




Ercros

MedCap Forum

30-31 May 2017

Key figures

Key notes



| | |
|-----------------------------------|---|
| Registered name | Ercros, S.A. |
| Tax ID | A-08000630 |
| Headquarters | Av. Diagonal, 595-595, 08014 Barcelona. |
| Incorporation | 1989 merger between ERT and CROS. |
| Share capital | 34.23 M€ (89.8% free float) |
| Social structures | Stock company. Shares quoted on the Spanish stock exchange. |
| Divisions | Chlorine derivatives division, intermediate chemicals division and pharmaceuticals division (APIs). |
| Workforce/facilities ¹ | 1,357 workers /11 facilities. |
| Sales ² | 602.54 M€ |
| Exports ² | 49% of sales. |

¹ Average year 2016.

² Year 2016.

Statement of profit and loss

| M€ | Year 2016 | Year 2015 | 2016/2015 |
|------------------------------|----------------|----------------|-------------------------|
| Revenue | 619.59 | 627.21 | -1.2% |
| Sale of goods | 602.54 | 618.27 | -2.5% |
| Other operating income | 4.38 | 6.37 | -31.2% |
| Change in inventory | 12.67 | 2.57 | ×4.9 ¹ |
| Expenses | -561.34 | -594.59 | -5.5% |
| Procurements | -270.22 | -279.41 | -3.3% |
| Supplies | -101.85 | -124.22 | -18.0% |
| Employee expenses | -107.45 | -79.86 | 2.5% |
| Other operating expenses | -81.82 | -111.10 | -3.3% |
| Ebitda | 58.25 | 32.62 | 78.6% |
| Amortization | -19.37 | -19.87 | -2.5% |
| Reversal of impairment | 11.99 | 0.00 | - |
| Ebit | 50.87 | 12.75 | ×4.0¹ |
| Financial results | -5.56 | -6.00 | -7.3% |
| Earning before taxes | 45.31 | 6.75 | ×6.7¹ |
| Income taxes | -0.15 | 0.49 | - |
| Profit for the period | 45.16 | 7.24 | ×6.2¹ |

¹ Multiplicative factor.

Q1 results

| M€ | Q1 2017 | Q1 2016 | 2016/2015 |
|------------------------------|----------------|----------------|--------------|
| Revenue | 172.54 | 154.92 | 11.4% |
| Sale of goods | 165.36 | 144.03 | 14.8% |
| Other operating income | 13.02 | 11.05 | 21.7% |
| Change in inventory | -5.84 | -0.16 | ×36.2 |
| Expenses | -155.07 | -138.97 | 11.6% |
| Procurements | -80.10 | -70.23 | 14.1% |
| Supplies | -28.55 | -22.74 | 25.5% |
| Employee expenses | -25.93 | -25.20 | 2.9% |
| Other operating expenses | -20.49 | -20.80 | -1.5% |
| Ebitda | 17.47 | 15.95 | 9.5% |
| Amortization | -4.49 | -4.72 | -4.9% |
| Ebit | 12.98 | 11.23 | 15.6% |
| Financial results | -1.50 | -1.72 | -12.8% |
| Earning before taxes | 11.48 | 9.51 | 20.7% |
| Income taxes | -2.25 | -1.54 | 46.1% |
| Profit for the period | 9.23 | 7.97 | 15.8% |

¹ Multiplicative factor

Financial and stock market information

| | 03-31-2017 | 12-31-2016 | 12-31-2015 |
|-----------------------------|--------------------|------------|------------|
| Ebitda | 59.77 ¹ | 58.25 | 32.62 |
| Profit | 46.42 ² | 45.16 | 7.24 |
| Equity (M€) | 220.09 | 219.83 | 175.88 |
| Net financial debt (M€) | 94.48 | 73.46 | 91.23 |
| Solvency ratio ³ | 1.58 | 1.26 | 2.80 |
| Leverage ratio ⁴ | 0.43 | 0.33 | 0.52 |
| Market capitalization (M€) | 360.51 | 209.92 | 70.28 |
| Share price (€) | 3.16 | 1.84 | 0.62 |
| Shares outstanding (M) | 114.09 | 114.09 | 114.09 |
| EPS ⁵ (€) | 0.41 | 0.40 | 0.06 |
| PVC ⁶ | 1.64 | 0.95 | 0.40 |
| PER ⁷ | 7.77 | 4.65 | 9.71 |

¹ Last 12 months ebitda.

² Last 12 months profit.

³ Net financial debt/ebitda.

⁴ Net financial debt/equity.

⁵ Profit for the year/number of shares.

⁶ Market capitalization/equity.

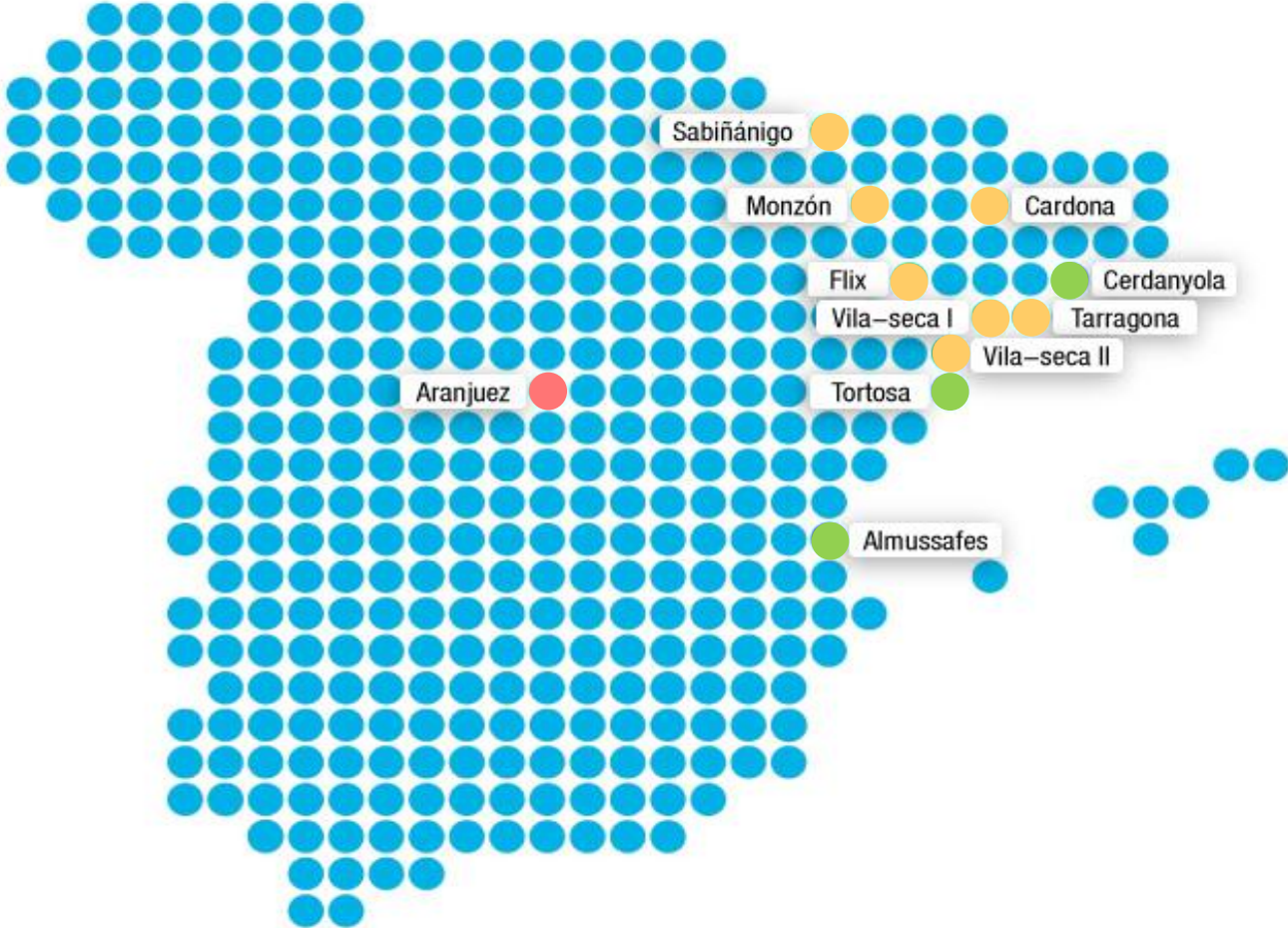
⁷ Market capitalization/profit.

Industrial structure

| Division | Facilities | Products | Applications |
|------------------------|--|--|---|
| Chlorine derivatives | Cardona, Flix, Monzón, Tarragona, Sabiñánigo, Vila-seca I and Vila-seca II | Caustic potash Caustic soda Chlorine EDC Hydrochloric acid PVC Sodium chlorate Sodium chloride Sodium chlorite Sodium hypochlorite TCCA VCM | Chemical industry General Industry Derivatives manufacturing VCM manufacturing General Industry Construction Paper pulp bleaching Chemical industry Water treatment Water treatment Pool water treatment PVC manufacturing |
| Intermediate chemicals | Almussafes, Cerdanyola and Tortosa | Formaldehyde Glues and resins Moulding compounds Paraformaldehyde Pentaerythritol Sodium formate | Derivatives manufacturing Wood industry Sanitary/electrical equip. Automotive/electronics sect. Coatings Tanning industry |
| Pharmaceuticals | Aranjuez | Erythromycin Fusidic acid Fosfomicin | Antibiotic Skin infections Antibiotic |



Production facilities

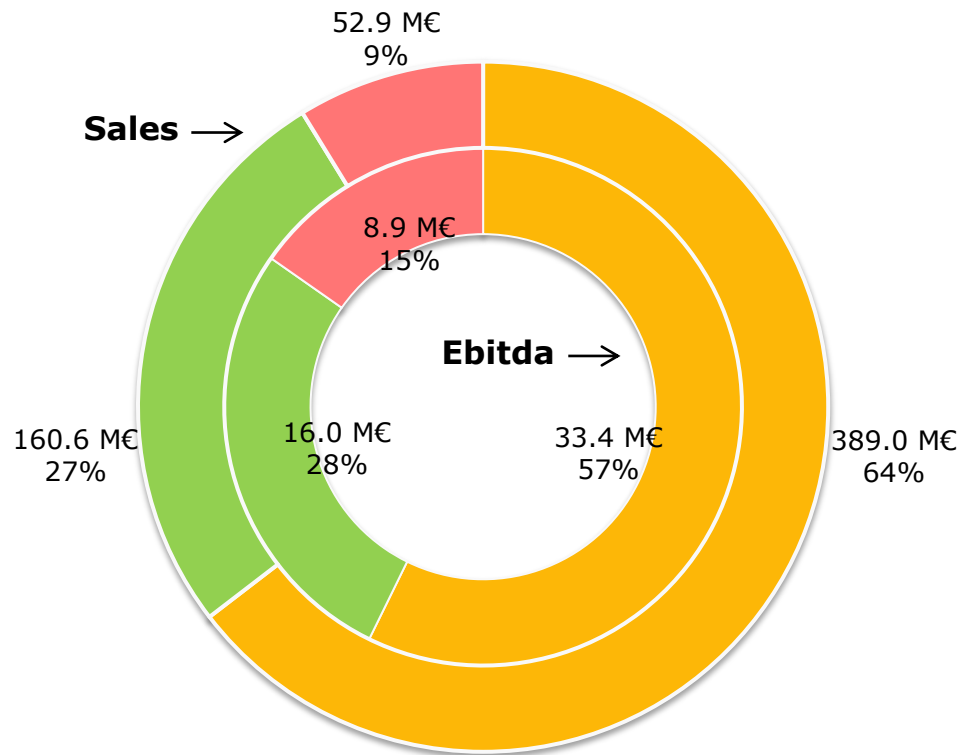


Competitive position

| | Spain | Europe | World |
|-------------------------------|-----------------|------------------|-----------------|
| Chlorine derivatives | | | |
| Caustic soda | 1 st | 9 th | - |
| Caustic potash | 1 st | 7 th | - |
| Sodium hypochlorite | 1 st | 11 th | - |
| Sodium chlorate | 1 st | 4 th | - |
| TCCA | 1 st | 1 st | - |
| PVC | 1 st | 9 th | - |
| Intermediate chemicals | | | |
| Formaldehyde | 1 st | - | - |
| Paraformaldehyde | 1 st | 1 st | 1 st |
| Pentaerythritol | 1 st | 2 nd | 3 th |
| Glues and resins | 2 nd | 5 th | - |
| Moulding compounds | 1 st | 2 nd | 4 th |
| Pharmaceuticals | | | |
| Fusidic acid | - | 2 nd | 2 nd |
| Phosfomycins | 1 st | 2 nd | 3 th |
| Erythromycin | 1 st | 1 st | - |

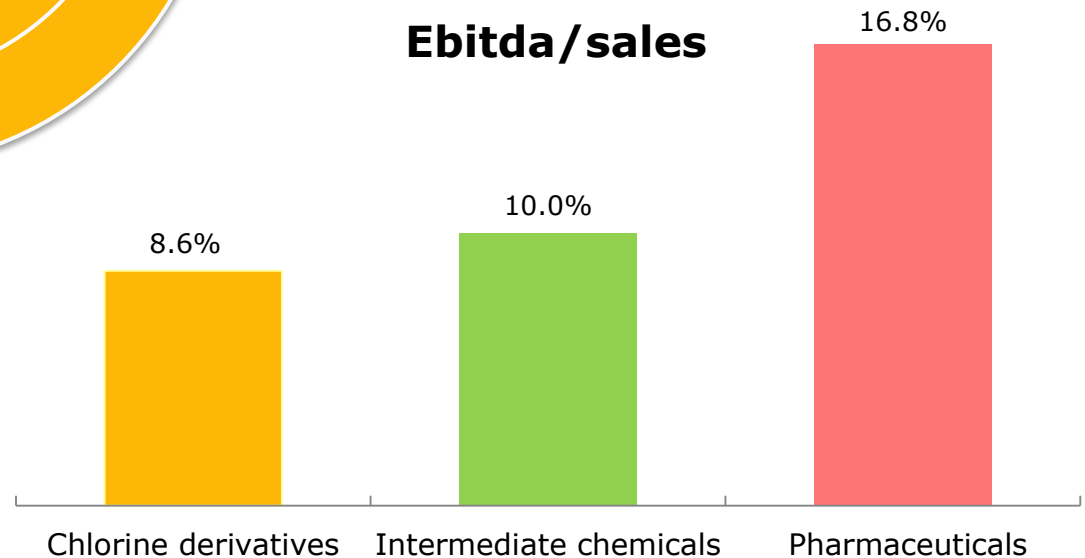


Sales/ebitda by operating segments¹



- Chlorine derivatives
- Intermediate chemicals
- Pharmaceuticals

| Ercros | |
|------------------|-------|
| Sales (M€) | 602.5 |
| Ebitda (M€) | 58.3 |
| Ebitda/sales (%) | 9.7 |



¹ Year 2016.

2017, a year of changes

- 2017 is a strategic year for Ercros because :
 - Finalizes the first phase of the Act Plan with :
 - The end of the production of chlorine with mercury technology;
 - Doubling of chlorine production capacity with membrane; and
 - The increase in the marketing of third-party products.
 - The new contract with the main chlorine customer (until 2020) enters into force.
 - The production capacity of sterile fosfomycin is tripled.¹
 - The intermediate chemicals and pharmaceuticals businesses, much less cyclical and dependent on electricity, acquire a greater weight in the activity.
 - The level of sales is expected to remain above 600 M€ and the solvency and leverage ratios below 2 and 0.5, respectively.

¹ The new plant has been in service since the beginning of 2017.

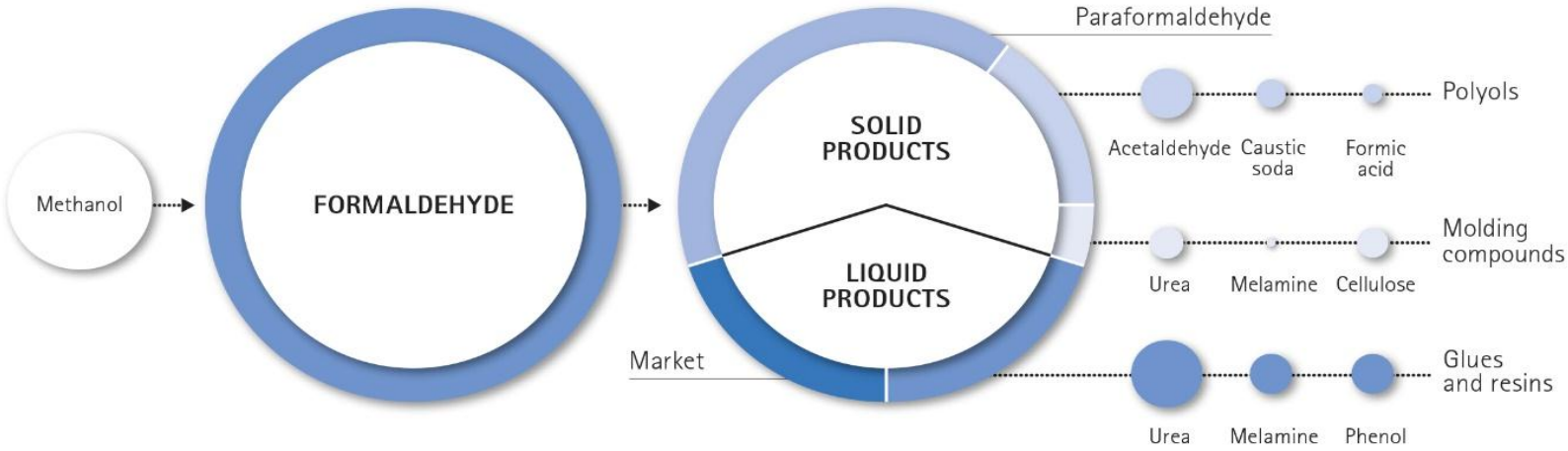


Intermediate chemicals division

- Formaldehyde is the core product of the intermediate chemicals division. 79% of formaldehyde is self-consumed to make derivatives (liquids and solids).
- Methanol is the main raw material. Variations in the price of methanol are passed on to customers, which preserves the margin of the business. Ercros is the first methanol marketer in Spain.
- The division's profitability is based on the recognition of the quality of the products and the know-how applied to the production.
- It exports 66% of sales to about 70 countries. With paraformaldehyde (car and electronics) and pentaerythritol (synthetic coatings and lubricants), Ercros is placed first and third in the worldwide sales ranking, respectively.
- Strategic objectives:
 - Maintain global leadership based on qualitative differentiation against Asian competitors;
 - Increase sales thanks to the increase in production resulting from the expansion of the pentaerythritol plant; and
 - Going "green": develop the new ErcrosGreen+[®] range of products with very low formaldehyde emissions.



Formaldehyde process scheme



Pharmaceuticals division

- The activity of the pharmaceuticals division focuses on the production of APIs from the family of antibiotics to the world's leading laboratories.
- Exports 90% of sales. With fusidic acid (treatment of severe infections in skin and eyes) and fosfomycins (treatment of hospital and genital and urinary tract infections), Ercros is placed second and third in the world sales ranking.
- General characteristics of the APIs that Ercros manufactures:
 - Are not subject to patent;
 - Its manufacture and commercialization is subject to strict controls of the sanitary authorities and to severe audits of the clients; and
 - There are a small number of sterile APIs producers and manufactured by fermentation because of the complexity of the processes.
- Strategic objectives:
 - Maintain good positioning and worldwide recognition;
 - Increase sales by increasing the capacity of new plants; and
 - Develop new strains and improve existing ones.

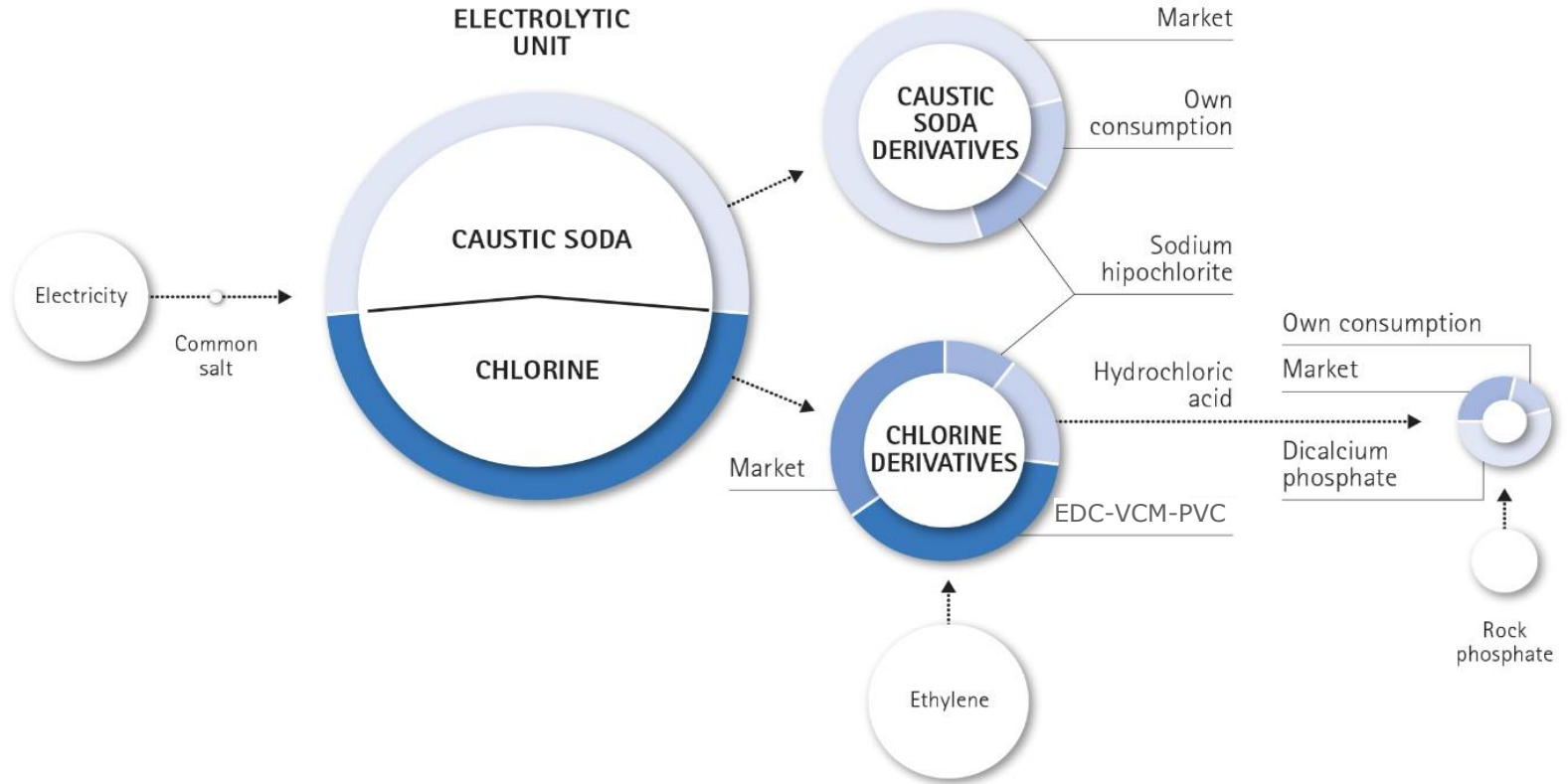


Chlorine derivatives division

- Chlorine is the main common link of this division. Chlorine and caustic soda are obtained at the same production process, from sodium chloride (salt) and electricity.
- Soda is widely used in industry and its consumption grows 1.5 GDP growth.
- 1/3 of the chlorine produced is used in the EDC-VCM-PVC chain; 1/3 goes to produce other derivatives; and 1/3 is supplied to other customers.
- The main market for PVC is construction. Its profitability is determined by the income and expenses derived from its manufacture and by those of the soda that is co-produced with the chlorine incorporated to the PVC.
- Electricity (chlorine and soda) and ethylene (PVC) are the main raw materials of this division.
- Strategic objectives:
 - Addressing the change of technology in the manufacture of chlorine;
 - Increase the current market share; and
 - Going “green”: develop the ErcrosBio® new products in the field of biodegradable bioplastics.



Chlorine-soda process scheme



The Act Plan

The Act Plan

- The Act Plan defines Ercros' strategy to deal with the ban on producing chlorine with mercury technology in the European Union, starting on December 11, 2017.
- Implies investments for a total amount of 63.70 M€, which are being executed according to the planned schedule.
- The objective of the plan is to preserve the profitability of Ercros, thanks to:
 - The maintenance of those markets in which Ercros is currently present;
 - The reorganization of the activity by the closure of chlorine production plants using mercury technology;
 - The doubling of chlorine production capacity of plants that already operate with membrane technology, which is admitted as best available technology;
 - The expansion of the capacity of other plants that are currently saturated or that is expected to increase its demand in the medium term; and
 - The increase in the marketing of third-party products.



Phases

- The Act Plan is structured in two phases:
 - The first phase, prior to the cessation of chlorine production with mercury technology, covers the period 2016-2017 and foresees investments by 45.70 million euros.

The investments in this phase correspond mainly to the expansion of the capacity of chlorine production plants with membrane technology and are all underway and their completion is planned within the allotted period.

- The second phase, following the cessation of the production of chlorine with mercury technology, covers the period 2018-2020 and foresees investments by 18 million euros.

The investments in this phase correspond to the expansion of the plant that produces pool water treatment tablets and to specific actions of the intermediate chemical division.



Planned actions

| Million euros | Facilities | Investment | Term |
|---|---------------------------|-------------|-----------|
| Increase the capacity of membrane chlorine production | Vila-seca I Sabiñánigo | 31.8 | 2016-2017 |
| Increase the capacity to produce chlorinated derivatives ¹ | Vila-seca I | 9.0 | 2016-2017 |
| Replacement of a reactor at the PVC plant | Vila-seca II | 3.8 | 2016-2017 |
| Increase the capacity of APIs production ² | Aranjuez | 1.1 | 2016-2017 |
| Increase the capacity production of pool water treatment tablets | Sabiñánigo | 15.0 | 2018-2020 |
| Increase the production capacity of formaldehyde derivatives ³ | Tortosa Cerdanyola | 3.0 | 2018-2020 |
| Total | | 63.7 | |

¹ New production plants for sodium hypochlorite and hydrochloric acid.

² New fermenter to produce fusidic acid and erythromycin, and expansion of the synthesis plant to produce fosfomicin and derivatives of erythromycin.

³ Expansion of pentaerythritol plants and molding compounds.

Chlorine production capacity

| t/year | Present situation | | | Act Plan | Final situation |
|--------------------------|----------------------------------|----------------------------------|-----------------------------------|--------------------|---------------------|
| Facilities | Mercury technology | Membrane technology | Total | Capacity extension | Membrane technology |
| Vila-seca I | 135,000 | 55,000 | 190,000 | +65,000 | 120,000 |
| Flix | 78,450 | - | 78,450 | - | - |
| Sabiñánigo | - | 30,000 | 30,000 | +15,000 | 45,000 |
| Ercros | 213,450 <i>(71.5%)</i> | 85,000 <i>(28.5%)</i> | 298,450 <i>(100.0%)</i> | +80,000 | 165,000 |
| Spain¹ | 575,950 <i>(81.5%)</i> | 131,000 <i>(18.5%)</i> | 706,950 <i>(100.0%)</i> | | |

¹ Ercros included

Funding

- Ercros has a high capacity of financing with own resources (31-03-2017):
 - Equity: 220.09 M€
 - Net financial debt (NFD): 94.48 M€
 - Ebitda (E) of the last 12 month: 59.77 M€
 - NFD/E: 1.58 times
- Total investment required: 63.7 M€
- Financing of the plan :
 - Actions of the time frame 2016-2017: 45.70 M€
 - 9.86 M€ from own resources.
 - 35.84 M€ with loans from the Ministry of Economy, Industry and Competitiveness, and other financial entities.¹
 - Actions of the time frame 2018-2020: 18.00 M€
 - From own resources.

¹ Interest rate between 4.1 and 1.5%, with an amortization term of 10 years and between 2 and 3 years grace period.

Shareholder remuneration

With charge to the profits of 2016

- The board of directors has proposed to the general shareholders' meeting¹ a total payout of 30%, of which:
 - The 10% corresponds to the payment of a dividend of 0.04 €/share; and
 - The remaining 20%, to the repurchase of 3.12 M treasury shares (2.7% of the share capital) amounting 9 M €, which were acquired according to the repurchase program carried out between January and March 2017, which will be amortized through a capital reduction of 932,058 €.

After the capital reduction, the EPS will increase from 0.407 €/share to 0.418 €/share.

¹ Which is scheduled to be held on June 22 at the first call and, if the necessary quorum is not met, on June 23 at the second call.



Remuneration policy 2017-2020 (I)

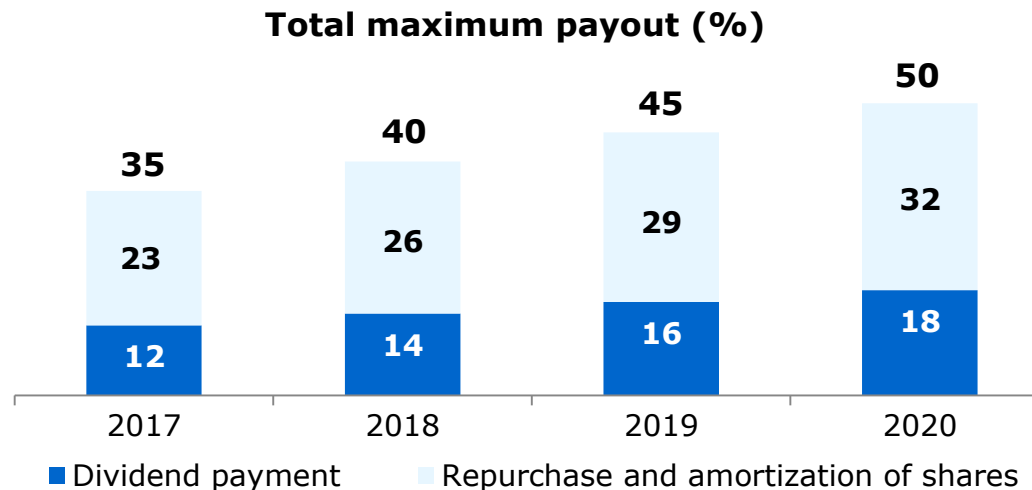
- The board of directors will also submit to the board the approval of a Shareholder remuneration policy for the period 2017-2020, which contemplates a total payout that will evolve incrementally to a maximum of:
 - 35% of the 2017 profit;
 - 40% of the 2018 profit;
 - 45% of the 2019 profit; and
 - 50% of 2020 profit.

- In order to make compatible this payout with the maintenance of the current level of indebtedness and solvency of Ercros, it will be conditioned to:
 - Obtaining a EPS of at least 0.10 €/share; and
 - The fulfillment of two reference ratios:
 - That the net financial debt/ordinary ebitda is less than or equal to 2; and
 - That the net financial debt / equity is less than or equal to 0.5.



Remuneration policy 2017-2020 (and II)

- As in the remuneration charged to the 2016 profit, the policy contemplates two ways of remunerating the shareholder:
 - The repurchase of shares for amortization; and
 - The payment of a dividend.
- The repurchase of own shares is the preferred remuneration option, provided that is agreed the distribution of a dividend at least of:
 - 12% of the 2017 profit;
 - 14% of the 2018 profit;
 - 16% of the 2019 profit; and
 - 18% of the 2020 profit.





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