

Accounting for the Impairment of Ercros Assets Generates a 200 million euros Loss in 2008

In accordance with international accounting standards, an asset write-down of 198.29 million euros was recorded in Ercros' annual accounts. This resulted in 2008 fiscal year losses of 203.39 million euros. Excluding this write-down and other, lesser non-recurring items, the company's loss would have been only 6.35 million euros.

This change in asset values was triggered by the sharp, broad-based decline in global economic activity, the forecast that this decline will continue throughout 2009 and that the recovery of the international markets will not take place until the beginning of 2010, and the impact of this adverse economic and financial climate on the demand for some of the company's products. Under international accounting standards this loss may be reversed in the event of future structural improvements to the economic and financial climate that triggered the correction.

Despite the existence of this large accounting adjustment, the company's operating trend was much improved in 2008. Sales rose by 866.49 million euros, up 2.6% from 2007, and gross EBITDA was 43.59 million euros, up 56.5% from 2007.

The slowdown of activity in the last quarter of the year particularly affected the Plastics Division, which is the business most closely linked to the construction and automotive sector. Nonetheless, the good performance of prices for the company's leading products and particularly for caustic soda offset to a great extent the losses in the plastics business.

Sales for the chlorine-related businesses (including the Basic Chemicals, Plastics, Animal Feed and Water Treatment Divisions) were 575.36 million euros, up 5.5% from 2007, due primarily to the high price of caustic soda and phosphates for animal feed. The Intermediate Chemicals Division, with 218.48 million euros in sales, a 1.8% decline. The Pharmaceuticals Division had 40.7 million euros in sales, down 8.1%, due to the unfavorable dollar exchange rate for most of the year. Finally, the Emulsions Division, with 31.88 million euros in sales, was up 2.5%.

With respect to expenses, the personnel expense line was notable, at 107.58 million euros, down 3.2% from 2007, due to a reduction of the average headcount, down 146 staff as a result of the application of the Efficiency Improvement Plan (EIP). In order to cover severance payment costs deriving from the EIP, the 2008 income statement includes a provision in the amount of 1.56 million euros, in addition to the provision totalling 25 million euros in 2007. Ercros's 2008 average headcount was 1,954 staff.

The cost of supplies for 2008 was 499.33 million euros, up 13% over 2007. In 2008, Company faced considerable price increases, particularly for electricity (36%) and other significant raw materials, including ethylene (23%) and phosphoric acid (259%). As a result, the cost of supplies went from 52.3% of sales in 2007 to 56.5% of sales in 2008.

The improved EBITDA, which increased from 27.86 million euros in 2007 to 43.59 million euros in 2008, implied an increase in the annual gross operating margin from 3.3% of sales to 5.0%. This was primarily due to non-recurring items, which in 2008 did not include the provisions for the EIP that were recorded in 2007.

Another line that changed significantly was financial earnings, which went from 6.04 million euros in 2007 to -7.95 million euros in 2008. This difference results from interest accrued on reversed provisions in the amount of 17.62 million euros; this non-recurring income did not exist in 2008.

The most significant changes on the balance sheet resulted from the impairment of assets. Non-current assets went from 489.33 million euros in 2007 to 305.69 million euros in 2008, due to the decline in the value of assets, and on the liabilities side, shareholders equity went from 463.14 million euros in 2007 to 257.20 million euros in 2008 as a result of the Company's 2008 current loss. Despite the asset write-down due to impairment, the notional book value of the Company's shares, 0.25 euro cents, is considerably higher than the share price, which as of yearend 2008 was 0.16 euro cents. As the Company generates earnings in future fiscal years, the potential impact of which will obviously be greater due to lower amortizations, equity should recover and so should the notional book value of the Company's shares.

As of yearend 2008, net financial debt was 129.59 million euros, slightly less than the debt as of yearend 2007.

The outlook for 2009 anticipates the continued decline in activity based on the slowdown of the global economy. However, this downward trend is not expected to be as pronounced as in the fourth quarter 2008. In the fourth quarter, in addition to the effects of the international economic crisis, there was an exceptional decline in activity and the demand for intermediate products associated with the vacation season, a very drastic reduction in inventories by many companies and many temporary production shutdowns. This exceptional situation seems to have eased. In fact, year to date, the price of soda has held up, the volume of sales has improved and the cost of supplies, particularly of ethylene, has dropped. Although the general environment will continue to be depressed for the entire year, this generalized behaviour of many sectors that buy chemical products has triggered some improvement in margins and we expect this to trend to strengthen in 2010.

Capital reduction and share reverse split

In yesterday's meeting, in the context of the restatement of assets in the 2008 accounts, the Board of Directors of Ercros resolved to propose to the shareholders at the next General Shareholders Meeting a capital reduction to 161 million euros (equivalent to a par value of 0.16 euro cents per share). The Board also asked the shareholders at Shareholders Meeting to authorize a share reverse split at a yet-to-be-determined ratio. The ratio determined for the swap will yield the final number of shares issued by the Company and the amount of the par value per share.

In deciding to carry out a capital reduction, the Board considered the need to bring the balance sheet figures back into balance as well as the advisability of reducing the difference between the par value of the Company's shares (0.36 euro cents) and the share price (0.16 euro cents to 0.18 euro cents). This transaction does not affect the Company's operating figures (particularly the Group's consolidated equity stands at 257.2 million euros, with a notional book value of the Company's shares of 0.25 euro cents). Moreover, it opens up financing possibilities that have not been available to Ercros as it eliminates the current differential between the par value per share and the trading price, which hinders any transaction intended to attract outside capital for the Company.

In deciding to carry out the reverse share split, the Board considered the recent market performance, which evidenced a certain barrier for the share price due to the significant percentage (approximately 6%) of the minimum fluctuation. This increase in the par value of the shares made it possible for this minimum fluctuation to decline significantly and for the share price to float more freely.

Barcelona, February 27, 2009

Consolidated Income Statement		Million euros		
(According to NIIF)				
ITEMS	2008¹ with extraordinaries	2008 without extraordinaries	2007¹	
Revenue	889.98	882.12	870.09	
Sales	866.49	866.49	844.65	
Other income	15.63	15.63	9.11	
Otros extraordinary income	7.86	0.00	16.33	
Costs	-846.39	-839.78	-842.23	
Payroll&Employee benefit expense	-107.58	-107.58	-111.19	
Compensation payments	-1.56	0.00	-25.00	
Other extraordinary costs	-5.05	0.00	-15.28	
Other operating costs	-232.87	-232.87	-248.84	
Raw material and other	-499.33	-499.33	-441.92	
<i>Raw material/sales %</i>	<i>-57.6</i>	<i>-57.6</i>	<i>-52.3</i>	
Ebitda	43.59	42.34	27.86	
<i>Ebitda/sales %</i>	<i>5.03</i>	<i>4.89</i>	<i>3.30</i>	
Ebitda from ordinary activities	42.34	42.34	51.81	
Non-recurring Ebitda	1.25	0.00	-23.95	
Depreciation&amortisation	-39.73	-39.73	-40.89	
Ebit	3.86	2.61	-13.03	
<i>Ebit/sales %</i>	<i>0.45</i>	<i>0.30</i>	<i>-1.54</i>	
Finance income	-7.95	-7.95	6.04	
Asset impairment loss	-198.29	0.00	-26.31	
Profit (loss) before tax	-202.38	-5.34	-33.3	
Income tax expense	-0.64	-0.64	-0.21	
Minority interests	-0.37	-0.37	0.75	
Profit (loss) for the period	-203.39	-6.35	-32.76	

¹ Audited.

Sales by divisions		Million euros		
	2008	2007	Variation %	Structure %
Chlorine Related Businesses ¹	575.36	545.53	5.5	66.4
Intermediate Chemicals	218.48	222.44	-1.8	25.2
Pharmaceuticals	40.77	44.36	-8.1	4.7
Emulsions	31.88	31.12	2.5	3.7
Ercros	866.49	844.65	2.6	100.0

¹This group is comprised of Basic Chemicals, Plastics, Animal Feed and Water Treatment business lines.

Economical Analysis of Consolidated Balance Sheet	Million euros	
	31-12-2008¹	31-12-2007¹
Non-current assets ²	305.69	489.33
Working capital	155.16	145.74
<i>Current assets</i> ³	337.92	390.02
<i>Current liabilities</i> ⁴	-182.76	-203.14
Utilisation of resources	460.85	676.21
Equity	257.20	463.14
Net financial debt (NFD)	129.59	131.31
Provisions and other financial liabilities	74.06	81.76
Total liabilities and equity	460.85	676.21

¹Audited figures.

²Includes the amount of liabilities for deferred taxes in connection with the restatement of assets.

³Does not include the balance of cash and other liquid sums included as a reduction of net financial debt.

⁴Does not include the short-term amounts owed to financial institutions which are a component of net financial debt.