

Higher sales and lower margins in the 1st quarter

The first quarter of 2019 reflects a growth in sales as well as a narrowing of margins due to the drop in the prices of marketed products and the increase in the cost of raw materials.

The sales of Ercros in this quarter have reached EUR 172.91 million, 4.5% higher than the first quarter of 2018. This increase is mainly due to the increase in volumes following capacity expansions of caustic soda, PVC and polyols, but lower prices, except in the pharmaceuticals division. Sales, on the other hand, have benefited from the appreciation of the dollar against the euro by EUR 1.97 million compared to the same period of the previous year.

The narrowing of margins has come mainly from the variable costs, which have continued the upward trend that began in the fourth quarter of 2018. Regarding the procurements, the increase was by 11% and regarding the supplies, by 22%. Stands out the strong increase in the price of the EDC, which has lowered the margin of the PVC, and of electricity, which together with the lower remuneration for the interruptibility service provided by Ercros, has reduced the profitability of the chlorine related business.

The consequence of the above mentioned is a lower ebitda that has dropped from EUR 20.76 million in Q1 2018 to EUR 12.97 million in Q1 2019, a 37.5% decrease. These figures have been prepared applying the new IFRS 16, which have led to EUR 1.72 million increase in Q1 2018 ebitda and EUR 1.92 million increase in Q1 2019 ebitda [in the Annex to this note a table with the detailed impact of the new IFRS 16 is shown]. Figures for 2018 have been restated.

Amortization has increased by 5.9% as a result of the investments made, and financial expenses have decreased by 33.1%. The expense for income tax is reduced to EUR 1.25 million, and the profit for the period has decreased to EUR 3.66 million compared to the EUR 9.32 million in the first three months of the year 2018, a 60.7% decrease.

Both the ebitda and the profit for the first quarter of 2019 are lower than those obtained in the same period of the previous year –under exceptional sector and macroeconomic conditions– and are in line with the tightening of margins that the European chemical sector is suffering, caused by the weak demand, lower prices and the sharp rise in the cost of raw materials.

As regards the balance sheet, between December 31, 2018 and March 31, 2019, non-current assets have increased by EUR 2.26 million (+0.7%), mainly due to the investments made. Working capital has also increased, in this case by EUR 4.21 million (+4.5%), mainly due to higher receivables.

Capital expenditure, the cash out from provisions and the shares repurchase program has led to a 17.8% increase in net financial debt, which stood at EUR 149.04 million. As shown in the Annex to this note, the adoption of IFRS 16 has impacted the figures of resources used –which now include the right to use the leased assets– and the net financial debt –which now includes the creditors for leases–, by EUR 18.82 million as at December 31, 2018 and EUR 17.61 million as at March, 31 2019. Figures for 2018 have been restated.

Provisions and other debts, meanwhile, have been reduced by EUR 16.48 million due to the payments made in the quarter; a significant reduction of these payments is foreseen in the following quarters. Finally, equity has remained unchanged at EUR 272 million.

Uncertainties and risks that appeared in the second half of 2018 have not been cleared: the tariffs conflict between the USA and China persists; the price of oil remains high; and the uncertainty about Brexit and its effect on the European economy persists. In the EU, continues the cyclical slowdown aggravated by the USA decision to review the tariffs with the EU, particularly those related to the automotive sector, which affects the most to Germany and, by contagion, to the rest of Europe. In any case, it's expected that the current downward cycle will be shorter and with less impact than the one of the Great Recession.

In the chlorine-caustic soda sector, however, the turnarounds scheduled for the second quarter and the operating difficulties to maintain the current high capacity utilization rates –that are at their historic highs in both Europe and the USA– could led to an increase in caustic soda price due to lower supply. In the case of Ercros, the tightening of margins could be partially offset by new volumes in the third quarter following the last scheduled expansion of the chlorine-caustic soda production capacity, which will also allow reducing the volume of purchased EDC

Barcelona, May 6, 2019

Statement of consolidated profit and loss

EUR thousand	1st quarter 2019	1st quarter 2018	Variation (%)
Revenue	175,952	167,289	5.2
Sale of goods	172,908	165,465	4.5
Services rendered	7,668	7,780	-1.4
Other income	1,918	1,284	49.4
Changes in inventories of finished goods	-6,542	-7,240	-9.6
Expenses	-162,979	-146,533	11.2
Raw Materials	-91,113	-82,097	11.0
Supplies	-25,684	-21,120	21.6
Other operating expenses	-24,883	-22,750	9.4
Employee benefit expenses	-21,299	-20,566	3.6
Ebitda	12,973	20,756	-37.5
Amortisation	-6,577	-6,213	5.9
Ebit	6,396	14,543	-56.0
Financial result	-1,487	-2,224	-33.1
Profit before taxes	4,909	12,319	-60.2
Income tax	-1,249	-2,997	-58.3
Profit for the period	3,660	9,322	-60.7

Economic analysis of the balance sheet

EUR thousand	03-31-2019	12-31-2018	Variation (%)
Non-current assets ¹	347,660	345,404	0.7
Working capital	97,904	93,698	4.5
Current assets	211,971	218,877	-3.2
Current liabilities	-114,067	-125,179	-8.9
Capital employed	445,564	439,102	1.5
Equity	272,697	272,255	0.2
Net financial debt ²	149,038	126,542	17.8
Provisions and other debts	23,829	40,305	-40.9
Source of funds	445,564	439,102	1.5

¹. Includes rights to use leased assets amounting to: EUR 17,613 thousand as at 03-31-2019 and EUR 18,821 thousand as at 12-31-2018.

². Includes creditors for leases amounting to: EUR 18,062 thousand as at 03-31-2019 and EUR 19,234 thousand as at 12-31-2018.

Annex
Impacts of IFRS 16:
In the statement of consolidated profit and loss

EUR thousand	1st quarter 2019	1st quarter 2018
Increase in ebitda	1,917	1,717
Decrease in other operating expenses	1,917	1,717
Increase in amortisation	-1,759	-1,573
Increase in financial expenses	-194	-238
Decrease of the profit for the period	-36	-94

In the economic analysis of the balance sheet

EUR thousand	03-31-2019	12-31-2018
Right to use leased assets	17,613	18,821
Increase in resources used	17,613	18,821
Reduction of total assets:		
Retained earnings	-413	-131
Profit for the period	-36	-282
Increase in liabilities:		
Creditors for leases	18,062	19,234
Increase in the source of funds	17,613	18,821