Ercros

NOTE ON
ERCROS' 2021 ANNUAL RESULTS

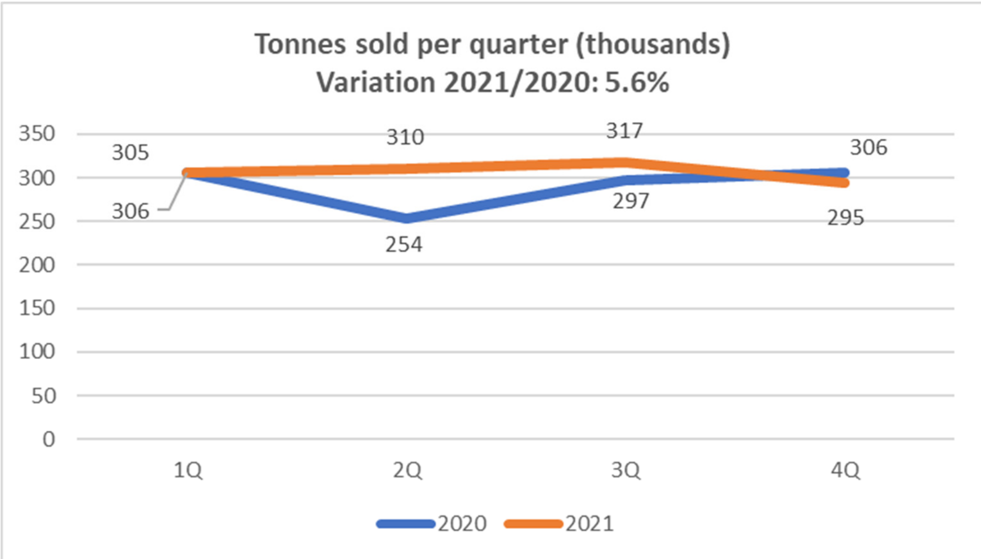
(24/02/2022)

Ercros closes 2021 with outstanding results: EUR 86 million in ebitda; EUR 43 million in profit; and EUR 22 million in shareholder remuneration

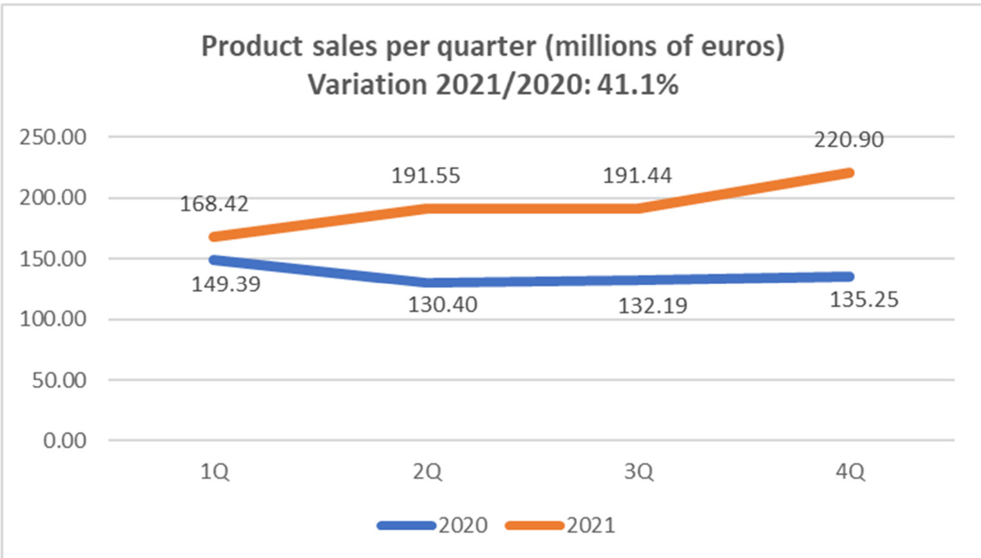
- **FY 2021 profit reached EUR 43 million, an increase of nearly 7x from 2020.**
- **As a result, shareholder remuneration this year will be the highest ever given by Ercros: EUR 21.5 million between the cash dividend (EUR 0.085 per share) and the amount allocated to the treasury share buyback for amortisation.**
- **Adjusted ebitda in 2021 reached EUR 86 million, 70% higher than the total for 2020.**
- **Despite the sharp rise in energy costs, raw materials, and transport, healthy demand has meant that the increase in the average price of products sold by Ercros has far exceeded the increase in the variable cost per unit. The company's active presence in the chemical market, coupled with the high occupancy rate of its production plants, were key to the excellent results obtained in 2021.**
- **Ercros reduced its debt by EUR 19 million, placing it at EUR 66 million as of 31 December 2021. Ercros maintains a strong financial position, with EUR 139 million in available liquidity.**
- **Given the caution mandated by the international energy market situation, we expect that the first half of 2022 will follow the patterns observed in the second half of 2021. For the second half of 2022, visibility is lower, making it difficult to formulate a more concrete forecast.**

A. KEY FACTORS IN 2021

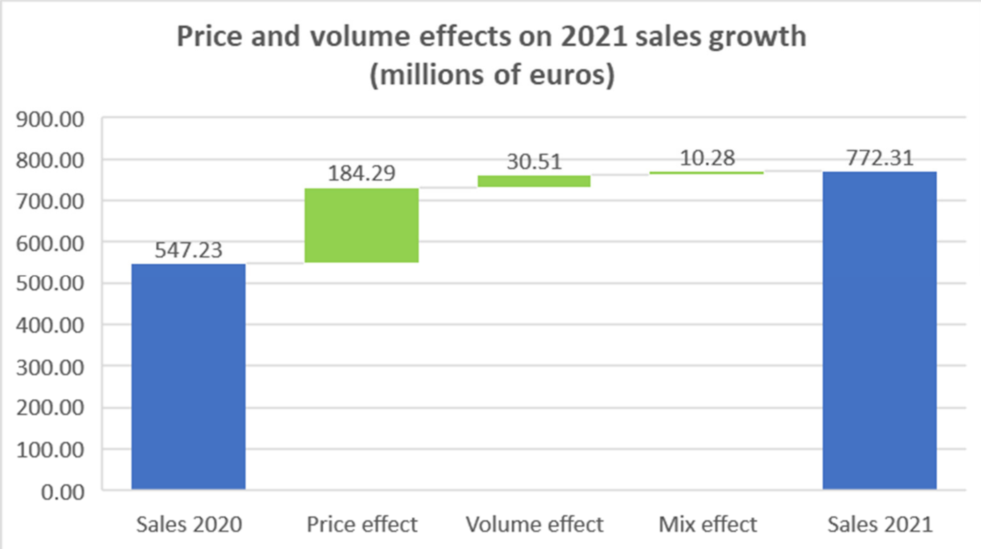
1. In 2021, Ercros sold 1,227 thousand tons of manufactured products, compared to 1,162 thousand tons in 2020, representing an increase of 5.6%. Volumes in 2021, which remained stable throughout the year, far exceeded those of Q2 and Q3 2020, when sales were adversely affected by the first and most severe mobility restrictions caused by the covid-19 pandemic.



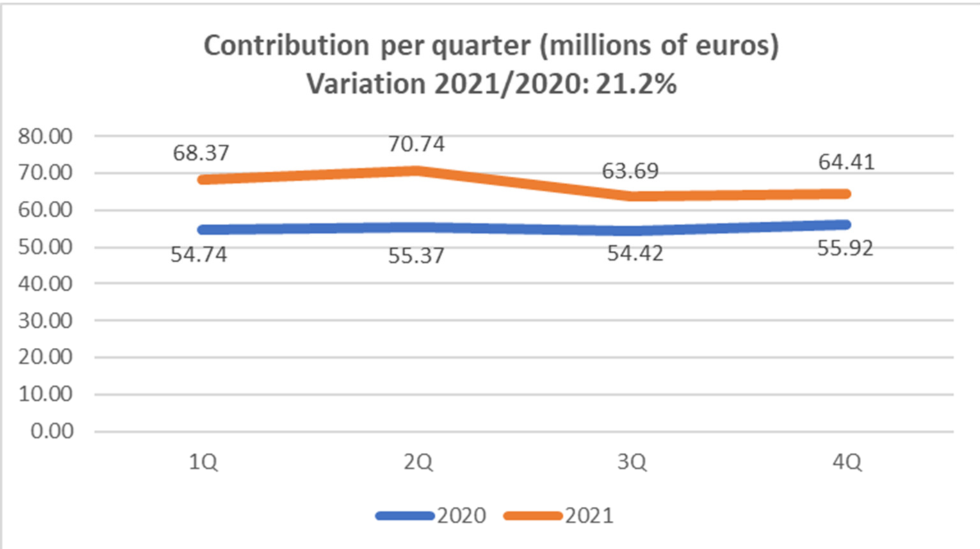
2. In 2021, product sales totalled EUR 772.32 million, relative to the EUR 547.24 million obtained in 2020: EUR 225.08 million more, representing an increase of 41.1%. 2021 sales exceeded those of 2020 in all four quarters.



3. The sizeable difference between the uptick in sales (41.1%) and that of tons sold (5.6%) demonstrates that the average price of products sold rose significantly in 2021. Of the EUR 225.08 million boost in sales, higher average prices account for EUR 184.29 million (81.9%), while EUR 30.51 million (13.6%) is attributable to an increase in sales volume, and the combined effect yielded the remaining EUR 10.28 million (4.6%).

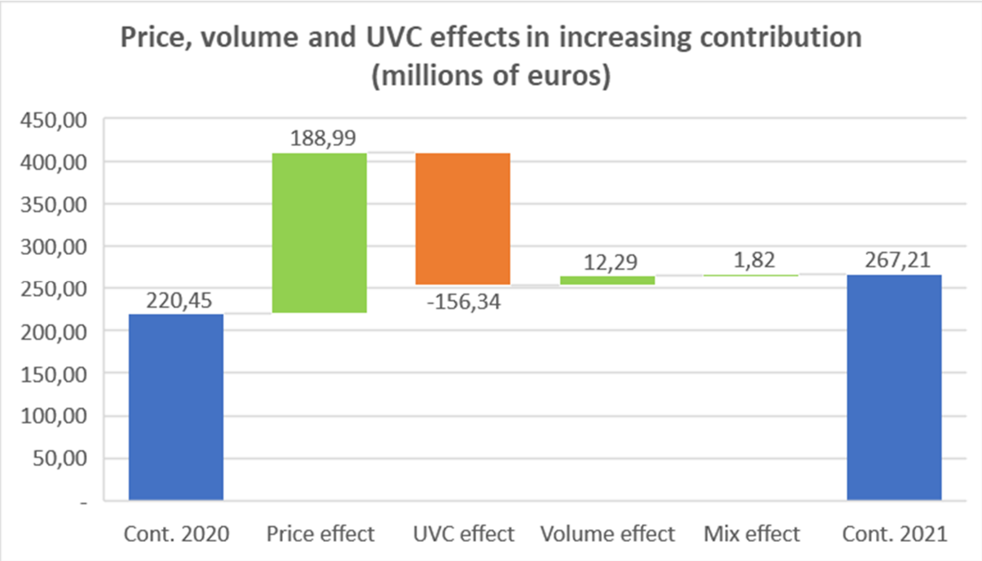


4. The contribution generated by product sales and the provision of services amounted to EUR 267.21 million in 2021, compared to EUR 220.45 million in 2020: a 21.2% improvement. Despite the favourable cumulative results, the rise in variable costs and particularly in energy supplies, caused contributions to decline in the second half of 2021. Whereas in the first half of 2021 contributions exceeded 26.3% relative to the same period of 2020, in the second half of the year, that percentage dropped to 16.1%.

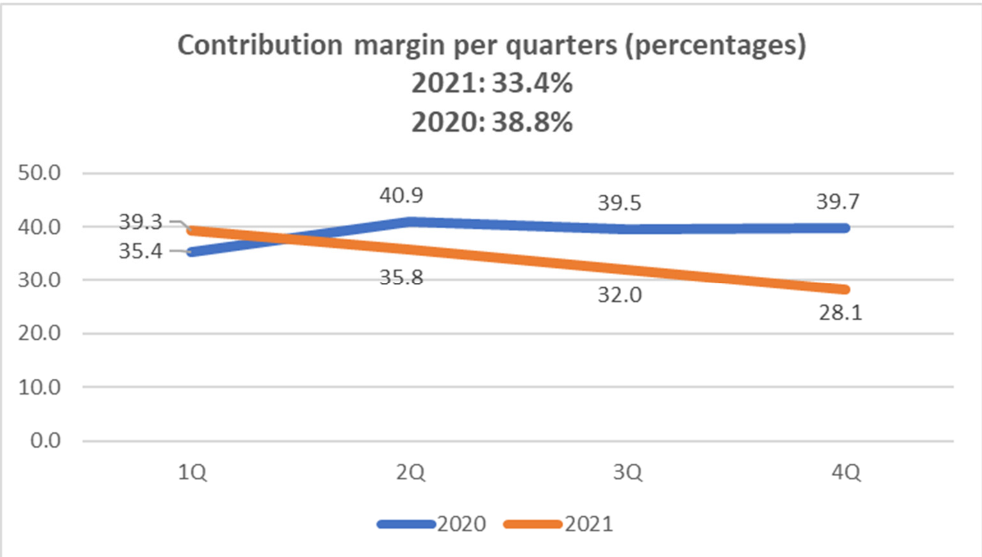


Contribution: (product sales + services rendered) - procurements - supplies + change in inventories.

5. The convergence in 2021 of strong demand and limited supply worldwide explains the notable effects that the rising average price of products sold had on contribution (EUR 188.99 million). This effect was partially offset by the increase in the unit variable cost (UVC), resulting from the higher price of energy and raw materials, which depressed contribution by EUR 156.34 million. The net effect of both factors amounted to EUR 32.65 million (69.8% of the contribution increase) to which a volume effect of EUR 12.29 million (26.3%) must be added (positive in terms of the volume of products sold and negative in terms of the volume of raw materials and provisions).

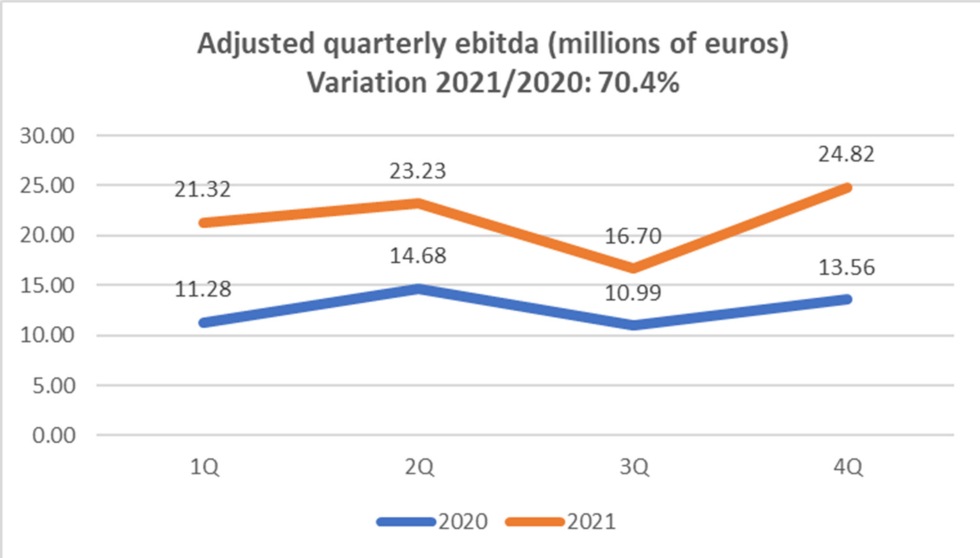


6. The contribution margin (contribution divided by the sum of product sales, plus the provision of services) decreased from the 38.8% reached in 2020 to 33.4% in 2021, a 13.8% decline, owing to the fact that the uptick in 2021 sales and services (40.7%) outpaced contribution growth (21.2%).



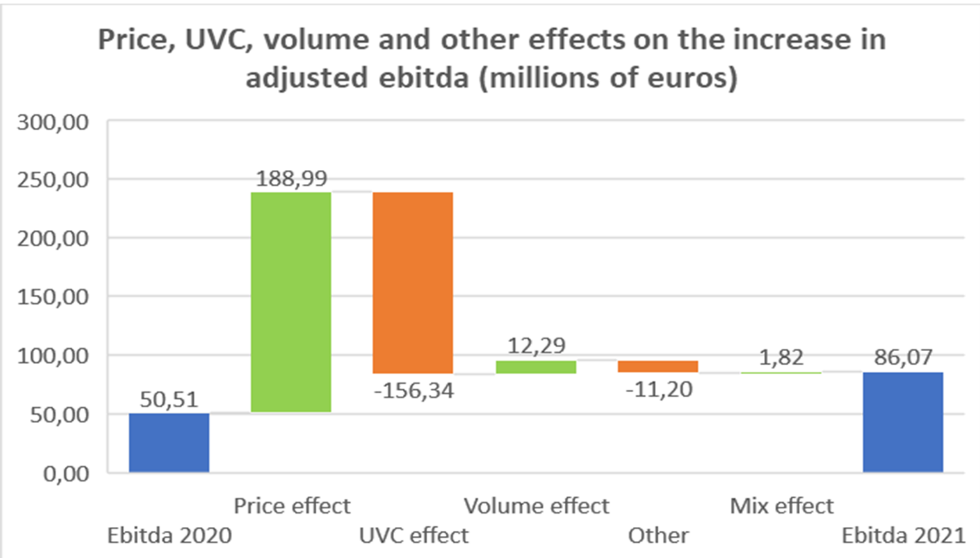
Contribution margin: contribution / (product sales + provision of services).

7. The adjusted ebitda in 2021 reached EUR 86.07 million vs. EUR 50.51 million in 2020, an increase of 70.4%. The sharp rise in last-quarter ebitda relative to 2020 is due to the greater net contribution (EUR 4.91 million), greater compensation for indirect CO_2 (EUR 4.85 million), and the reduction of electricity regulatory charges, given Ercros' recognition as an energy-intensive company (EUR 1.50 million).



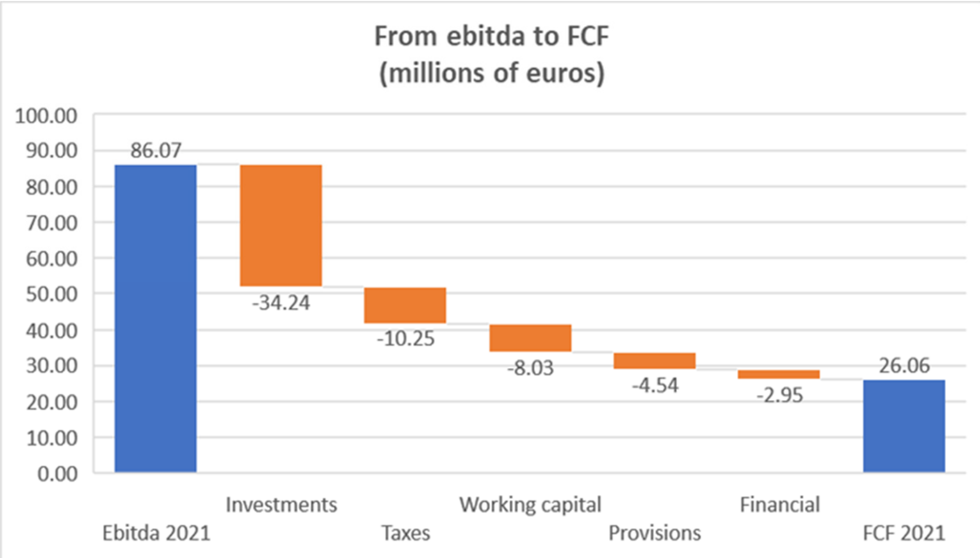
Adjusted ebitda: ebitda excluding atypical items. See the "Reconciliation of adjusted ebitda" table in Section D of this results note.

8. The increase in adjusted ebitda in 2021 is due primarily to the momentum exerted by contribution growth, which—in the following graph—is attributable to the effects of price, UVC, volume, and mix, with a net ebitda contribution of EUR 46.76 million, far exceeding the EUR 11.20 million loss caused by the increase in other revenue and other operating costs, including the increase in international freight (EUR 9.35 million) and fixed costs (EUR 4.70 million).

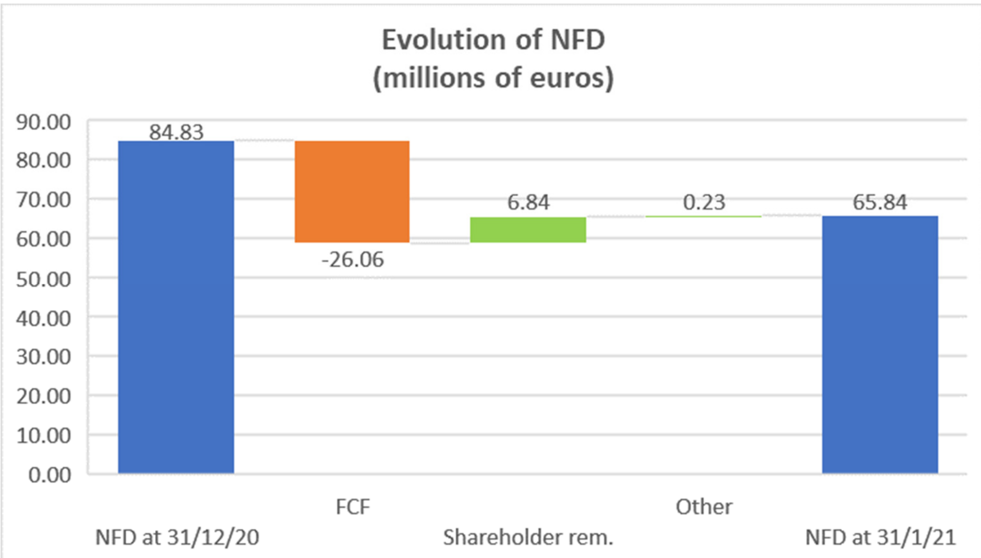


Other: variation in provision of services, other income, fixed cost and atypical.

9. In 2021, free cash flow (FCF) totalled EUR 26.06 million, the result of subtracting from an adjusted ebitda of EUR 86.07 million EUR 34.24 million in investment, EUR 10.25 in working capital, EUR 8.03 in taxes, EUR 4.54 from provisions, and EUR 2.95 in net financial results.



10. Ercros began 2021 with EUR 84.83 million in net financial debt (NFD). Over the course of the year, the main debt reducer was the EUR 26.06 million in FCF generated during the period. Factors triggering an increase in debt included: shareholder remuneration in the amount of EUR 6.84 million (mainly due to the treasury share buyback for amortisation), and other lesser factors for a net value of EUR 0.23 million. In total, Ercros reduced its debt by EUR 18.99 million, placing it at EUR 65.84 million as of 31 December 2021.



11. As of 31 December 2021, Ercros' available liquidity totalled EUR 138.89 million, EUR 51.57 million of which corresponded to cash and EUR 87.32 million to undrawn credit facilities, including a EUR 40 million loan from the European Investment Bank to finance 3D Plan investments, a portion of which had already been executed at the 2021 closing.

B. THE COVID-19 PANDEMIC

In 2021, global economic activity was impacted by the covid-19 pandemic and specifically the emergence of the Omicron variant. Though its rapid spread generated higher contagion levels than previous waves, widespread vaccination helped significantly lower both hospitalisation and mortality rates. While the official policy remains one of basic precautions with regard to individual conduct, virtually all restrictions have been lifted, allowing economic activity to continue recovering in Spain and across Europe.

Throughout the pandemic, Ercros has kept all of its facilities operational and has succeeded in meeting the needs of its clients. In addition, through the covid-19 Monitoring Committee and by working closely with workers' representatives, the company continues to monitor the health of its staff and update its preventative measures in accordance with the standards and recommendations issued by health authorities. Though the Omicron variant has led to an increase in the number of affected workers, most cases have been asymptomatic or mild, lasting a relatively short period of time. At 31 December, the number of fully vaccinated Ercros employees was 1,247, 93.7% of the workforce.

C. DIVERSIFICATION, DIGITISATION, AND DECARBONISATION PLAN: 3D PLAN

On 22 January 2021, the company's board of directors approved the **3D Strategic Plan: Diversification, Digitisation, and Decarbonisation**, which aims to transform Ercros into a sustainable company over time: sustainable due to the diversification of its output structure, providing a buffer from the cyclical volatility typical of the chemical sector; sustainable given the digital transformation and automation of its processes, which will make the company more competitive; and sustainable in light of the adaptation of its environmental provisions to official European and Spanish requirements in an effort to curb climate change.

The 3D Plan includes 20 projects that—from 2021 to 2029—will represent a total investment of EUR 92 million and an additional, cumulative ebitda of EUR 194 million. The Plan's investments are being carried out according to the scheduled timeline.

With regard to diversification, in 2021 the projects to expand the output capacity of dipentaerythritol at the Tortosa factory (March) and of moulding powders at the Cerdanyola plant (December) have come online. The following projects are currently underway: (i) expansion of the Tortosa polyol plant; (ii) expansion of the sodium chlorite plant in Sabiñánigo; and (iii) construction of the new Aranjuez extraction plant to manufacture two new antibiotics (vancomycin and gentamicin). All investments maintain their initially planned start dates: the first half of 2022 for the Tortosa project and the second half of 2022 for the Sabiñánigo and Aranjuez projects.

With regard to digitisation, the logistics area's B2B project is complete. In addition, initiatives to improve infrastructure and cybersecurity, optimise the work environment, and automate, sensorise, and update the production area's control systems have progressed, as has defining the technical and organisational requirements for the production and maintenance areas' Big Data/IoT projects.

With regard to decarbonisation, the projects to improve energy efficiency in Tortosa (a unit to recover the residual heat generated at the polyol plant and the replacement of equipment for more efficient options) and to optimise solvent consumption in Aranjuez are complete. Progress has been made in the engineering of projects to produce steam from biomass and to manufacture ethylene dichloride using more efficient technology; both at the Vila-seca factories.

D. FINANCIAL STATEMENTS

Annual profit

In relation to 2021 vs. 2020 profit, it is worth noting (in addition to the details of section A) the following:

The “provision of services” section rose 28.6% on greater demand from clients for these services. Other revenue increased 83.1% due to upticks in: (i) the amount of free CO_2 rights; (ii) higher offsets for indirect CO_2 emissions; and (iii) revenue derived from the mechanism to offset fees for energy-intensive consumers.

The total amount of provisions, plus the variation in inventories of finished product vs. works in progress, increased 36.8% due to the significant rise in the price of raw materials, including ethylene, EDC, and methanol.

Utilities increased 114.7% due primarily to the sharp increase in energy prices, mainly electricity.

Personnel costs climbed 3.2% due to average workforce growth of 2.5% and the agreement increase applicable from June 2021.

The “other operating expenses” section advanced 19.4% on rising transport costs, mainly due to the increase in international freight charges and CO_2 emission costs, consistent with the “other income” section. In 2021, the average price of emission rights per ton of CO_2 more than doubled compared to 2020.

Provisions and other extraordinary expenses rose by 48.5% relative to 2020, because of the update executed at each period closing, based on new information available about commitments and obligations, mainly regarding the environmental remediation of soil.

The “reversal of provisions and other extraordinary income” section includes: (i) an extraordinary result of EUR 3.22 million, the fair value for which Ercros acquired, through accession, certain warehouses built by a third party on Ercros land, once the use for which they were built expired; (ii) EUR 1.60 million in income from the sale of scrap from the dismantling of facilities; and (iii) other extraordinary income from compensation, sums unduly paid, and other concepts, amounting to EUR 1.75 million.

Amortisations decreased 5.9% relative to the previous year, due to lower amortisation on the right to use leased assets and tangible fixed assets.

The financial result, meanwhile, declined 68.2% due to the lower average cost of debt, favourable exchange rates, and the reversal of a portion of the AR impairment provision, considering improvements in the international economic situation.

The higher income tax expense is a result of higher earnings.

Other comprehensive results

The "other comprehensive results" section includes the amount, net of taxes, of the reserve to cover cash flows arising from fluctuations in the purchase price of the electricity that Ercros plans to consume in 2022, according to a financial derivative signed by the company. This contract includes a fixed purchase price lower than the closing price of electricity futures on 31 December 2021 for 2022 delivery. The amount of this reserve will be reclassified according to 2022 results, yielding another comprehensive result in the same amount with the opposite arithmetic operator.

Balance sheet

Non-current assets rose EUR 2.15 million, mainly due to heavier investment in fixed assets relative to amortisation. Working capital climbed EUR 28.27 million, primarily on an uptick in accounts receivable resulting from higher billing and the higher value of inventories, due—in turn—to the increased costs of raw materials.

Net equity rose EUR 47.40 million, the net result of: (i) on the upside, annual profit amounting to EUR 43.30 million and other comprehensive results totalling EUR 10.96 million; and (ii) on the downside, the EUR 6.52 million treasury share buyback, and the EUR 0.33 million premium paid for attending the ordinary general meeting.

Net financial debt decreased by EUR 18.99 million. As seen above, this decline is the result of: (i) free cash flow amounting to EUR 26.06 million; and (ii) shareholder remuneration of -6.84 million, plus other non-monetary variations totalling -0.23 million.

Shareholder remuneration

The Society obtained a profit for the year 2021 of EUR 43.00 million. At 31 December 2021, all the requirements established in the shareholder remuneration policy were met. Thus, at the general meeting, the board of directors will propose to remunerate the shareholders with the highest amount accrued in the history of Ercros: EUR 21.50 million, in the form of a dividend (at least 18% of annual profit) and a treasury share buyback for amortisation (the remainder up to 50% of annual profit).

The payment of a EUR 0.085 dividend will be proposed for each outstanding share (except for treasury shares), representing a disbursement of approximately EUR 8.20 million, allocating the remaining amount, until reaching a 50% pay-out, to the repurchase of shares. In other words, roughly EUR 13.30 million, EUR 6.52 million of which had already been used at 31 December to buyback 2,190,147 treasury shares.

PROFIT OF THE YEAR

Thousands of euros	2021	2020	%
Revenue	**852,124**	**585,320**	**45,6**
Sale of finished products	772,317	547,236	41.1
Services rendered	27,738	21,561	28.6
Other income	23,340	12,746	83.1
Reversal of provisions and other extraordinary income	6,569	3,777	73.9
Increase in inventories of finished goods and work in progress	22,160	-	-
Expenses	**-766,444**	**-535,719**	**43.1**
Procurements	-400,012	-267,946	49.3
Reduction in inventories of finished goods and work in progress	-	-8,202	-
Supplies	-154,993	-72,194	x2.1*
Staff costs	-86,965	-84,296	3.2
Other operating expenses	-117,519	-98,398	19.4
Allocation of provisions and other extraordinary expenses	-6,955	-4,683	48.5
Ebitda	**85,680**	**49.601**	**72.7**
Amortization	-28,549	-30,329	-5.9
Asset impairment	-3,450	-4,335	-20.4
Ebit	**53,681**	**14,937**	**×3.6***
Financial results	-2,525	-7,952	-68.2
Profit before taxes	**51,156**	**6,985**	**×7.3***
Income taxes	-7,859	-728	×10.8*
Profit of the year	**43,297**	**6,257**	**×6.9***

* Times the 2021 figure exceeds that of 2020 (in absolute terms).

RECONCILIATION OF ADJUSTED EBITDA

Thousands of euros	2021	2020	%
Ebitda	**85,680**	**49,601**	**72.7**
Atypical income items	-6,569	-3,777	73.9
Atypical expense items	6,955	4,683	48.5
Adjusted ebitda	**86,066**	**50,507**	**70.4**

TOTAL COMPREHENSIVE INCOME

Thousands of euros	2021	2020	%
Profit of the year	**43,297**	**6,257**	**×6.9***
Other comprehensive income- Items that will be subsequently reclassified to income for the year	10,958	-	-
Total comprehensive income	**54,255**	**6,257**	**×8.7***

* Times the 2021 figure exceeds that of 2020 (in absolute terms)

ECONOMIC ANALYSIS OF THE BALANCE SHEET

Thousands of euros	31/12/21	31/12/20	Variation	%
Non-current assets	**358,713**	**356,562**	**2,151**	**0.6**
Working capital	**58,104**	**29,839**	**28,265**	**94.7**
Current assets	248,876	148,609	100,267	67.5
Current liabilities	-190,772	-118,770	-72,002	60.6
Resources used	**416,817**	**386,401**	**30,416**	**7.9**
Equity	**331,613**	**284,215**	**47,398**	**16.7**
Net financial debt	**65,841**	**84,832**	**-18,991**	**-22.4**
Provisions and other debts	**19,363**	**17,354**	**2,009**	**11.6**
Source of funds	**416,817**	**386,401**	**30,416**	**7.9**

DETAIL OF NET FINANCIAL DEBT

Thousands of euros	31/12/21	31/12/20	Variation	%
Loans	65,250	66,471	-1,221	-1.8
Obligations under finance leases	6,226	9,145	-2,919	-31.9
Working capital financing	48,526	55,794	-7,268	-13.0
Gross financial debt	**120,002**	**131,410**	**-11,408**	**-8.7**
Cash	-51,573	-39,931	-11,642	29.2
Deposits	-2,588	-6,647	4,059	-61.1
Net financial debt	**65,841**	**84,832**	**-18,991**	**-22.4**

E. RESULTS BY BUSINESS

The recovery in demand that began in the last quarter of the year persisted throughout 2021, though accompanied by a sharp increase in the cost of raw materials, energy, and maritime freight worldwide. In addition, several sectors and countries experienced repeated supply chain failures and incidents of *force majeure* that further limited supply.

With regard to the division of **chlorine-associated businesses**, in 2021 it managed to: (i) sustainably maintain a high operating ratio at the plants, allowing for increased output and sales; and (ii) transfer the sharp rise in the cost of raw materials, energy, and freight to the sale price of a large part of the products sold by the division, thanks to strong demand. Given the overall impact, the increase in price of the division’s two best-selling products—PVC and sodium hydroxide—was especially relevant.

As a result of these circumstances, total sales increased 46.0% compared to 2020, while ebitda nearly doubled: from EUR 27.19 million in 2020 to EUR 53.52 million. Lastly, the ebitda/sales ratio stood at 11.1%.

This environment of strong demand and higher sale prices carried over into the **intermediate chemicals** division, where sales of urea, cellulose, melamine, acetaldehyde, and methanol, among others, grew 50.3% (an increase higher than that experienced by energy, maritime shipping, and raw materials). As a result, 2021’s adjusted ebitda (EUR 30.49 million) was 2.2x higher than that obtained in FY 2020 (EUR 14.00 million). The division's ebitda/sales ratio reached 12.8%.

Unlike the experience of the two previous divisions, **pharmaceuticals** division did not fare well in 2021. In addition to output problems caused by Storm Filomena early in the year, the effects of which were particularly harsh in central Spain where the division's factory is located, there was the sharp increase in energy and raw material costs, and weak demand among some products sold by the division, including fusidic acid, erythromycin and its derivatives.

Low demand was a direct consequence of the restrictions and other measures implemented by the governments of the main countries that receive our products, in an effort to combat the pandemic in 2021. However, in the second half of the year, we saw a gradual recovery in the division's sales, which we expect will gain further momentum in 2022.

As a result of the foregoing, the division's sales fell 11.9% relative to FY 2020 which, coupled with higher energy and raw material costs, and lower elasticity in the sale prices of the division's products, caused adjusted ebitda to drop 77.9%, given that the ebitda/sales ratio of 4.1% was abnormally low.

RESULTS BY BUSINESSES

Thousands of euros	**2021**	**2020**	**%**
Chlorine derivatives division			
Product sales	483,047	330,961	46.0
Adjusted ebitda	53,516	27,191	96.8
Adjusted ebitda/product sales (%)	11.1	8.2	34.8
Intermediate chemicals division			
Product sales	238,567	158,737	50.3
Adjusted ebitda	30,486	13,961	×2.2*
Adjusted ebitda/product sales (%)	12.8	8.8	45.3
Pharmaceuticals division			
Product sales	50,703	57,538	-11.9
Adjusted ebitda	2,064	9,355	-77.9
Adjusted ebitda/product sales (%)	4.1	16.3	-75.0

* Times the 2021 figure exceeds that of 2020 (in absolute terms)

F. MEETING PROJECTIONS

In the Q3 2021 results memorandum, Ercros announced the following forecast for the year (in EUR millions): billing for product sales (millions of euros): 700 - 750; contribution margin (percentage): 30 - 35; adjusted ebitda (millions of euros): 65 - 75; profit (millions of euros): 25 - 30.

In addition to this forecast, the following table details the real data obtained in 2021. All projections have been met and in three of them the real data exceeds the upper limit of the forecast range. Billing for product sales (EUR 772.32 million), adjusted ebitda (EUR 86.07 million), and profit (EUR 43.3 million) surpassed the upper limit of the corresponding margins, which were EUR 750 million, EUR 75 million, and EUR 30 million, respectively. The contribution margin forecast was also met, insofar as the real figure of 33.4% falls within the expected interval of 30% to 35%.

FORECASTS AND REAL DATA FOR THE 2021 FINANCIAL YEAR

	Forecast	Actual data
Turnover* (millions of euros)	700 - 750	772.32
Contribution margin (percentage)	30 - 35	33.40
Adjusted ebitda (millions of euros)	65 - 75	86.07
Profit for the year (millions of euros)	25 - 30	43.30

* Product sales.

G. FORECAST FOR 2022

Essentially, 2022 has begun with the same risks identified in 2021. We continue to see high energy, raw material, and transport costs and, according to trade publications, this situation may persist throughout the year. In fact, in recent weeks, an additional risk has emerged: the possibility of a geopolitical conflict between Russia and the United States due to the crisis in Ukraine which, if it were to occur, would seriously jeopardise the availability of gas.

Fortunately, the risk posed by the Omicron variant of the covid-19 is quickly receding and the lifting of mobility restrictions will help strengthen the economic recovery in Spain and in other countries around the world.

In this context, we continue to see particularly strong demand for most of our products, which should continue, triggering positive price developments, sufficient to offset the high cost of energy and raw materials, similar to 2021.

We anticipate, therefore, that in the first half of 2022, market patterns will replicate those observed in 2021, particularly if US demand continues to absorb all domestic output. In the second half of the year, inasmuch as international competition from other regions with lower energy costs increases, we could see some weakening in the price of our products, making it difficult to translate high costs—which we will likely continue to bear—to sales prices.

It is still premature to offer more precise forecasts. There is a risk of a relative worsening in the second half of the year, though it is also possible that the crisis in Ukraine will be resolved satisfactorily which, together with the lower gas demands already observed in China, could lower energy prices throughout the year.

Barcelona, 24 February 2022