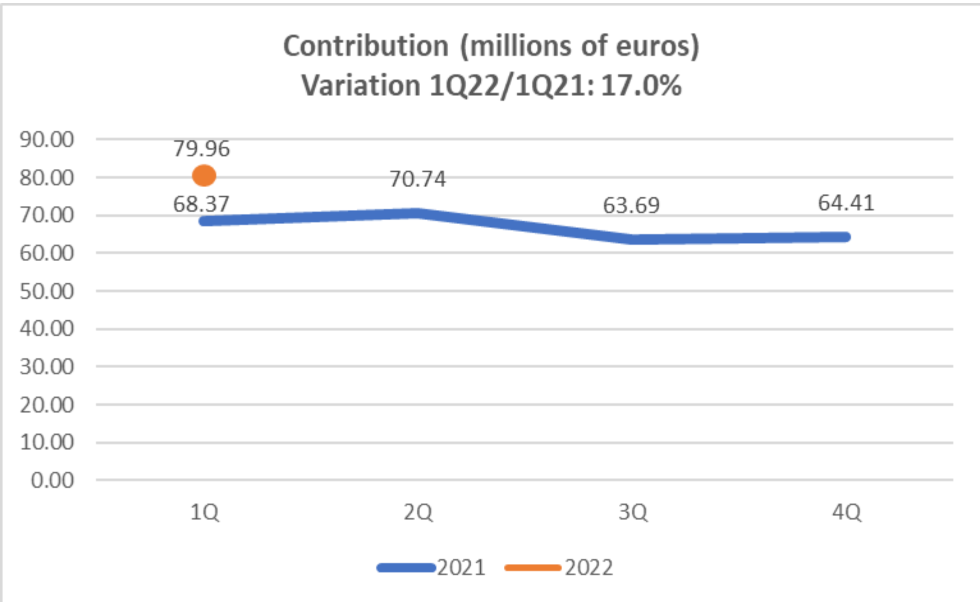
2. Total sales in 1Q22 came to EUR 256.60 million, compared with EUR 168.42 million in 1Q21, EUR 88.18 million more, a 52.4% increase.



3. The marked difference between the sales totals (52.4%) and the volume sold (-3.5%) makes clear that the average sales prices of products climbed appreciably between the first quarters of 2021 and 2022. The EUR 88.18 million increase in sales was the result of the interplay between rising average prices, yielding EUR 97.49 million (a 110.6% increase) and lower volumes EUR -5.89 million (-6.7%), with the mix effect accounting for the remaining EUR -3.41 million (-3.9%). In contrast to 1Q21, the higher sales in 1Q22 was wholly attributable to the increase in the average price.

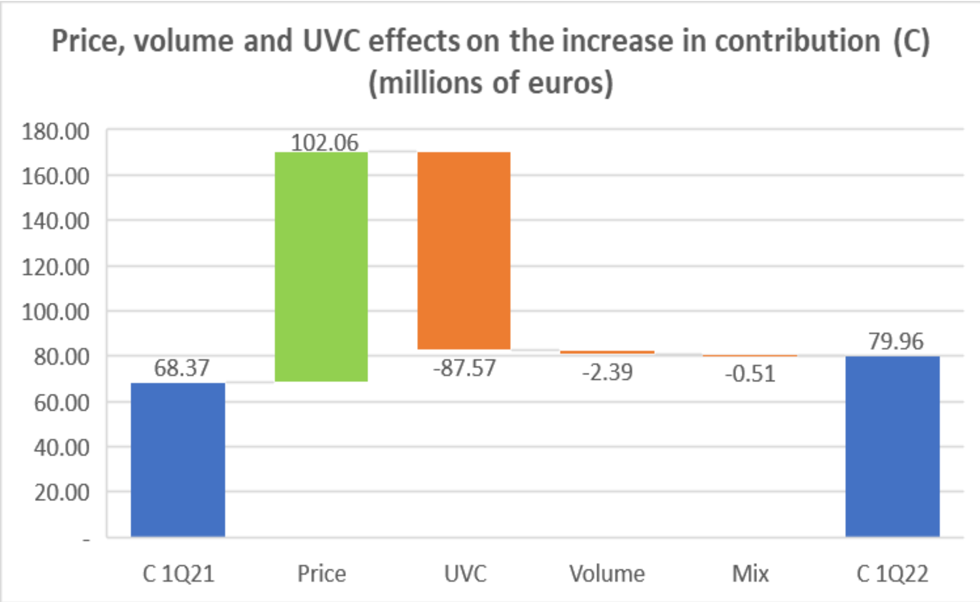


4. Sales of goods and services in 1Q22 brought in EUR 79.96 million, compared with EUR 68.37 million in 1Q21, a 17.0% increase. This increase came about even though variable costs (including energy) in 1Q22 were 76.4% higher than in 1Q21.

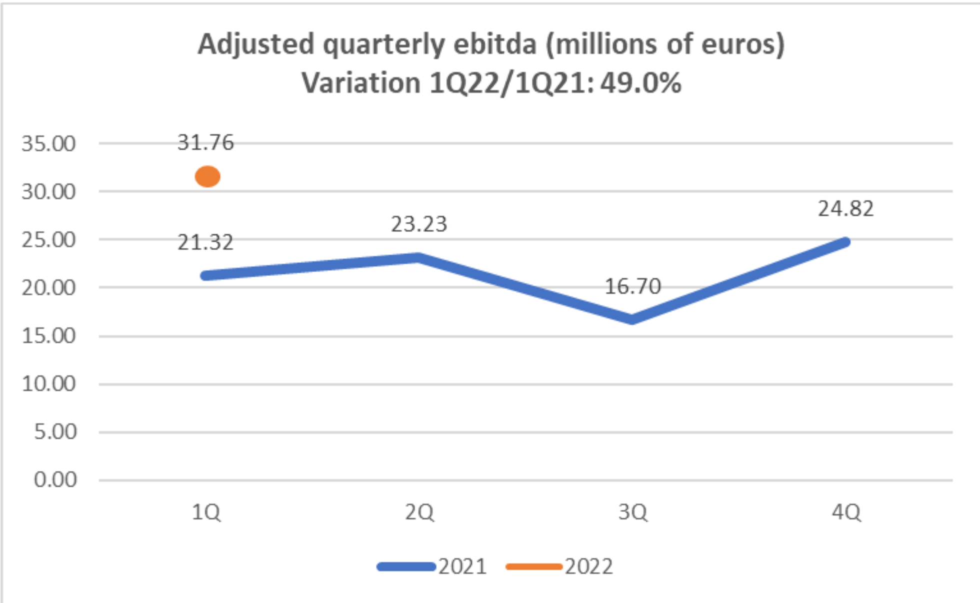


Contribution margin: (sales of goods + services – inputs – utilities + change in inventory).

5. The rise in the average sales prices for goods and services enabled Ercros to more than offset the adverse impact of the unit variable cost (UVC) on the contribution (C) in 1Q22. The rise in the average prices resulted in a EUR 102.06 million increase, as opposed to the EUR 87.57 million decrease caused by the higher UVC, for a net positive effect on the contribution margin of EUR 14.49 million, finally reduced to EUR 11.59 million because of the relatively smaller negative volume and mix effects.

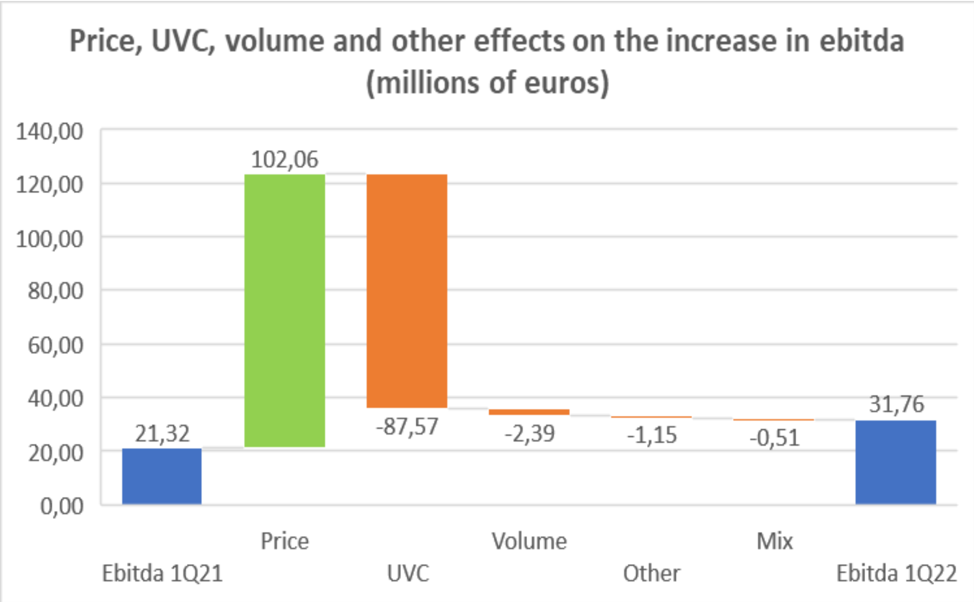


6. The higher contribution margin in 1Q22 compared with 1Q21 (EUR 11.59 million) was carried over to the adjusted ebitda practically in its entirety. Adjusted ebitda in 1Q22 was EUR 31.76 million vs EUR 21.32 million in 1Q21, an increase of EUR 10.44 million, equivalent to 49.0%.



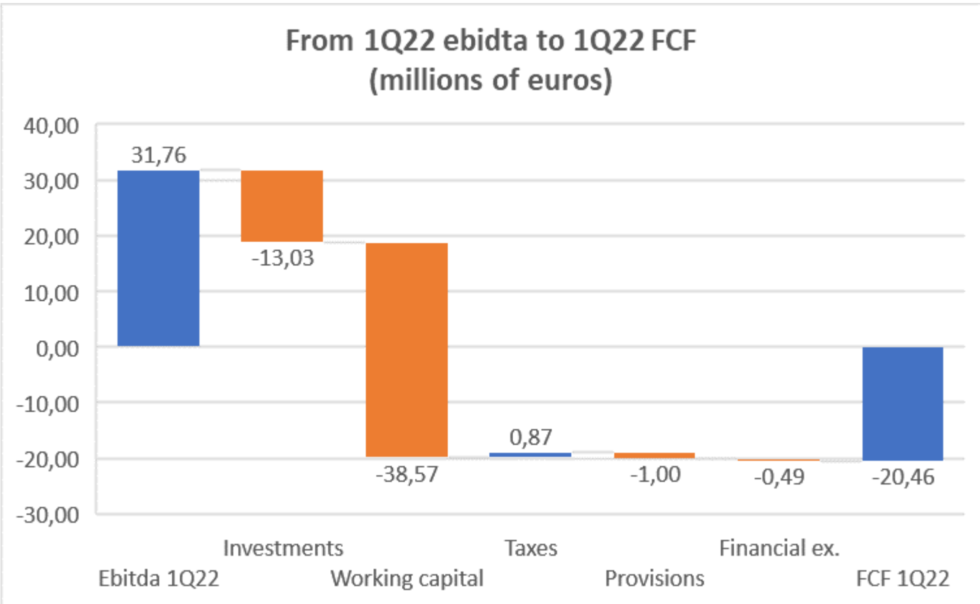
Adjusted ebitda: ebitda less irregular items. See the “Ebitda reconciliation” table in Section D of this results report.

7. The increase in the adjusted ebitda in 1Q22 was mainly due to the sharply higher contribution margin, represented by the price, UVC, volume, and mix effects in the following figure. This yielded a net contribution to the ebitda of EUR 11.59 million, appreciably more than the EUR 1.15 million decrease caused by other factors such as other income and fixed and extraordinary costs, resulting in a 1Q22 ebitda EUR 10.44 million higher than in 1Q21.

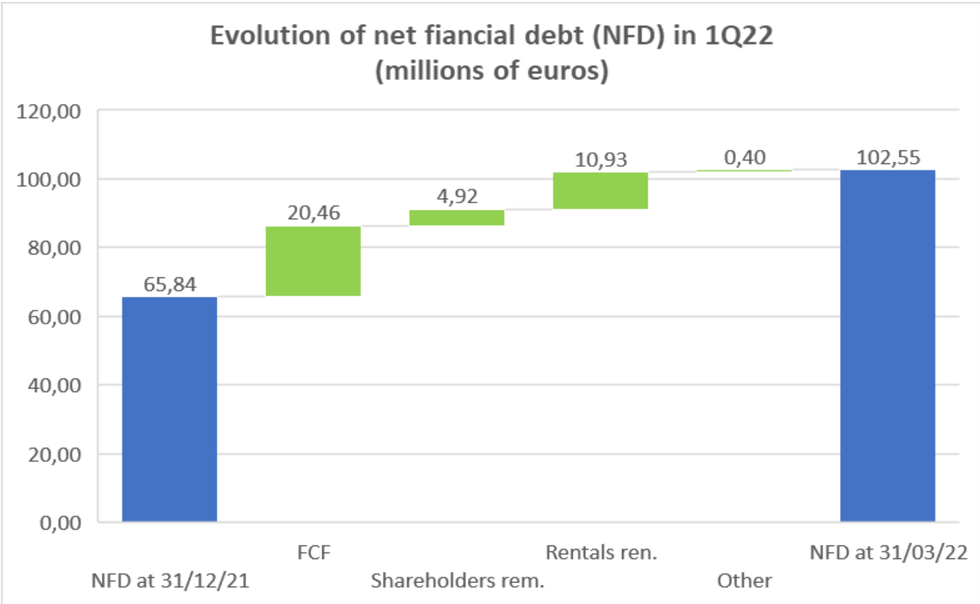


Other: changes in the provision of services, other income, fixed and extraordinary costs.

8. Free cash flow (FCF) in 1Q22 was EUR -20.46 million, obtained by subtracting from the ebitda of EUR 31.76 million, investments of EUR 13.03 million, a EUR 38.57 million increase in working capital caused by the strong uptick in sales, EUR 1.00 million of provisions, and net financial results of EUR 0.49 million and then adding tax refunds of EUR 0.87 million.



9. Ercros began 2022 with a net financial debt (NFD) of EUR 65.84 million. The main reason for the higher debt over the course of 1Q22 was the negative FCF, in the amount of EUR 20.46 million. Other relevant additions were shareholder remuneration amounting to EUR 4.92 million, non-monetary changes in long-term lease agreements totalling EUR 10.93 million (IFRS 16), and other non-monetary changes of EUR 0.40 million. In all, in the first quarter of 2022, Ercros's debt rose by EUR 36.71 million placing it at EUR 102.55 million on 31 March 2022.



10. As of 31 March 2022, Ercros had liquidity of EUR 138.63 million in the form of EUR 68.80 million in cash and EEUR 69.83 million in unused credit facilities.

B. THE COVID-19 PANDEMIC

The situation of the covid-19 pandemic was greatly improved in 1Q22. More specifically, there was a sharp decline in pressure on health services by the infected population. Nearly all restrictions have now been lifted, and business activity is continuing on the path to recovery both in Spain and in the rest of Europe.

Ercros has kept all its plants in operation throughout the pandemic and has been able to fill all its customers' needs.

C. DIVERSIFICATION, DIGITALISATION, AND DECARBONISATION PLAN 3D PLAN

On 22 January 2021, the Company's board of directors approved the **Strategic 3D Plan: Diversification, Digitalisation, and Decarbonisation.** The aim of this plan is to make Ercros into a business that is sustainable over time. Sustainable by diversifying its manufacturing structure to be able to cushion the cyclical volatility inherent to the chemical industry. Sustainable by digitising and automating its processes, making it more competitive. And sustainable by adapting its environmental impacts to official Spanish and European requirements to help stop climate change.

The 3D Plan encompasses 20 projects with cumulative investments of EUR 92 million over the period from 2021 to 2029, adding EUR 194 million to the cumulative ebitda. Investments under the Plan are on schedule.

In terms of diversification, projects aimed at expanding manufacturing capacity for dipentaerythritol at the Tortosa plant and moulding compounds at the Cerdanyola plant came on stream in 2021. Construction is under way on projects to (i) expand the polyol plant at the Tortosa facility; (ii) enlarge the sodium chlorite plant at the Sabiñánigo facility; and (iii) build a new plant for extracting two new antibiotics (vancomycin and gentamicin) at the Aranjuez facility. These investments are all on schedule for start-up as planned, the first half of 2022 for the Tortosa project and the second half of 2022 for the Sabiñánigo and Aranjuez projects.

In terms of digitalisation, progress is being made on projects to improve mobile device function; develop Business Intelligence for maintenance systems; enhance infrastructure and cybersecurity; optimise the work environment; and automate, increase the level of sensorisation, and upgrade production control systems. Specifications setting the technical and organisational requirements for Big Data/IoT projects for maintenance and production systems have been completed, and the first control panel prototypes have been built.

In terms of decarbonisation, projects to improve energy efficiency at the Tortosa facility (recovering waste heat generated by the polyol plant, replacing a range of equipment with new, more efficient equipment, and replacing lighting fixtures with LEDs), optimise solvent consumption at the Aranjuez facility, and improve hydrogen use at the Vila-seca I plant have been completed. Work is moving forward on engineering projects for salt recrystallisation and improving hydrogen use at the Sabiñánigo facility and on generating steam from biomass and upgrading to more efficient technology for EDC manufacturing at the Vila-seca II plant.

D. INTERIM FINANCIAL STATEMENTS

Income statement for first quarter of 2022

In addition to what has already been said concerning 1Q22 profits in Part A of this report, the following can also be noted:

“Services rendered” increased by 74.8%, mainly from passing on the higher supply chain costs in the sales prices of the services provided. Increasing the allocation of amounts earned from free CO_2 emission allowances in the quarter to profits resulted in a 113.8% rise in “Other income”.

The combined totals of “Procurements” plus changes in inventories of finished and unfinished goods rose by 49.3% because of the sizeable increases in the cost of raw materials nearly across the board, chief among them ethylene, EDC, VCM, and methanol because of their contributions to the total.

“Utilities and supplies” rose by 183.3%, mainly because of the sharp increase in energy prices, especially electricity.

“Other operating expenses” rose by 16.4% because of the increase in shipping costs for sales both by land and by sea and, as for “Other income”, from allocating higher CO_2 emission allowance costs. The average price of emission rights per tonne of CO_2 emitted in 1Q22 more than doubled from the price in 1Q21.

“Allocation of provisions and other extraordinary expenses” was 18.8% higher than in 2021 from setting aside provisions to meet potential liabilities arising from various lawsuits brought against the company by third parties. At the same time, the Judicial Review Chamber of the National Court of Appeal ruled in favour of Ercros in proceedings brought by the Tax Authorities claiming EUR 5.3 million in alcohol taxes for 2011 and 2012. Ercros had not set aside any provision for those claims in the expectation of a favourable decision, as has in fact been the case.

“Amortisation” was 5.3% higher than in 1Q21 because of greater depreciation of fixed assets stemming from investments made in recent years and higher amortisation of user rights attaching to leased assets on renewing long-term leases.

The negative “Financial profit/loss” increased by EUR 411 thousand, a 35.9%, because of smaller positive exchange rate differences in the quarter.

Higher “Taxes on earnings” was the result of the higher revenues obtained.

Other comprehensive income

“Other comprehensive income” records the after-tax amount obtained by adding (i) the negative value of that portion of the reserves set aside at the end of 2021 to hedge cash flows for fluctuations in the price of some of the electric power that Ercros plans to consume in 2022, in the form of a financial derivative entered into by the company, that was reclassified as lower electricity costs based on the monthly settlements for that financial derivative in light of the quarterly results and; (ii) the positive value of the allocation to the reserves for hedging cash flows for the higher cost of energy to be purchased in 2022 at the end of the quarter.

Balance sheet

“Non-current assets” rose by EUR 16.4 million, mainly because of (i) the increase in the user rights attaching to leased assets on renewing long-term leases that expired at the end of 2021 and (ii) the greater weight of investments in fixed assets in relation to depreciation. “Working capital” rose by EUR 31.22 million, chiefly due to the increase in accounts receivable from higher billing.

“Net equity” rose by EUR 10.20 million, the net result of quarterly profits of EUR 17.19 million less other comprehensive profits/losses of EUR 2.07 million and repurchase of treasury shares in the amount of EUR 4.92 million.

“Net financial debt” rose by EUR 36.71 million. As already discussed above, this increase was brought about by the negative cash flow of EUR 20.46 million, the shareholder remuneration of EUR 4.92 million, and non-monetary changes for (i) renewal of long-term leases totalling EUR 10.93 million and (ii) other non-monetary changes amounting to EUR 0.40 million.

Shareholder remuneration

The Company earned a profit of EUR 42.97 million in 2021. Furthermore, pursuant to fulfilment of all the requirements set out in the shareholder remuneration policy on 31 December 2021, the board of directors has proposed pay out of a dividend of EUR 0.085 per share, i.e., EUR 8.21

million charged to 2021 profits, to the general shareholders meeting to be held this coming 10 June, most likely on second call.

A proposal to repurchase 4,372,048 shares under the shareholder remuneration policy at a cost of EUR 13.27 million has also been submitted to the general shareholders meeting. The share buyback ended on 26 April.

Between the dividend and the share repurchase, the company has allocated EUR 21.48 million for shareholder remuneration charged to 2021 profits. This amounts to 50% of the 2021 profits and is the highest amount in Ercros's history.

INCOME STATEMENT

Thousands of euros	1Q22	1Q21	%
Revenue	**273,688**	**177,272**	**54.4**
Sales of finished products	256,599	168,422	52.4
Services rendered	9,871	5,646	74.8
Other income	6,817	3,188	113.8
Reversal of provisions and other extraordinary income	24	16	50.0
Increased inventories of finished and unfinished products	377	-	-
Expenses	**-243,667**	**-157,424**	**54.8**
Procurements	-126,123	-81,998	53.8
Reduced inventories of finished and unfinished products	-	-2,250	-
Utilities and supplies	-60,767	-21,450	×2.8*
Staff costs	-21,956	-21,834	0.6
Other operating expenses	-33,058	-28,408	16.4
Allocation of provisions and other extraordinary expenses	-1,763	-1,484	18.8
Ebitda	**30,021**	**19,848**	**51.3**
Amortisation	-7,440	-7,067	5.3
Ebit	**22,581**	**12,781**	**76.7**
Financial profit/loss	-1,555	-1,144	35.9
Before tax profits	**21,026**	**11,637**	**80.7**
Tax on earnings	-3,841	-2,914	31.8
Profit for the year	**17,185**	**8,723**	**97.0**

* Times the 2022 figure exceeds the 2021 figure (in absolute terms).

ADJUSTED EBITDA RECONCILIATION

Thousands of euros	1Q22	1Q21	%
Ebitda	**30,021**	**19,848**	**51.3**
Irregular income	-24	-16	50.0
Extraordinary expenses	1,763	1,484	18.8
Adjusted ebitda	**31,760**	**21,316**	**49.0**

TOTAL COMPREHENSIVE RESULTS

Thousands of euros	1Q22	1Q21	%
Profit for the period	**17,185**	**8,723**	**97.0**
Other comprehensive income, after-tax	-2,066	-	-
Total comprehensive results	**15,119**	**8,723**	**73.3**

ECONOMIC ANALYSIS OF THE BALANCE SHEET

Thousands of euros	31/03/22	31/12/21	Variation	%
Non-current assets	**375,117**	**358,713**	**16,404**	**4.6**
Working capital	**89,327**	**58,104**	**31,223**	**53.7**
Current assets	289,712	248,876	40,836	16.4
Current liabilities	-200,385	-190,772	-9,613	5.0
Operational resources	**464,444**	**416,817**	**47,627**	**11.4**
Net equity	**341,809**	**331,613**	**10,196**	**3.1**
Net financial debt	**102,546**	**65,841**	**36,705**	**55.7**
Provisions and other payables	**20,089**	**19,363**	**726**	**3.7**
Source of funds	**464,444**	**416,817**	**47,627**	**11.4**

BREAKDOWN OF THE NET FINANCIAL DEBT

Thousands of euros	31/03/22	31/12/21	Variation	%
Loans	105,347	65,250	40,097	61.5
Finance lease creditors	15,411	6,226	9,185	147.5
Financing of current assets	55,783	48,526	7,257	15.0
Gross financial debt	**176,541**	**120,002**	**56,539**	**47.1**
Cash	-70,355	-51,573	-18,782	36.4
Bank deposits	-3,640	-2,588	-1,052	40.6
Net financial debt	**102,546**	**65,841**	**36,705**	**55.7**

E. RESULTS BY LINE OF BUSINESS

Demand began to pick up in the last quarter of 2020 and continued its recovery in 2021. It has stayed strong in the first quarter of 2022, though this has gone hand in hand with an even higher increase in the cost of raw materials, energy, and land transport, mainly in Europe, as a consequence of the war in the Ukraine. Supply chain failures, though less pronounced, have also persisted, and there have been a series of force majeure events that continue to restrict the supply of such goods as PVC and sodium hydroxide. In this scenario, business efforts have focused on keeping up production rates and passing on the cost increases experienced in the sales prices while maintaining volumes and margins as far as possible.

In the first quarter of 2022, the **chlorine-related business** was able consistently to maintain high plant operation rates, though the production of certain heavily electricity dependent products did have to be cut back at times. For this reason, the business's volumes fell by 3.9% compared with 1Q21. In any event, thanks to strong demand it has largely been possible to pass the increase in the cost of raw materials, energy, and shipping on in the sales prices. As a result, sales increased by 63.8% compared with 1Q21, and the business's ebitda rose by 96.5%, for an ebitda-to-sales ratio of 14.5%. The increase in the prices of the two products with the highest volumes for this business, PVC and caustic soda, was particularly significant because of its overall impact.

The high energy and raw material prices have also impacted the **intermediate chemicals** division, which, like the chlorine-related business, has focused its efforts on maintaining plant production rates and passing on the cost increases in the sales prices. The slight 2.7% decrease in tonnes sold was caused not by a drop in demand, which has stayed quite high, but to logistical difficulties in exporting products caused by the truckers' strike in March and saturation of Spanish ports. Even so, 1Q22 sales rose by 36.0% over 1Q21. This was a substantial increase, though still not enough completely to offset the higher costs of energy, transport, and raw materials, especially urea, cellulose, melamine, phenol, acetaldehyde, and methanol. Consequently, the adjusted 1Q22 ebitda fell by 28.5% compared with 1Q21, and the business's ebitda-to-sales ratio declined by 8.3%.

Sales volumes for the **pharmaceuticals** division in 1Q22 rose by 15.5% over 1Q21, continuing on the path to recovery that began in the second half of 2021. This again went hand in hand with an increase in sales prices, resulting in a 31.6% increase in billing. Nevertheless, this business too was hit by the substantial price hikes for energy and raw materials, and as a result the increased billing only produced an improvement of EUR 1.11 million in the ebidta compared with 1Q21. The ebitda-to-sales ratio improved considerably, to 9.5%, though still far from the levels to which the business is accustomed. The approval this business needs to be able to manufacture and sell new products are expected over the course of this year. These products include, for instance, vancomycin, gentamicin, sterile sodium fusidate, sterile fusidic, and phosphocreatine.

RESULTS BY LINE OF BUSINESS

Thousands of euros	**1Q22**	**1Q21**	**%**
Chlorine derivatives division			
Product sales	165,732	101,181	63.8
Adjusted ebitda	24,098	12,261	96.5
Adjusted ebitda-to-product sales ratio (%)	14.5	12.1	20.0
Intermediate chemicals division			
Product sales	73,698	54,190	36.0
Adjusted ebitda	6,097	8,524	-28.5
Adjusted ebitda-to-product sales ratio (%)	8.3	15.7	-47.4
Pharmaceuticals division			
Product sales	17,169	13,051	31.6
Adjusted ebitda	1,638	531	208.5
Adjusted ebitda-to-product sales ratio (%)	9.5	4.1	134.5

F. OUTLOOK FOR 2022

The start of 2022 has been subject to virtually the same risks encountered in 2021. The costs of energy, raw materials, and shipping remain high, and specialised forecasts expect this situation to continue all year long. In addition, the geopolitical conflict between Russia and Ukraine has broken out, giving rise to the invasion of Ukraine by Russia and a very serious armed confrontation between these two countries, the end of which is currently difficult to predict.

Yet another cause for concern is the recent news from China concerning new lockdowns caused by the omicron strain of covid-19.

Fortunately, the risk posed by the omicron variant outside China seems to be rapidly abating. As a result, travel restrictions are being lifted, good news for consolidating economic recovery in Spain and other countries around the world.

In this context, we continue to see particularly strong demand for most of our products. This should continue to hold up prices enough to be able to offset the high cost of energy and raw materials, as was the case in the first quarter of 2022. We would expect this situation to continue at least through the first half of the year.

In the second half of the year, there could be a tendency for the prices of our products to weaken somewhat as international competition from other parts of the world with lower energy costs grows. This would make it harder to pass on the high costs that we will presumably still have to bear in the prices of our products.

Barcelona, 4 May 2022