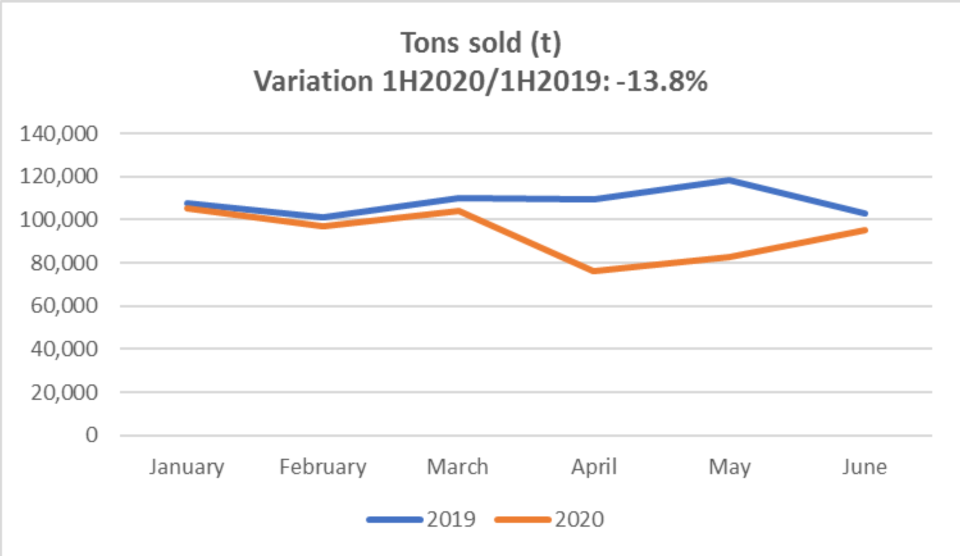
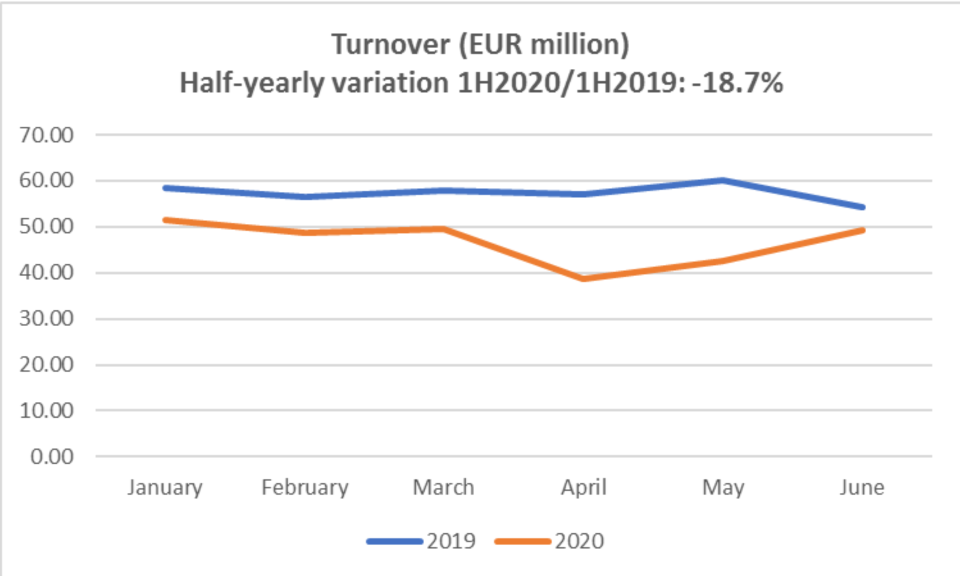
ERCROS RESULTS FOR THE FIRST HALF OF 2020 (1H 2020)

A. CRITICAL FACTORS IN THE FIRST HALF OF 2020

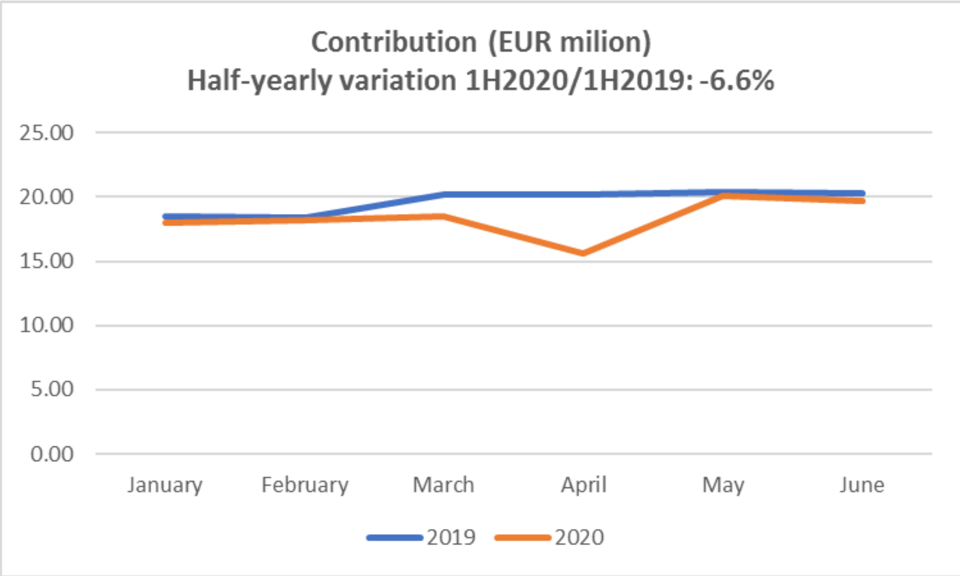
1. **In May and June, Ercros nearly completely recovered its pre-COVID-19 monthly sales volume. Considering a sharp 30.4% drop in April 2020, relative to the same month the previous year, tons sold in the first half of the year fell 13.8%.**



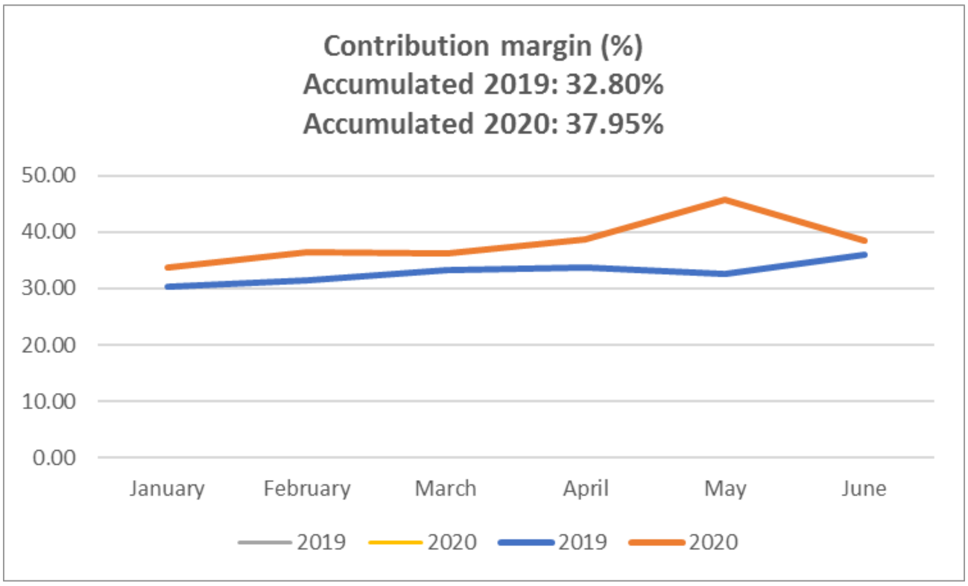
2. **In June 2020, Ercros billed virtually the same amount as in the first two months of the year, before the outbreak of COVID-19 in Europe: EUR 49.3 million vs. EUR 50 million. Given the recovery of sales in May and June, billing declined 18.7% in the first semester, a downturn like the 13% drop experienced before COVID-19 on the falling price of caustic soda and other products resulting from cheaper raw materials.**



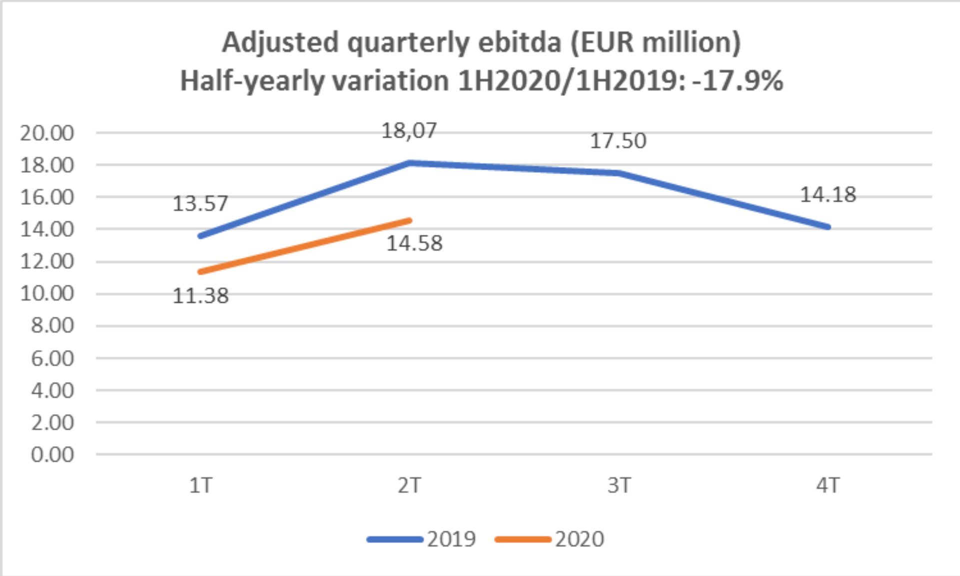
3. **Due to COVID-19, contribution (sales minus the variable costs) fell in March and April, relative to the same period the previous year: 8.3% and 22.5%, respectively. In May and June, however, it stood at levels practically identical to 2019, dipping 6.6% in the first half of the year, a decline of EUR 7.8 million in absolute terms.**



4. **Given that contribution fell less than sales, the contribution margin (contribution per euro billed) in the first half of 2020 exceeded the same figure for 2019: 38.0% vs. 32.8%. In the first half of 2020, the contribution margin increased an average of 5.2 percentage points.**



5. **Adjusted ebidta for the first half of 2020 reached EUR 25.96 million, while adjusted ebitda for the same period in 2019 totalled EUR 31.64 million: a half year decline of 17.9%. In absolute terms, this decrease equals EUR 5.7 million, somewhat less than the decrease in contribution (7.8 million), owing to the positive performance of fixed costs.**



Note: Adjusted quarterly ebitda is the ebitda (EUR 24.2 million in 1H2020) excluding atypical items. See the "Ebitda reconciliation" table in Section B of this memo.

6. **Profits for the first half of 2020 totalled EUR 4.4 million, a decrease of EUR 6.1 million from the same period in 2019. The difference is like the decline in ebitda (5.7 million) and contribution (7.8 million).**

7. **At the close of the first half of 2020, net financial debt (NFD) reached EUR 108.8 million, EUR 1.4 million less than total NFD at the close of FY 2019.**

8. **Despite the crisis triggered by COVID-19, the resources generated by the company in the first half of 2020 have provided the liquidity necessary to meet its obligations in a timely manner. Free cash flow totalled EUR 14.9 million, much higher than the EUR 1.3 million generated in the same period of 2019. These resources allowed the company to remunerate shareholders in the amount of EUR 12.8 million and reduce NFD by EUR 1.4 million.**

9. **At 30 June 2020, Ercros held EUR 63.9 million in liquidity, EUR 27 million of which corresponds to cash and EUR 36.9 million to undrawn loans.**

10. **In addition to the market effects on sales, margins and profits (described above), the direct cost of COVID-19 in the first half of 2020 reached EUR 1.8 million: EUR 0.5 million was allocated to the purchase of safety and protection materials; EUR 0.7 million to other operating expenses; and the remaining EUR 0.6 million to asset impairment losses (specifically, accounts receivable).**

B. INCOME STATEMENT

Despite the adverse effects of the COVID-19 pandemic on economic activity worldwide, the Ercros closed the first half of 2020 with profits of EUR 4.4 million and a gross operating profit (ebitda) of EUR 24.2 million, both figures in the high range of estimates published on 3 June.

At the height of the pandemic in Spain, Ercros facilities remained active due to the company's status as an essential service. It was, therefore, able to satisfy the needs of customers, despite having to adapt to the pace of manufacturing for certain products, mainly in the intermediate chemical division, to adjust to lower demand.

The COVID-19 crisis primarily impacted the volume of products sold (which fell 13.8% in the first half of 2020 relative to the same period in 2019). Virtually the entire product portfolio of Ercros was affected by a drop in demand, except for the pharmaceutical division.

Consequently, between 1 January and 30 June 2020, product sales reached EUR 279.8 million, compared to EUR 344 million in the same period of 2019, a decrease of 18.7%.

The drop in sales was concentrated in the second half of March and in April. Products with the largest declines in volume include PVC, resins, and TCCA, which are used in construction, the furniture industry, and the treatment of swimming pool water, respectively. However, these same products showed the highest recovery rates in May and June, nearing —and in some cases exceeding— pre-COVID-19 sales levels by June.

In the second quarter of 2020, the global market for caustic soda—the product with the greatest impact on Ercros profits—revealed a shortage of supply resulting from lower occupancy at chlorine-caustic soda production plants, pushing the price upward. However, the aforementioned recovery in PVC is increasing demand for chlorine and, subsequently, for the occupancy of chlorine-caustic soda plants, triggering a higher volume of caustic soda on the market. It is expected that in the third quarter of 2020, the price of this product will decrease relative to the second quarter, though it will likely remain above the levels of the first quarter.

In terms of revenue, it is worth noting the 33.1% drop in the “Provision of services” section, due primarily to the fact that Ercros was awarded no interruptibility service batches given the low price resulting from the auction in the first half of 2020, which failed to offset lost earnings plus the cost of stopping and starting the electrolysis plants. The services provided to third parties also declined due to lower demand.

The effect of lower billing could be partially offset by the general reduction in the price of supplies and provisions, the amount of which fell 27.3% in the first half of 2020 relative to the same period in 2019. Specifically, the price of the main raw materials —electricity, methanol, and ethylene— decreased more than 25% in the period.

The sharp decline in variable costs, higher than the price reduction of products sold, prompted an uptick of 5.2 percentage points in unit contribution margin. We calculate the contribution margin as the sum of sales and the provision of services, less the sum of variable costs and the reduction of stock, expressed as a percentage of turnover. This percentage rose from 32.8% in the first semester of 2019 to 38% in the first half of this year.

Personnel costs totalled 42.3 million euros, up 0.9%. This variation is less than the 2.5% wage increase established in the collective agreement.

Lastly, it is worth noting provision allowances and other expenses, which total EUR 1.9 million, resulting from the updating of costs —anticipated and incurred— from the dismantling of mercury electrolysis plants.

The evolution of revenue and expenses generated an ebitda of EUR 24.2 million, 18.7% lower than the figure obtained in the first half of 2019, which was EUR 29.7 million. If we take adjusted ebitda (ebitda minus the extraordinary items) into account, the difference falls to 17.9%.

Total ebitda less amortisations, amounting to EUR 14.7 million, results in a net operating profit (ebit) of EUR 9.5 million vs. an ebit of EUR 16.7 million in the first half of 2019.

Financial costs totalling EUR 3.8 million are consistent with those from the first semester of 2019, and income tax costs of EUR 1.3 million are EUR 1.1 million less than in the same period of 2019. At 30 June 2020, Ercros still has unrecorded deferred tax assets in the amount of EUR 65.1 million.

Profits in the first half of 2020, totalling EUR 4.4 million, are in the high range of the company's forecast. Though lower than in the first half of 2019 by EUR 10.5 million, this can be considered a favourable result considering the crisis caused by COVID-19.

Consolidated statement of profit and loss

EUR thousand	1H2020	1H2019	Variation (%)
Income	**296,935**	**365,557**	**-18.8**
Sale of goods	279,789	344,017	-18.7
Services rendered	10,324	15,440	-33.1
Other income	6,676	4,366	52.9
Reversal of provisions and extraordinary income	146	1,734	-
Expenses	**-272,774**	**-335,849**	**-18.8**
Procurement	-133,323	-181,353	-26.5
Supplies	-34,634	-49,637	-30.2
Stock reduction	-12,046	-10,538	14.3
Employee benefit expenses	-42,259	-41,865	0.9
Other operating expenses	-48,564	-48,794	-0.5
Endowment of provisions and extraordinary expenses	-1,948	-3,662	-46.8
Ebitda	**24,161**	**29,708**	**-18.7**
Amortizations	-14,663	-13,047	12.4
Ebit	**9,498**	**16,661**	**-43.0**
Financial results	-3,800	-3,789	0.3
Profit before tax	**5,698**	**12,872**	**-55.7**
Income taxes	-1,324	-2,379	-44.3
Profit for the period	**4,374**	**10,493**	**-58.3**

Ebitda conciliation

EUR thousand	1H2020	1H2019	Variation (%)
Ebitda	**24,161**	**29,708**	**-18.7**
Atypical income items	-146	-1,734	-91.6
Atypical expense items	1,948	3,662	-46.8
Adjusted ebitda	**25,963**	**31,636**	**-17.9**

C. RESULTS BY BUSINESS

By business, the pharmaceuticals division evolved most favourably in the first half of the year because, in general, both end-product sale prices and volumes increased. The only slightly adverse development for the business was the increased cost of intermediate materials. Nevertheless, the first half of 2020 was the best in the history of the business: sales increased

13.2% and ebitda rose 18.5%. This division also has the best ebitda-to-sales ratio, which almost reached 20% in the first half.

In the intermediate chemicals division, the decline in billing (22.6%) exceeded the drop in ebitda (7.5%) given that end-products were able to maintain their price partially despite the falling cost of raw materials, thus avoiding any further margin deterioration. ebitda margin (ebitda on sales) rose to 8.7% vs. 7.3% in the first semester of 2019. This division, whose sales in the US and Asian markets account for a high percentage of the total, hit its lowest point due to the COVID-19 crisis in May, therefore, with the exception of resins, its recovery is being more gradual relative to the other two businesses.

In the chlorine derivatives division, product sales dipped 21.2% vs. the same period a year prior, due to a drop in the price of caustic soda (must be taken into account that in the first half of 2019, the price of this product was still at the peak of the cycle) and lower volumes of PVC sold in March and April as a result of COVID-19. Despite the moderate cost of electricity, ebitda fell 33% and the ebitda margin declined from 8.8% in the first half of 2019 to 7.5% in the first half of 2020.

Results by business

EUR thousand	**1H2020**	**1H2019**	**Variation (%)**
Chlorine derivatives division			
Product sales	167,585	212,586	-21.2
Adjusted ebitda	12,493	18,639	-33.0
Adjusted ebitda/product sales (%)	7.5	8.8	-
Intermediate chemicals division			
Product sales	79,046	102,134	-22.6
Adjusted ebitda	6,859	7,417	-7.5
Adjusted ebitda/product sales (%)	8.7	7.3	-
Pharmaceuticals division			
Product sales	33,158	29,297	13.2
Adjusted ebitda	6,611	5,580	18.5
Adjusted ebitda/product sales (%)	19.9	19.0	-

D. ECONOMIC ANALYSIS OF THE BALANCE SHEET

For better analysis and comparison, Ercros uses an economic analysis of the balance sheet as a management tool, obtained from certain reclassifications of the statement of financial position to reduce the number of operating figures.

Between 31 December 2019 and 30 June 2020, non-current assets increased by EUR 3.8 million on investments. Throughout the first half of 2020, EUR 16.9 million was disbursed to pay for investments.

For its part, working capital decreased by EUR 17 million, a decline of 26.2% on the reduction of inventories, a reduced customer balance from lower billing, and the extension of the non-recourse section of the new syndicated factoring agreement.

Despite obtaining profits of EUR 4.4 million, total equity declined EUR 9.8 million (-3.3%) to EUR 282.3 million, due to the purchase of treasury shares (EUR 8.7 million), the full dividend (EUR 5 million), and the meeting attendance premium (EUR 0.3 million).

At the close of the first half of 2020, net financial debt reached EUR 108.8 million, 1.3% less than the NFD existing at the end of 2019.

Provisions and other debt, meanwhile, decreased by EUR 2.1 million due to payments issued over the course of the semester, primarily for dismantling old production plants and soil remediation.

Economic analysis of the balance sheet

EUR thousand	2020/06/30	2019/12/31	Variation (%)
Non-current assets	**363,470**	**359,713**	**1.0**
Working capital	**47,876**	**64,870**	**-26.2**
Current assets	159,219	184,470	-13.7
Current liabilities	-111,343	-119,600	-6.9
Resources employed	**411,346**	**424,583**	**-3.1**
Total equity	**282,327**	**292,083**	**-3.3**
Net financial debt	**108,756**	**110,171**	**-1.3**
Provisions and other debts	**20,263**	**22,329**	**-9.3**
Origin of founds	**411,346**	**424,583**	**-3.1**

E. FORECAST FOR THE SECOND HALF OF THE YEAR

In the first half of 2020, Ercros showed its strength and an ability to adapt in the face of the COVID-19 pandemic, thanks to restructuring and modernisation efforts undertaken in recent years. For the remainder of the fiscal year, if the global confinement is successful and there are no further significant outbreaks, Ercros expects a speedy recovery in activity, considering the coronavirus crisis was the result of unforeseen circumstances that gained a foothold in a reasonably healthy economic environment. In fact, in January and February, business activity proceeded in accordance with forecasts at the time, and in May and June, a significant portion of company products reached pre-COVID-19 levels of demand (as detailed above). The partial data we have for the month of July indicates that recovery persists in a pattern consistent with May and June.

Nevertheless, at present, the level of uncertainty surrounding the pandemic remains high, particularly considering a resurgence of outbreaks in Spain and other countries. We hope these outbreaks will only pose a small delay in the return to healthcare and economic normality and will not develop into a second wave of the pandemic. In the interim, we will continue to apply the management procedures that were so effective in the first semester, and we hope to stay on the path to recovery already modelled in May and June.

The price of caustic soda, once the rebound of the last three months ended, returns to its previous downward trend. Moreover, we have already observed positive factors worth highlighting: the swift recovery of PVC, TCCA and resins, and the favourable progress of pharmaceutical active ingredients, as well as the improved performance (gradual recovery) of polyols and paraformaldehyde from the intermediate chemicals division. Another positive factor of note is the maintenance of moderate prices for key consumables, most importantly electricity.

Barcelona, 31 July 2020