

Estimated impact to Ercros of banning the use of mercury technology and Covestro plant shutdown from December 2017

As Ercros has been reporting in its annual accounts, the European Union has banned from 11 December 2017, the use of mercury technology in the production of chlorine and caustic soda, a fact that coincides in time with the decision announced by Covestro (formerly Bayer) to close its MDI plant. Due to Covestro is the largest consumer of chlorine from Vila-seca I factory, the closure of its plant makes unnecessary the investment that Ercros should undertake to replace the mercury technology, which currently accounts for 100% of the chlorine production capacity at the factory in Flix and 70% of the capacity at Vila-seca I factory.

In such way, Ercros will reduce its total production of chlorine (and its co-produced caustic soda) by 55%, which means a decrease in the same percentage of electricity consumption, so the company ebitda will reduce its sensitivity to this cost, which has increased significantly in the last years. The lower power consumption will free up financial guarantees and the deposits that ensure them, amounting around EUR 8 million, which will provide extra liquidity to the company to address the costs of the adjustment to be carried out.

Therefore, Ercros shall adjust its production structure and reduce its workforce around 150 to 200 people, for which purpose should make a provision of EUR 10 million, expected at year-end 2017, after the board of directors agrees to execute the appropriate actions. Will not be necessary to register any further deterioration in the value of the assets involved.

From 2018, Ercros foresees a reduction in turnover of around EUR 90 million (15% of annual turnover) and a reduction in the ordinary ebitda ranging from EUR 5 to 10 million depending on market adjustments that may arise as a result of the ban on mercury technology. Ercros estimates that this impact is perfectly acceptable because it will be offset by the increasing performance of the other businesses of the group (intermediate chemicals and pharmacy divisions), which are increasing their contribution to company profits, and by the continued favourable environment derived from (i) the exchange rate, (ii) the recovery in the construction industry and in the economy in general, both in Spain and in Europe, and (iii) the reduction the cost of gas resulting from the reduction in oil prices. This environment, along with efficiency improvements adopted, has contributed to the return to profitability of the company in 2015.

Ercros will maintain its presence in the market of chlorine and caustic soda with the production from the group's factories that have already converted their technology, 100% of the current chlorine production capacity of the plant in Sabiñánigo and 30% of the present chlorine production capacity of the plant in Vila-seca I, which totals 85,000 tons annually.

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