# ANNUAL REPORT 2017

Ercros

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The annual report includes the management report, the annual accounts and the audit report of the consolidated Group and the individual Company, Ercros, SA, for the year ended on 31 December 2017. These reports were approved unanimously by the board of directors on 23 February 2018, following a favourable report from the audit committee meeting the same day.

Ercros

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*Bearing those cases in which the comprehension of the text requires so, all references contained in this document using the male gender will be deemed as indistinctly referring to all persons, men or women, in order to avoid reiteration of terms to facilitate the reading thereof.*

# 1 Letter from de chairman

**Dear Shareholders,**

2017 was a decisive year for Ercros because we successfully completed the technological adaptation of the chlorine and caustic soda manufacturing processes. You will recall that this adaptation was due to the European ban on the use of mercury technology in electrolytic plants after 11 December 2017.

The change in technology had a significant effect on the chlorine derivatives division that represents 64% of the company's billings. This change led to the discontinuation of activity at two plants that produce chlorine using mercury technology, two chlorine derivative plants, and the factory that provided the raw material (sodium chloride) for the electrolytic processes.

In order to restructure the business after these closures and preserve Ercros' profitability, we launched the ACT Plan that includes investments totalling EUR 67.4 million and the first phase of which was completed in 2017. The main measure contained in this plan was to increase the capacity of the chlorine production plant that operates with membrane technology, which is considered best available technology ("BAT") and, therefore, it is not affected by the European Union ban. We also expanded the PVC plant and built three new chlorine derivatives plants.

With these steps, we have positioned ourselves as the number one Spanish producer of chlorine, caustic soda, sodium hypochlorite and hydrochloric acid and as the second largest producer of PVC. Recently, in view of the healthy performance of the caustic soda and chlorine derivatives markets, we announced a new increase in our chlorine production capacity that will allow us to reach a total volume of 191,000 tons at 2018 year end.

Over the last year we also made significant investments in the pharmaceuticals division that allowed us to increase the installed capacity of the primary production areas of this business: fermentation, synthesis and sterilisation.

The total investment in 2017 was EUR 44.67 million, a remarkable amount that will yield a significant increase in the company's productivity.

The sound performance of our markets in 2017 —the strength of which was more than enough to offset the impact of the rise in the price of our main raw materials— allowed us to obtain the third-best results in Ercros history (EUR 44.49 million), even after taking into account the restructuring costs of the aforementioned chlorine derivatives division that amounted to EUR 21.73 million. These costs include the termination benefits arising from the collective layoff that was agreed upon with the unions and that affected 105 employees who were given the option of being relocated to one of the company's other workplaces, as well as the dismantling expenses related to the facilities that closed and the corresponding environmental remediation.

Despite the industrial and financial challenge posed, in 2017 we easily met the criteria established in the shareholder remuneration policy. Therefore, the board of directors has agreed to propose to the shareholders at the general meeting a dividend of EUR 0.05 per share with a charge to 2017 for a total of EUR 5.55 million, equivalent to a payout of 12.5% of 2017 consolidated profit. Meanwhile, the Company is purchasing treasury shares to retire for a value of EUR 10.02 million to complete the total remuneration of EUR 15.57 million, equivalent to 35% of 2017 profit that is the maximum total payout established in the shareholder remuneration policy for the year.

At the general shareholders' meeting held in June 2017 all of the resolutions proposed on the agenda were approved. Among them it is worth noting that the shareholder remuneration policy for the 2017-2020 period and the appointment by co-option of the independent director Carme Moragues Josa were approved. With this appointment, of the five members composing the board, two are women —both of whom are classified in the independent category— representing 40% of the board. Therefore, three years before necessary, we were able to surpass the gender diversity goal established in the good governance code for listed companies proposing that female directors represent at least 30% of all members of the board in 2020.

With regard to sustainability, we must highlight the decline in the main environmental indices: the emissions index that fell by 10% and the direct greenhouse gas emissions index that fell 3.2%. The general accident rate also fell in 2017, in this case 15.5%.

By strengthening membrane technology in the chlorine production processes and complying with environmental legislation to prevent mercury emissions, we were able to increase our efficiency given that the aforementioned technology consumes 30% less electricity. This is especially important in the electrolytic plants that are large consumers of this raw material. Reducing electricity consumption is positive for sustainability, as well as Ercros' competitiveness given that, in the past, electricity represented up to half of the production costs of the chlorine derivatives division.

Ercros' commitment to going "green" is also very much a part of its development of new products. For example the new ErcrosBio PHA range is a bioplastic of vegetable origin that is recyclable, compostable and biodegradable in water, thereby contributing to reducing marine litter. Meanwhile, ErcrosGreen+ are resins, the formaldehyde emissions of which are as low as those of natural wood. In 2017 we also introduced to the market Carbaicar HD, our new line of high-quality moulding powders for manufacturing complex pieces.

In 2018 we expect prices will continue to be pushed upward, particularly those of caustic soda and PVC, which have benefited from an overall drop in supply in a context in which GDP is on the rise. Likewise, we will benefit from the entry into service of the investments made in the first phase of the ACT Plan.

The reduction in fixed costs —staff costs and operating and maintenance expenses— envisaged in the restructuring of the chlorine derivatives division is proceeding as expected and the new plants entered into service without any significant operating incidents.

The start of 2018 marked the beginning of the second phase of the ACT Plan that includes investments to increase the production capacity of pentaerythritol and tablets for treating swimming pool water. Based on current forecasts, both investments will be complete a year before initially planned (2020) since the first of the two may be operative at the end of the year and the second, in 2019.

**Antonio Zabalza Martí**
*Chairman and CEO of Ercros*

Barcelona, 23 February 2018

## 2.1. Organisational structure

The governing bodies of Ercros, S.A. ("the Company" or "Ercros") are the general shareholders' meeting and the board of directors, and within the latter, the supervisory and control committees: the audit committee and the appointments and remuneration committee. The operational management body is Ecofin and the body which monitors and controls business performance is the management committee.

### a) General shareholders' meeting

On 23 June 2017, the Company held its general shareholders' meeting. The agenda included, in addition to the mandatory and customary motions —approval of the financial statements, reappointment of the external auditor, an advisory vote on the directors' remuneration report, authorisation to acquire treasury shares and delegation of powers to the board and the secretary to execute the resolutions— the following motions:

- The payment of a gross dividend of EUR 0.04 per share representing a payout of 9.8% of the Ercros Group's 2016 consolidated profit, which was EUR 44,734,084 [see chapter 10.1 b)].

- A share capital reduction of EUR 932,058 to retire the 3,106,860 treasury shares —representing 2.723% of the share capital— held by the Company, which were acquired within the framework of the first treasury share buyback programme for an acquisition cost of EUR 9,000 thousand [see chapter 9].

- The ratification of the shareholder remuneration policy for the 2017-2020 period approved by the board of directors on 28 April 2017 [see chapter 10.1 a)].

- The ratification of the appointment by co-option of the independent director Carme Moragues Josa carried out by the board of directors on 21 March 2017 [see sub-section b) below].

The shareholders at the general shareholders' meeting approved all of the motions on the agenda. There were 8,860 holders of 81,372,466 shares in attendance at the meeting, representing 71.325% of the subscribed share capital with voting rights, of which 17.720% were present and the remaining 53.605% were represented.

The Company paid a gross premium of gross EUR 0.005/share to shareholders that were present or represented at the aforementioned meeting.

### b) Board of directors

As stated in sub-section a) above, the shareholders at the general shareholders' meeting ratified the appointment by co-option of the independent director Carme Moragues Josa who had been appointed by the board of directors on 21 March 2017 to cover the vacancy resulting from the death of Jordi Dagà Sancho, after a favourable report was issued by the appointments and remuneration committee.

During the same meeting on 21 March, Mrs. Moragues Josa was appointed as coordinating director, chairwoman of the audit committee and as a member of the appointments and remuneration committee.

The independent director Lourdes Vega Fernández maintained the position of substitute coordinating director that she has held since 9 November 2016.

After the incorporation of Mrs. Moragues Josa, the board of directors was composed of the following members:

- Executive director: Antonio Zabalza Martí.

- Directors included in the "other external directors" typology: Laureano Roldán Aguilar and Eduardo Sánchez Morrondo.

- Independent directors: Lourdes Vega Fernández and Carme Moragues Josa.

The position of non-board secretary continues to be held by Daniel Ripley Soria.

In 2017 the board met on nine occasions, six of which were in person and three of which were in writing with no meeting being held. All of the directors attended eight meetings and in one meeting, the absent director delegated their votes to a non-executive director.

In its meeting held on 21 December 2017, the board of directors approved the board diversity policy establishing the criteria that must be taken into account during the process of selecting new members of the board of directors and the supervisory and control committees, in the interest of promoting and incentivising diversity on the board. In accordance with the aforementioned policy, these criteria are: non-discrimination, equal treatment and gender, training and job experience diversity.

This diversity policy supplements the director selection policy, approved by the board on 18 February 2016.

### (i) Audit committee

As indicated in sub-section b) above, the board of directors at its meeting held on 21 March 2017, appointed the independent director, Mrs. Moragues Josa, chairperson of the audit committee. Between 10 January and 21 March 2017, this position, which had occupied by the director Mr. Dagà Sancho until his death, was temporarily held by Mrs. Vega Fernández.

At present, the composition of the audit committee is as follows:

— President: Carme Moragues Josa, independent director.

— Members: Laureano Roldán Aguilar, member of the board of directors who is classified as "other external directors", and Lourdes Vega Fernández, independent director.

The position of the audit committee secretary is still held by Josep Rovira Pujals, who is also Ercros' administration director.

Throughout 2017, the audit committee held five meetings, four of them attended by all its members and, in one of them, the absent director delegated the vote.

On July 26, 2017, the board of directors approved the creation of the compliance committee, which is integrated by Xavier Álvarez García —director of the internal audit service— and by Asunción Loste Madoz —director of the legal service. The compliance committee depends on the audit committee and its functions are described in chapter 5.1.

The internal audit service, which is headed by Mr. Álvarez García, also depends on the audit committee.

### (ii) Appointments and remuneration committee

On 21 March 2017, Mrs. Moragues Josa became a member of the appointments committee. In such a way, that the current composition of this commission is the following:

— President: Lourdes Vega Fernández, independent director.

— Members: Eduardo Sánchez Morrondo, member of the board of directors who is classified as "other external directors", and Carme Moragues Josa, independent director.

The position of the appointments and remuneration committee secretary is still held by Joaquín Sanmartín Muñiz, who is also Ercros' human resources director.

In 2017, the commission held three meetings attended by all the members.

**Structure of the board of directors on 31-12-17**

| Director | Position | Type | Committees | Date of renewal |
|---|---|---|---|---|
| Antonio Zabalza Martí | Chairman and CEO | Executive | – | 10-06-16 |
| Laureano Roldán Aguilar | Director | Other external | Audit | 10-06-16 |
| Eduardo Sánchez Morrondo | Director | Other external | Appointments and remunerations | 10-06-16 |
| Lourdes Vega Fernández | Alternate coordinating director | Independent | Audit and appointments and remunerations | 10-06-16 |
| Carme Moragues Josa | Coordinating director | Independent | Audit and appointments and remunerations | 21-03-17 |
| Daniel Ripley Soria | Non-voting secretary | | | |

### c) Ecofin

It is the body that ensures the implementation and follow-up of the agreements adopted by the board of directors, periodically monitors the evolution of business and approves the execution of the Groups' investments and financing.

It is comprised of the chairman-CEO, the COO, the CFO and the general secretary. This body meets at least biweekly and whenever necessary.

The composition of the ecofin was modified on 1 October 2017 when Agustín Franco Blasco, COO, joined; replacing José Luis Muñiz Álvarez, who left Ercros on his retirement.

### d) Management team

It is responsible for monitoring business performance on a monthly basis.

It is comprised of the chairman-CEO, the COO and the CFO, the managers of the three divisions and the managers of the general secretary, administration, finances, sustainable development, human resources and information systems. To the meetings of the management committee are invited different leaders of the Group, among them the commercial leaders of the main businesses.

On October 1, 2017, as a result of the appointment of Mr. Franco Blasco as COO, the position of director of the chlorine derivatives division —which he held until his appointment— was filled by Francisco España Maraver, to date, industrial director of said division.

Throughout the year, this committee met 11 times.

## 2.2. Industrial structure

The Ercros industrial group ("the Group" or "the Ercros Group") is diversified into three business segments: the chlorine derivatives division, a strategic business unit whose common link is chlorine; the intermediate chemicals division, focused on the chemistry of formaldehyde, the product from which the rest of its portfolio products are manufactured, and the pharmaceuticals division, which manufactures active pharmaceutical ingredients ("API")

As of 31 December 2017, the Group had 10 production centres, all located in Spain.

### a) Industrial restructuring of the chlorine derivatives division

In 2017 the Group significantly restructured its chlorine and caustic soda production that affected four of the six factories of the chlorine derivatives division. The restructuring was a result of the ban on producing chlorine with mercury technology in Europe after 11 December 2017 resolved by the European Union [see section 2.3 f) (iii) below].

This ban led to an approximately 7% decrease in the chlorine production capacity in Europe. In the case of Spain, the effect was more significant, reducing its capacity by 60%. Meanwhile, the Group's capacity was reduced by 44.7%.

To restructure the activity after the closure of the chlorine production plants with mercury technology and maintain the profitability of the Group, in 2016 the Group launched the ACT Plan [see section 2.3 b) below] enabling it to —among other things— increase the capacity of the chlorine production plants with membrane technology, considered the best technology available and, therefore, not affected by the European Union ban.

In accordance with that set forth in the aforementioned plan, the Group carried out the following activities aimed at industrially restructuring the production of chlorine and chlorine derivatives in 2017.

- On 26 May, the new PVC reactor —which replaced an older one— entered into service at the Vila-seca II factory increasing the production capacity by 20,000 t/year to 200,000 t/year.

- On 10 December, the Flix chlorine-caustic soda electrolysis plant and, simultaneously, the sodium hypochlorite and hydrochloric acid plants at this centre closed, reducing its activity to the production of dicalcium phosphate on a contract basis.

- On 4 December, the chlorine-caustic soda electrolysis plant that operated using mercury technology at the Vila-seca I factory closed and on 17 December the 65,000 t/year increase in the production capacity of the chlorine-caustic soda electrolysis plant that operates with membrane technology entered into service bringing its current chlorine-caustic soda production capacity to 120,000 t/year. New sodium hypochlorite, hydrochloric acid and concentrated caustic soda plants were also commissioned during the year and new electrical equipment was installed at this centre.

- On 15 December, the Cardona factory closed. Its activity consisted of extracting and purifying sodium chloride (common salt), which was used as a raw material in the electrolysis plants that are now closed.

- On 8 February 2018, the 15,000 t/year increase in the capacity of the chlorine-caustic soda electrolysis plant that operates with membrane technology at the Sabiñánigo factory entered into service, after which the centre's chlorine production capacity is 45,000 t/year.

**b) New plants in the pharmaceuticals division**

In January 2017, a new fermenter to produce erythromycin and fusidic acid at the Aranjuez factory entered into operation increasing the factory's capacity to manufacture these products by 20%.

On 26 April, at the same factory, a new API plant —dedicated to manufacturing sterile fosfomycin was inaugurated, however, it is also equipped to manufacture other sterile products. The new plant's capacity has enabled the Group to triple its annual production of sterile fosfomycin.

This action concluded in December with the start-up of the expansion of the synthesis plant, increasing production of fosfomycin and erythromycin derivatives by 15%.

As a result, in 2017, the main areas of API production at the Aranjuez factory —fermentation, synthesis and sterilisation— increased their installed capacity, which is in keeping with the increase in demand for this division's products.

**Industrial structure**

| Divisions | Centres | Products | Applications |
|---|---|---|---|
| **Chlorine derivatives** | Flix, Monzón, Tarragona, Sabiñánigo, Vila-seca I and Vila-seca II | Caustic potash | Chemicals industry |
| | | Caustic soda | General industry |
| | | Chlorine | Derivatives manufacturing |
| | | EDC | VCM manufacturing |
| | | Hydrochloric acid | General industry |
| | | PVC | Construction |
| | | Sodium chlorate | Paper pulp bleaching |
| | | Sodium chlorite | Water treatment |
| | | Sodium hypochlorite | Water treatment |
| | | TCCA | Pool water treatment |
| | | VCM | PVC manufacturing |
| **Intermediate chemicals** | Almussafes, Cerdanyola and Tortosa | Formaldehyde | Derivatives manufacturing |
| | | Glues and resins | Wood industry |
| | | Moulding compounds | Sanitary and electrical equipment |
| | | Paraformaldehyde | Resins |
| | | Pentaerythritol | Paints |
| | | Sodium formate | Tanning industry |
| **Pharmaceuticals** | Aranjuez | Erythromycins | Antibiotic |
| | | Fusidic acid | Skin infections |
| | | Fosfomycins | Antibiotic |

## 2.3. Operation

### a) Mission and principle

The general purpose of the Ercros Group is the consolidation of a solid and long-lasting industrial group, that contributes toward the wealth and wellbeing of the society in response to the trust placed in it by its shareholders and which enable it to fully develop the personal and professional capacity of those who form a part of it.

The Group's actions aimed at increasing its value are guided by three basic principles: (i) maximum safety for its employees, neighbours and facilities; (ii) absolute respect for the environment and (iii) satisfaction of the needs of its customers and total quality of its products.

### b) Corporate strategy

The Ercros Group defines its business strategy according to multiannual plans that establish the measures to be adopted in order to increase productivity and efficiency of the Company's resources.

The three major strategic long-term objectives of the Group are:

- To create a chemicals group with an international presence, efficient, sound and profitable.
- To achieve productive, industrially integrated installations with a European dimension and placed in efficient locations.
- To specialize its portfolio in products of high performance, that present greater comparative advantages for the Group and have a greater expectation of growth.

#### The ACT Plan

The Group's short and medium-term strategy to adapt to the technological change is defined in the ACT Plan, which covers the 2016-2020 period and includes activities amounting to EUR 67,440 thousand —EUR 3,740 thousand more than initially envisaged— with an average return period of two years.

As stated in section 2.2 a) above, this plan was mainly designed to handle the technological change arising from the European ban on producing chlorine with mercury technology, however, it also includes other measure to increase the manufacturing capacity of those products whose facilities are close to reaching 100% of their capacity.

The ACT Plan is structured in two phases: (i) the first phase covered the 2016-2017 period and has been fully executed; and (ii) the second phase covers the 2018-2020 period and is under way.

The actions agreed in the first phase of the plan are those addressed in section 2 above, except the new sterile fosfomycin production plant at the Aranjuez factory the investment in which was approved prior to the launch of the ACT Plan.

The investments envisaged in the second phase have gotten under way in 2018. They include:

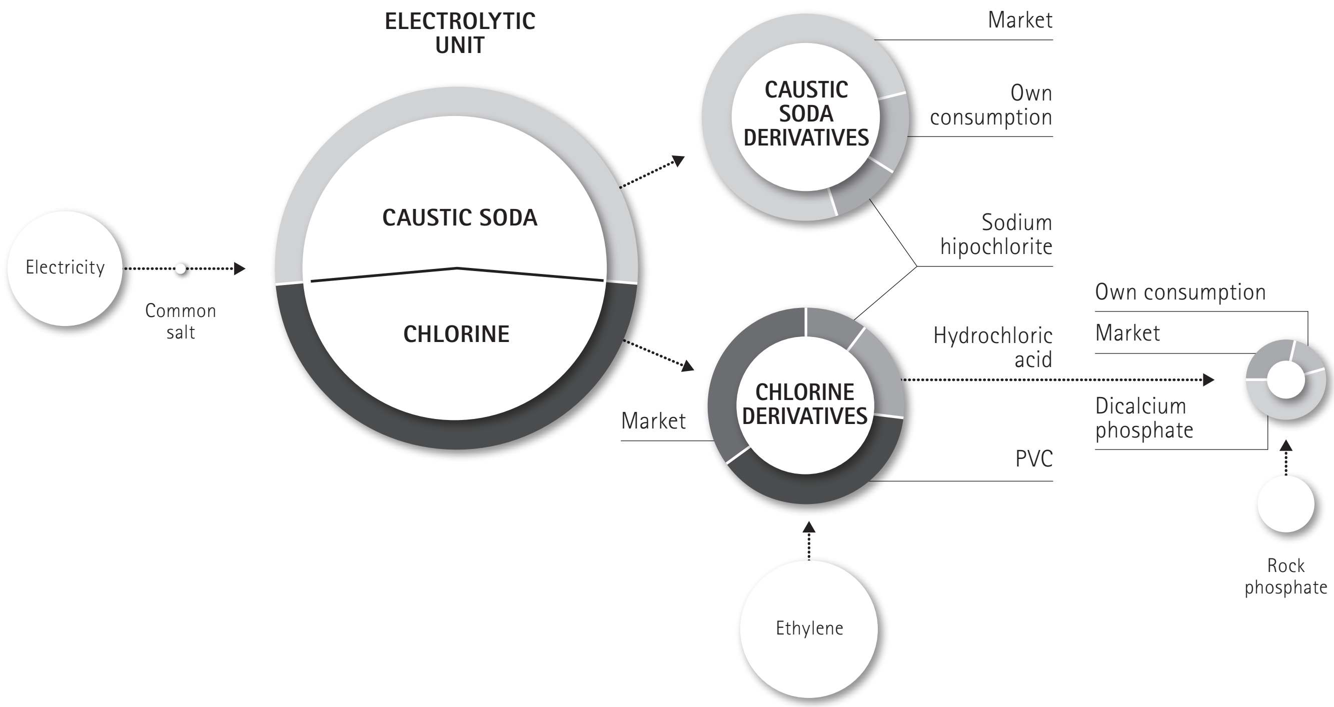
- Increasing the production capacity of the Sabiñánigo trichloroisocyanuric acid ("TCCA") plant.
- Increasing the production capacity of the Tortosa pentaerythritol plant.

The industrial restructuring of chlorine production led to a collective layoff affecting 105 employees. All were given the option of being transferred to one of the Group's other centres pursuant to the 149 voluntary partial retirement requests received [see chapter 3.4 c)].

The estimated cost of the restructuring amounts to EUR 21,732 thousand, EUR 11,000 thousand relate to termination benefits and the remaining EUR 10,732 thousand relate to the facilities that have been closed and the corresponding environmental remediation.

Given the reduction in installed capacity of chlorine production in Europe —discussed in section 2 a) above— as well as the positive outlook for the caustic soda and chlorine derivatives markets for the coming years, the Group is analysing a new increase to its chlorine and caustic soda production capacity [see chapter 7].

**Chlorine-caustic soda process scheme**




**c) Business model**

**(i) Chlorine-caustic soda chain**

Chlorine is the common denominator of the chlorine derivatives division. Chlorine and caustic soda are obtained simultaneously in the same production process using sodium chloride (common salt) dissolved in water (brine) and electricity, in a ratio of 1 ton of chloride to 1.1 ton of caustic soda. This combination is known as the electrochemical unit ("ECU").

Caustic soda is a basic chemical product, highly reactive, widely used in industry and whose demand present growth is equivalent to 1.5 times the GDP growth. The caustic soda margin, a product that is marketed worldwide, is determined by the price that electric power has at any given moment, which represents around 46% of the production costs of the ECU.

For safety reasons and economic efficiency, most of the chlorine produced is consumed in the same place of production because is obtained in the form of gas and is highly reactive. Approximately 60% of the chlorine produced by the Group is self-consumed to produce by-products (sodium hypochlorite, hydrochloric acid, TCCA and chain EDC/VCM/PVC) and the rest is supplied by pipe to the client Covestro.

The main use of chlorine worldwide is the manufacture of PVC. PVC is a thermoplastic widely demanded worldwide and has the advantage, compared to other plastics derived from ethylene, that chlorine becomes part of its composition through the EDC, which makes the plastic less dependent on ethylene. Chlorine represents approximately 60% of the weight of PVC.

PVC production can be carried out from an intermediate product, the EDC, which already incorporates ethylene and chlorine. In fact, in the manufacture of PVC, the Group uses both internally produced EDC and purchased EDC. The choice of one or the other option depends on several factors: (i) the cost of electricity; (ii) the cost of ethylene; (iii) the cost of the external EDC; (iv) the price of caustic soda; and (v) the availability and needs of chlorine for the manufacture of other derivatives. In view of each of these factors situation, the Group decides at every single moment which is the best option.

The evolution of PVC is linked to the progress of construction, its main market. The margin of this product is determined by the price of ethylene, which represents around 60% of its total costs or, as the case may be, by the price of the external EDC, which accounts for 30% of its total costs. However, to understand the final profitability of PVC, the ECU as a whole must be taken into account, computing both the income and expenses derived from the manufacture of PVC and the caustic soda that is co-produced with the chlorine incorporated into PVC.

In 2017, the increase in the volume of chlorine demanded by Covestro —in the current context of lower product availability— has led the Group to redistribute the chlorine produced by increasing the proportion of chlorine it allocates to Covestro and reducing the proportion of chlorine that consumes internally in the EDC/VCM/PVC chain. Given that —with the start-up of the new reactor [see section 2.2 a) above]— the production volume of PVC has increased and the corresponding EDC that this chain demands has been satisfied by increasing the purchase of external product. In this sense, the offer of EDC is abundant and competitive, given that in certain markets the demand for caustic soda is higher than that of PVC, so there is EDC offer at competitive prices to serve this product to release the co-produced chlorine with the caustic soda.

On 16 March 2017, Ercros and Covestro signed a new chlorine supply contract until the end of 2020. Subsequently, on 11 December, Covestro announced its intention to start up its own chlorine production plant in its Tarragona' factory in 2020, which will lead to a new redistribution of chlorine that the Group will produce from that moment in favour of internal use, thus returning to the scenario initially contemplated when the ACT Plan was launched [see chapter 5.2 a) (vii)].

The main challenge of the chlorine derivatives division in 2018 is to compensate for the loss of contribution due to the lower availability of own production chlorine and caustic soda, by means of (i) the reduction of the fixed costs of personnel, operation and structure, corresponding to the mercury chlorine production plants of Flix and Vila-seca I and the Cardona salt production plant that have been closed; and (ii) by improving the utilization ratio of the chlorine production plants with membranes, which is superior to that of mercury plants.

In the medium term, the challenge of the division is to increase the joint margin of PVC and its associated caustic soda, and of the other chlorinated derivatives in a context of uncompetitive electricity prices at European level based on a qualitative differentiation in quality and reliability of supply regarding other competitors.

The main raw material used by the chlorine derivatives division is electric power, whose cost is set using the price of the allocation of the daily energy quotas made by Red Eléctrica de España ("REE") to which regulated costs must added. Although the caustic soda market has a European character, the electricity cost of production is typical of the Iberian market, so the price of electricity is a component that affects the competitiveness of the Group.

On the other hand, since 2008, the Group has been receiving remuneration for the interruptibility service that it provides to REE, which consists on the possibility that the company has to interrupt the electricity supply to certain Group factories in the cases in which the situation of electric generation and demand so requires. Since 2015, the amount paid by REE for the interruptibility service was fixed annually through an auction that took place prior to the start of the fiscal year. However, the last auction, held on December 2017, was only for the first five months of 2018, time estimated by the Government to develop a new regulation that suits the current interruptibility service to the technical and economic standards of other similar services. It is expected that, prior to the end of this transitional phase (January-May), another auction will be held for the rest of the year, a comparable compensation system or a combination of both will be implemented [see chapter 5.2 a) (vi)].

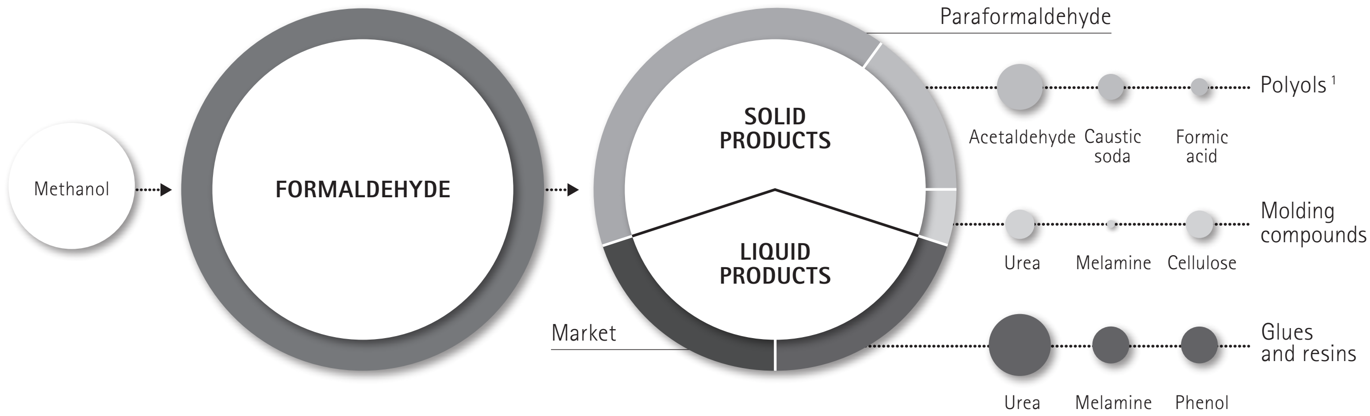
Sodium chloride is the other raw material in the production process of chlorine and caustic soda. Until now, the Group's mercury electrolysis plants have been using sodium chloride produced at the Cardona factory, whose insufficient purity for the membrane electrolysis plants was the reason for the closure of this centre. Anticipating this situation, Ercros has signed a very long-term contract (20 years) to guarantee the supply of this material with the required quality and at competitive prices [see chapter 5.2 a) (vi)].

In addition to chlorine, the second fundamental raw material in the manufacturing process of PVC is ethylene. The price of this product is marked both by the evolution of the oil barrel price and by the availability of ethylene in the euro area. Normally, the increases or decreases in the price of ethylene are passed on to PVC customers. The supply of this material is guaranteed through the contracts that Ercros has signed with two suppliers and which are being renewed at their expiration according to the needs of the Group.

The production of PVC also entails a high consumption of thermal energy, which is obtained mainly from natural gas. The price of natural gas is determined, fundamentally, by the oil barrel price and the euro/dollar exchange rate.

The change of technology in chlorine manufacturing processes in favour to membrane technology —which is more efficient in electricity consumption— and the reduction of EDC production —which has been replaced with the purchase of external EDC— have allowed to reduce the level of electricity and ethylene dependence of the Group.

**Formaldehyde process scheme**




[1] Pentaerythritol, dipentaerythritol and sodium formate.

**(ii) Formaldehyde chain**

Formaldehyde is the core product of the intermediate chemicals division, with methanol being its main raw material. This provision supposes around 40% of division total costs. Normally, increases or decreases in the price of methanol are passed on to customers in order to preserve the business margin from the volatility of this raw material.

The 79% of the formaldehyde that is produced is destined to the manufacture of derivatives, both liquid and solid. The latter, which account for 66% of the turnover of the business, have a greater added value than liquids and its market has global dimension (its percentage of export is 89%). The main currency of the solid products market is the dollar, so the competitiveness of the business and its profitability are affected by the euro/dollar exchange rate.

Liquid products, due to their water content and, therefore, higher transport costs, have a smaller market, limited to a radius of 800 to 1,000 km from the production centre and whose currency is the euro, which is why they are not affected by the exchange rate.

Solid products are used in the manufacture of resins, lubricants, paints, varnishes, high performance lacquers and electrical and sanitary components. The margin of this group products benefits from the recognition by the market of its quality and the know-how applied in its production.

In the short and medium term, growth in global demand for the intermediate chemicals division main products is expected. Forecast that has become more solid following the closure of several factories in China as a result of the application of the new policy to combat pollution in that country, with the consequent decrease in global production capacity [see chapter 5.2 a) (iv)].

In the case of the Group, the formaldehyde plants are already adapted to the emission limits set for 2021 in the conclusions of the BAT for the Large Volume Organic Chemical Industry ("LVOC"), published by the European Union [see sub-section f) (iii) below].

With this same objective, in 2017, the Group launched the new range of ErcrosGreen+ resins, which have an ultra-low formaldehyde emission, thereby advancing to the most stringent environmental policies and standards and recommendations of the construction sector, both in Europe as in the USA and in Japan.

By the end of 2018, the implementation of the expansion of the pentaerythritol production capacity of the Tortosa factory, which is currently close to saturation (see sub-section b) above), is scheduled within the ACT Plan.

The challenge of this business is to maintain its global leadership based on the qualitative differentiation regarding competitors' products, mainly of Asian origin, maintaining its competitiveness.

### (iii) Active pharmaceutical ingredients

The activity of the pharmaceuticals division focuses on the production of raw materials and API, mainly from the antibiotics family. The division is also specialised in preparing bespoke active and intermediate ingredients for customers.

The main value of this business is its worldwide leadership in API manufacturing both for its mastery of the fermentation and synthesis processes, as well as for its ability to obtain sterile products. Also highly valued is its high degree of internationalization (exports 90.9% of sales) and its good positioning as a reliable and quality supplier of the world's leading laboratories.

The significant weight of foreign markets in the business means that both its sales volume and its margin are influenced by the exchange rate of the dollar against the euro.

Although, in general, the products of the pharmaceuticals division can be considered mature, the number of manufacturers in the world is low —in part because of the complexity of the production systems. This fact, together with the required certifications and the demanding audits of both the health authorities and the clients that must pass through the industrial facilities, the manufacturing processes and the distribution of the products, creates a long-term link with the customers' loyalty.

The main challenge of this business in the short and medium term is to make profitable the greater manufacturing capacity of sterile products [see section 2.2 b) above] with the incorporation of new products and the opening to new markets of sterile fosfomycin. It is also important to get a better use of the installed fermentation capacity.

In the long term, the business must respond to the quality requirements of customers and regulators, develop new strains, expand the product portfolio and face competition from China and India.

### d) Competitive situation[1]

Ercros Group is a leader in the main markets where it has a presence and supplies a wide variety of industries: chemicals, construction, wood, paint, food, pharmaceuticals, electrical material, water treatment, etc.

The Group exports nearly one half of its sales (46.7%) and markets its products in 103 countries, mainly in the European Union.

The products of the intermediate chemicals and pharmaceuticals divisions represent a significant percentage of the global market. In terms of paraformaldehyde, the Group is ranked first in the world market. It is also a leader in the market for fusidic acid and fosfomycins.

In Europe, it leads in sales of TCCA and in Spain it leads in sales of caustic soda and potassium hydroxide, sodium chlorate, sodium chlorate, formaldehyde, pentaerythritol and moulding compounds and is ranked second in the PVC and glues and resins market.

The size of the Group's competitors varies based on the business and the type of product marketed. The Group sells its products to more than 2,000 customers.

In the chlorine derivatives division, if we use the European caustic soda market as a reference, the Group is ranked ninth among producers, and has the same ranking in the PVC market. In both markets, the Group competes with large operators who are more vertically integrated.

The mercury technology ban in chlorine production plants [see sub-section f) below] has led to an overall decrease in the supply of this product by 7% in Europe, 60% in Spain and 44.7% in the Group. This situation of productive capacity reduction, in a context of increased demand, is causing significant increases in the prices of caustic soda —chlorine coproduct— and chlorine derivatives. It is expected that the current situation will continue in the next two or three years, which is the time necessary for the execution of new investments that expand the current offer [see chapter 5.2 a) (iv)].

Although the Group has reduced, in net terms, its chlorine supply by 70,000 t/year, the largest reduction in chlorine production capacity in Spain has allowed an improvement in the Group's competitive position in this market, in which it has consolidated as the first manufacturer with 59% of the installed production capacity.

[1] The figures provided in this section are from the calculations made by the Group itself.

### e) Seasonal trends

In general terms, in the calendar year, the Group's markets are more active during the second and third quarter, except for August. In recent years, the trend among customers of reducing orders at the end of the year as a result of Christmas holidays and the general desire to reduce their warehouse stocks at the end of the year has become more pronounced, which causes the activity to be reduced in December [see chapter 5.2 a) (v)].

The products with the most notable seasonal shifts are those used for water treatment —sodium hypochlorite, sodium chlorite and TCCA— use of which peaks in the summer, and PVC, consumption of which is slower in the cold months of the year due to the stoppage in construction. Demand for other products is steady throughout the year.

Likewise, due to the electricity schedules, the production of chlorine and caustic soda is lower in the winter months when the number of hours with the higher electricity price increase and, thus making costs no longer competitive. Therefore, the production of chlorine and caustic soda and their associated products is greater in the middle quarters of the year. In any case, the cost of electricity each month is the factor which creates the most seasonality in the Group's results.

In an outlook for a multiple-year economic cycle, products from the chlorine derivatives division are the most cyclical. In the basic chemicals industry, due to the high volume of products manufactured worldwide and the unequal growth of supply and demand, it is customary for two to five-year periods in which the supply and demand are balanced and the product profitability is adequate to alternate with other periods where the supply increases excessively with respect to demand, or demand falls causing an imbalance, ultimately eroding margins. Electricity prices have also been fluctuating significantly from year to year, causing the Group's annual results to be cyclical.

The change of technology in chlorine manufacturing processes [see sub-section a) above] in favour to membrane technology —which is more efficient in electricity consumption— have allowed to reduce the level of dependence on this input.

### f) Regulatory environment

The specific legal requirements for the industries in which the Group operates that have the greatest impact on its activity and results are those related to the energy market, the safety and health of persons and environmental protection.

#### (i) Energy consumption

The central government, having implemented the main milestones of the energy reform in recent years, did not implement any new regulatory developments in the energy market in 2017 that had a significant economic impact on the Group's activity, other than that regarding interruptibility.

The government is currently developing new regulations that adapt the interruptibility service provided by REE —in force since 2008— to the technical and economic standards of other similar European services [see sub-section c) (i) above].

#### (ii) Environmental remediation

Royal Decree 9/2005, establishing the list of potentially soil polluting activities and the criteria and standards for declaring polluted soil, requires industries to implement, if appropriate, a remediation project, subject to approval by the competent authorities.

On 28 March 2017, the Catalan Government enacted a law —Catalan Law 5/2017, on fiscal and financial measures *("Llei de mesures fiscals i financeres")*— amending Legislative Decree 1/2009, on polluted waste and soils that includes the concept of historical pollution. In accordance with the aforementioned law, all pollution or alteration in the soil that occurred prior to 28 August 1994 is considered historical. Regarding the soil affected by historical pollution, the measures adopted must focus on restoring the functions specific to the soil's use when it was contaminated. Where applicable, the polluted soil may be contained or confined if it is demonstrated that other solutions are technically or economically impossible. This law clarifies and conditions the actions that the administration can impose regarding restoring the soil of historical industrial sites located in Catalonia.

The cost of performing its environmental remediation responsibilities are fully provisioned.

### Flix soil and reservoir

In relation to the soil at the Fix factory, on 30 November 2016, Ercros submitted to the regional authorities the characterisation study for the last portion of the soil at the Flix factory that were still pending. Based on the studies, the authorities have yet to determine the clean-up project that, where applicable, must be implemented. On 28 February 2017, Ercros submitted to the authorities an environmental remediation plan supplementing the aforementioned study and describing the actions it proposes taking to improve the quality of the soil and groundwater at the Flix factory and the steps to be taken to eliminate possible mercury emissions after the phase-out of the chlorine production plant on 10 December 2017 [see section 2.2 a) above]. This plan is still pending approval although, throughout 2017, the Group —in coordination with the authorities— began to implement a portion of the actions described therein.

With respect to the Flix reservoir, the decontamination works are being executed by Acuamed and Ercros is required to cover 5.28% of the costs of the aforementioned decontamination. Pursuant to a court order issued by the Appellate Court of Tarragona, Ercros has submitted a payment offer to Acuamed amounting to EUR 8,020 thousand. This amount —which is pending approval by Acuamed— is based on the documents submitted by Acuamed during the legal proceedings, in relation to both the cost of the decontamination works already carried out and the budgeted cost of the work pending execution and is EUR 2,008 thousand less than the amount the Group had provisioned giving rise to a reversal of the aforementioned amount [see chapter 3.1 d) (i)].

### Soil at other factories

Over the past year, the Group continued with its characterisation and remediation work on the soil at the Vila-seca I and Vila-seca II factories. It also expanded the characterisation and control work on the soil at the Sabiñánigo and Monzón factories. In October 2017, the Group submitted the results of the groundwater monitoring research at the Sabiñánigo factory to the Ebro River Control Authority ("CHE") and on 22 November 2017 it submitted the reports on the voluntary monitoring campaigns conducted in two areas of the Monzón factory. Lastly, on 23 January 2018, the competent authorities approved the proposal submitted by Ercros to improve the quality of the groundwater of the land it holds at the Palos de la Frontera premises, disposed of in 2015.

### Cardona mine dumps

The Group is restoring the Terrera Nova mine dump in Cardona —where saline waste extraction activity concluded in 2012— in accordance with the plan approved by the Environmental Quality and Climate Change Office of the Regional Government of Catalonia. The land clearance and revegetation tests included in phase 1 were carried out in 2017.

Last year, Ercros submitted to the Environmental Quality and Climate Change Office the updated restoration plan for the Terrera Vella mine dump that was in operation until the Cardona factory discontinued its activity [see section 2.2 a) above]. This plan includes activities aimed at making it possible to potentially use the saline resources the mine dump contains since the surface water management proposed is compatible with the environment and consistent with the comprehensive restoration project of the Vall Salina.

### El Hondón land

The remediation project for the El Hondón land, where the former Cartagena factory was located, has been halted because the necessary permits were not obtained and because the new municipal team of the Cartagena Town Council, owner of 48% of the lands, has changed the focus of how the land should be treated, opting to confine the waste on site, reducing the cost of the environmental remediation. The Group has made a new estimate of the provision amounting to EUR 5,403 thousand, reducing the initial provision by EUR 3,600 thousand.

### (iii) Industrial emissions

Directive 2010/75/EU on industrial emissions (integrated pollution prevention and control), transposed into Spanish legislation through Spanish Law 5/2013, requires that the environmental permits be adapted at all centres to which it applies and requires that the BAT be applied in production processes within four years of publication of the conclusions from the reference documents on the BAT ("BREF") applicable in each case.

Spanish Royal Legislative Decree 1/2016, of 16 December, transposing the aforementioned directive, consolidates into a single legal text the amendments made to Spanish Law 16/2002, of 1 July, on integrated pollution prevention and control *(Ley de prevención y control integrados de la contaminación)* and the provisions on industrial emissions contained in legislation with the power of law.

In the case of the BREF for the chlor-alkali industry, compliance with the 11 December 2017 deadline for discontinuing the activity of chlorine production plants that use mercury cells resulted in the Group closing the mercury electrolysis plants at the Flix and Vila-seca I factories and a general restructuring of the production process for chlorine and chlorine derivatives [see section 2.2 a) above].

In order to adapt these factories to the chlor-alkali BREF, the Catalan regional authorities requested the ex officio renewal of its environmental permits in 2016 and at the end of 2017 issued both proposed resolutions. In view of the aforementioned proposals, the Group has submitted certain pleadings and is awaiting the definitive resolutions.

Regarding the BREF for the LVOC, on 21 November 2017, the Official Journal of the European Union published Implementing Decision (EU) 2017/2117, establishing the BAT conclusions. In the case of the Ercros Group, the adjustments to the aforementioned BAT, which must be carried out before 22 November 2021, will lead to changes at the EDC and VCM production plants that are currently in the research phase since the formaldehyde plants, also affected by this BREF, have already been adapted to the new requirements.

**(iv) Greenhouse gas emissions**

Spanish Law 1/2005 transposed Directive 2003/87/EC, regulating greenhouse gas emission allowance trading as a measure to combat climate change, into Spanish law.

In 2009 the European Parliament and the Council amended the aforementioned directive to include the 2020 target of reducing the level of emissions by 20% with respect to 1990 levels. The aforementioned amendment was transposed into Spanish legislation through Spanish Law 13/2010. This legislative package establishes the rules for the free allocation of allowances and implements a new auction system.

Based on this legislative package and in accordance with the resolution from the State Secretariat for the Environment, of 18 November 2014, the Group has 1,979,281 EUA (European Emission Allowances) allocated to it at zero cost for the 2013-2020 period, of which 242,593 EUA correspond to 2017 (2016: 247,280 EUA).

**(v) Serious accidents involving hazardous substances**

Spanish Royal Decree 840/2015, known as Seveso III, approving control measures for the risks inherent to serious accidents involving hazardous substances, requires the production centres to which it applies to have an up-to-date safety report, to periodically perform preventive inspections and simulations of serious accidents, implement a site emergency plan and investigate accidents that occur and report them to the authorities.

**(vi) GMP and GDP standards**

The manufacturing and distribution of API in Europe must comply with the principles and directives of Good Manufacturing Practice ("GMP") —in the case of manufacturing— and Good Distribution Practice ("GDP") —in the case of distribution.

The Spanish Drugs Agency and the corresponding agencies in the countries that receive products from the pharmaceuticals division are responsible for authorising and inspecting compliance with these practices. GMP in GDP are requirements that must be fulfilled in order for the pharmaceuticals division to operate and market its products.

Although GMP has been implemented at the Group since it began, GDP was implemented at the end of 2017. Specifically, GDP requires that the quality of the API be ensured from the moment they leave the factory until they are received by customers, including storage and transport. The application of these practices led to a risk analysis being conducted on the product distribution routes and its approval.

GMP is established in Directive 2003/94/EC, although its precursor dates back to 1949, and GDP is established in Directive (2013/C 343/01), of 5 November 2013, on Good Distribution Practice of medicinal products for human use and Directive (2015/C 95/01), 19 March 2015.

## 3.1. Analysis of business performance and results

### a) Production

In 2017 the Group's facilities as a whole manufactured 2,010 thousand tons of products, 4.1% less than in 2016. This difference corresponds in full to the chlorine derivatives division, since the intermediate chemicals division increased the volume produced, while the pharmaceuticals division practically manufactured the same amount.

The 5.7% drop in production in the chlorine derivatives division is a result of the phase-out of the mercury electrolysis plants that was only partially offset at the end of the year with the entry into service of the increased capacity of the membrane electrolysis and PVC plants and the new chlorine derivatives plants [see chapter 2.2 a)].

With regard to the intermediate chemicals division, production —which grew 2.7%— was mainly in step with the increase in demand in the paraformaldehyde and polyols markets.

Meanwhile, in the pharmaceuticals division, the entry into service of the new sterile fosfomycin plants and the new fusidic acid fermenter explain the increase in the volume manufactured of both products, which in turn offset the lower production of erythromycins [see chapter 2.2 b)].

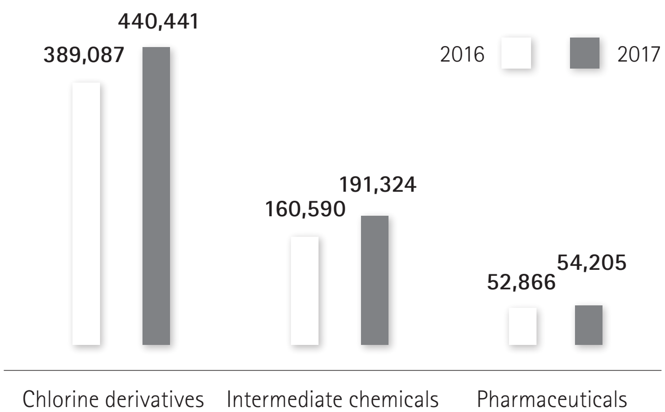
### b) Sales

In 2017 sales amounted to EUR 685,970 thousand, down 13.8% from EUR 602,543 thousand in 2016. In general, demand in the markets in which the Group moves remained strong, leading to a general increase in sales in all of the Group's activities.

By business segments, billings in the chlorine derivatives division —which increased 13.2%— is mainly due to the significant and sustained increase in the price of caustic soda and PVC, offsetting the smaller volume produced [see sub-section a) above]. Therefore, between 2016 and 2017, billings for the chlorine derivatives division increased from EUR 389,087 thousand to EUR 440,441 thousand.

In 2017 the intermediate chemicals division reversed the trend of the last two years in which sales declined, experiencing growth of 19.1%. This improvement was possible both due to the increase in the volume of product sold and the upward pressure on prices, protected by the increase in price of the main raw material, methanol. The increase in billings is more relevant due to having occurred within the context of the dollar's depreciation, the currency in which 24.5% of sales are conducted in this business. In 2017 revenue for the intermediate chemicals division reached EUR 191,324 thousand (2016: EUR 160,590 thousand).

**Sales for business**
EUR THOUSAND




In 2017 the pharmaceuticals division once again improved sales, although more modestly than in recent years when it benefited from the dollar's appreciation against the euro. Billings for the pharmaceuticals division rose by 2.5% in 2017 to EUR 54,205 thousand (2016: EUR 52,866 thousand). The healthy performance of the fusidic acid and fosfomycin markets allowed the business to increase its sales volume.

“Other income” fell from EUR 4,381 thousand in 2016 to EUR 3,287 thousand in 2017, due to the decline in income from emission rights and other operating income.

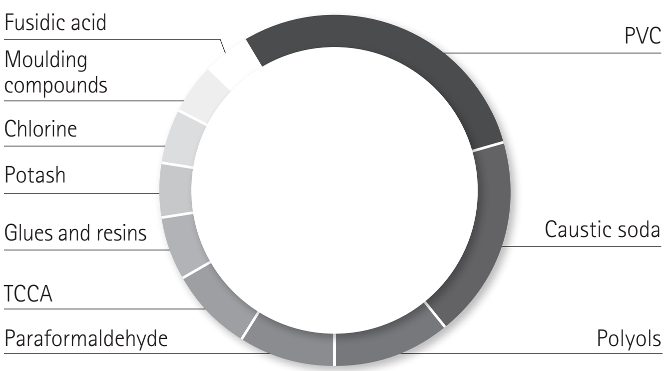
Therefore, in 2017 the Group re-estimated certain provisions, reversing excessive provisions amounting to EUR 6,942 thousand corresponding mainly to the cost of remediation of the El Hondón land and the Flix reservoir amounting to EUR 3,600 thousand and EUR 2,008 thousand, respectively.

“Changes in inventories” was EUR 12,665 in 2016 and EUR -2,162 thousand in 2017, since at 2016 year-end the Group had accumulated a larger inventory of finished goods so that it could cope with several production stoppages scheduled for 2017.

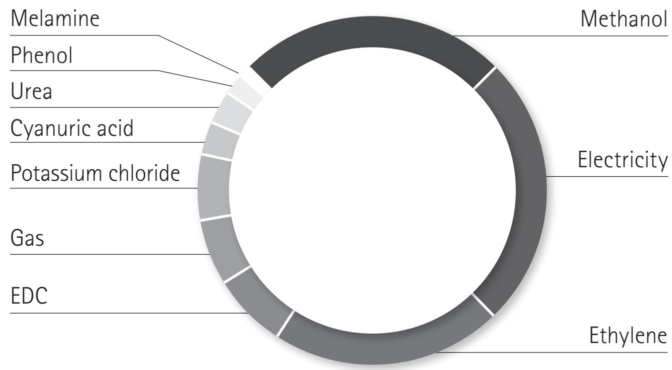
The product that performed the best in 2017 was caustic soda in its different varieties. The strong surge in its price (38.6%) reflects the economy's health; however it is also the result of a global decline in supply as a result of the progressive phase-out of mercury electrolytic plants in Europe [see chapter 2.3 f) (iii)].

In order to satisfy its customers' caustic soda needs in a context of lower production levels, the Group increased its purchase of external product by 30.5%.

**The top 10 products**
% ON TURNOVER IN 2017




**The top 10 supplies**
% ON PURCHASES IN 2017




After the PVC family, caustic soda contributes the most to the Group's billings. Likewise, this product performed well in 2017, both with regard to volume and price due to the recovery of the European construction industry. Caustic soda and PVC represent 34.2% of the Group's revenue.

Other products that performed extremely well in 2017 were: in the chlorine derivatives division, TCCA and chlorine, the first due to the opening of new markets and the second due to an increase in sales to Covestro; in the intermediate chemicals division, methanol and formaldehyde, which significantly increased their prices and volume sold; and in the pharmaceuticals division, the fosfomycin family and fusidic acid.

No customer individually accounts for more than 10% of the Group's sales.

On the other hand, chlorine sales to Covestro are contingent upon having the necessary residual hydrochloric acid available to produce calcium phosphate in Flix, which is carried out on a contract basis for another customer who supplies the phosphorite, the other important raw material in this product's manufacturing process.

### c) Expenses

Widespread recovery of the markets and global geostrategic tension have led to a significant increases in Group's main procurements and supplies, the prices of which are following in the wake of oil and other reference commodity prices. The variation in the price of raw materials between 2016 and 2017 was more pronounced due to the significant drop that occurred in 2017, when the prices of many products hit historic lows. In addition, electricity was significantly more expensive in 2017 than in 2016, mainly due to less production from renewable energy sources.

Fortunately, in general, strong demand made it possible to transfer the increase in the price of raw materials to the price of the end products, thereby offsetting the negative impact on margins.

This is the main reason that the Group's expenses increased by 10.4% from EUR 561,159 thousand in 2016 to EUR 619,726 thousand in 2017.

Specifically, procurements —amounting to EUR 316,581 thousand— increased by 17.2% with respect to 2016 while supplies —amounting to EUR 114,389 thousand increased by 12.3%.

Between 2016 and 2017, the percentage impact of procurements and supplies on the Group's sales deteriorated from 61.7% to 62.8%.

The increase in the price of supplies was led by that of electricity that was 24.6% more expensive mainly due to the higher price of energy in the Spanish electricity market, but also due to the lower remuneration for the interruptibility service of the electricity supply [see chapter 2.3 c) (i)]. The price of electricity has a particular impact on costs for electrolytic plants (caustic soda, potassium chloride and sodium chlorate).

As occurred with electricity, the shift in oil price trends also pushed up the cost of natural gas, although more moderately. The price of this supply has a particular impact on margins for the intermediate chemicals and PVC businesses.

However, the product the price of which increased most —significantly more than the rest— was methanol (+42.6%) that has become the Group's main purchase, more than electricity and ethylene, which have traditionally disputed this position. The price of this procurement particularly affects margins for the intermediate chemicals business.

The price of ethylene also rose (+12.9%), however —in comparison to 2016— the invoice for this product was lower since the volume purchased was less because production of EDC, for which it is the raw material, was reduced. On the flip side, the volume of EDC purchased increased —practically doubling that of last year— which, together with the significant price increase, caused its billings to increase more than 150% —[see chapter 2.3 c) (i)]. Both ethylene and EDC represent significant costs in the PVC production process.

Unlike with electricity, fluctuations in the price of methanol and ethylene can usually be transferred to the price of the finished products, particularly in the second case, making it easier to maintain margins [see chapter 5.2 a) (vi)].

Methanol, electricity and ethylene are the raw materials that have the greatest impact on the Group's costs. These three products represent 45.3% of the total amount of consolidated purchases and account for more than 40% of the total costs for the formaldehyde, chlorine, and PVC manufacturing processes, respectively.

Staff costs that amounted to EUR 83,387 thousand rose 1.9% with respect to 2016 due to the combined effect, on the one hand, of the increase in the average workforce by 15 people and, on the other hand, by the increase in the salary established in the industry's collective agreement and the application of the agreements that enabled the historic commitments acquired with the Group's retired employees to be cancelled. In 2017 the Ercros Group's average workforce was 1,372 employees [see section 3.4 b) below].

The restructuring of the chlorine derivatives division —as a result of the ban on using mercury technology in electrolytic plants after 11 December 2017 [see chapter 2.3 f) (iii)]— led to the recognition of extraordinary and non-recurring expenses and provisions amounting to EUR 21,732 thousand for termination benefits associated with the collective layoff (EUR 11,000 thousand) and the dismantling and environmental remediation of the closed facilities (EUR 10,732 thousand) [see chapter 2.3 b)].

**d) Results**

**(i) Consolidated profit**

2017 was a good exercise for the Ercros Group, in which the strength shown by the demand for its products was more than enough to offset the significant price increase of the main raw materials, which translated into a significant improvement in the margin and in the ordinary result.

The restructuring carried out in the chlorine derivatives division —following the ban on the use of mercury technology in the electrolytic plant, beyond 11 December 2017 [see chapter 2.2 a)]— has led to the accounting of the corresponding costs and provisions in the year 2017. Despite this, the Group managed to close the year with a result that, although slightly lower than that of 2016, is the third best result in the Group's history.

The ordinary gross operating profit ("ebitda") grew by 27.2%, going from EUR 58,430 thousand in 2016 to EUR 74,311 thousand in 2017, a positive difference of EUR 15,881 thousand.

Between 2016 and 2017, the ordinary ebitda margin increased from 9.7% to 10.8%, an improvement of 1.1 points. In 2017, this margin exceeded the target set by the Group in the plan to improve efficiency (10%).

The reason that —despite the significant improvement in ebitda— the operating income ("ebit") has decreased by 32.8%, going from EUR 51,049 thousand in 2016 to EUR 34,327 thousand in 2017, it is fundamentally the concurrence of extraordinary and non-recurring allocations, of different sign, in both exercises.

While, in 2017, the EUR 21,732 thousand were accounted for the costs and provisions of the chlorine business restructuring, commented in sub-section c) above, in 2016, a result of EUR 11,990 thousand was applied for the reversal of the impairment of the value of certain assets.

On the other hand, the amortizations were of EUR 18,252 thousand in 2017, 5.8% lower than those registered in 2016. This reduction is due to the fact that several Group assets reached the end of their useful life during the past year.

While the financial expenses —amounting to EUR 5,947 thousand— were reduced by EUR 214 thousand (-3.5%), despite the increase in debt, due to the lower average cost thereof; negative exchange differences increased by EUR 321 thousand, due to the devaluation of the dollar against the euro, and the sharing on associates profit, by EUR 190 thousand.

In 2017, the Group recognized a deferred tax asset for (i) the temporary differences generated in the year that come mainly from the provision provisions; (ii) the negative tax bases that it considers it will be able to compensate in the next five years and (iii) the deductions pending to be applied. In this way, the income tax generated an income of EUR 15,899 thousand (EUR -157 thousand in 2016). After the aforementioned activation, the Group still has unregistered deferred tax assets amounting to EUR 91,207 thousand.

All of the foregoing resulted to 2017 fiscal year result, which showed a profit of EUR 44,492 thousand, which in comparison with the previous year represents a slight reduction by 1.5%.

In 2017, earnings per share were EUR 0.3963, slightly higher than in 2016, which were 0.3959 euros/share [see chapter 10.2 c)].

**Income statement**

EUR THOUSAND

| | Year 2017 | Year 2016 | Variation (%) |
|---|---|---|---|
| **Income** | **694,037** | **619,589** | **12.0** |
| Turnover | 685,970 | 602,543 | 13.8 |
| Other income | 3,287 | 4,381 | -25.0 |
| Reversal of provisions for various obligations | 6,942 | 0 | – |
| Changes in inventory | -2,162 | 12,665 | – |
| **Expenses** | **–619,726** | **–561,159** | **10.4** |
| Procurements | -316,581 | -270,215 | 17.2 |
| Supplies | -114,389 | -101,854 | 12.3 |
| Employee benefits expense | -83,387 | -81,822 | 1.9 |
| Other operating expenses | -105,369 | -107,268 | -1.8 |
| **Ordinary ebitda** | **74,311** | **58,430** | **27.2** |
| Costs for mercury technology phase-out: | | | |
| Staff reduction | -11,000 | 0 | – |
| Dismantling and remediation | -10,732 | 0 | – |
| Amortization expense | -18,252 | -19,371 | -5.8 |
| Reversal of the impairment loss of certain assets | 0 | 11,990 | – |
| **Ebit** | **34,327** | **51,049** | **–32.8** |
| Financial expenses, losses and deterioration | -5,947 | -6,161 | -3.5 |
| Exchange differences | -437 | -116 | ×3.8 [1] |
| Share in profits of associates | 740 | 550 | 34.6 |
| **Profit before tax** | **28,683** | **45,322** | **–36.7** |
| Income taxes | 15,899 | -157 | – |
| Other comprehensive result | -90 | 0 | – |
| **Profit for the year** | **44,492** | **45,165** | **–1.5** |

[1] Multiplicative factor.

**(ii) Results for the chlorine derivatives division**

As stated in sub-section b) above, in 2017 revenue for the chlorine derivatives division was up 13.2% on 2016, mainly due to the increase in the price of caustic soda and PVC. This increase was so significant that it largely offset the negative effect of the high cost of electricity, ethylene and EDC on this division's margin.

Such that ordinary ebitda for the division, which increased to EUR 48,016 thousand performed positively growing 43.1% with respect to 2016. As a result of this performance, the ordinary ebitda to sales ratio rose from 8.6% to 10.9% between 2016 and 2017.

In addition, as stated in epigraph (i) above, the allocation in 2017 of the extraordinary costs arising from the restructuring of the division —amounting to EUR 21,732 thousand— and the recognition in 2016 of a non-recurring result —amounting to EUR 11,990 thousand— are the main reasons that profit before tax for this activity dropped by 59.5% in 2017.

Overall, 2017 was an excellent year for the chlorine derivatives division that made a profit of EUR 11,912 thousand, after including the chlorine production restructuring costs and despite the significant increase in the price of the main raw materials.

**(iii) Results for the intermediate chemicals division**

The significant increase in the prices applied to the majority of intermediate chemicals division's products in 2017 —which allowed for a 19.1% increase in revenue— offset the negative effect the significant increase in the cost of procurements, particularly methanol, had on the margin.

Such that, despite the negative impact of the dollar exchange rate [see sub-section b) above] —that, between 2016 and 2017 depreciated 2.6% with respect to the euro— ebitda for the division increased by 3.5% from EUR 15,977 thousand in 2016 to EUR 16,542 thousand in 2017.

However, the increase in sales in relation to ebitda growth led to a slight deterioration of the ebitda to sales ratio that dropped from 9.9% in 2016 to 8.6% in 2017.

The increase in amortisations and finance costs —4.3% and 5.9%, respectively— left the division's profit before tax at EUR 10,358 thousand, 2.8% higher than in 2016.

**Statement of comprehensive income by divisions**
EUR THOUSAND

| | Chlorine derivatives division | | | Intermediate chemicals division | | | Pharmaceuticals division | | |
|---|---|---|---|---|---|---|---|---|---|
| | Year 2017 | Year 2016 | Variation (%) | Year 2017 | Year 2016 | Variation (%) | Year 2017 | Year 2016 | Variation (%) |
| Turnover | 440,441 | 389,087 | 13.2 | 191,324 | 160,590 | 19.1 | 54,205 | 52,866 | 2.5 |
| **Ordinary ebitda** | **48,016** | **33,550** | **43.1** | **16,542** | **15,977** | **3.5** | **9,753** | **8,903** | **9.5** |
| Restructuring the chlorine business: | | | | | | | | | |
| Staff reduction | -11,000 | 0 | – | 0 | 0 | – | 0 | 0 | – |
| Dismantling and remediation | -10,732 | 0 | – | 0 | 0 | – | 0 | 0 | – |
| Amortization | -10,942 | -12,524 | -12.6 | -4,470 | -4,286 | 4.3 | -2,840 | -2,561 | 10.9 |
| Reversal of the value of assets | 0 | 11,990 | – | 0 | 0 | – | 0 | 0 | – |
| **Ebit** | **15,342** | **33,016** | **–53.5** | **12,072** | **11,691** | **3.3** | **6,913** | **6,342** | **9.0** |
| Financial results | -3,430 | -3,568 | -3.9 | -1,714 | -1,618 | 5.9 | -500 | -541 | -7.6 |
| **Profit before tax** | **11,912** | **29,448** | **–59.5** | **10,358** | **10,073** | **2.8** | **6,413** | **5,801** | **10.5** |
| Assets | 362,745 | 301,061 | 20.5 | 182,674 | 209,430 | -12.8 | 53,754 | 49,690 | 8.2 |
| Liabilities | 221,029 | 216,195 | 3.9 | 91,611 | 87,984 | 4.1 | 39,041 | 36,154 | 8.0 |
| Investments in fixed assets | 37,252 | 14,012 | ×2.7 [1] | 4,436 | 3,710 | 19.6 | 3,128 | 3,310 | -5.5 |

[1] Multiplicative factor.

### (iv) Results for the pharmaceuticals division

In 2017 the pharmaceuticals division continued along the same path it started down in recent years towards, gradually improving its results despite the negative impact of the drop in the dollar's value [see sub-section b) above]. In this business, income in dollars more than doubles its expenses in the same currency.

Compared to last year, profit before tax for this business rose from EUR 5,801 thousand to EUR 6,413 thousand representing an increase of 10.5%.

This difference reflects the increase in the division's ebitda that increased 9.5% between 2016 and 2017 to stand at EUR 9,753 thousand (2016: EUR 8,903 thousand).

As stated in sub-section b) above, billings for the pharmaceuticals division increased 2.5% between 2016 and 2017 due to the increase in the volume of sales of fosfomycin and fusidic acid.

The pharmaceuticals division was able to continue improving its ebitda to sales ratio that increased from 16.8% in 2016 to 18% in 2017.

### e) Geographical market

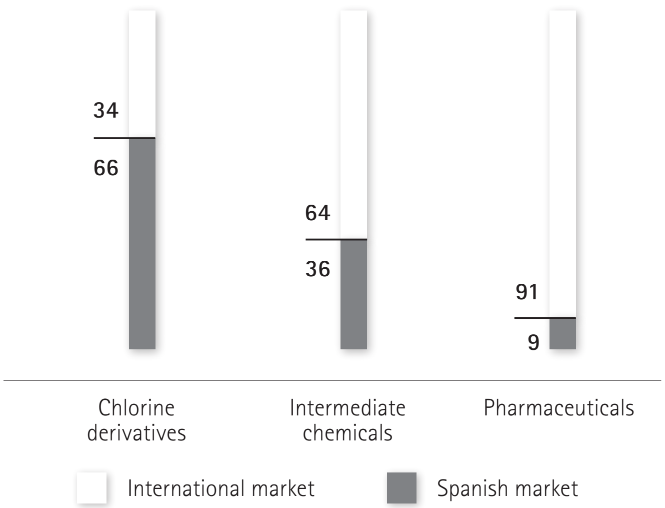
The increase in the Group's turnover by 13.8% was felt in all markets, but especially in the internal market. The strength shown by demand in Spain allowed this market to be prioritized over exports, with the consequent improvement in margins.

So that 53.3% of consolidated sales, amounting to EUR 365.509 thousand, were made in Spain, 18.8% more than in 2016. 46.7% of the remaining sales corresponded to the market abroad, amounting of EUR 320,461 thousand, in this case, the growth was 8.7%.

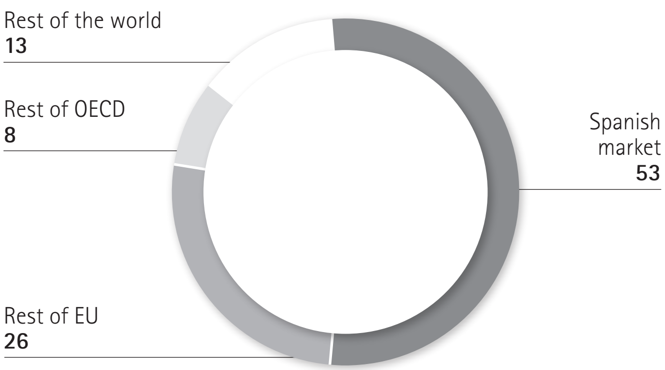
After the Spanish market, the European Union is the most important geographical area for the Group, destination of 26.3% of its consolidated sales. The turnover in this area increased by 7.3% compared to 2016. France, Italy and Portugal are the three main destinations of the Group's exports.

On the other hand, sales in the OECD countries —which in the previous years had registered a very significant growth— in 2017 hardly experienced any variation (+0.7%) between 2016 and 2017; unlike in the rest of the world that, in the past exercise, it was —after Spain— the area where sales grew the most (+17.9%).

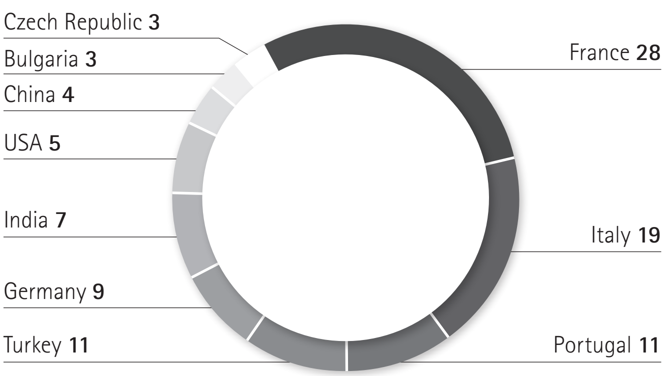
**Market business**
% OVER EACH DIVISION'S SALES IN 2017




**Sales by geographical markets**
% OVER TOTAL SALES IN 2017




**Top ten destinations**
% OVER EXPORTS IN 2017




Among the main recipient countries, India (+55.7%) experienced the greatest increase, followed by France (+17.4%) and China (+14.4%). On the opposite side, Bulgaria (-13.7%), Germany (-9.5%) and Turkey (-6.2%).

The chlorine derivatives division sold 66.2% of its turnover in Spain. Between 2016 and 2017, the Spanish market grew by 17.4%, while exports increased by 5.9%.

In the intermediate chemicals division, the increase in turnover affected the national market in a very significant way, which grew by 27.4%, but also increased the foreign market, in this case by 15%. The latter represents 64% of the sales figure of this division.

The pharmaceuticals division was the only business in which sales shrink in Spain (-2%), although the Spanish market represents only 9.1% of business turnover. Exports accounted, therefore, for 90.9% of pharmaceuticals sales and increased by 3% compared to 2016.

### f) Foreign exchange rate

The only assets and liabilities exposed to foreign exchange risk are those from the purchases and sales related to the Group's ordinary business. The Group does not have any other assets on its balance sheet that are exposed to foreign exchange risk.

The dollar is —by far— the main currency to which the Group is exposed and it has not arranged any derivatives to hedge this risk.

Throughout 2017, the euro appreciated with respect to the dollar. With regard to the Group's consolidated sales, the average exchange rate went from EUR 1.104/dollar in 2016 to EUR 1.134/dollar in 2017 (a difference of 2.6%). The Group expects this trend to continue in 2018 and has used as a reference an average exchange rate of EUR 1.230/dollar for its projections.

The fact that the euro is appreciating against the dollar has a negative impact on the Group because it weakens the competitive position of the products it markets, and at the same time has a negative effect on the return in euros on sales in dollars that is detrimental to profitability.

In 2017 the Group's net exposure to the dollar —the difference between the amount of sales and purchases made in this currency— amounted to DOL 63,321 thousand (2016: DOL 52,406 thousand).

Sales in dollars amounted to DOL 105,865 thousand (2016: DOL 85,982 thousand), representing 13.6% (2016: 12.9%) of total consolidated sales. Purchases in dollars amounted to DOL 42,544 thousand (2016: DOL 33,576 thousand), representing 8.8% (2016: 8.2%) of the total procurements and supplies made by the Group.

## 3.2. Key indicators

| Indicators[1] | Year 2017 | Year 2016 |
|---|---|---|
| **Financing** | | |
| For the payment of dividends: | | |
| Gearing ratio (<0,5) | 0.36 | 0.33 |
| Solvency ratio (<2) | 1.20 | 1.26 |
| Liquidity | 1.02 | 1.18 |
| Financing coverage of fixed assets | 1.01 | 1.13 |
| ROCE (%) | 14.19 | 11.55 |
| Average collection period (days) | 59.91 | 65.31 |
| Average payment period (days) | 49.11 | 62.31 |
| **Operating** | | |
| Production (TON thousand) | 2,010 | 2,097 |
| Added value (EUR thousand) | 157,698 | 140,252 |
| Productivity (EUR/person) | 114,920 | 103,355 |
| Gross margin/sales (%) | 54.39 | 56.39 |
| Ordinary ebitda margin/sales (%) | 10.83 | 9.70 |
| **Stock exchange** | | |
| Quoted market value (EUR/share) | 2.86 | 1.84 |
| Capital value (EUR thousand) | 317,402 | 209,919 |
| EPS (EUR) | 0.3963 | 0.3959 |
| CFA (EUR) | 0.39 | 0.33 |
| PER | 7.22 | 4.65 |
| P/BV | 1.28 | 0.95 |
| **Social** | | |
| IF | 2.51 | 2.97 |
| General IFG | 3.11 | 4.85 |
| Absenteeism | 4.87 | 4.50 |
| Emission rate | 953 | 1,060 |
| Direct emissions of $CO_2$ (TON thousand of equivalent $CO_2$)[2] | 597[3] | 595 |
| Quality certification activity (%) | 100 | 100 |
| Environmental certification activity (%) | 100 | 100 |
| Prevention certification activity (%) | 100 | 100 |

[1] The calculation formula and purpose of each indicator are described at the end of this chapter.

[2] Direct and indirect $CO_2$ emissions (scopes 1 and 2).

[3] Pending external verification.

## 3.3. Environmental issues

### a) Environmental management

The environmental management of the Group is aimed at protecting the environment and preventing pollution by reducing the environmental impact generated by its activity.

The two main tools available to the Ercros Group's to achieve environmental objectives are, on the one hand, the sustainability management system, with the sustainability policy and the manual that develops it, as well as the procedures and plans derived from this; and, on the other, the voluntary Responsible Care programme of the chemicals sector.

### b) Certifications

The Group applies a sustainability management system, which is certified and verified annually by an accredited company, based on the following environmental specific reference standards:

– The standard UNE-EN ISO 14001:2008: since April 2009, all the Group's industrial facilities are accredited in accordance to this standard, which is renewed annually, and

– The European registration system Eco-Management and Audit Scheme ("EMAS"): at present, the factories of Monzón, Sabiñánigo and Tortosa, and the three integrated centres in the Tarragona complex are inscribed in this register.

In addition, the Group applies other standards with environmental influence in its production facilities, which are also certified and verified annually by an accredited company:

– The standard UNE-EN ISO 14064-1:2012, on specifications for the quantification and declaration of greenhouse gas emissions: the certification of this standard has been maintained in 2017 and from its application derives the calculation of the Group carbon footprint as an organization, and

– The standard UNE-EN ISO 50001:2011, on energy management systems: which is implemented in the factories of Vila-seca I, Vila-seca II, Sabiñánigo and Tarragona.

### c) Evolution of environmental indices

The following is the performance in 2017 of the main environmental indices used by the Group:

– The emissions index fell 10.1% with respect to 2016 and, in turn, it is 16.8% lower than the projected target index.

– Direct greenhouse gas emissions fell 3.2% between 2016 and 2017 due to the increased energy efficiency of the new boiler installed at the Tarragona complex and the reduction in natural gas consumption that was replaced by steam at the Tortosa factory.

In addition, compliance with the Responsible Care programme was 97.7% (2016: 99.4%). This difference is due to the fact that the updates to the environmental and process security self-assessment questionnaires increased the degree of stringency and adjusted the assessment criteria of the security code.

**d) Environmental expenses and grants**

The expenses incurred by the Group for the protection and improvement of the environment in 2017 amounted to EUR 18,692 thousand (2016: EUR 18,200 thousand). The majority of these expenses corresponded to activities carried out in compliance with environmental legislation with respect to reducing emissions and soil remediation [see chapter 2.3 f) (ii)].

The Group has various environmental lawsuits open for which it has recognised the corresponding provisions for cases in which the Group considers that there is a reasonable probability that the court will recognise damages and, therefore, it will have to settle.

In 2017 the Group received grants for greenhouse gas emission allowances amounting to EUR 1,261 thousand (2016: EUR 2,050 thousand) and from the Instituto para la Diversificación y Ahorro de la Energía ("IDAE") amounting to EUR 3,384 thousand.

In 2016 the Group also received EUR 203 thousand as compensation for indirect greenhouse gas emission costs arising from its electricity consumption.

At 2017 year end, the Group had incentives and tax credit carry forwards for investments in environmental protection accrued between 2002 and 2006 totalling EUR 381 thousand (2016: EUR 743 thousand).

The environmental risks inherent to the Group's activity are described in chapter 5.2 a) (i) and (ii).

## 3.4. Headcount matters

**a) Management of human resources**

The Group has developed and consolidated a management model of the human team approved for all its work centres that is coherent with the industrial reality and the business environment in which it operates.

**b) Headcount evolution**

Between 2016 and 2017 there was a temporary interruption in the reduction of the Ercros Group's average workforce that has been under way in recent years when the average workforce rose from 1,357 to 1,372 employees, representing an increase of 15 people. However, the collective layoff carried out at the end of 2017 led to a 29 person decrease in the workforce.

Despite the slight increase in the average workforce in 2017, average productivity per employee —which was EUR 114,920/person— increased by EUR 11,586/person with respect to 2016 (+11.2%) [see section 3.2 above].

**c) Collective layoff**

The collective layoff was agreed upon between Ercros management and the workers' representatives on 28 November 2017 and was the result of plant closures due to the European ban on producing chlorine with mercury technology [see chapter 2.3 b)].

105 employees were included in this collective layoff, of which 43 belonged to the Flix factory; 34 to the Cardona factory and 28 to the Tarragona complex. All employees were offered the possibility of being transferred to one of the Group's other workplaces pursuant to the 149 voluntary partial retirement requests received.

The first agreements were terminated on or after 11 December 2017 and the last agreements will be terminated on 31 December 2019 that is when the dismantling of the closed facilities is expected to be completed.

At 23 February 2018, 68 employees had been dismissed, of which 30 had accepted the Group's offer to be transferred.

The estimated cost of the collective layoff is EUR 11,000 thousand.

In an effort to minimise the negative impact of the plant closures at the Flix factory, on 20 November 2017, Ercros once again renewed —upon expiry— the contract that it has had with the MOA BPI Group, a consulting firm specialising in reindustrialisation processes, since 2015. In accordance with this contract, the consulting firm is responsible for seeking out new projects capable of generating employment in this municipality. Likewise, it reached an agreement with the high school in the aforementioned town to promote the training of its workers.

On 10 October 2017, Ercros also signed an agreement with the same company to facilitate the placement of the persons who, having rejected the transfer option presented to them had their employment contracts terminated and also relatives of individuals who accepted the transfer to one of the Group's other centres.

**d) Headcount structure**

The increase in the average workforce did not entail changes in the labour categories compared to 2016.

The collective of technical personnel represents 43% of the total average workforce; that of the workers and subordinates, 42% and the administrative one, 15%.

Women —who mainly perform technical and administrative tasks— represent 15% of the workforce, the same proportion as in 2016, although the application of the collective dismissal file is having a much smaller impact among this group. The Group does not discriminate on the basis of gender in the selection processes, in the salary policy or in the functional policy.

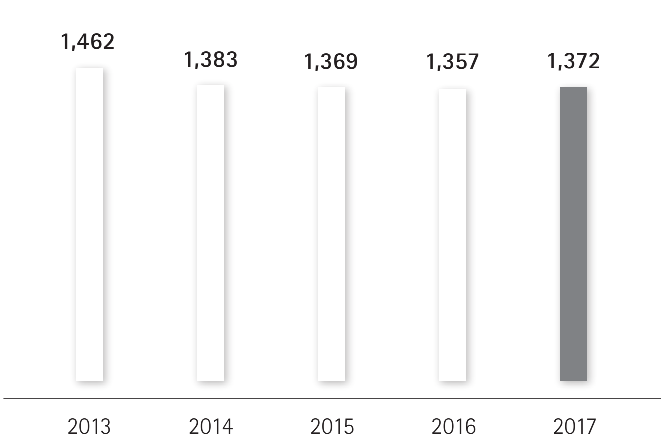
**e) Training**

During 2017, 80% of the workforce (84% in 2016) received some training courses. Throughout the year, the Group coordinated 376 training actions (491 training actions in 2016), which had 3,663 attendees and accounted for 32,346 teaching hours (5,716 attendees and 34,936 teaching hours in 2016), equivalent to an average of 23.57 hours of training per person (27.75 hours/person in 2016).

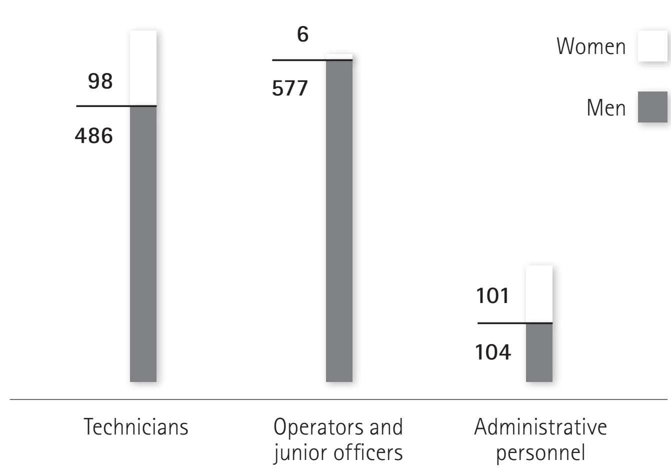
133 of the training actions received a bonus through the Fundación Estatal para la Formación en el Empleo ("Fundae") —a Spanish state foundation which promotes employment— which had 1,078 attendees with a total of 15,006 teaching hours.

The expense incurred in training amounted to EUR 265 thousand (EUR 177 thousand in 2016), of which EUR 137 thousand came from the credit granted by the Fundae.

**Evolution of the average headcount**
NUMBER OF EMPLOYEES




**Distribution of the headcount by gender**
NUMBER OF EMPLOYEES



**Calculation formula and purpose of each indicator**

**Gearing ratio:**
– Calculation: net debt ÷ equity.
– Purpose: to evaluate the degree of external financing with respect to the Group's assets.

**Solvency ratio:**
– Calculation: net debt ÷ gross result of ordinary operation.
– Purpose: to evaluate the ability to repay the financing of others in number of years.

**Liquidity:**
– Calculation: current assets ÷ current liabilities.
– Purpose: evaluate the capacity to meet payment commitments in the short term.

**Fixed asset financing coverage:**
– Calculation: (equity + non-current liabilities) ÷ non-current assets.
– Purpose: to assess the extent to which non-current assets are financed with permanent resources.

ROCE
– Calculation: ordinary operating result ÷ resources used.
– Purpose: to measure the level of profitability obtained by the company in its ordinary business in relation to the investment made.

**Average collection period:**
– Calculation: (average receivables in the year ÷ sales) × 365.
– Purpose: evaluate the average of days between sales and total collections in the year.

**Average payment period:**
– Calculation: (average payables in the year ÷ operating costs) × 365.
– Purpose: evaluate the average of days between purchases and total payments in the year.

**Production:**
– Calculation: volume of produced units.
– Purpose: measure the number of physical units produces.

**Added value:**
– Calculation: ebitda + personnel costs.
– Purpose: measure the wealth generated by the Group.

**Productivity:**
– Calculation: added value ÷ number of employees.
– Purpose: measure each employee's contribution to the generation of the Group's added value.

**Gross margin ÷ sales:**
– Calculation: (income – supplies) ÷ sales.
– Purpose: evaluate the profitability of the Group's product portfolio.

**Ordinary ebitda margin ÷ sales:**
– Calculation: ordinary gross operating profit ÷ sales.
– Purpose: to measure the profitability of sales in relation to the ordinary gross operating profits obtained.

**Quoted market value:**
– Calculation: Ercros share quoted price at year end.
– Purpose: know the value that the marked gives to each Company' share.

**Capital value:**
– Calculation: quoted price at year end × number of issued shares.
– Purpose: know the value that the marked allocates to the Group' equity.

**EPS:**
– Calculation: profit for the year ÷ number of shares.
– Purpose: measure the earnings corresponding to each share.

**CFA:**
– Calculation: operating cash flow ÷ number of shares.
– Purpose: measure the generated cash flow corresponding to each share.

**PER:**
– Calculation: capital value ÷ profit for the year.
– Purpose: know how many times the profit per share is included in the Company's share price.

**P/BV:**
– Calculation: capital value ÷ equity.
– Purpose: relate the Company's value in the stock exchange to its underlying net book value.

**IF:**
– Calculation: number of accidents with leave of own personnel × millions of worked hours.
– Purpose: measure the ratio of accidents suffered by own personnel.

**Global IFG:**
– Calculation: number of accidents with or without leave of own and third-party personnel × millions of worked hours.
– Purpose: measure the ratio of total accidents, with or without leave, suffered by all the people working in the Group's factories, whether they belong to the Group or not.

**Absenteeism:**
– Calculation: percentage of lost days ÷ total theoretical days to be worked in the year.
– Purpose: know the percentage of lost days due to non-occupational sickness.

**Emission ratio:**
– Calculation: volume of most significant pollutants (air, water and waste), a factor that varies based on their danger.
– Purpose: measure the evolution of the Company's environmental behaviour.

**$CO_2$ emissions:**
– Calculation: in accordance with the ISO 14064 guidelines.
– Purpose: measure the impact of the activity on climate change.

**Activity with quality certification:**
– Calculation: percentage of centres with the ISO 9001 certification ÷ total centres.
– Purpose: know the stage of implementation of a quality management system in the Group.

**Activity with environmental certification:**
– Calculation: percentage of centres with the ISO 14001 certification ÷ total centres.
– Purpose: know the stage of implementation of an environmental management system in the Group.

**Activity with prevention certification:**
– Calculation: percentage of centres with the OHSAS 18001 certification ÷ total centres.
– Purpose: know the stage of implementation of an occupational risk prevention management system in the Group.

\+ = added – = subtracted × = multiplied ÷ = divided

## 4.1. Economic analysis of the balance sheet

For enhanced analysis and comparison, as a management tool, the Group conducts an economic analysis of the balance sheet, which is obtained by reclassifying certain figures on the consolidated statement of financial position in order to reduce the number of operating aggregates.

Between 2016 and 2017 year end, the line item that performed most notably on the balance sheet was "Non-current assets" —increasing by EUR 43,720 thousand— due to investments made within the framework of the ACT Plan amounting to EUR 33,425 thousand, and ordinary investments in the year [see section 4.2 c) below].

This difference also explains the increase in net financial debt, although its increase was smaller (EUR 15,803 thousand) thanks to the fact that the generation of cash from the Group's ordinary operations made it possible to make a portion of the aforementioned investments with its own funds [see section 4.2 a) (i) below].

Working capital increased by EUR 13,075 thousand, mainly due to the increase in customer accounts receivable —up 16.9% due to an increase in sales— which rose 13.8%.

The Group's equity —amounting to EUR 247,492 thousand— rose by EUR 27,666 thousand. This change is less than the profit generated due to the shareholder remuneration that reduced equity by EUR 16,826 thousand (EUR 12,001 thousand for the acquisition of treasury shares; EUR 4,439 thousand for the dividend payout; and EUR 386 thousand for payment of the shareholders' attendance fee for the general shareholders' meeting [see chapter 10.1 b)].

The EUR 13,326 thousand increase in provisions and other debt relates, mainly, to the new provisions related to the cost of restructuring the chlorine derivatives division [see chapter 2.2 a)], which, nonetheless, were reduced by the reversal of a portion of the provisions corresponding to the remediation of El Hondón and the Flix reservoir.

**Economic analysis of the balance sheet**

EUR THOUSAND

| | 31-12-17 | 31-12-16 | Variation (%) |
|---|---|---|---|
| **Non-current assets** | **318,507** | **274,787** | **15.9** |
| **Working capital** | **76,595** | **63,520** | **20.6** |
| Current assets | 218,282 | 184,706 | 18.2 |
| Current liabilities | -141,687 | -121,186 | 16.9 |
| **Applied funds** | **395,102** | **338,307** | **16.8** |
| **Equity** | **247,492** | **219,826** | **12.6** |
| **Net financial debt [1]** | **89,257** | **73,454** | **21.5** |
| **Provisions and other borrowings** | **58,353** | **45,027** | **29.6** |
| **Origin of funds** | **395,102** | **338,307** | **16.8** |

[1] All financial debts with non-bank entities are recognized in net financial debt. Additionally, apart from cash and cash equivalents, those deposits that guarantee debt commitments have been recognized as a decrease in the financial debt (2017: EUR 13,878 thousand, and 2016: EUR 26,433 thousand).

### 4.2. Liquidity

The Group manages its liquidity risk by using financial planning techniques. These techniques take into account the cash inflows and outflows from ordinary activities, investments and financing.

The Group's objective is to maintain a balance between the flexibility, term, and conditions of the source of financing contracted based on the expected requirements at short, medium and long-term.

The Group's financing is subject to compliance with a series of obligations and financial ratios, which in 2017, were appropriately met.

Europe's improved economic environment and improved efficiency has enabled Ercros Group to close 2017 with a profit. This profit has provided the Group with the liquidity necessary to meet its obligations in a timely manner. The Group expects the situation to remain the same in 2018 and, therefore, does not anticipate being exposed to liquidity risk in its transactions.

At 31 December 2017, the Group's available financing amounted to EUR 59,105 thousand.

#### a) Main sources of financing

In 2017 the Group used the following financing sources:

**(i) External**

– The factoring facility in euros with syndicated recourse, which allows it to finance its working capital up to a limit of EUR 102,146 thousand upon its maturity on 27 November 2017, Ercros renewed this financing facility until the end of 2022 for the same amount and with better economic conditions, as well as the possibility of obtaining non-recourse financing for a portion of the portfolio. At 31 December 2017, the amount drawn down against this facility was EUR 63,404 thousand (2016: EUR 64,729 thousand), of which EUR 8,410 thousand corresponded to the non-recourse tranche.

– The revolving credit facility, with an overall limit of EUR 30,000 thousand, signed on 14 December 2017, the purpose of which is to increase the availability of funds, particularly in periods in which availability is reduced for the syndicated factoring facility and in view of the restructuring costs arising from the closure of the chlorine production plants operating with mercury technology. At 31 December 2017, no drawdowns had been made against the aforementioned credit facility.

– The securitisation facility that provides an advance against accounts receivable in dollars up to a limit of DOL 12,000 thousand —equivalent to EUR 11,380 thousand at the time it was arranged—, pursuant to the agreement reached with the Finacity Corporation on 9 May 2016 for the 2016-2019 period. At 31 December 2017, an equivalent of EUR 7,632 thousand had been drawn down against this credit facility (2016: EUR 6,903 thousand).

– On 28 July 2017, two credit facilities were arranged with the Institut Català de Finances ("ICF") for a total amount of EUR 8,000 thousand to partially finance the technological change at the Vila-seca I factory. Drawdowns are made against this credit facility as the investments are justified. At 31 December 2017, EUR 2,406 thousand had been drawn down.

The Group is confident that, as has been the case until now, if new investment opportunities arise at any production facility, to meet its expectations for growth, it could rely on financing at market rates.

**(ii) Internal**

– Unrestricted cash flow from the business' operating activities was EUR 43,813 thousand in 2017 (2016: EUR 37,695 thousand) [see consolidated cash flow statement in chapter 13.4].

With respect to the funds generated by the Group's activity the amounts obtained from the cancellation of deposits securing supplies —EUR 12,555 thousand— and the new loans arranged —amounting to EUR 5,410 thousand (2016: EUR 37,580 thousand)— have amortised financial debt and settled interest payments —for an aggregate amount of EUR 33,006 thousand (2016: EUR 36,569 thousand)—, have paid the investments made —amounting to EUR 42,844 thousand (2016: EUR 18,709 thousand)—, and remunerated shareholders through the payment of the dividend, the attendance fee for the general shareholders' meeting and the treasury share purchase —amounting to EUR 16,826 thousand (2016 attendance fee: EUR 1,217 thousand). All of the foregoing gave rise to net financial debt of EUR 89,257 thousand (2016: EUR 73,454 thousand) [see consolidated cash flow statement in chapter 13.4].

#### b) Restrictions on the payment of dividends

The syndicated factoring agreement, novated on 27 October 2017 [see sub-section a) (i) above], complies with the restrictions included in the shareholder remuneration policy in force for the 2017-2020 period. In accordance with the aforementioned policy, the Company will distribute a dividend provided that (i) profit is obtained of at least EUR 0.10/share and (ii) the following criteria are met at the end of each year: the net financial debt/ordinary ebitda (solvency ratio) is less than or equal to 2 and the net financial debt/equity (gearing ratio) is less than or equal to 0.5 [see chapter 10.1 b)].

The 2017 year end only the loan novated in 2014 with the Instituto de Crédito Oficial ("ICO") —with an outstanding balance payable of EUR 4,000 thousand, annual amortisation and maturity in 2019— places a restriction on shareholder remuneration, restricting bonuses for attending the general shareholders' meeting to no more than EUR 500 thousand. However, the Group expects to obtain the appropriate dispensations to implement the shareholder remuneration policy approved by the shareholders at the general shareholders' meeting held on 23 June 2017 [see chapter 10.1 a)].

#### c) Level of borrowings

As stated in sub-section b) above, the shareholder remuneration policy establishes —among other terms— certain limits related to the Group's level of debt that must be met in order to carry out the shareholder remuneration envisaged for each year that it is in force. At 2017 year end, both ratios were met [see section 4.3 b) below].

Given the growing payout level established in the shareholder remuneration policy, and the payments arising from the provisions established to address the phase-out of the mercury technology and the appropriate environmental remediation and the ACT Plan investments, the Group anticipates that the level of debt will increase in the coming years, although always remaining within the limits imposed by the ratios of the shareholder remuneration policy

#### d) Default

The average payment period to suppliers was 49.11 days (62.31 days at 2016 year-end), representing a decrease of 13.2 days between the two years.

At 31 December 2017, payments exceeding 60 days represented 34% of all payments made (2016: 39%).

The Group expects to continue reducing the percentage of payments made more than 60 days out in keeping with that achieved in the previous two years.

### 4.3. Capital resources

The Group has 10 industrial facilities located in various regions in Spain and supplies products to customers in 103 countries. The most significant portion of the Group's business is based on chlorine and its derivatives and, therefore, is subject to the cyclical nature typical of these industries [see chapter 2.3 e)].

The Group's activity is subject to legislative changes, primarily of an environmental nature, as occurred in 2017 with the ban on mercury technology in the production of chlorine [see chapter 2.2 a)].

The Group manages its capital resources (i) applying a policy of financial prudence that takes into account the phase and duration of economic cycles and (ii) preserving the Group's capacity to perform its transactions by maintaining a high level of solvency so that it can provide adequate returns to its shareholders and benefits to other stakeholders, such as employees, customers, suppliers, etc.

In order to manage its capital, the Group uses as reference:

a) The gearing ratio, obtained by dividing net financial debt by equity. In 2017 this ratio was 0.36 (2016:0.33).

b) The solvency ratio, obtained by dividing net financial debt by ordinary ebitda. In 2017 this ratio was 1.20 (2016:1.26).

The Group measures and analyses these ratios periodically and prepares future estimates for these ratios that is a key factor when determining its investment and divestment policy to reduce debt, pay dividends, return capital to its shareholders or issue shares.

The Group is not subject to externally imposed capital requirements. The capital volume is established based on the existing risks. The necessary adjustments are made to the capital based on the changes in the economic conditions and the risks associated with the activity.

Between 31 December 2016 and 31 December 2017, equity —amounting to EUR 247,492 thousand— increased by EUR 27,666 thousand (+12.6%) thanks to the positive impact of the profit obtained and despite the EUR 16,826 thousand reduction corresponding to the total amount of the shareholder remuneration measures applied.

#### a) Firm commitments to obtain capital resources

There are no firm commitments to obtain new capital resources.

**b) Investments agreed upon or that are mandatory**

In 2017 investments were made amounting to EUR 44,666 thousand (2016: EUR 20,857 thousand), of which EUR 33,425 thousand corresponded to the activities contained in the ACT Plan [see chapter 2.3 b)] and the remaining EUR 11,241 thousand corresponded to other investments. At 31 December 2016, there were investment commitments amounting to EUR 8,815 thousand (2015: EUR 14,090 thousand).

The Group estimates that in 2018 it will allocate EUR 19,415 thousand to finance the investments to be carried out, of which EUR 9,664 thousand will be used for investments envisaged in the ACT Plan. The projected annual average investment volume for the 2018-2020 period is EUR 14,000 thousand.

The ACT Plan includes investments amounting to EUR 67,440 thousand —EUR 3,740 thousand more than initially envisaged—, with an average period of return of two years. The first phase of the plan, which has already been executed, covered the 2016-2017 period and included investments amounting to EUR 49,440 thousand, after including the EUR 6,664 thousand pending settlement in 2018 [see chapter 2.2 a)]. The second phase, which is currently being executed, covers the 2018-2020 period and includes investments amounting to EUR 18,000 thousand [see chapter 2.3 b)].

In order to finance the activities included in the ACT Plan, Ercros has obtained loans and grants for a total amount of EUR 41,807 thousand that are broken down in the following manner: (i) several loans from the Ministry of Economy, Industry and Competitiveness for a total amount of EUR 30,423 thousand; (ii) two credit facilities from the ICF amounting to EUR 8,000 thousand [see section 4.2 a) (i) above]; and a non-repayable grant from the IDAE amounting to EUR 3,384 thousand. The remaining EUR 25,633 thousand is expected to be financed, mainly, with the cash flow generated by the businesses' ordinary activities.

Outside of the framework of the ACT Plan, on 26 April 2017, the Group inaugurated a new sterile active pharmaceutical ingredients plant at the Aranjuez factory. The aforementioned plant, together with another sterile products packaging annex required a total investment of EUR 6,000 thousand. The new plant replaced the old sterile fosfomycin plant that had become obsolete and triples its production capacity, in addition to allowing new sterile products to be manufactured [see chapter 2.2 b)].

## 4.4. Contractual or off-balance-sheet obligations

The group has no contractual or off-balance-sheet obligations that require significant financial resources.

## 5.1. Identification of risks

The Ercros Group has implemented a risk alert system ("SARE") that enables it to identify, monitor and quantify the potential risks to which it is exposed. The aforementioned programme establishes a system of alerts that are activated when a risk that could affect the Group is identified.

The Group has prepared risk maps for the business and the preparation of financial information describing the main potential risks to which it is exposed, organising them gradually based on the likelihood of occurrence and the impact their materialisation would have. Based on both risk maps, the Group has implemented controls aimed at mitigating the risks detected and described in the corresponding procedures. Section 5.2 below describes the main risks to which the Group is exposed.

The Group has the governing bodies necessary to supervise the implementation of the general organisational strategy and perform its duties with the efficacy, objectivity and independence necessary. Ercros Group also has procedures in place to identify, measure, assess, control, and prioritise the risks to which it is exposed, and it has management systems to define the control, monitoring, and reduction or elimination of such risks.

On 26 July 2017, the board of directors approved the creation of a compliance committee. This committee assists the audit committee —on which it depends organically— on preventing criminal risks and its functions include: (i) preparing and implementing at the Group a criminal risk prevention manual with the corresponding protocols that must be fulfilled to prevent crimes that could be committed under the umbrella of the legal entity; (ii) proposing to the audit committee the adoption of those measures it deems appropriate to guarantee compliance with and monitoring of the criminal risk prevention manual and informing the aforementioned committee of the violations detected; and (iii) monitoring the policies, procedures and controls established in relation to risk control and, in general, compliance with the manual and the principles established in the ethics code.

The Group attempts to minimise the fiscal risks to which it is exposed due to its activity by avoiding aggressive interpretations of the fiscal legislation that affects it. It is aided by external advisors who are qualified to prepare fiscal information and, before taking decisions, it analyses the possible fiscal effects of its actions. Practically all of the Group's earnings are taxed in Spain, where the Group's operating headquarters and all of its production plants are located.

## 5.2. Main risks to which the Group is exposed

The Ercros Group's activity involves various risks that are classified into different types, based on the criteria that the Group considers most appropriate for the efficient management thereof. In this respect, not all of the activities present the same risks, although on occasion they do share some. In general, the Ercros Group is subject to operating and financial risks.

Risks that could jeopardise achievement of the objectives of the business strategy, the Group's financial flexibility and its solvency are considered significant.

Many of these risks to which the Group is exposed are inherent to the activities that it carries on, or are the result of external factors and, therefore, it can attempt to mitigate such risks but it is impossible to eliminate them completely.

Among the main risks that may affect the Group's performance, the following are worth noting:

### a) Operational risks

During the course of carrying on its business activity, the Group is exposed to the following operational risks:

#### (i) Environmental risk

Although all of the Ercros Group's production centres have environmental management systems implemented making it possible to minimise the impact the industrial activity may have on the environment, the activities carried out by the aforementioned centres are subject to risks that might cause environmental harm, such as the accidental emission of harmful substances or fires.

The Ercros Group carries out the corresponding official verification controls on its management systems and carries on its business activity in accordance with the emission limits set forth in the applicable laws, relevant licences and in accordance with the voluntary agreements it has signed. In addition, the Group has implemented indices to evaluate its overall emissions into the water and the atmosphere and waste generation, enabling it to verify the performance of its environmental management.

The Ercros Group periodically reports on the reduction of emissions achieved in its industrial activity [see chapter 3.3 c].

### (ii) Risks related to regulatory changes

In recent years legal requirements have become more demanding and have given rise to significant changes in the chemicals industry, in Europe, Spain and regionally. The Ercros Group makes a significant effort to adapt to this new legal framework and performs the activities and actions necessary to comply with the requirements set forth in the various regulations. Specifically legislation and regulations related to the safety of facilities and people, occupational health, environmental protection and the transport, packaging and manipulation of hazardous goods.

Certain of the rules, limits and procedures that affect the Group are in the process of being implemented and may change in the future. If this occurs, the Group will adapt to the new requirements. At this time, the Group does not expect this to have a significant impact on results.

On 11 December 2017, the legal period imposed by the European Union for the phase-out of the mercury technology in chlorine production plants ended. In the Group's case, this ban entails a net reduction of 44.7% of its chlorine production capacity. To partially compensate the reduction in chlorine production, the Group launched the ACT Plan [see chapter 2.2 a)] in 2016.

On 21 November 2017, the European Union published the BAT conclusions for the LVOC and the deadline —22 November 2021— for making the required adaptations. In the case of the Ercros Group, the application of this executive decision will entail certain adaptations that are currently being studied at the EDC and VCM production plants given that the formaldehyde plans, which are also affected by this legislation, are already adapted to the new requirements [see chapter 2.3 f) (iii)].

At 2017 year end, the Group implemented the Good Distribution Practice ("GDP") that require the pharmaceuticals division to ensure the quality of the API from the moment they leave the factory until they are received by customers, including storage and transport. The application of this practice led to a risk analysis being conducted on the product distribution routes and its approval. GDP is a requirement that must be fulfilled in order for the pharmaceuticals division to operate and market its products [see chapter 2.3 f) (vi)].

### (iii) Risk from complaints

The Ercros Group has a long history of industrial activity and two of its 10 production centres are more than 100 years old. The Group has always complied with and adopted the legislation in force at all times, however, the new legal requirements established in recent years and their application, in certain cases retroactively, give rise to the risk that the Group may be affected by unlimited liability complaints for the cost of treating or remedying polluted soils and environments or compensation due to occupational diseases.

Ercros has submitted soil remediation and landscape regeneration projects to the competent authorities for all land that has been identified as affected. For all of cases in which complaints have been filed for environmental pollution, provisions have been recognised for the amount that the Group considers there is a reasonable probability will be recognised by the court and, therefore, it will have to settle [see chapter 2.3 f) (ii)].

Catalan Law 5/2017, of 28 March 2017, introduces into the legislation of this Region the concept of historical pollution. This law clarifies and conditions the actions that the administration can impose regarding restoring the soil of historical industrial sites located in Catalonia [see chapter 2.3 f) (ii)].

In relation to the soil at the Flix factory, on 28 February 2017, Ercros submitted an environmental remediation plan to the Catalan authorities supplementing the characterisation study on the last portion of the soil at the Flix factory.

On 8 November 2017, the Provincial Appellate Court of Tarragona —within the framework of the case regarding third-party liability for an environmental crime at the Flix reservoir— ordered Ercros and Acuamed to reach an agreement ending the lawsuit between the two. Ercros submitted a formal offer to settle the debt of EUR 8,020 thousand.

Over the past year, the Group continued with its characterisation and remediation work on the soil at the Vila-seca I and Vila-seca II factories. Ercros also expanded the characterisation and control work on the soil at the Sabiñánigo and Monzón factories and submitted a project to improve the quality of the groundwater of the land it holds at the former Palos de la Frontera factory to the Andalusian regional authorities that was approved on 23 January 2018.

On 26 June 2017, Ercros received a new complaint in relation to asbestos exposure. This complaint is in addition to the 12 complaints that have already been filed against Ercros by former employees or their heirs for the same reason. These types of liabilities are not attributable to the Group's current management, nor do they relate to damage caused to current, active employees, rather, they are liabilities claimed of the Group as the universal successor of companies that have been defunct for many years and are not related in any way to current activities. The Group has recognised provisions for the amounts it expects could be claimable in the legal proceedings that are still pending resolution, arising from complaints requesting payment of damages for exposure to asbestos and benefit surcharges for a lack of safety measures for exposure to asbestos.

**(iv) Risk of loss of competitiveness**

The Ercros Group engages in its business in a global environment that new competitors are continually entering, competitors that have benefited from looser regulations in their countries of origin, fewer environmental requirements compared to the European market, lower wages and energy costs and measures in support of development. The cost differential in these countries becomes a key competitive factor when setting the final price of products. This situation is exacerbated by the fact that the Group's main products are commodities that are subject to stiff competition from emerging markets, such as India and China. Competition from these countries is one of the main risk factors of the intermediate chemicals and pharmaceuticals divisions.

The new policy for combating pollution in China for the 2016-2020 five-year period includes a plan to promote the relocation and transformation of facilities with hazardous chemicals products in densely populated areas. The launch of this plan has led to the closure of several of the Group's competitor factories, mitigating the risk of loss of competitiveness in this market.

In Europe —its primary market after the Spanish market— the Group must compete against competitors that benefit from lower electricity prices (in the chlorine derivatives division, this can represent up to 46% of the cost of production) and that have a network of logistics infrastructure, such as, for example, railway transport with international track gauge, which facilitates and reduces the cost of transporting goods.

In addition, the Group provides interruptibility services to REE. The consideration for the services is determined by an auction in which the main consumers of electricity in Spain with facilities prepared to be disconnected automatically in the event the electricity system operator so requires take part. The government is currently reviewing the system used to determine the consideration for the interruptibility service and a reduction in the aforementioned consideration could affect the Group's competitiveness by increasing its electricity costs [see chapter 2.3 c) (i)].

Against this backdrop, the Ercros Group is focusing its strategy on improving productivity, reducing costs, increasing the efficacy of operations and diversifying its business activity towards innovative products with greater added value.

Another factor that has traditionally led to a decline in the Group's competitiveness is the euro to dollar exchange rate, particularly in the case of products from countries that use this currency in their commercial transactions —mainly emerging economies. The ongoing depreciation of the dollar with respect to the euro, which began in 2017 and continues in 2018, has led the European economy and also the Group to become less competitive with regard to other competitors.

Lastly the ban on continuing to manufacture chlorine with mercury technology in Europe, since 11 December 2017, has led to a decline of more than 60% of Spain's installed chlorine production capacity —due to the closure of six plants— and a reduction in the number of local producers, which has gone from 7 to 4. Despite the fact that the Group also had to close two plants, it has been able to partially offset the corresponding loss in chlorine production by increasing the manufacturing capacity of the plants that already operate with membrane technology —which is considered BAT and, therefore, is not affected by the ban. This has enabled the Group to improve its competitive position in the Spanish market with 59% of the total installed chlorine production capacity in Spain, 17% more than before the technological change. The fact that the Group currently operates only with membrane electrolytic plants —which have a higher utilisation rate, consume less energy per unit of chlorine production and have lower fixed costs— has increased its competitiveness with respect to 2016 [see chapter 2.2 a)].

**(v) Risk of concentration and the cyclical nature of products**

In general terms, the markets in which the Group operates are more active during the second and third quarters of the year, except for August. In recent years, the trend among customers of reducing orders at the end of the year as a result of Christmas holidays and the general desire to reduce their warehouse stocks at the end of the year has become more pronounced, causing activity to drop in December.

The products with the most notable seasonal shifts are those used for treating and disinfecting water for human use —sodium hypochlorite, sodium hypochlorite and trichloroisocyanuric acid—, use of which peaks in the summer, and PVC, consumption that is slower in the cold months of the year due to the stoppage in construction. Demand for other products is steady throughout the year.

64.2% of the Group's activity revolves around the production of chlorine and its derivatives. Chlorine and caustic soda are produced in the same process, however, while chlorine, for safety and efficiency reasons is consumed practically in full in the production centre itself during the manufacture of chlorine derivatives, caustic soda is sold worldwide. The most significant product manufactured from chlorine is PVC, the performance of which is tied to the performance of the construction industry. This fact lends an element of volatility to the price of caustic soda (a chlorine co-product) that must be taken into account in the Group's projected results.

As stated in epigraph (ii) above, the phase-out of the chlorine production plants that operate with mercury technology reduce the availability of the Group's chlorine and caustic soda. To maintain its presence in the markets and, therefore, the level of service to customers —in particular those of caustic soda, sodium hypochlorite, hydrochloric acid and PVC—, the Group has (i) increased the chlorine production capacity of the plants that operate with membrane technology; (ii) increased the purchase of external caustic soda;

(iii) distributed the chlorine produced, allocating a larger portion to more profitable uses; and (iv) increased the purchase of external EDC —which already includes the chlorine and the ethylene— for the production of PVC [see chapter 2.3 c) (i)].

In this manner, EDC has become a relevant raw material for the Group, while ethylene's weight as a raw material has dropped. On the other hand, the Group increased its commercial profile by not producing a significant portion of the caustic soda it markets. Given that the price of the raw materials is related to the price of the end products to which they are allocated, the Group expects to reduce the cyclical nature of its margins with respect to previous years by transforming a portion of its industrial margins into commercial margins, which are more stable.

**(vi) Risk of dependence on raw materials**

The Group is heavily dependent upon certain raw materials, the prices of which are subject to cyclical variations, and on occasions, may not be available in the quantities required or within the desired time.

The three main procurements and supplies —electricity, ethylene and methanol— represent 45.3% of the total amount of consolidated purchases and more than 40% of the total cost of the chlorine, formaldehyde, and PVC manufacturing processes, respectively. As stated in epigraph (v) above, beginning in 2018, ethylene's weight as a raw material has dropped but that of EDC has risen.

The Ercros Group attempts to pass the fluctuations in costs on to its products, however it is not always able to do so entirely, or when it is able to, there is often a certain delay.

The Group attempts to mitigate this effect by applying a strategy in relation to suppliers that seeks: (i) to sign stable agreements for the most volatile raw materials and (ii) to diversify the number of suppliers of strategic procurements.

In addition, to minimise the effect the volatility of raw material prices has on the business, the Group efficiently manages its stock and tries to negotiate supply agreements with customers in which the sale price of its main products are indexed to the cost of the raw materials, above all for products in which the raw materials have a greater weight.

With respect to the cost of electricity, the price of the MWh consumed in the electrolysis plants is determined by the daily electricity reviews, which are significantly influenced by the electricity generation structure at any given time. Therefore, the price drops when electricity generation using renewable sources (wind and hydraulic energy) increases and rises when it is generated using fossil fuels.

Additionally, the Group's electricity-intensive factories benefit from the remuneration of the interruptibility service for which REE pays large electricity consumers in order to be able to interrupt the supply of electricity under certain conditions. The government is currently developing new regulations to bring this service into line with the technical and economic standards of other similar European services. This adds a component of uncertainty and variability to the energy costs borne by the Group [see chapter 2.3 c) (i)].

The reduction in total chlorine production mentioned in epigraph (ii) above, will lead to an estimated 30% reduction in electricity consumption in 2018 thereby notably reducing the Group's sensitivity to this cost that has increased significantly in recent years and is expected to continue to increase in the future.

In addition to electricity, the other raw material in the chlorine and caustic soda production process is sodium chloride, the consumption of which has been reduced as a result of the reduction in the production capacity of chlorine and caustic soda. Until now, the Group's mercury electrolysis plants were supplied by the sodium chloride produced at the Cardona factory; however, the membrane electrolysis plants require sodium chloride with a high purity level (vacuum grade). Although sodium chloride is an abundant raw material, there are a limited number of manufacturers in Europe that can provide vacuum grade sodium chloride. To ensure the availability of this product, Ercros has signed a very long-term (20 years) agreement with a supplier with the capacity to satisfy the volume and quality required and also has an alternative supplier.

Methanol and ethylene prices continued to rise in 2017, in keeping with the evolution of the main commodities, and to date it has intensified in 2018.

In general, the Ercros Group can pass on the fluctuations in ethylene and methanol prices to its customers, which are negotiated as a whole. However, that is not the case with local energy —electricity and gas. Consequently, a significant increase in the price of these supplies affects the margin for the finished products and the Group's competitiveness and profit.

The closure of several competitor chemicals factories in China, discussed in epigraph (iv) above, reduces the risk of loss of competitiveness of the products marketed globally by the Group; however, the risk of dependency on raw materials could increase if the procurements that the Group purchases in this country become scarce or if they become more expensive.

### (vii) Risk of customer concentration

Although no customer represents more than 10% of the Ercros Group's billings, it is worth highlighting the importance of the main chlorine consumer, Covestro, which consumes 40% of the chlorine produced by the Group.

On 16 March 2017, Ercros and Covestro reached a supply agreement for the 2017-2020 period. However, on 11 December 2017, this customer announced its intention to open a chlorine plant in 2020 that will supply its factory in Tarragona. If after 2020 the Group does not continue to supply chlorine to this customer, it would reduce its purchases of EDC and once again increase its purchases of ethylene and it would likely cease production of dicalcium phosphate that as a whole could affect the Group's profit [see chapter 2.3 c) (i)].

The Group does not expect the UK's exit from the European Union to have a significant impact on its income statement.

### (viii) Risk of delay in executing the strategic plans

The Ercros Group is implementing a strategic plan, the ACT Plan for the 2016-2020 period. The main goal of this plan is to address the technological change arising from the European ban on producing chlorine with mercury technology [see chapter 2.3 b)].

This ban led to the discontinuation of activity at several plants at the Flix and Vila-seca I factories and the total closure of the Cardona factory, which in turn led to a collective layoff affecting 105 employees. The Group offered all of the aforementioned employees the possibility of being transferred to one of its other workplaces pursuant to the 149 voluntary partial retirement requests received.

The main cost for the Group associated with the aforementioned ban is the loss of contribution arising from the reduction in chlorine and caustic soda production, in addition to the cost of the collective layoff (estimated at EUR 11,000 thousand) and the cost of dismantling the closed plants and the soil remediation (estimated at EUR 10,300 thousand). The Group anticipates that this loss of contribution will be offset by the reduction in fixed costs and, consequently, there will be no negative impact on the Group's future results [see chapter 3.4 c)].

Although the measures envisaged in the ACT Plan are being implemented as expected [see chapter 2.2)], there is a risk that certain operating incidents will arise during the first months in which the new plants that have partially replaced the closed plants are in operation that could temporarily hinder such operations. There is also a risk that there will be a delay in the expected reduction in fixed costs —staff costs and operating and maintenance expenses— which would affect the Group's returns.

### (ix) Fiscal risk

The Group tries to minimise the fiscal risk arising from its activities. To that end, it strives to comply meticulously with its tax obligations, and avoids taking decisions based on aggressive or controversial interpretations of tax regulations. Nor does it attempt to plan its operations so as to minimise its tax charge through companies located outside of Spain. The Ercros Group receives advisory services from external tax experts to comply with tax regulations and not to assume risks in the interpretation of the regulations.

However, occasionally, the tax authorities use criteria for interpreting the regulations applicable to the activities carried out by the Group that give rise to discrepancies with the criteria used by it.

In this regard, on 5 July 2017, Ercros submitted pleadings to the Central Economic-Administrative Tribunal ("TEAC") contesting the definitive tax assessment issued by the tax authorities after their review of Ercros due to the exemption applied on the consumption of ethyl alcohol used to manufacture medicine in 2011 and 2012 amounting to EUR 5,300 thousand, of which EUR 4,488 thousand relates to the tax rate and EUR 812 thousand to late-payment interest. The Group secured payment of the amounts arising from the aforementioned assessment by arranging credit insurance. Based on recent resolutions issued by the TEAC and the criteria expressed by the Taxation Office in consultations carried out by the pharmaceuticals industry, the Group expects the tribunal to rule in its favour in relation to the appeal filed and, therefore, has not provisioned any amount to settle the aforementioned tax assessment.

Ercros was reviewed in relation to VAT and tax withholdings and prepayments, for the period from February 2012 to December 2013 and in relation to income tax for 2011, 2012 and 2013. Likewise, it has the last four years open for review for the other taxes applicable to it. Although the tax audit has concluded, the process for filing the corresponding assessments has not yet concluded and, based on the information communicated to the Company by the actuaries in the form of provisional assessments, no relevant liability was disclosed.

The Company's directors and its legal advisers consider that a tax audit would not give rise to any tax contingencies of material amounts in the event of discrepancies in the interpretation of the tax legislation applicable to the Group's operations.

**(x) Technological and cyber security risk**

The Group is exposed to cyber risk that could lead to an interruption of its business processes, which would temporarily compromise the Group's normal operations.

To minimise the risk of the discontinuation of normal business operations —arising from failures or incidents in the computer systems— the Group has a specific protection plan for its technological infrastructure within the framework of an operating security plan.

The aforementioned plan also addresses security against accidental or intentional internal and external cyber threats. The Group has the means necessary to attempt to prevent, detect and, where applicable, eliminate the cause of this type of threat.

**b) Financial risks**

In the normal course of its operations, the Group is exposed to credit risk, market risk (interest rate risk and foreign exchange risk) and liquidity risk.

Ercros Group' main financial instruments, other than derivatives, include the syndicated factoring facility, the revolving credit facility, the securitisation programme for receivables in dollars, loans from public financial institutions, bank loans, credit facilities, finance leases, cash and short-term deposits.

Ercros has no derivative contract to hedge interest rate or foreign exchange risk.

In recent years, it has been the Group's policy not to trade with financial instruments.

The Group considers that financial risk was reduced in 2016 —due to the improved operating results of the aforementioned year— and continued to do so in 2017 with a solvency ratio (net financial debt/ordinary ebitda) of 1.20. For the purposes of the aforementioned ratio, the amount recognised under "Ordinary gross operating profit" in the consolidated statement of comprehensive income was considered ordinary ebitda [see chapter 13.2].

In addition, in 2017 the Group carried out the majority of the investments contained in the ACT Plan —the main purpose of which is to cope with the phase-out of mercury technology in the production of chlorine, thereby improving the Group's profitability— and, in turn, its improved financial profile and profitability confirm its ability to access the financing necessary for its activities.

**(i) Credit risk**

The Group has implemented a customer credit management policy and the exposure to default risk is managed in the normal course of its business. Solvency assessments are carried out on all customers who require a limit greater than a certain amount. Likewise, in certain sales, the Group requires the customer to deliver a letter of credit or a bank guarantee.

Ercros has a credit insurance policy associated with the customers of the securitisation programme for receivables in dollars.

The Group's customer portfolio does not have a high concentration.

With respect to the Group's remaining financial assets, such as cash and cash equivalents, credits and available-for-sale financial assets, the maximum exposure to credit risk is equivalent to the carrying amount of these assets at year end.

**(ii) Market risk**

Interest rate risk

External financing is based on the syndicated factoring facility, the revolving credit facility, the securitisation programme for receivables in dollars and loans from government agencies. The financing accrues interest at variable rates normally referenced to Euribor. In this regard, given that interest rates are currently very low, potential increases in the Euribor would entail an increase in the Group's finance costs.

The following table shows an analysis of sensitivity to reasonable potential changes in interest rates, keeping all other variables constant:

| | Increase/decrease in basic points of debt cost | Effect on results (EUR thousand) |
|---|---|---|
| **2017:** | | |
| | 200 | -1,963 |
| | 100 | -981 |
| | -100 | 981 |
| | -200 | 1,963 |
| **2016:** | | |
| | 200 | -1.499 |
| | 100 | -750 |
| | -100 | 750 |
| | -200 | 1,499 |

Exchange rate risk

See chapter 3.1 f) above

### (iii) Liquidity risk

The Group manages its liquidity risk by using financial planning techniques. These techniques take into account the cash inflows and outflows from ordinary activities, investments and financing. The Group's objective is to maintain a balance between the flexibility, term, and conditions of the source of financing contracted based on the expected requirements at short, medium and long term.

Europe's improved economic environment and improved efficiency has enabled the Ercros Group to close the last three years with a profit. This profit has provided the Group with the liquidity necessary to meet its obligations in a timely manner. The Group expects the situation to remain the same in 2018 and, therefore, does not anticipate being exposed to liquidity risk in its transactions.

The accompanying table details the maturities of short-term financial liabilities at 31 December 2017 and 2016, in accordance with the contractual terms of these liabilities, without updating the finance charge. This finance charge amounts to EUR 30 thousand (2016: EUR 40 thousand).

| EUR thousand | 31-12-17 | 31-12-16 |
|---|---|---|
| Debts with credit institutions | 79,620 | 89,341 |
| Trade accounts payable and other accounts payable | 119,460 | 106,855 |

Upon its maturity, on 27 November 2017, Ercros renewed the syndicated factoring facility until the end of 2022 for the same amount (EUR 102,140 thousand) and with better economic conditions. On 14 December 2017, it signed a revolving credit facility for an overall limit of EUR 30,000 thousand in order to expand its available financing facilities. The Company also signed two credit facilities with the ICF for a total amount of EUR 8,000 thousand to partially finance the technological change at the Vila-seca I factory.

At 31 December 2017, the Group had two financing facilities available amounting to EUR 59,105 thousand. In addition, in the event the need arises, the Group believes that it could use other complementary mechanisms to obtain one-off liquidity, such as the partial and selective disposal of assets not used in operations or the issue of short or medium-term bonds on organised markets.

In relation to Spanish Law 15/2010, of 5 July, amending Spanish Law 3/2004, of 29 December, establishing measures to combat late payment in commercial transactions, at 31 December 2017, the average payment period to suppliers was 49.11 days (62.31 days at 2016 year-end), representing a decrease of 13.2 days between the two years.

At 31 December 2017, payments exceeding 60 days represented 34% of all payments made (2016: 39%).

The Group expects that the cash generated from its current activities will enable it to continue reducing the percentage of payments made more than 60 days out in 2018, in keeping with that achieved in the previous two years.

The following table is a breakdown of the average payment period to suppliers, the ratio of transactions paid to transactions pending payment, as well as the total payments made and pending in 2017 and 2016:

| | Year 2017 | Year 2016 |
|---|---|---|
| Average period of payment to suppliers (days) | 49.11 | 62.31 |
| Ratio of paid operations (days) | 48.91 | 62.77 |
| Ratio of outstanding operations (days)[1] | 50.27 | 59.34 |
| Total payments made (EUR thousand) | 635,660 | 542,886 |
| Total outstanding payments (EUR thousand)[1] | 109,534 | 83,832 |

[1] On 31 December 2017 and 2016.

## c) Corporate risks

### (i) Risk of political uncertainty

Ercros, S.A. has its registered office in Barcelona. Since mid-2017, Catalonia has been facing significant political uncertainty as a result of the independence movement in which the government and parliament of this community has become involved. The actions taken have forced the government of Spain to intervene in the autonomous community pursuant to article 155 of the Spanish Constitution.

A significant number of companies based out of Catalonia have opted to relocate their headquarters and, on occasion, also there tax base, outside of this autonomous community. Ercros' board of directors has preferred not to make any changes while Catalonia continues to be governed by the current laws and remains part of the European Union.

78% of the Group's production takes place in factories located in Catalonia, which is the destination of 23% of its sales.

This political situation is not affecting the Group's sales since, because it sells chemicals products for industrial use, it has not been subject to the boycotts to which other producers whose goods are marketed to end consumers under the umbrella of easily identifiable Catalan brands, may be subjects.

### 5.3. Risks arising in 2017

| Risks arising in the year | Circumstances that gave rise to the risks | Functioning of the control systems |
|---|---|---|
| Risks related to regulatory changes | Phase-out of mercury technology in the electrolytic plants. | The production capacity of electrolytic plants with membrane technology has been increased. |
| Risks related to regulatory changes | Asbestos complaints. | The corresponding provisions have been recognised. |
| Fiscal risk | Assessment regarding the consumption of alcohol for manufacturing medicine. | Ercros has contested this assessment and expects the tribunal to find in its favour. |
| Risk of political uncertainty | Independence movement of the Catalan Government and Parliament and subsequent invocation of article 155 of the Spanish Constitution. | The board of directors has maintained a prudent stance while the legal framework is guaranteed. |

## 6 Events after the reporting period

### 6.1. Treasury share purchase

The second treasury share buyback programme began on 4 October 2017 within the framework of the authorisation granted to the board of directors by the shareholders at the general shareholders' meeting held on 23 June 2017 in accordance with which, for an 18-month period, it may acquire treasury shares for the sole purpose of retiring them within the shareholder remuneration policy under the same conditions and with the same legal limits as in the previous authorisation.

Pursuant to this authorisation, on 26 July 2017, the board of directors agreed to implement a treasury share buyback programme for a maximum amount of EUR 6,000 thousand up to a limit of 3% of its share capital.

Since the start of the second programme (4 October 2017) until 22 February 2018, the Company had acquired 1,812,378 treasury shares, equivalent to 1.63% of its share capital for EUR 5,060 thousand [see chapter 9].

The Company does not have stock options for its directors or employees.

### 6.2. Dividends paid

At its meeting on 23 February 2018, the board of directors resolved to submit for the approval of the shareholders at the general shareholders' meeting the distribution of a dividend with a charge to 2017 of gross EUR 0.05 per share representing a payout of EUR 5,549 thousand, equivalent to 12.5% of the consolidated profit for that year [see chapter 10.1 b)].

### 6.3. Entry into service of the new chlorine plant in Sabiñánigo

On 8 February 2018, the 15,000 t/year increase in the production capacity of the chlorine plant with membrane technology at the Sabiñánigo factory entered into service. During the first quarter of 2018, a new hydrochloric acid plant is also scheduled to enter into service at this factory [see chapter 2.2 a)].

# 7 Foreseeable evolution

In 2018 the Group will benefit from the entry into service of the investments included in the first phase of the ACT Plan that has already been executed; specifically, the expansion of the chlorine and caustic soda production facilities with membrane technology and the new chlorine derivatives and active pharmaceutical ingredients plants. Likewise, prices are expected to continue being pushed upward throughout the year, particularly those of caustic soda and PVC, which have benefited from an overall drop in supply in a context in which GDP is on the rise.

But above all, the positive outlook for the aforementioned markets for the coming years —since the current situation is expected to extend in the coming two to three years— has led the Group to study a new increase in its chlorine and caustic soda production capacity. In any event, this would not take effect in 2018 given that the new capacity would progressively enter into service at the end of the year.

Therefore, with respect to costs, the forecast is that the current strain related to raw materials will continue at least during the first portion of the year, particularly in the case of electricity and methanol. Fortunately, strong demand has allowed the Company to increase the price of its end product prices in view of rising raw material prices, thereby maintaining margins.

On the other hand, the Company expects that the dollar's depreciation against the euro, which began in 2017 and has continued to date in 2018, may also become more moderate such that in the middle of the year the average exchange rate will be around EUR 1.23/dollar —in line with projections.

With regard to expenses, it must be borne in mind that in 2017 —in a single year— the Group recognised the costs associated with restructuring chlorine production amounting to EUR 21,732 thousand. The challenge for 2018 is to reduce fixed costs —staff costs, operating and maintenance expenses— within the deadline and for the amounts established in the aforementioned restructuring, so as to offset the loss of contribution arising from the reduction in chlorine and caustic soda production as a result of the phase-out of the mercury electrolysis plants. Until now, the reduction in costs is occurring as envisaged and the new plants entered into service without any notable operating incidents.

The second phase of the ACT Plan, including investments to increase the Group's pentaerythritol and TCCA production capacity, began at the start of 2018. If all goes according to plan, both investments will be completed a year before initially planned (2020) since the first of the two is expected to be operative at the end of the year and the second, in 2019.

As regards R&D, the Group has continued to develop projects financed with government aid, such as: (i) premium PLA bioplastic within the ErcrosBio line and the use of new silver catalysts in the formaldehyde process, which received funding from the Regional Government of Catalonia's Nuclis programme, co-financed by the EU's European Regional Development Fund ("ERDF") within the Framework of the Catalonia ERDF 2014-2020 Operational Programme; and (ii) the new line of ErcrosGreen+ resins and a bioplastic specifically for manufacturing containers that received aid from the Centre for the Development of Industrial Technology ("CDTI").

In 2017 the Group availed itself of other public assistance programmes to finance its R&D activity such as tax deductions and aid for re-industrialisation activities granted by the Ministry of Economy, Industry and Competitiveness.

The Group has five of its own R&D centres in Aranjuez, Monzón, Sabiñánigo, Tarragona and Tortosa, and collaborates with universities and technological centres. With the help of the funding received, it was able to open new lines of research —which are still being explored— in collaboration with various renowned research centres such as the l'Institut Català d'Investigació Química ("ICIQ"); the Consejo Superior de Investigaciones Científicas ("CSIC"); the CITIUS programme of the Universitat Autònoma de Barcelona; the Universitat Politècnica de València; and the Catalan Plastic Centre of the Universitat Politècnica de Catalunya.

Ercros has 16 patents registered, both for products and manufacturing processes.

In 2017 expenses related to innovation amounted to EUR 425 thousand (2016: EUR 183 thousand), and investments in innovation and technology amounted to EUR 5,611 thousand (2016: EUR 5,051 thousand).

## 8.1. New products

The following is a description of the most relevant projects being carried out in relation to new product development.

**a) In the chlorine derivatives division**

- Testing of microencapsulation of various additives in TCCA tablets, such as fragrances and dyes.
- A study to obtain various potassium and magnesium salts to provide more value added to the production of potassium hydroxide.
- A study of new comonomers to improve the performance of ErcrosFlex to adjust the formulations to the results of the usage tests on new resins —with both very high and very low molecular weight— conducted by customers.
- Patent applications for flexible and rigid use copolymers.

**b) In the intermediate chemicals division**

- The ErcrosGreen+ line with very low formaldehyde emissions, which includes the new melamine-formol resins for manufacturing decorative laminates; urea-formol resins for manufacturing plywood boards and phenol resins for the insulation industry.
- The new high density quality of Carbaicar HD, which offers notable improvements for manufacturing electrical and sanitary material.

**c) In the pharmaceuticals division**

- A new active ingredient obtained through fermentation to obtain breeding ground to develop the extraction technique for the product and, therefore, be able to define certain standard production conditions, currently in the laboratory development phase.
- The obtainment of other fermentation products of an antibiotic nature that have exceeded laboratory and pilot plant scale production, in both the fermentation and extraction phases.

## 8.2. Improvement of processes and new applications for existing products

Among the most relevant steps taken as regards the processes for improving efficiency and new applications for existing products, the following are worth highlighting:

- The programme at the pilot plant for obtaining chlorine and potassium hydroxide through zero-gap membrane technology, according to the programme agreed with Asahi Kasei.
- Optimisation of the morphology and uniformity of all types of PVC manufactured in different polymerisation reactors.
- The increase in production and improved energy efficiency in the process for obtaining polyols and moulding powders.
- The development of a fusidic acid extraction process that reduces the use of solvent. Work has been carried out at laboratory and pilot plant scale.

# 9 Acquisition and disposal of treasury shares

In compliance with the shareholder remuneration policy [see chapter 10.1 a)], between 20 January 2017 and 27 March 2017, the Company implemented its first treasury share buyback programme for the purpose of retiring them that was approved by the board of directors on 10 November 2016 pursuant to the authorisation granted by the shareholders at the general shareholders' meeting held on 10 June 2016. Until the start of the aforementioned buyback programme, Ercros had not acquired nor did it hold any treasury shares.

Within the framework of this first programme, the Company acquired 3,106,860 treasury shares, representing 2.723% of its share capital that were retired on 27 July 2017 through a share capital reduction for the nominal amount thereof —EUR 932,058—, subsequent a resolution by the shareholders at the general shareholders' meeting held on 23 June 2017 [see chapter 10.2 b)].

At 26 July 2017, the board of directors resolved to implement a second treasury share buyback programme pursuant to the authorisation granted by the shareholders at the general shareholders' meeting on 23 June 2017. Between 4 October and 31 December 2017, the Company acquired 1,119,332 shares, equivalent to 1.01% of its share capital. Since the start of the second programme —4 October 2017— until 22 February 2018, the Company had acquired 1,812,378 shares, equivalent to 1.63% of its share capital for EUR 5,060 thousand.

The second treasury share buyback programme is set to end on 30 June 2018; although the Company reserves the right to terminate the programme early when either the maximum monetary amount of EUR 6,000 thousand has been exceeded, the maximum number of authorised shares —which may not exceed 3% of its share capital, equivalent to EUR 3,330 thousand— have been acquired, on the date approved by the board or in light of any other circumstance that makes it advisable to do so.

The shares are purchased at market price in accordance with the price and volume conditions established in Commission Delegated Regulation (EU) 2016/1052, of 8 March 2016 and in the Company's internal code of conduct in relation to securities market matters.

Solventis A.V., S.A. was appointed as the management company for both programmes.

## 10.1. Shareholder remuneration

### a) Shareholder remuneration policy

On 28 April 2017, the board of directors approved the shareholder remuneration policy with a charge to the Group's consolidated profit for 2017 to 2020, which was subsequently ratified by the shareholders at the general shareholders' meeting held on 23 June.

Shareholder remuneration is carried out through the buyback of treasury shares for their retirement and payment of a dividend.

In accordance with the aforementioned policy, the Company will remunerate shareholders with a maximum payout: of 35% of 2017 consolidated profit; of 40% of 2018 consolidated profit; of 45% of 2019 consolidated profit; and 50% of 2020 consolidated profit.

The buyback of shares is the preferred channel for remunerating shareholders, provided that the projected dividend payout is at least: 12% of 2017 consolidated profit; 14% of 2018 consolidated profit; 16% of 2019 consolidated profit; and 18% of 2020 consolidated profit.

Shareholder remuneration is contingent upon (i) consolidated profit being obtained of at least EUR 0.10/share and (ii) the following criteria being met at the end of each year: the net financial debt/ordinary ebitda (solvency ratio) is less than or equal to 2 and the net financial debt/equity (gearing ratio) is less than or equal to 0.5.

In 2017 these conditions were met given that the consolidated profit per share was EUR 0.3963 (2016: EUR 0.3959), the solvency ratio was 1.20 (2016: 1.26) and the gearing ratio was 0.36 (2016: 0.33) [see section 10.2 c) below and chapter 4.3 a)].

Ercros' dividend policy is defined in this shareholder remuneration policy. The restrictions on dividend payout included in certain financing agreements are described in chapter 4.2 b). In 2016 the Company had obtained the appropriate dispensations to distribute a dividend.

### b) Shareholder remuneration in 2017

Since, as stated in sub-section a) above, the terms established in the shareholder remuneration policy were met, the board of directors —in its meeting held on 23 February 2018— resolved to submit for the approval of the shareholders at the general shareholders' meeting the distribution of a dividend of gross EUR 0.05 per share representing a payout of EUR 5,549 thousand, equivalent to 12.5% of the consolidated profit obtained by the Group in 2017, a percentage slightly above (+0.5%) the minimum established for the distribution of the 2017 dividend in the aforementioned policy.

Furthermore, in order to comply with the total maximum payout envisaged in the 2017 shareholder remuneration policy —which is 35%— the Company bought back treasury shares to be retired amounting to EUR 3,001 thousand, representing a payout of 6.7% of consolidated profit for that year. The Company continued to purchase treasury shares after 31 December 2017 and will continue to do so until one of the two limits established in the second buyback programme are met (a maximum amount of EUR 6,000 thousand is reached or shares equivalent to 3% of its share capital are purchased), in order to reach the 35% total payout [see chapter 9].

In relation to 2016, on 5 July 2017, the Company paid a dividend of gross EUR 0.04 per share. The total amount of the aforementioned payment was EUR 4,439 thousand, representing a payout of 9.8% of 2016 consolidated profit.

Meanwhile, EUR 9,000 thousand were allocated to the first treasury share buyback programme, representing a payout of 19.9% of 2016 consolidated profit, bringing the total amount allocated to remunerating shareholders to EUR 13,439 thousand, a figure that represents a total payout of 29.8% of 2016 profit.

Additionally, in 2017, EUR 386 thousand (2016: EUR 1,217 thousand) were used to pay a shareholder premium to those who attended the general shareholders' meeting. The difference between the amount during the two years is because in 2016 three meetings were held —the mandatory annual meeting and two extraordinary meetings— and it 2017 only one meeting was held.

## 10.2. Stock market information

### a) Share capital

In 2017 Ercros' share capital decreased by EUR 932,058, corresponding to the nominal amount of the 3,106,860 treasury shares that were retired on 27 July 2017 [see chapter 9].

After this transaction and until 23 February 2018, Ercros' share capital amounted to EUR 33,293,883.30 and was represented by 110,979,611 ordinary shares of EUR 0.30 par value each.

The following table shows the performance of Ercros' share capital between 2016 and 2017:

| | Share capital (EUR) | Number of shares |
|---|---|---|
| On 31-12-16 | 34,225,941,30 | 114,086,471 |
| Capital reduction | -932,058,00 | -3,106,860 |
| On 31-12-17 | 33,293,883,30 | 110,979,611 |

### b) Share performance

In 2017, Ercros' share price continued to rise, although at a more moderate pace than in the previous year. In 2016 the share price rose 196.8% and in 2017 it rose 55.4% such that in the last two years the share price has risen 361.3%.

Ercros closed 2017 with a capital value of EUR 317,402 thousand. At 31 December 2017, the Company's share price was EUR 2.86.

On 22 February the share reached its maximum price: EUR 3.63. In 2017 the average share price was EUR 2.87, practically double that in 2016.

During the year as a whole, the effective volume traded was EUR 536,069 thousand —almost three times that of 2016—, while the number of shares that changed hands was 186,848,681 —i.e., 1.7 times the average number of shares available in the market in 2017.

The largest number of shares was traded on 7 February 2017: 3,618,126 shares. The average trading volume for the year was 732,739 shares per day 43.8% higher than in 2016.

**Main share-related parameter**

| | 31-12-17 | 31-12-16 | 31-12-15 | 31-12-14 | 31-12-13 |
|---|---|---|---|---|---|
| **Shares on the stock market** | **110,979,611** [1] | **114,086,471** | **114,086,471** [2] | **112,283,591** [3] | **107,035,746** [4] |
| **Capital value (EUR)** | **317,401,687** | **209,919,106** | **70,277,266** | **44,127,451** | **50,268,540** |
| **Traded shares:** | | | | | |
| In the course of the year | 186,848,681 | 130,902,035 | 92,905,410 | 63,727,976 | 65,493,010 |
| Maximum in one day | 3,618,126 | 4,700,641 | 5,918,106 | 1,484,483 | 1,659,373 |
| Minimum in one day | 111,569 | 24,004 | 16,737 | 9,790 | 17,704 |
| Daily average | 732,739 | 509,346 | 362,911 | 249,913 | 256,835 |
| **Traded volume (EUR):** | | | | | |
| In the course of the year | 536,068,883 | 187,864,192,48 | 55,992,629,02 | 31,356,126,06 | 32,129,102,62 |
| Daily average | 2,102,231 | 730,989,08 | 218,721,21 | 122,965,20 | 125,996,48 |
| **Share price (EUR):** | | | | | |
| Highest | 3.63 | 2.41 | 0.86 | 0.58 | 0.61 |
| Lowest | 1.83 | 0.44 | 0.39 | 0.37 | 0.35 |
| Average | 2.87 | 1.44 | 0.6 | 0.49 | 0.49 |
| Last | 2.86 | 1.84 | 0.62 | 0.39 | 0.47 |
| **Frequency ratio (%)** | **100** | **100** | **100** | **100** | **100** |
| **Liquidity ratio (%)** | **168** | **115** | **81** | **57** | **61** |

[1] Yearly average 2017= 112,274,136 shares.

[2] Yearly average 2015= 114,086,471 shares.

[3] Yearly average 2014= 110,175,394 shares.

[4] Yearly average 2013= 103,515,483 shares.

In 2017 the Ercros share was ranked 13th in terms of revaluation on the Spanish Stock Market Interconnection System (2016: 5th). This performance is even more significant when compared to that of the main indices –the Ibex-35, the general index of the Madrid Stock Exchange ("IGBM") and the industrial index for basic and construction materials ("ICNS")– which, between 2016 and 2017, was the index that performed best, rose 8%.

**c) Main market ratios**

The increase in the share price and the reduction in the number of shares representing the Company's share capital increased the main market ratios [see chapter 3.2].

This last factor made it possible –despite the slight drop in 2017 profit– for the earnings-per-share to increase slightly from EUR 0.3959/share in 2016 to EUR 0.3963/share in 2017. This ratio is obtained by dividing the profit for the year by the weighted average number of outstanding shares taking into account that 3,106,860 treasury shares were retired and is used to measure the earnings corresponding to each share.

In 2017, PER –calculated by dividing profit for the year by the share price at year end– was 7.22 [2016: 4.65]. This ratio measures the market value per share relative to earnings per share.

Between 2016 and 2017 the cash flow per share –calculated by dividing the cash flow from operating activities by the number of shares– rose from 0.33 to 0.39 (cash flow per share measures the cash flow generated relative to each share); while P/BV –calculated by dividing the market price by equity compares the Company's market value to its book value– which in 2016 was 0.95 in 2017 was 1.28.

**d) Significant shareholders**

In accordance with the number of shares that shareholders with a significant ownership interest have declared they own, based on the records in the public registry of the Spanish National Securities Market Commission ("CNMV"), at 31 December 2017, the significant ownership interests in the share capital of Ercros amounted to 10.5% and were broken down as follows: Joan Casas Galofré, with 4,578,000 direct shares representing 4.13% of the share capital; Víctor Rodríguez Martín, with 3,633,577 direct shares representing 3.27% of the share capital; and Dimensional Fund Advisors, LP with 3,425,303 indirect shares representing 3.09% of the share capital.

At 31 December 2017, the Company's estimated floating capital, after deducting the treasury shares held by the Company at that date, was 88.5%.

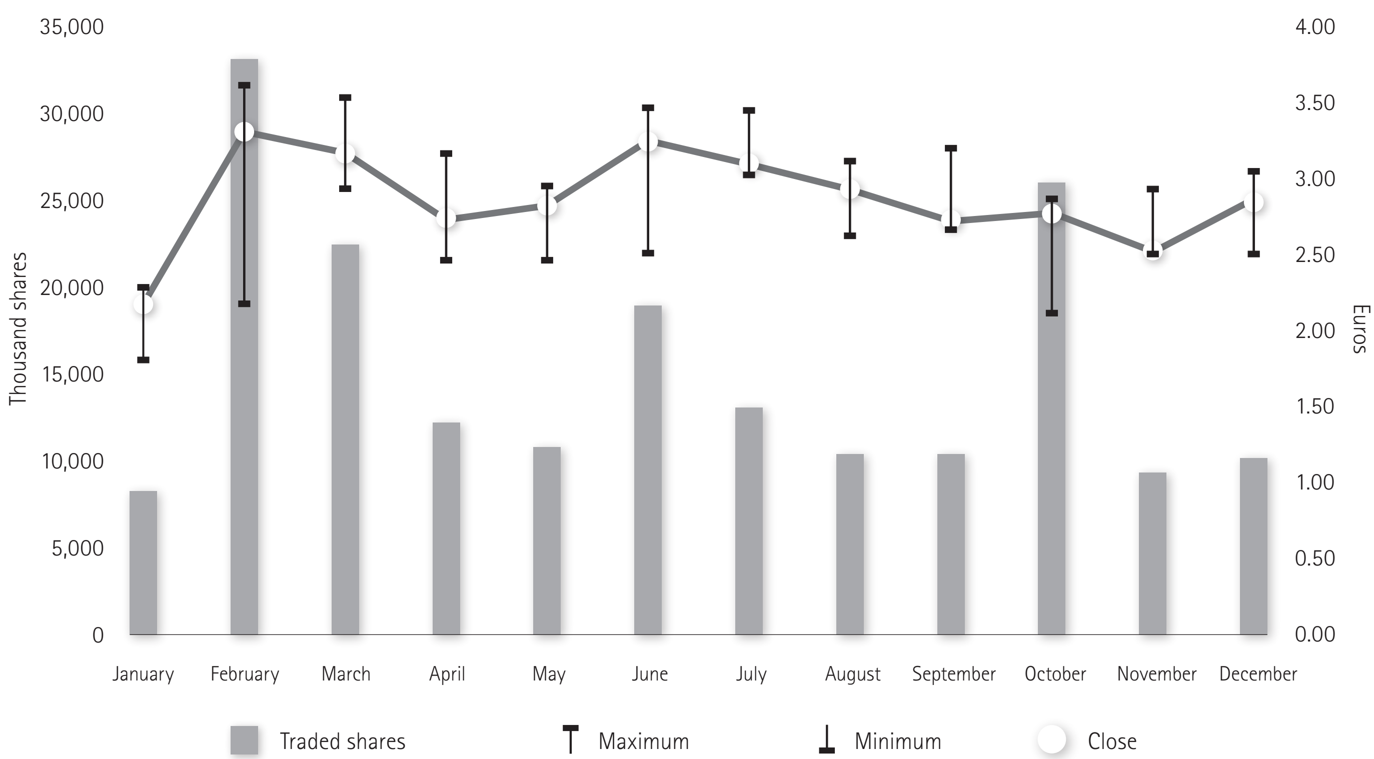
Between 31 December 2016 and 2017, there was no variation in the number of Ercros shares in the hands of members of the board of directors that was 100 in the case of Laureano Roldán Aguilar and 100,000 in the case of Antonio Zabalza Martí, although –due to the share capital reduction of 2.72%– Mr. Zabalza Marti's ownership interest in the Company's share capital increased from 0.088% to 0.090%.

**e) Credit rating**

The Company has no record of any credit rating for the Group.

**Share price and traded volume evolution**

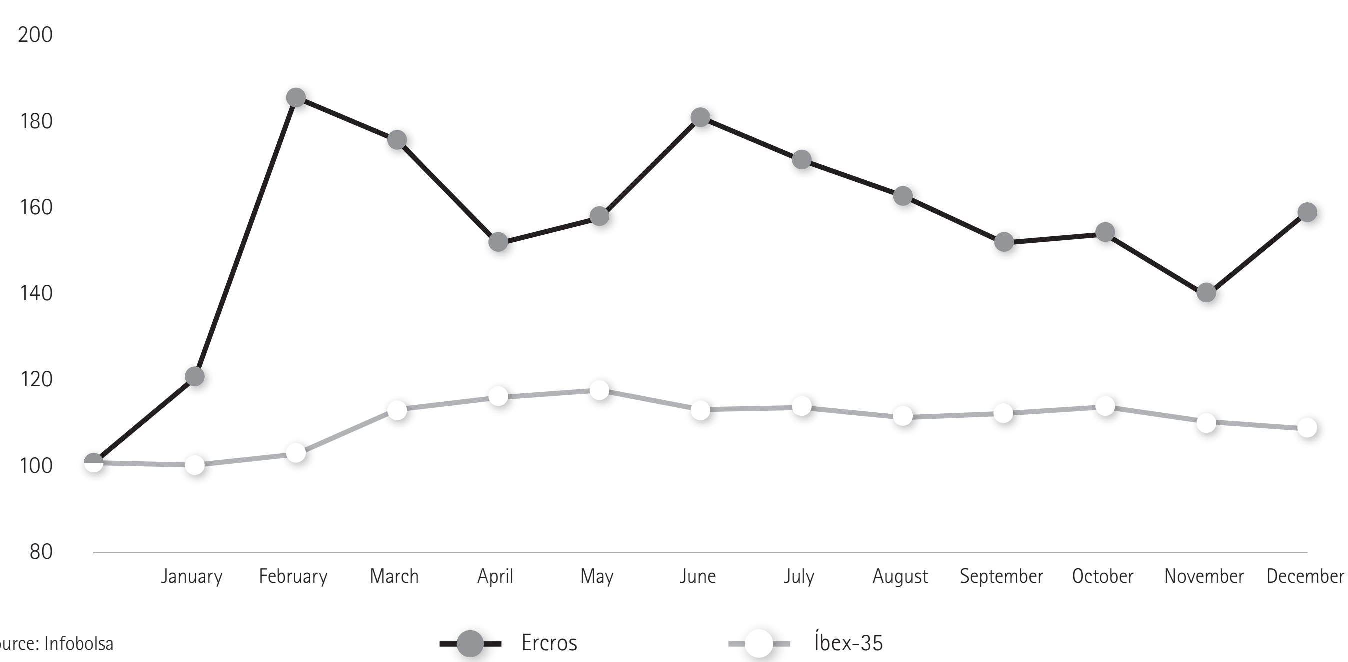
2017




**Comparison between Ercros and the Ibex-35**

2017

BASE 100= 31-12-16




Source: Infobolsa

## 10.3. Significant events in 2017

**a) Capital reduction**

On 27 July 2017, the Mercantile Registry of Barcelona recorded Ercros' share capital reduction amounting to EUR 932,058, equivalent to 2.723% of its share capital, corresponding to the nominal value of the 3,106,860 treasury shares that the Company acquired for retirement [see chapter 9].

After this transaction, the share capital of Ercros amounted to EUR 33,293,883.30, represented by 110,979,611 fully paid ordinary shares of EUR 0.30 par value each, all of the same class and traded by the book-entry system.

**b) Approval of the shareholder remuneration policy**

On 28 April 2017, the board of directors approved the shareholder remuneration policy with a charge to the profit for 2017 to 2020, which was subsequently ratified by the shareholders at the general shareholders' meeting. Shareholder remuneration is carried out through the buyback of treasury shares for their retirement and payment of a dividend [see section 10.1 a) above].

**c) Treasury share buyback programme**

Within the framework of the shareholder remuneration policy, the Company is implementing a programme to buy back treasury shares for retirement through a share capital reduction for the nominal amount thereof.

Between 20 January 2017 and 27 March 2017, the Company implemented the first treasury share buyback programme as a result of which it acquired 3,106,860 treasury shares, representing 2.723% of the share capital, which were retired through share capital reduction on 27 July 2017.

The second buyback programme began on 4 October 2017. Since that date, until 22 February 2018, the Company had acquired 1,812,378 treasury shares, equivalent to 1.63% of its share capital amounting to EUR 5,060 thousand [see section 10.1 b) above].

**d) Dividend paid**

On 5 July 2017, the Company paid a dividend of gross EUR 0.04 per share with a charge to the profit obtained by Ercros, S.A. in 2016 that was EUR 44,734 thousand. The total amount of the aforementioned payment was EUR 4,439 thousand, representing a payout of 9.8% [see section 10.1 b) above].

**e) General shareholders' meeting**

On 23 June 2017, the Company held its general shareholders' meeting [see chapter 2.1 a)]. The shareholder remuneration policy for the 2017-2020 period was approved in the aforementioned meeting [see section 10.1 a) above].

**f) Changes to the board of directors and the committees**

On 23 June 2017, the shareholders at the general shareholders' meeting ratified the appointment by co-option of the independent director Carme Moragues Josa made by the board of directors on 21 March 2017. Ms. Moragues Josa replaced Jordi Dagà Sancho who died on 26 December 2016.

During the same meeting, Ms. Moragues Josa was appointed coordinating director, chairwoman of the audit committee and member of the appointments and remuneration committee [see chapter 2.1 b)].

**g) Approval of the board diversity policy**

On 21 December 2017, the board of directors approved the board diversity policy establishing the criteria that must be taken into account during the director selection processes in an effort to promote and incentivise diversity on the board [see chapter 2.1. b)].

**h) Compliance committee**

On 26 July 2017, the board of directors resolved to create the compliance committee under the supervision of the audit committee [see chapter 5.1].

**i) Appointment of the new COO**

On 1 October 2017, the board of directors appointed Agustín Franco Blasco as COO substituting José Luis Muñiz Álvarez, who left Ercros due to his retirement and who the board thanked for his 44 years of service to the Company.

The position vacated by Mr. Franco Blasco, as manager of the chlorine derivatives division, was taken over by Francisco España Maraver, the industrial manager of the aforementioned division [see chapter 2.1 c) and d)].

### j) Renewal of the syndicated financing agreement

On 30 October 2017, the Company reached an agreement with a pool of financial institutions to renew, upon its expiry, its working capital credit facility amounting to EUR 102,146 thousand, instrumented through a syndicated factoring agreement that provides an advance against accounts receivable [see chapter 4.2 a) (i)].

The term of the current factoring facility is three years plus another two renewable annually.

### k) Industrial restructuring of the chlorine derivatives division

As a result of the entry into force of the ban on using mercury technology for manufacturing chlorine after 11 December 2017 imposed by the European Union, the Group has discontinued the activity at the Flix and Vila-seca I plants that operated with this technology and the Cardona factory that supplied them with salt [see chapter 2.2 a)].

### l) Collective layoff

The closure of the aforementioned plants led to staff restructuring that has been in effect since 11 December 2017 and will continue to be in effect until 31 December 2019.

An agreement on the related collective layoff was reached between Ercros management and the workers' representatives on 28 November 2017. 105 employees were included in this collective layoff, of which 43 belonged to the Flix factory; 34 to the Cardona factory and 28 to the Tarragona complex. All employees were offered the possibility of being transferred to one of the Group's other workplaces pursuant to the 149 voluntary partial retirement requests received.

The estimated cost of the collective layoff is EUR 11,000 thousand [see chapter 3.4 c)].

### m) Expansion of the chlorine plants with membrane technology

To partially offset the capacity lost due to the closure of the chlorine production plants that operated with mercury technology, the Group increased the production capacity of the plants that already operate with membrane technology, which is considered BAT, at the Vila-seca I and Sabiñánigo factories [see chapter 2.2 a)].

### n) Inauguration of a new plant at the Aranjuez factory

On 26 April 2017, the Group inaugurated a sterile active pharmaceutical ingredients plant at its Aranjuez factory. The aforementioned plant, together with another sterile products packaging annex required a total investment of EUR 6,000 thousand.

The new plant replaced the old sterile fosfomycin plant that had become obsolete and triples its production capacity, in addition to allowing new sterile products to be manufactured [see chapter 2.2 b)].

### o) Chlorine supply agreement with the Company's main customer

On 16 March 2017, Ercros signed an agreement with Covestro to continue supplying the company with chlorine and other raw materials during the 2017-2020 period.

In order to fulfil this agreement —within the context of the net reduction of the chlorine production capacity— the Group has redistributed the chlorine it produces and has increased the purchase of external EDC for the manufacture of PVC. Covestro's announcement on 11 December 2017 that it is planning to build its own chlorine plant at its factory in Tarragona in 2020 will enable the Group to use the chlorine available to produce its own EDC [see chapter 2.3 c) (i)].

## 10.4. Information on social responsibility

The Group has a corporate social responsibility policy ("CSR"), which establishes the rules for acting in relation to sustainable development, equality between men and women, information and transparency and involvement in the surrounding social, employment, environmental and economic reality, among other matters.

On 21 December 2017, the board of directors approved the board diversity policy the purpose of which is to establish the criteria that must be followed during the director selection processes in an effort to promote and incentivise diversity on the board. This policy supplements the director selection policy, approved by the board on 18 February 2016.

The sustainability and communication policies were updated in 2017.

In 2018 the Group expects to complete the adaptation of the ethics code —which is mandatory for the Ercros Group employees— and the ethics channel procedure —which establishes the mechanism by which alleged breaches of the rules contained in the ethics code can be reported. In 2017 one report was filed through the ethics channel.

To move forward with its social commitment, Ercros has signed voluntary agreements with objectives that are more ambitious than those envisaged in the prevailing legislation, such as:

- The Responsible Care prowgramme in the chemicals industry. In 2017 the Group's level of compliance with the 7 codes of management practices was 97.7% (2016: 99.4%) [see chapter in 3.3 c)].
- The Global Compact promoted by the UN. The 2016 report presented in 2017 was classified as advanced.
- The sustainability management system based on ISO 14001, ISO 14064, ISO 50001, ISO 9001 and OHSAS standards that are verified and renewed annually [see chapter 3.3 b)].
- The corporate governance code for listed companies approved the Spanish National Securities Market Commission. In 2017 the degree of compliance with the recommendations contained in the corporate governance code for listed companies applicable to the Group stood at 96.2% (the same as in 2016).
- The 28th general agreement for the chemicals industry for the 2015-2017 period.
- The guidelines for applying CSR in the chemicals and life sciences industry, which contains 183 indicators, the degree of compliance with which is explained in the corporate social responsibility report [see chapter 12].
- The Ecovadis CSR rating, the goal of which is to improve environmental and social practices by taking advantage of the influence of global supply chains. In 2017 the Group maintained its Gold classification with 75/100 points (the same as in 2016), placing the Group among the top 5% of companies.

The Group practices a policy of transparency that —in relation to social responsibility matters— is described in the annual corporate social responsibility report that details the most relevant events that occurred in the year [see chapter 12] and includes the statement of non-financial information. The aforementioned report also contains the performance of the main indices in relation to environmental emissions and projections and other separate social matters of interest.

The Group carries out a wide range of activities in the area of social responsibility. Among those carried out in 2017 the following are worth highlighting: the campaigns on occupational safety and health and a healthy life; the adhesion to the European agreement Operation Clean Sweep pursuant to which the Group agrees to prevent pellet loss; the promotion of the research and development of products that are more environmentally friendly, such as the ErcrosBio and ErcrosGreen+ lines; the visit by 1,100 people to the industrial facilities; the renewal of the collaboration agreement with the Flix Town Council to contribute to financing the municipal crèche and the plan to manage the Sebes nature reserve; sponsorship of the 2018 Tarragona Mediterranean Games and collaboration with the Vila-seca football and hockey teams; staff participation in solidarity campaigns, etc.

The Group was awarded various prizes and recognitions for its commitment to social responsibility during the year.

- The "Prevention Bonus" incentive granted by the Social Security Office, through Mutua Universal, for the Group's effective contribution to reducing workplace accidents and taking effective steps to prevent workplace accidents and occupational diseases. This incentive will enable the Group to recover the investments made in facilities, processes and equipment related to prevention.
- The 2016 Safety prize awarded by the Spanish Chemical Industry Business Federation ("Feique") to the Flix and Sabiñánigo factories for their occupational safety.
- Its nomination as a finalist for the Randstad prize recognising the most attractive employers that evaluates the Group's economic conditions, its outlook for the future and the working atmosphere.
- Renewal of the "Aragon Social Responsibility" seal awarded to the Sabiñánigo and Monzón factories by the Regional Government of Aragon.
- The award for the best professional career received by the CFO, Pedro Rodríguez Sánchez, in the 12th edition of the "Financial Excellence Awards" awarded annually by the Spanish Association of Financial Executives to the most remarkable professionals in the field of financial management and administration in Spain.

# 11 Corporate governance report

The Group publishes an annual corporate governance report in compliance with that set forth in article 540 of the Spanish Corporate Enterprises Act. The structure and content of the aforementioned report follows the model established in Appendix I of Circular 7/2015, of 22 December of the CNMV.

The annual corporate governance report provides information on the corporate governance practices applied and includes a description of the main characteristics of the existing risk management and internal control systems related to the process of issuing financial information.

The Group's annual corporate governance report for 2017 that forms part of this consolidated directors' report is presented in a separate document and is also available on the Ercros website (www.ercros.es) and the CNMV (www.cnmv.es).

# 12 Statement of non-financial information

Within this consolidated directors' report, the Group publishes the statement of non-financial information in compliance with that set forth in article 49 of the Spanish Commercial Code *(Código de Comercio),* amended by Spanish Royal Decree-Law 18/2017, of 24 November.

Specifically, this directors' report contains the portion of the statement of non-financial information corresponding to:

— The description of the Group's business model [see chapter 2.3 c)].

— The description of the policies and procedures applied to identify and assess risks [see chapter 5.1)].

— The main risks associated with the Group's activities and how the aforementioned risks are managed [see chapter 5.2].

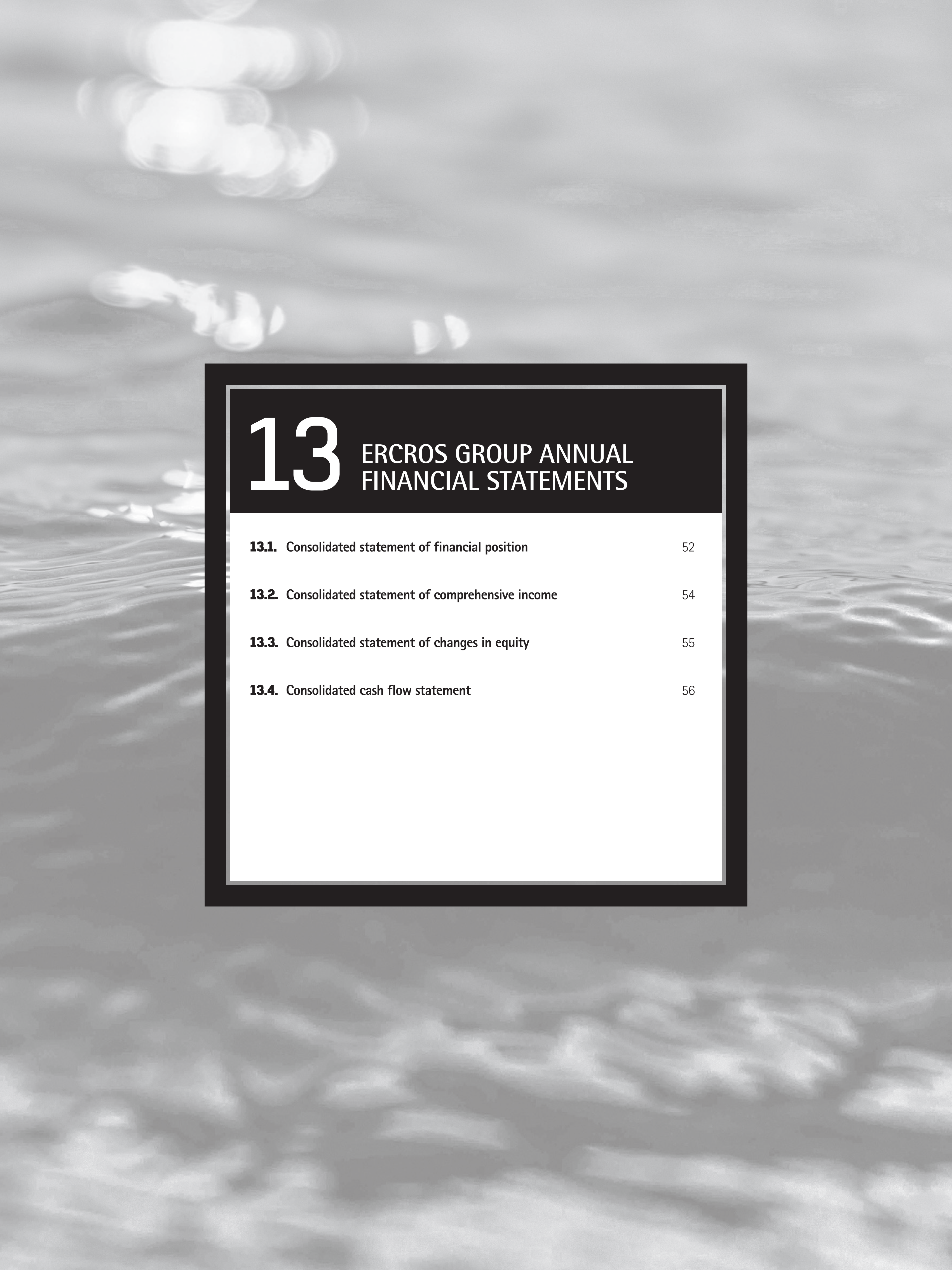
— Non-financial key performance indicators [see chapter 3.2].

The corporate social responsibility report —which is published in a document separate from this consolidated directors' report as permitted by the aforementioned article 49 of the Spanish Commercial Code— contains the rest of the statement of non-financial information that refers to the commitments acquired in relation to respect for human rights and the fight against corruption and bribery; the impact of the Group's activity on the environment; social matters and matters related to staff; and conduct related to diversity of gender and equality of opportunities.

The corporate social responsibility report also contains the degree of compliance with the 183 indicators contained in the guidelines for applying CSR to the chemicals and life sciences industry, promoted by Feique in collaboration with Forética, which in turn includes the indicators required for the certification of an ethical and socially responsible management system based on standard SGE 21:2008.

This report was audited by Bureau Veritas and past editions have been classified as "excellent".

The Ercros Group's corporate governance report for 2017 is available on the Ercros website (www.ercros.es) and the CNMV website (www.cnmv.es).



# 13 ERCROS GROUP ANNUAL FINANCIAL STATEMENTS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# 13.1 Consolidated statement of financial position

EUR THOUSAND

| Assets | 31-12-17 | 31-12-16 |
|---|---|---|
| **Non-current assets** | **350,446** | **305,620** |
| Property, plant and equipment | 269,388 | 249,231 |
| Investment properties | 37,588 | 30,916 |
| Intangible assets | 4,097 | 5,862 |
| Investments accounted using the equity method | 6,428 | 6,648 |
| Non-current financial assets | 7,014 | 5,969 |
| Deferred tax assets | 25,931 | 6,994 |
| **Current assets** | **248,727** | **254,561** |
| Inventories | 79,739 | 72,009 |
| Trade and other receivables | 123,040 | 102,135 |
| Other current assets | 20,297 | 31,105 |
| Current tax assets | 2,908 | 1,047 |
| Cash and cash equivalents | 22,743 | 48,265 |
| **Total assets** | **599,173** | **560,181** |

EUR THOUSAND

| Equity and liabilities | 31-12-17 | 31-12-16 |
|---|---|---|
| **Equity** | **247,492** | **219,826** |
| Equity of the parent Company | 247,492 | 219,826 |
| **Liabilities** | **351,681** | **340,355** |
| **Non-current liabilities** | **107,514** | **124,298** |
| Non-current loans | 46,258 | 58,811 |
| Deferred taxes | 25,763 | 25,990 |
| Non-current provisions | 28,002 | 35,080 |
| Other non-current liabilities | 7,491 | 4,417 |
| **Current liabilities** | **244,167** | **216,057** |
| Current loans | 67,797 | 76,365 |
| Current portion of non-current loans | 11,823 | 12,976 |
| Trade and other payables | 119,460 | 106,855 |
| Current provisions | 22,860 | 5,530 |
| Other current liabilities | 22,227 | 14,331 |
| **Total equity and liabilities** | **599,173** | **560,181** |

## 13.2 Consolidated statement of comprehensive income

EUR THOUSAND

| | Year 2017 | Year 2016 |
|---|---|---|
| **Income** | **694,037** | **619,589** |
| Income from ordinary operations | 685,970 | 602,543 |
| Other operating income | 3,287 | 4,381 |
| Reversal of provisions for various obligations | 6,942 | – |
| Changes in inventory of finished goods and work in progress | -2,162 | 12,665 |
| **Expenses** | **–619,726** | **–561,159** |
| Consumption of raw materials and other consumables | -316,581 | -270,215 |
| Supplies | -114,389 | -101,854 |
| Personnel expenses | -83,387 | -81,822 |
| Other expenses | -105,369 | -107,268 |
| **Ordinary gross operating profit ("ebitda")** | **74,311** | **58,430** |
| Costs for mercury technology phase-out: | | |
| Expenses due to staff reduction | -11,000 | – |
| Dismantling costs and environmental remediation | -10,732 | – |
| Expenditure for depreciation and amortization | -18,252 | -19,371 |
| Reversal of the impairment loss of certain assets (net) | – | 11,990 |
| **Operating profit** | **34,327** | **51,049** |
| Financial income | 151 | 93 |
| Financial expenses | -5,774 | -6,077 |
| Losses due to derecognition of financial assets at amortized cost | -235 | – |
| Loss due to impairment of financial assets | -89 | -177 |
| Exchange differences (net) | -437 | -116 |
| Share in profits of associates | 740 | 550 |
| **Profit before tax** | **28,683** | **45,322** |
| Income/expense from income taxes | 15,899 | -157 |
| **Profit for the year** | **44,582** | **45,165** |
| Other comprehensive income (net of taxes) | -90 | – |
| **Profit/loss for the year** | **44,492** | **45,165** |
| **Profit for the year attributable to:** | | |
| **Owners of the parent Company** | **44,492** | **45,165** |
| **Profit per basic and diluted share (EUR)** | **0,3963** | **0.3959** |

# 13.3 Consolidated statement of changes in equity

EUR THOUSAND

| EUR thousand | Capital | Other reserves | Treasury shares acquired | Retained earnings | Equity |
|---|---|---|---|---|---|
| **Balance at 31-12-15** | **34,226** | **134,417** | **–** | **7,235** | **175,878** |
| Transfer of 2015 accumulated gains | – | 7,235 | – | -7,235 | – |
| Comprehensive income for 2016 | – | – | – | 45,165 | 45,165 |
| Transactions with shareholders and owners: | | | | | |
| Shareholders' meeting premium | – | -1,217 | – | – | -1,217 |
| **Balance at 31-12-16** | **34,226** | **140,435** | **–** | **45,165** | **219,826** |
| Transfer of 2016 accumulated gains | – | 40,726 | – | -40,726 | – |
| Dividend | – | – | – | -4,439 | -4,439 |
| Comprehensive income for 2017 | – | – | – | 44,492 | 44,492 |
| Transactions with shareholders and owners: | | | | | |
| Shareholders' meeting premium | – | -386 | – | – | -386 |
| Treasury shares purchase | – | – | -12,001 | – | -12,001 |
| Treasury shares amortization | -932 | -8,068 | 9,000 | – | – |
| **Balance at 31-12-17** | **33,294** | **172,707** | **-3,001** | **44,492** | **247,492** |

# 13.4 Consolidated cash flow statement

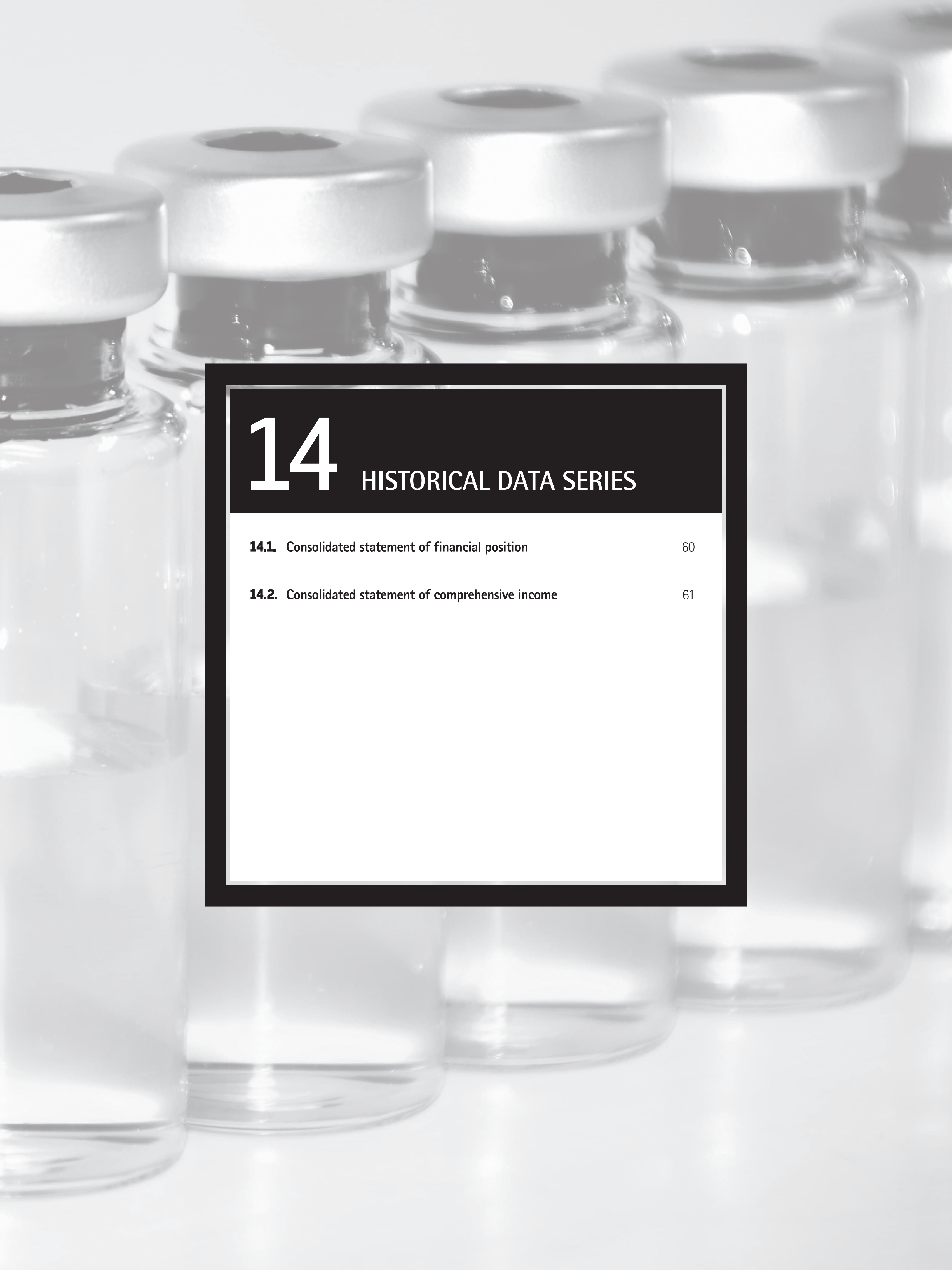
EUR THOUSAND

| | Year 2017 | Year 2016 |
|---|---|---|
| **A. Cash flow from operating activities (1+2+3+4+5)** | **43,813** | **37,695** |
| **1. Profit before tax** | **28,683** | **45,322** |
| **2. Adjustments to profit** | **43,635** | **19,655** |
| Depreciation and amortization expense | 18,252 | 19,371 |
| Impairment losses | 1,337 | -14,224 |
| Changes in provisions | 18,244 | 8,861 |
| Grants released to income | -1,597 | -2,084 |
| Losses from derecognition and disposals of tangible and intangible assets | — | -80 |
| Finance income | -151 | -93 |
| Finance costs | 6,098 | 6,254 |
| Exchange gains/losses | 437 | 116 |
| Share of profit of equity accounted investees | -740 | -550 |
| Other income and expenses | 1,755 | 2,084 |
| **3. Change in working capital** | **–20,228** | **–15,719** |
| Inventories | -9,067 | -11,748 |
| Trade and other receivables | -20,601 | 11,188 |
| Other current assets | -5,059 | 1,702 |
| Trade and other payables | 20,248 | -10,411 |
| Other current liabilities | 50 | — |
| Other non-current assets and liabilities | 628 | -3,806 |
| Environmental remediation provisions payments | -2,586 | -2,054 |
| Personnel provisions payments | -3,841 | -590 |
| **4. Other cash flow from operating activities** | **–4,762** | **–4,991** |
| Interest paid | -5,607 | -5,302 |
| Interest received | 114 | 322 |
| Payments/charges for exchange differences | -229 | -251 |
| Dividend payments | 960 | 240 |
| **5. Net payment for income tax** | **–3,515** | **–6,572** |
| Charge for income tax from previous years | 4,409 | 331 |
| Lower payment for income tax for investment deductions | 249 | 2,812 |
| Payment on account of income tax for the year | -8,173 | -9,715 |
| **B. Cash flow from investing activities (6+7)** | **–42,275** | **–18,109** |
| **6. Payments on investments** | **–42,844** | **–18,709** |
| Intangible assets | -151 | -301 |
| Property, plant and equipment: | | |
| Investments for capacity expansion of the ACT Plan | -29,227 | -7,032 |
| Other investments for capacity expansion | -3,909 | -3,208 |
| Maintenance investments | -9,557 | -8,168 |

*(Continue)*

EUR THOUSAND

| | Year 2017 | Year 2016 |
|---|---|---|
| **7. Charges for divestments** | **569** | **600** |
| Property, plant and equipment | 569 | 600 |
| | | |
| **C. Cash flow from financing activities (8+9+10)** | **–26,260** | **6,957** |
| | | |
| **8. Proceeds from and payments of financial liabilities** | **–21,989** | **6,313** |
| Issues: | | |
| Long and short term loans (+) | 5,410 | 37,580 |
| Repayment and redemption of: | | |
| Long and short term loans (-) | -27,399 | -31,267 |
| | | |
| **9. Proceeds from and payments of financial assets** | **12,555** | **1,861** |
| Cancellation of charges and deposits | 14,213 | 4,957 |
| Constitution of charges and deposits | -1,658 | -3,096 |
| | | |
| **10. Dividends paid and payments on other equity instruments** | **–16,826** | **–1,217** |
| Shareholders' meeting premium | -386 | -1,217 |
| Dividend payment | -4,439 | – |
| Purchase of treasury shares amortized in 2017 (payout 2016) | -9,000 | – |
| Purchase of treasury shares on account of the 2017 payout | -3,001 | – |
| | | |
| **D. Net increase/decrease in cash and cash equivalents** | **–24,722** | **26,543** |
| | | |
| Cash and cash equivalents at 1 January | 48,265 | 21,618 |
| Effect of the exchange rate | -800 | 104 |
| Cash and cash equivalents at 31 December | 22,743 | 48,265 |



# 14 HISTORICAL DATA SERIES


**14.1.** Consolidated statement of financial position 60

**14.2.** Consolidated statement of comprehensive income 61

# 14.1 Consolidated statement of financial position

EUR THOUSAND

| Assets | 31-12-17 | 31-12-16 | 31-12-15 | 31-12-14 | 31-12-13 |
|---|---|---|---|---|---|
| **Non-current assets** | **350,446** | **305,620** | **284,711** | **292,568** | **309,430** |
| Property, plant and equipment | 269,388 | 249,231 | 235,296 | 245,695 | 264,371 |
| Other non-current assets | 81,058 | 56,389 | 49,415 | 46,873 | 45,059 |
| **Current assets** | **248,727** | **254,561** | **226,956** | **228,155** | **254,850** |
| Inventories | 79,739 | 72,009 | 57,854 | 55,529 | 60,506 |
| Trade and other receivables | 123,040 | 102,135 | 113,496 | 116,200 | 145,371 |
| Other current assets and cash | 45,948 | 80,417 | 55,606 | 54,626 | 46,643 |
| Non-current assets held for sale | – | – | – | 1,800 | 2,330 |
| **Total assets** | **599,173** | **560,181** | **511,667** | **520,723** | **564,280** |

| Equity and liabilities | | | | | |
|---|---|---|---|---|---|
| **Equity** | **247,492** | **219,826** | **175,878** | **168,190** | **172,208** |
| **Non-current liabilities** | **107,514** | **124,298** | **104,496** | **100,272** | **123,910** |
| Long term loans | 46,258 | 58,811 | 42,772 | 42,330 | 56,220 |
| Long term provisions | 28,002 | 35,080 | 30,789 | 25,920 | 27,561 |
| Deferred taxes and other non-current liabilities | 33,254 | 30,407 | 30,935 | 32,022 | 40,129 |
| **Current liabilities** | **244,167** | **216,057** | **231,293** | **252,261** | **268,162** |
| Short term loans | 79,620 | 89,341 | 98,375 | 106,350 | 113,560 |
| Trade and other payables | 119,460 | 106,855 | 115,548 | 130,070 | 137,290 |
| Provisions and other current liabilities | 45,087 | 19,861 | 17,370 | 15,841 | 15,150 |
| Liabilities associated with non-current assets held for sale | – | – | – | – | 2,162 |
| **Total equity and liabilities** | **599,173** | **560,181** | **511,667** | **520,723** | **564,280** |

# 14.2 Consolidated statement of comprehensive income

EUR THOUSAND

| Items | Year 2017 | Year 2016 | Year 2015 | Year 2014 | Year 2013 |
|---|---|---|---|---|---|
| **Income** | **694,037** | **619,589** | **627,213** | **606,804** | **624,207** |
| Turnover | 685,970 | 602,543 | 618,275 | 603,676 | 624,966 |
| Other operating income and changes in inventories | 8,067 | 17,046 | 8,938 | 3,128 | -759 |
| **Expenses** | **–619,726** | **–561,159** | **–594,589** | **–592,362** | **–595,759** |
| Procurements | -316,581 | -270,215 | -301,213 | -311,038 | -319,664 |
| Personnel expenses | -83,387 | -81,822 | -79,863 | -78,809 | -80,140 |
| Other expenses | -219,758 | -209,122 | -213,513 | -202,515 | -195,955 |
| **Ebitda** | **74,311** | **58,430** | **32,624** | **14,442** | **28,448** |
| Amortizations | -18,252 | -19,371 | -19,874 | -18,889 | -19,310 |
| Profit /loss from asset impairment | — | 11,990 | — | -560 | — |
| Cost of mercury technology phase-out | -21,732 | — | — | — | — |
| **Ebit** | **34,327** | **51,049** | **12,750** | **–5,007** | **9,138** |
| Financial results | -5,644 | -5,727 | -6,001 | -7,501 | -10,145 |
| **Profit/loss before tax** | **28,683** | **45,322** | **6,749** | **–12,508** | **–1,007** |
| Profit/loss for the year from discontinued operations | — | — | — | 815 | -3,429 |
| Income taxes and non-controlling interests | 15,899 | -157 | 478 | 5,401 | 681 |
| Other comprehensive result | -90 | — | — | — | — |
| **Profit/loss of the year** | **44,492** | **45,165** | **7,227** | **–6,292** | **–3,755** |

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Coordination: General Secretary of Ercros



Design: maestra vida s.l.

Ercros

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