

Ercros achieves EUR 44.49 million profit in 2017

The strong demand of Ercros' products throughout the year 2017 has made possible to offset the price increase of the main raw materials. This fact has led to a significant improvement in the ordinary gross operating profit («ebitda»), which amounted to EUR 74.31 million, 27.2% higher than that reached in 2016.

The 2017 income statement incorporates the costs of the restructuring carried out in the chlorine derivatives division –following the European ban on the use of mercury technology in the chlorine production electrolytic plants, beyond December 11, 2017– amounting to EUR 21.73 euros. Despite this, Ercros managed to close the year with a result of EUR 44.49 million, which, although is slightly lower than in 2016 (-1.5%), is the third best result in the history of the company.

Results

In 2017, turnover reached EUR 685.97 million and was 13.8% higher than the previous year. Demand remained strong in virtually all markets, which resulted in a general increase in sales throughout the entire portfolio of the company. The favourable evolution of the Spanish market, on the other hand, made it possible to prioritize domestic sales over exports (46.7% of consolidated sales), with the consequent improvement in margins.

By business segments, the turnover of the chlorine derivatives division –EUR 440.44 million– increased by 13.2%; the intermediate chemistry division –EUR 191.32 million– increased by 19.1%; and the pharmaceuticals division –EUR 54.21 million– increased by 2.5%.

The most significant features regarding sales were: (i) the sharp rise in the price of caustic soda (+38.6%), due to the good performance of the economy in general but also due to the overall decrease in supply as a consequence of the progressive stop of electrolytic plants with mercury technology in Europe; (ii) the good evolution of PVC, both in volume and in price, due to the recovery of the construction sector in Europe; and (iii) the upward pressure of intermediate chemical prices, as a result of the increase in the price of its main raw material, methanol.

Expenditures amounted to EUR 619.73 million, 10.4% higher than in 2016. Within this chapter, raw materials increased significantly (+17.2%) –affected, mainly, by the sharp rise in methanol prices– and supplies (+12.3%), due to the higher cost of electricity–.

Employee expenses amounted to EUR 83.39 million, an increase of 1.9% over 2016. In 2017, the average Ercros workforce was 1,372 people, 15 more than in the previous year.

All this leads to an ordinary ebitda of EUR 74.31 million in 2017 compared to the ordinary ebitda of EUR 58.43 million in 2016, a nearly EUR 16 million positive difference.

Between both years, the ordinary ebitda margin increased from 9.7% to 10.8%, an improvement of 1.1 points.

Despite the significant improvement in ebitda, the operating result («ebit») decreased by 32.8%, from EUR 51.05 million in 2016 to EUR 34.33 million in 2017, mainly due to extraordinary and non-recurring items, of different sign, in both financial years.

While, in 2017, the EUR 21.73 million provision was accounted for the restructuring costs of the chlorine business –of which EUR 11.00 million correspond to compensations associated with the severance agreement applied and EUR 10.73 million to the dismantling and environmental remediation of the closed facilities–, in 2016, an income of EUR 11.99 million was recognized for the reversal of the impairment loss on certain assets.

The severance agreement was agreed between Ercros management and Unions on November 28, 2017, affecting 105 workers. All the workers affected have been offered a new position in other Ercros facilities. Up to now, 30 workers out of 68 that have left the company have accepted the offer received.

The amortisation expense was 5.8% lower than that recorded in 2016, due to the fact that several Ercros assets reached the end of their useful life during the past year.

Despite the increase in the net financial debt, lower financial rates led to a reduction of financial expenses by EUR 214,000 (-3.5%). Negative exchange differences increased by EUR 321,000, due to the depreciation of the dollar against the euro, and the share of profit of associates increased s, by EUR 190,000.

In 2017, Ercros recognized a deferred tax asset arising from (i) deductible temporary differences coming from the restructuring provisions booked this year; (ii) tax losses carried forward that Ercros considers will be able to utilise in the next five years against taxable profits; and (iii) tax credits that will also be utilised. Due to this, the income tax expense represents an income of EUR 15.90 million (EUR -157,000 in 2016). After the aforementioned recognition of deferred tax assets, Ercros still has unrecognized deferred tax assets amounting to EUR 91.21 million arising from tax losses carried forward and deductible temporary differences.

The result for the year 2017 shows a profit of EUR 44.49 million, compared to EUR 45.17 million in 2016. This means earnings per share of EUR 0.3963 in 2017, compared to EUR 0.3959 in 2016.

Balance sheet

With regard to the balance, between the end of 2016 and the end of 2017, non-current assets increased by EUR 43.72 million due to the investments made throughout the year.

In 2017, Ercros invested EUR 44.67 million (EUR 20.86 million in 2016), of which EUR 33.43 million correspond to investments included in the Act Plan put in place for the restructuring of the chlorine business. The aforementioned plan includes investments amounting to EUR 67.44 million (EUR 3.74 million more than initially planned), for the 2016-2020 period. To finance these investments, Ercros has obtained loans and grants for a total amount of EUR 41.81 million, mainly from the Ministry of Economy, Industry and Competitiveness.

Between the end of 2016 and 2017, working capital increased by EUR 13.08 million, mainly due to the higher balance of receivable from customers due to the increase in sales.

The total equity –amounting to EUR 247.49 million– increased by EUR 27.67 million after adding the profits of the year and once discounted the EUR 16.83 million shareholder remuneration.

As of December 31, 2017, net financial debt stood at EUR 89.26 million, compared to EUR 73.45 million reached on the same date of the previous year. The increase of EUR 15.80 million of the net financial debt is lower than the increase of EUR 43.72 million experienced by the

non-current assets due to the generation of cash from Ercros' ordinary operations, which has made it possible to undertake part of the investments with own resources.

The net increase in provisions and other debts, by EUR 13.33 million, corresponds mainly to the new provisions associated with the restructuring costs of the chlorine derivatives division.

Shareholder remuneration

In 2017, the three conditions required by the shareholder remuneration policy were met, given that the earnings per share stood at EUR 0.3963 (EUR 0.3959 in 2016) and therefore higher than the minimum earning requirement of 0.10 euros/share; the solvency ratio (net financial debt/ordinary ebitda) stood at 1.20 (1.26 in 2016) and therefore lower than the maximum allowed of 2; and the leverage ratio (net financial debt/total equity) stood at 0.36 (0.33 in 2016) and therefore lower than the maximum allowed of 0.5.

Consequently, the board of directors, at its meeting hold on February 23, 2018, has agreed to propose to the shareholders' meeting the payment of a gross dividend of EUR 0.05 per share (which implies a disbursement of EUR 5.55 million and represents a payout of 12.5%) and the repurchase of treasury shares, worth EUR 10.02 million, to complete the total remuneration of EUR 15.57 million, equivalent to 35% of the EUR 44.49 million 2017 profit.

On the other hand, between October 4, 2017 and February 22, 2018, the company has repurchased 1,812,378 own shares to be cancelled, equivalent to 1.63% of the share capital, amounting to EUR 5.06 million. Ercros will continue purchasing own shares until reaching the total amount of EUR 10.02 million. For these purposes, in the same meeting on February 23, 2018, the board of directors approved the third repurchase program, amounting to EUR 6 million.

Foreseeable evolution

In 2018, Ercros will benefit from the commissioning of the investments included in the first phase of the Act Plan already executed; namely, the expansion of chlorine and caustic soda production facilities with membrane technology and the new chlorine derivative and active pharmaceutical ingredients plants. Likewise, Ercros foresees that the upward pressure on prices will continue throughout the year, especially in the case of caustic soda and PVC, which have been favoured by the global decline in supply while global GDP grows.

With regard to expenses, the company expects s that the current increase in raw materials prices will continue, at least for the first half of the year. On the other hand, Ercros anticipates that the average euro/dollar exchange ratio in 2018 will stand close to 1.23, in line with its forecasts.

The costs reduction envisaged in the restructuring of the chlorine business is being achieved as planned and the new plants have entered into operation without significant operational incidents.

Barcelona, February 28, 2018

Statement of profit or loss

EUR million	FY 2017	FY 2016	Variation (%)
Revenue	694.04	619.59	12.0
Sale of goods	685.97	602.54	13.8
Other operating income	3.29	4.38	-25.0
Reversal of provisions	6.94	0	-
Changes in inventories of finished goods	-2.16	12.67	-
Expenses	-619.73	-561.16	10.4
Raw materials and consumables used	-316.58	-270.22	17.2
Supplies	-114.39	-101.85	12.3
Employee benefit expenses	-83.39	-81.82	1.9
Other operating expenses	-105.37	-107.27	-1.8
Ordinary ebitda	74.31	58.43	27.2
Cost of mercury technology phase-out:			
Workforce reduction	-11.00	0	-
Dismantling and remediation	-10.73	0	-
Amortisation	-18.25	-19.37	-5.8
Reversal of impairment loss	0	11.99	-
Ebit	34.33	51.05	-32.8
Financial expenses, losses and impairment	-5.95	-6.16	-3.5
Exchange rate differences	-0.44	-0.12	×3.8 ¹
Share in associates profit	0.74	0.55	34.6
Earnings before tax	28.68	45.32	-36.7
Income tax expense	15.90	-0.16	-
Other comprehensive result	-0.09	0	-
Profit for the year	44.49	45.17	-1.5

¹: Multiplicative factor

Economic analysis of the balance sheet

EUR million	31-12-17	31-12-16	Variation (%)
Non-current assets	318.50	274.79	15.9
Working capital	76.60	63.52	20.6
Current assets	218.29	184.71	18.2
Current liabilities	-141.69	-121.19	16.9
Capital employed	395.10	338.31	16.8
Equity	247.49	219.83	12.6
Net financial debt¹	89.26	73.45	21.5
Provisions and other debts	58.35	45.03	29.6
Source of funds	395.10	338.31	16.8

¹: All debts of a financial nature with non-banking entities are included in the net financial debt. Likewise, in addition to cash and other equivalent liquid means, those deposits that guarantee debt commitments have been considered as lower financial debt (2017: EUR 13.88 million, and in EUR 2016: 26.43 million).