2021

ANNUAL REPORT

Ercros

2021
ANNUAL REPORT

This annual report includes the management report and the most relevant tables of the annual accounts of the consolidated Ercros Group, corresponding to the year ended on 31 December 2021, which were approved unanimously by the board of directors on 18 February 2022, following a favourable report from the audit committee meeting on the same day.

Ercros

Contents

Company name: Ercros, S.A.
Tax ID: A-08000630
Registered office: Diagonal, Av. 593-595
08014 Barcelona-SPAIN
Tel.: +34 609 880 630 and +34 934 393 009
E-mail: ercros@ercros.es
www.ercros.es

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 the Chairman

Dear shareholders:

The 2021 financial year was one of global economic recovery after the lifting of lockdowns and the gradual return to pre-pandemic normality. The arrival of vaccines was fundamental in reducing the spread and, particularly, the severity of covid-19. Today, the prospect of social and economic activity not limited by mobility and capacity restrictions is a real possibility close at hand. However, the 2021 recovery process presented new challenges, the tremendous weight of which we did not expect: the economic recovery, buoyed by an uptick in the consumption of goods (thanks to the accumulated savings of households during the pandemic), caused a sharp increase in the price of raw materials and energy, put a strain on supply chains, and triggered a significant spike in inflation. Spain's GDP closed 2021 with an increase of 5.5%, relative to an historic decline of 11% in 2020, while employment grew 5.8%. Ercros reaped the benefit of this considerable improvement in economic activity, and sales volumes increased 5.6% compared to 2020, owing to the company's ability to keep its plants operating at full capacity and promptly attend to clients, at a time when this was not the general trend among chemical markets in Spain or the rest of the world. Moreover, strong demand enabled the company to transfer increased costs to sales prices, facilitating a 41.1% rise in finished-product sales figures.

This series of factors resulted in an ebitda of EUR 86 million, 72.7% higher than in 2020, and a profit of EUR 43 million. These solid results formed the basis of the board's request that the general meeting remunerate shareholders with the highest amount accrued in their favour in Ercros history: EUR 21.5 million, in the form of a dividend (at least 18% of the profit for the year, as established by the Ercros shareholder remuneration policy) and a treasury share buyback for amortisation (the remainder up to 50% of the year's profit, also as mandated in the remuneration policy).

In addition to its commitment to shareholders, Ercros is firmly committed to ESG (Environmental, Social, and Governance) objectives, as demonstrated by the company's Platinum rating from Ecovadis, with a score of 84 out of 100. This score positions Ercros among the top 1% of rated companies. We also contribute to the fulfilment of the United Nations' sustainable development goals (SDGs), promoting people, the planet, and prosperity.

On a strategic level, 2021 saw the implementation of the so-called 3D Plan, which aims to transform Ercros into a sustainable company over time: sustainable given the diversification of its output structure, which will cushion the company from the cyclical volatility of the chemical sector; sustainable owing to the digital transformation and automation of its processes, which will make the company more competitive; and sustainable in light of the adaptation of its environmental provisions to official European and Spanish requirements in an effort to curb climate change.

With regard to diversification, in 2021 the projects to expand the output capacity of dipentaerythritol at the Tortosa factory and of moulding compounds at the Cerdanyola plant came online. The following projects are currently in the construction process: (i) expansion of the Tortosa polyol plant; (ii) expansion of the sodium chlorite plant in Sabiñánigo; and (iii) construction of the new Aranjuez extraction plant to manufacture two new antibiotics (vancomycin and gentamicin).

With regard to digitalisation, the logistics area's B2B project is complete and projects to improve infrastructure and cybersecurity, optimise the work environment, and automate, sensorise, and update the production area's control systems have progressed, as has defining the technical and organisational requirements for the production and maintenance areas' Big Data/IoT projects.

With regard to decarbonisation, the projects to improve energy efficiency in Tortosa (a unit to recover the residual heat generated at the polyol plant and the replacement of equipment for more efficient options) and optimise solvent consumption in Aranjuez are complete. Progress has also been made in the engineering of projects to produce steam from biomass and to manufacture ethylene dichloride using more efficient technology; both at the Vila-seca factories.

Essentially, 2022 began with the same risks identified in 2021, and with the materialisation (on 24 February) of what we considered a less likely turn of events, the war in Ukraine. We continue to bear the high cost of energy, raw materials, and transport, and according to trade publications, this situation may persist throughout the year. With regard to the war in Ukraine, we are experiencing the enormous increase in market volatility that a conflict of this size, severity, and proximity inevitably causes.

Fortunately, the risk posed by the omicron variant is quickly receding. The subsequent lifting of mobility restrictions that this implies will help strengthen the economic recovery in Spain and other countries around the world.

We continue to see particularly strong demand for most of our products, which should continue, triggering positive price developments, sufficient to offset the high cost of energy and raw materials, similar to 2021.

Antonio Zabalza Martí
Chairman and CEO of Ercros

Barcelona, 18 February 2022

2.1. Organizational structure

The governing bodies of the company Ercros, S.A. (hereinafter the Company or Ercros) are the general shareholders meeting and the board of directors. The board includes two supervisory and control committees: the audit committee and the appointments, remuneration, sustainability and corporate social responsibility committee; and the strategy and investments committee. The operating management bodies are the executive committee and the management committee.

a) General meeting of shareholders

On June 11, 2021 the Company held its shareholders' general meeting exclusively online due to the current crisis caused by the covid-19 pandemic. The shareholders in general meeting approved all the points in the agenda proposed by the board of directors and rejected the proposed points of the agenda through the request for a supplement to the call notified to the Company on May 10, 2021.

In addition to the mandatory or usual proposals —approval of the financial statements, management report and non-financial statement of the Company and its consolidated Group; re-election of the external auditor; advisory vote on the report on the remuneration of the directors, and delegation to the board and the secretary for executing the agreements—, the following proposals were approved at the said general meeting:

- The amendment to the by-laws to adapt their content to prevailing legislation and to the regulations on the board of directors, which were amended in accordance with the recommendations set forth in the 2020 code of good governance of listed companies.
- The amendment to the regulations on the general meeting of shareholders to include the possibility of holding the general meeting exclusively online and the requirement that all board directors be natural persons.
- The ratification of the shareholder remuneration policy approved by the board of directors on April 30, 2021.
- The re-election of Carme Moragues Josa as independent director.

In attendance at the meeting were 6,298 shareholders of 68,802 thousand shares, representing 68.140% of the subscribed voting capital, of which 20.776% was present and the remaining 47.364% was represented.

The Company paid a gross premium of EUR 0.005 gross per share to the shareholders that attended said meeting.

b) The board of directors

At the general meeting held on June 11, 2021 the shareholders approved the proposed reelection for a new term, for the maximum legal period (currently four years), keeping her current category, of the independent director Carme Moragues Josa.

As a result, the composition of Ercros's board of directors is as follows:

- Chairman and executive director: Mr. Zabalza Martí.
- Independent directors: Ms. Moragues Josa (coordinator) and Ms. Vega Fernández (acting coordinator).
- Board members classified as "Other external board members": Mr. Roldán Aguilar and Mr. Sánchez Morrondo.
- Proprietary director: Mr. Casas Galofré.

The position of non-board member secretary is held by Mr. Daniel Ripley Soria.

In 2021 the board has held nine sessions that were attended by all the directors. Eight meetings were held by videoconference and one in writing without the members attending personally.

At the meeting held on December 17, 2021 the board of directors: assessed the quality and efficiency of the functioning and composition of the board and committees, as well as the performance of the first executive of the Company and of every director, and approved the policies on taxes, zero-tolerance with market manipulation and personal data protection, and the update of the sustainability and board diversity policies.

(i) Audit committee

The meeting of the board of directors held on July 23, 2021 approved the appointment of the independent director Carme Moragues Josa as the chairwoman of the audit committee and the continuation of the independent director Lourdes Vega Fernández as a member of the said committee, considering their knowledge and experience of accounting, audit and financial and non-financial risk management.

The composition of the audit committee, after the changes made over 2021, is as follows:

- Chairwoman: Ms. Moragues Josa, independent director.
- Board members: Ms. Vega Fernández, independent director, and Mr. Roldán Aguilar, a director belonging to the "Other external directors" category.

Mr. Ripley Soria, the secretary to the board of directors of Ercros, is the secretary to the said committee.

In 2021 the audit committee held six meetings, all of them by videoconference, that were attended by all its members.

The internal audit department, which is led by Xavier Álvarez García, and the compliance committee, which is composed of Xavier Álvarez García and Asunción Loste Madoz, director of the legal counsel department, answer to the audit committee.

(ii) Appointments, remuneration, sustainability and corporate social responsibility committee

On January 22, 2021 the board of directors approved the duties and the new name of the appointments and remuneration committee, which is now called appointments, remuneration, sustainability and corporate social responsibility committee (ARS&CSRC).

The meeting of the board of directors held on July 23, 2021 approved the appointment of the independent director Lourdes Vega Fernández as chairwoman of the ARS&CSRC, and the continuation of the independent director Carme Moragues Josa as a member of the said committee, considering their knowledge and experience of corporate governance, analysis and strategic assessment of human resources, selection of directors and executives, including the assessment of the suitability requirements that may be required, performance of senior management duties and design of remuneration policies and plans for directors and senior executives.

The composition of the ARS&CSRC, after the changes made over 2021, is as follows:

- Chairwoman: Ms. Vega Fernández, independent director.
- Board members: Ms. Moragues Josa, independent director, and Mr. Sánchez Morrondo, a director belonging to the 'other external directors' category.

Mr. Ripley Soria, the secretary to the board of directors of Ercros, is the secretary to the said committee.

In 2021 the committee held six meetings, all of them by videoconference, that were attended by all its members.

(iii) Strategy and investments committee

The strategy and investments committee, which was created following the approval by the board of directors on June 5, 2020, has been formed independently from the existing supervision and control committees and performs advisory and strategic duties.

The current composition of the strategy and investments committee is as follows:

- Chairman: Mr. Zabalza Martí, executive director.
- Board members: Ms. Moragues Josa, independent director, and Mr. Casas Galofré, proprietary director.

Mr. Ripley Soria, the secretary to the board of directors of Ercros, is also the secretary to the said committee.

During 2021 this committee held 11 meetings, all of them by videoconference, that were attended by all its members.

c) Executive committee

It is the body that ensures that the agreements reached by the board of directors are put into practice and followed up, continuously monitors operational and risk management in general, and approves the Group's investments and financing.

It consists of the executive director, the general manager of business and the chief financial officer, and meets at least once a week.

d) Management committee

It is the body responsible for the monthly monitoring of the Group's operational management

It consists of the executive director, two general managers, three division directors, the sales directors of each division and the directors of institutional relations and communication, administration, finance, sustainable management, human resources, IT, comprehensive logistics, legal counsel and R&D&i.

The management committee has met 11 times in 2021.

Composition of the board of directors at 12/31/21

Board member	Position	Category	Committees	Last appointment
Antonio Zabalza Martí	Chairman and CEO	Executive	Strategy and investments	06/05/20
Carme Moragues Josa	Coordinating director	Independent	Audit ARS&CSRC [2] Strategy and investments	06/11/21 [1]
Lourdes Vega Fernández	Proxy coordinating director	Independent	Audit ARS&CSRC [2]	06/05/20
Laureano Roldán Aguilar	Board member	Other external board members	Audit	06/05/20
Eduardo Sánchez Morrondo	Board member	Other external board members	ARS&CSRC [2]	06/05/20
Joan Casas Galofré	Board member	Proprietary	Strategy and investments	06/05/20
Daniel Ripley Soria	Secretary, non-board member			

[1] At the general meeting held on June 11, 2021 the shareholders approved the re-election of Carme Moragues Josa as independent director.

[2] ARS&CSRC: appointments, remuneration, sustainability and corporate social responsibility commission.

2.2. Industrial structure

Ercros industrial group (hereinafter the Group or the Ercros Group) is structured into three business segments: (i) the chlorine derivatives division, a business strategic unit with chlorine as the common link; (ii) the intermediate chemicals division, which focuses on the formaldehyde chemistry, which is the product from which the other products composing its portfolio are manufactured; and (iii) the pharmaceuticals division, which engages in the manufacture of active pharmaceutical ingredients (APIs).

At December 31, 2021, the Group had 10 production centres, all of them located in Spain. In the current year, there were no significant changes to the Group's industrial structure.

2.3. Operation

a) Mission and principles

The general purpose of the Ercros Group is to consolidated as a solid and long-lasting industrial group that contributes in a sustainable manner to generate social wealth and wellbeing that gives appropriate returns to its shareholders and favours personal and professional development of its employees.

The Group's measures, aimed at increasing its value, is guided by four core principles: (i) maximum security for its employees, neighbours and installations; (ii) sustainability; (iii) satisfying the needs of its customers; and (iv) the greatest 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 in the use of its resources.

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

– To create a sustainable, efficient, healthy and profitable chemical group with international presence.

Centres, products and applications

Divisions	Facilities	Main products	Main applications
Chlorine derivatives	Flix, Monzón, Tarragona, Sabiñánigo, Vila-seca I and Vila-seca II	Caustic potash	Chemical industry
		Caustic soda	Industry in general
		Chlorine	Manufacture of derivatives
		EDC	Manufacture of VCM
		Hydrochloric acid	Industry in general
		PVC	Construction
		Sodium chlorate	Bleaching of paper pulp
		Sodium chlorite	Water treatment
		Sodium hypochlorite	Water treatment
		Trichloroisocyanuric acid	Swimming pool water
		VCM	Manufacture of PVC
Intermediate chemicals	Almussafes, Cerdanyola and Tortosa	Dipentaerythritol	Paints
		Formaldehyde	Manufacture of derivatives
		Moulding compounds	Electrical and sanitary material
		Paraformaldehyde	Resins
		Pentaerythritol	Paints
		Resins	Lumber industry
		Sodium formate	Tanning industry
Pharmaceuticals	Aranjuez	Erythromycins	Antibiotics
		Fosfomycins	Antibiotics
		Fusidic acid	Skin infections

- To have modern, sustainable and environmentally friendly and industrially integrated productive premises of a European dimension and located at competitive sites.

- Focus on high added-value products, which present competitive advantages and offer growth expectations.

c) Diversification, digitalization and decarbonisation Plan: The 3D Plan

On January 2021 the board of directors of the company approved the 3D strategic Plan: diversification, digitalization and decarbonisation, which aims to ultimately transform Ercros into a sustainable company. Sustainable because of the diversification of its productive structure, which will allow it to mitigate the cyclical volatility of the chemical industry. Sustainable because of digital transformation and automation of processes, which will make it more competitive. And sustainable because of the adaptation of its environmental features to European and Spanish official requirements for fighting climate change.

The 3D Plan consists of 20 projects that will entail a total investment of EUR 92 million over the period 2021-2029 and additional ebitda of EUR 194 million. The Plan investments are being carried out on schedule.

As for the diversification objective, projects for increasing the manufacture capacity of dipentaerythritol have already begun during 2021 at the Tortosa factory (March) and of moulding compounds at Cerdanyola factory (December). The following projects are currently in progress: (i) expansion of the polyol plant in Tortosa; (ii) expansion of the sodium chlorite plant at the Sabiñánigo factory; and (iii) construction of a new extraction plant at the Aranjuez factory for the production of two new antibiotics (vancomycin and gentamycin). The dates for all these investments to become operational remain as planned; first half of 2022 for the Tortosa project and second half of 2022 for Sabiñánigo and Aranjuez projects.

As for the digitalization objective, the B2B project for the logistics area has been completed and progress is being made on the projects for improving infrastructures and cybersecurity; optimizing work environment; automating, sensorization and upgrading control systems in the production area; and defining technical and organizational requirements for BigData/IoT projects for the production and maintenance areas.

As for the decarbonisation objective, projects have been completed for improving energy efficiency in Tortosa (waste heat recovery unit at the polyol plant and replacement of several equipment items with more efficient machines) and for optimizing dissolvent consumption in Aranjuez; progress is also being made on the engineering of projects for steam production using biomass and for manufacture of EDC with more efficient technology than the current plant's, both in Vila-seca.

d) Business model and challenges

Chlorine is the common link of the chlorine derivatives division. Chlorine and caustic soda are obtained simultaneously during the same production process from sodium chloride (common salt) dissolved in water (brine) and electricity, in a proportion of 1 ton of chlorine to 1.12 tons of caustic soda. This assembly is known as the electrolytic unit ("ECU").

The margin of the ECU is determined: (i) in the income side, by the selling price of co-produced caustic soda and profitability from the different chlorine applications; and (ii) in the cost side, by the price of energy power at any given time, which in 2021 has accounted for more than 50% of production costs, and by the cost of the raw materials consumed in the production of chlorine derivatives.

Caustic soda is a basic chemical reactive widely used in the industry (its main consumers are the aluminium sector —and, thus, the automotive industry— and the paper industry. Demand for caustic soda shows an increase equal to 1.5 times the growth in GDP and is marketed worldwide.

For safety and economic efficiency reasons, most of the chlorine produced is consumed in the same place where it is produced since it is obtained in gas form and is highly reactive. Approximately 60% of the chlorine produced by the Group is for self-consumption in the production of derivative products (sodium hypochlorite, hydrochloric acid, TCCA and the EDC/VCM/PVC chain); the rest is piped to a customer.

In 2022 the chlorine derivatives division will focus its investment objectives on the 3D Plan projects, including the project for expanding the capacity of the sodium chlorite production plant in Sabiñánigo, which will start operating in the second half of the year, and the launch of the decarbonisation project, among others, the generation of vapour through biomass in the complex of Tarragona and the re-utilization of brine in Sabiñánigo. Likewise, actions aimed at consolidating the production of PVC will also be fostered, as well as actions aimed at strengthening the productive structure and increasing the capacity to consume chlorine internally in order to minimize the impact of the end of the contract with the main external customer of this product.

In line with the actions described in the paragraph above, one of Ercros's objectives for the coming years is to assume the costs derived from industry decarbonisation, continue reducing the carbon footprint of our products and increase the weight of higher added value products with expanding markets, all of which is included in the 3D Plan.

Formaldehyde is the key product of the intermediate chemical division, and methanol its main raw material. This consumable accounts for around 40% of the division's total costs. The Group has agreements of different duration with several suppliers of this raw material.

80% of formaldehyde produced is used in the manufacture of liquid as well as solid derivatives. The latter accounts for around 65% of the division's revenue and its market is global (its export percentage is 90%). The main foreign currency of the market for solid products is the dollar, so the business competitiveness and profitability is affected by the dollar/euro exchange rate.

The challenge of this business for 2022 is to increase the sales volumes in line with the recent extensions in the capacity of solid products and to develop the new resin ranges (ErcrosGreen+ and ErcrosTech), as detailed in the 3D Plan, giving priority to high added value markets and customers. In the medium term, the challenge of the division is to continue with the digitalization process of the entire value chain, keep its commitment to gradual decarbonisation of the processes, and continue increasing the service quality and standards of the products and reach excellence in efficiency in all operations. In the long term, the goal is to diversify the current portfolio.

The pharmaceuticals division focuses on the production of pharmaceutical raw materials and APIs (Active Pharmaceutical Ingredients), for generic and brand-name drugs, mainly from the family of antibiotics. The division also specializes in the production of active and intermediate ingredients for third parties, specially tailored for the customers.

The main value of this business is its command of fermentation processes and its capacity to obtain sterile products for injection. It high degree of internationalization is also greatly valued (it exports more than 90% of sales), as well as its good position as a reliably and quality supplier to the largest laboratories in the world. The importance of external markets in the business causes both its sales volumes and margins to be influenced by the dollar/euro exchange rate.

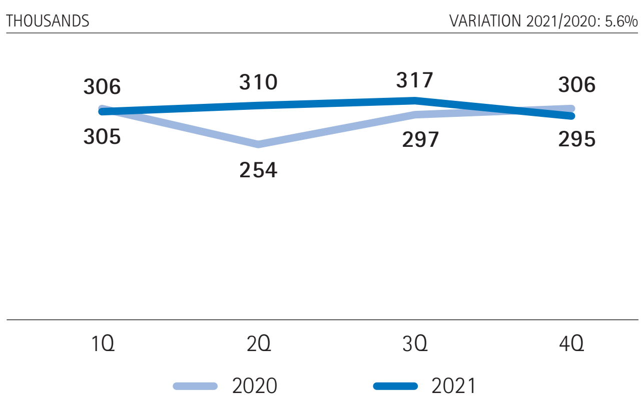
The main challenges of this business in the short term are to monetize the larger productive capacity of sterile drugs, by incorporating new products and penetrating into new markets, and also to make the most of the fermentation capacity installed, by increasing the volume of sales of existing products and starting to produce new ones. The project included in the 3D Plan consisting in a new extraction plant to produce the antibiotics vancomycin and gentamycin is an example of the extension of the product portfolio.

3 / Business evolution and results

3.1. Analysis of the evolution of key indicators

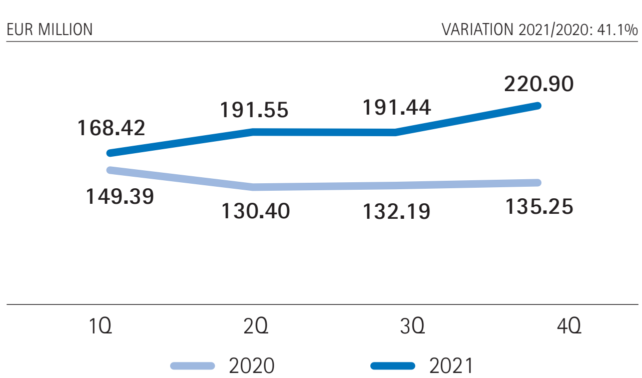
1. In 2021 the Group sold 1,227 thousand tonnes of manufactured products compared to 1,162 thousand tonnes sold in 2020: a 5.6% increase. The volume in 2021, which remained highly stable throughout the year, was way higher than in the two central quarters of 2020, when sales were dramatically affected by the first and stricter restrictions on movement imposed to stop the covid-19 pandemic.

Tonnes sold per quarter



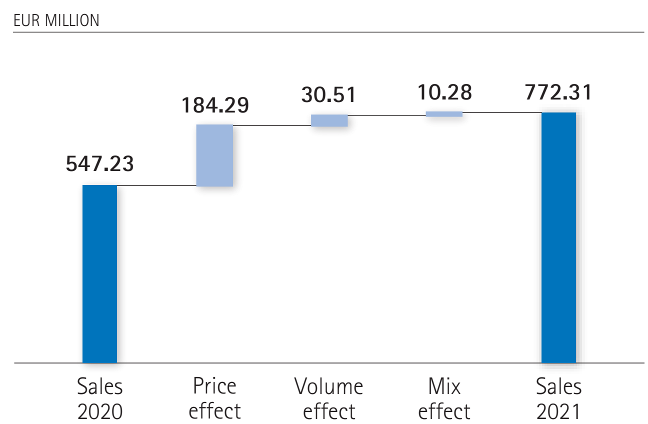
2. Total sales of products in 2021 amounted to EUR 772.32 million compared to EUR 547.24 million in 2020: EUR 225.08 million more, that is, an increase of 41.1%. Sales in 2021 were higher than 2020 in the fourth quarters of the year.

Product sales per quarter



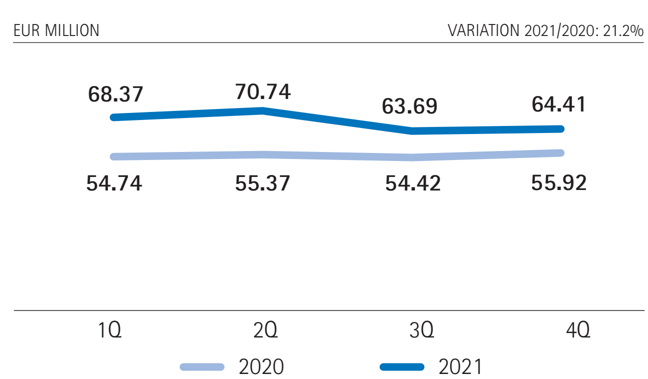
3. The big difference between the increase in sales (41.1%) and the increase in tonnes sold (5.6%) reveals that throughout 2021 the average price of sold products rose significantly. Of the EUR 225.08 million increase in sales, the rise in the average price accounts for 184.29 million (81.9%), volume accounts for 30.51 million (13.6%) and the mix effect accounts for the remaining 10.28 million (4.6%).

Price and volume effects on 2021 sales growth



4. The contribution generated by the sales of products and the rendering of services amounted to EUR 267.21 million in 2021 compared to EUR 220.45 million in 2020; a 21.2% increase. Despite the good result in cumulative terms, the increase in variable costs, and in particular in energy supplies, caused a clear decrease in the contribution in the second half of 2021. While in the first half of 2021 the contribution was 26.3% higher than in the same period of 2020, in the second half this percentage was only 16.1%.

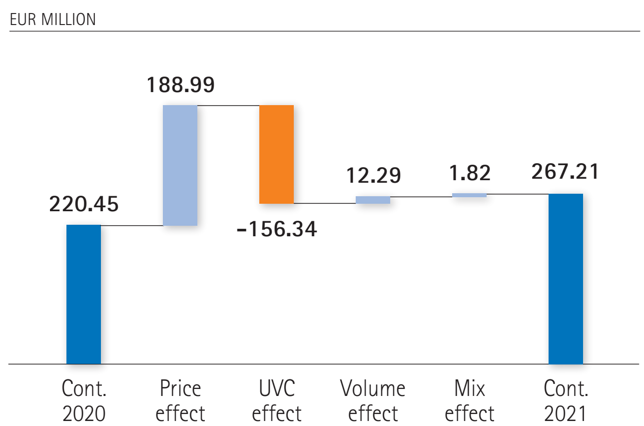
Contribution



Contribution: (product sales + services rendered) - procurements - supplies + change in inventories.

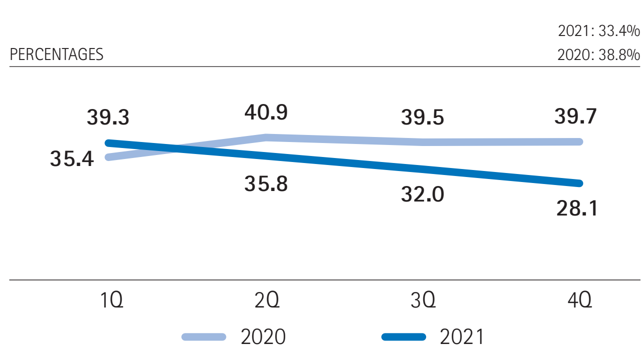
5. A strong demand together with limited supply in 2021 account for the strong effect that the rise in the average price of sold products had on contribution (EUR 188.99 million). This effect was partially counteracted by the rise in the unit variable cost ("UVC"), caused by higher costs of energy and raw materials, which reduced contribution by 156.34 million. The net effect of both forces amounted to 32.65 million (69.8% of the increase in contribution), to which a volume effect of 12.29 million (26.3%) needs to be added (a positive effect in terms of products sold and a negative effect in terms of raw materials and supplies).

Price, volume and UVC effects in increasing contribution



6. The contribution margin (contribution divided by the sum of sales of products plus rendering of services) decreased from 38.8% in 2020 to 33.4% in 2021: a 13.8% drop due to the fact that over 2021 the increase in the sum of sales and rendering of services (40.7%) was higher than the increase in contribution (21.2%).

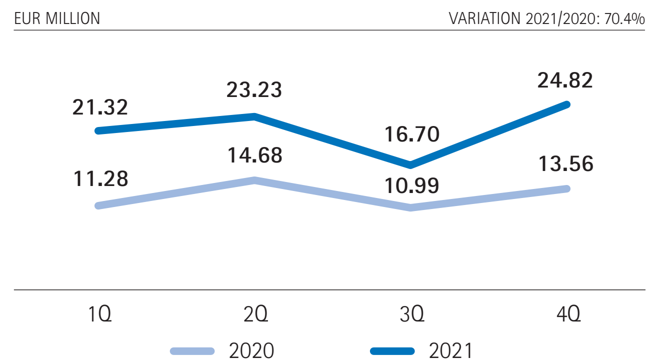
Contribution margin per quarters



Contribution margin: contribution / (sales of products + rendering of services).

7. Adjusted ebitda in 2021 amounted to EUR 86.07 million compared to EUR 50.51 million in 2020: a 70.4% increase. The dramatic increase in last quarter's ebitda compared to 2020 is due to greater net contribution (4.91 million), greater compensation for indirect CO_2 (4.85 million) and the reduction in electric charges as Ercros is recognized as an electro-intensive company (1.50 million).

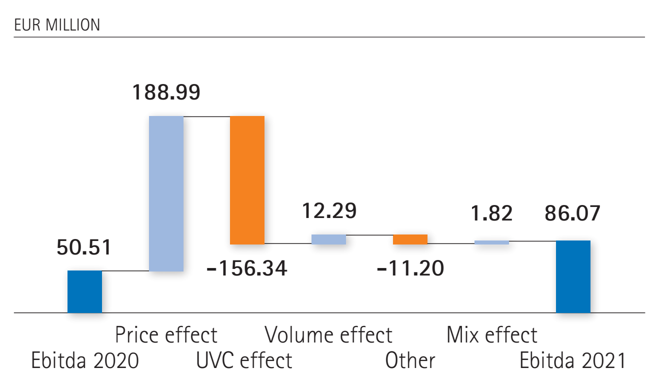
Adjusted quarterly ebitda



Adjusted ebitda: ebitda excluding non-recurring items.

8. The increase in adjusted ebitda over 2021 is mainly due to the strong pull from the growth in contribution, which in the graph below is represented by the effect of prices, unit variable cost ("UVC"), volume and mix, with a net contribution to ebitda of EUR 46.76 million which far exceeds the detriment of EUR 11.20 million caused by the increase in other income and in other operating expenses, including the rise in international freight charges (9.35 million) and fixed costs (4.70 million).

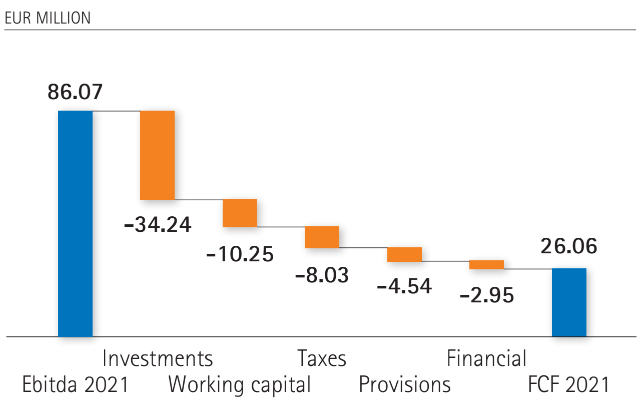
Price, UVC, volume and other effects on the increase in adjusted ebitda



Other: variation in provision of services, other income, fixed cost and atypical.

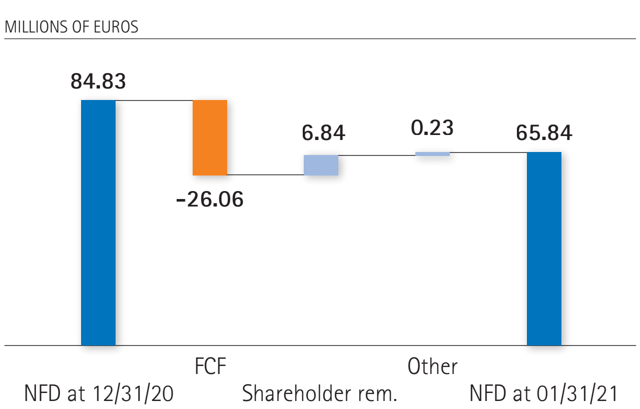
9. Free cash flow ("FCF") in 2021 amounted to EUR 26.06 million, the result of subtracting from ebitda of EUR 86.07 million, investments of 34.24 million, working capital of 10.25 million, taxes of 8.03 million, provisions of 4.54 million and net financial result of 2.95 million.

From ebitda to FCF



10. The Group's net financial debt ("NFD") at the beginning of 2021 amounted to EUR 84.83 million. Throughout the year, the main debt reducing factor were the FCF generated in the period amounting to EUR 26.06 million and the causes that led to an increase in debt were shareholder remuneration, amounting to 6.84 million (mainly due to the repurchase of treasury shares for redemption) and other minor factors for a net amount of 0.23 million. In total, the Group reduced its debt by EUR 18.99 million. Consequently, the Group's debt at December 31, 2021 amounts to EUR 65.84 million.

Evolution of NFD



11. At December 31, 2021 the Group's liquidity amounts to EUR 138.89 million, of which 51.57 million corresponded to cash and 87.32 million to undrawn financing facilities, including the loan amounting to EUR 40 million granted by the European Investment Bank aimed at funding the 3D Plan investments, which at 2021 have already been partially completed.

3.2. Results

In relation to the profit for the year 2021, it is worth noting, in addition to what is indicated in section 3.1 above, the following:

The "Rendering of services" caption increased by 28.6% as a result of greater demand for these services from customers. "Other income" grew by 83% due to the increase in: (i) the amount of free CO_2 emission allowances; (ii) greater compensation for indirect CO_2 emission allowances; and (iii) income derived from the mechanism for compensating charges to electro-intensive consumers.

The aggregate amount of "Provisions" and "Decrease in inventories of finished products and work in progress" increased by 36.8% due to the significant rise in the price of raw materials, especially in ethylene, EDC and methanol.

"Supplies" increased by 114.7% mainly due to the strong rise in the price of energy, especially electricity.

"Employee benefits expense" increased by 3.2% compared to 2020 due to the 2.5% growth in average headcount and the pay rise applicable as from June 2021.

The 19.4% increase in "Other operating expenses" is due to the increase in transportation expenses, mainly because of the higher price of international freight charges and, by symmetry with "Other income", of CO_2 emission allowances. In 2021 the average price of emission allowance per tonne of CO_2 emitted more than doubled the price of 2020.

"Charge of provisions and other non-recurring expenses" increased by 48.5% compared to 2020 as a result of the year-end update based on new available information on commitments and obligations, mainly regarding land remediation.

"Reversal of provisions and other non-recurring income" includes: (i) non-recurring gains of EUR 3.22 million, which is the fair value at which Ercros has acquired, by accession, some industrial units built by a third party on Ercros land once the use for which they were built has ended; (ii) income from the sale of scrap from the dismantling of facilities amounting to EUR 1.60 million; and (iii) other non-recurring income from indemnities, refund of income that had been wrongly paid and other items amounting to EUR 1.75 million.

"Depreciation and amortization" decreased by 5.9% compared to the prior year due to the decrease in depreciation of right-of-use assets and property, plant and equipment.

"Finance result" has decreased by 68.2% due to the decrease in the average cost of debt, exchange gains and the reversal of a portion of the provision for impairment of accounts receivable as a result of the improvement of global economic environment.

Higher corporate income tax expense is due to the higher profit obtained.

3.3. Other comprehensive income

"Other comprehensive income" includes the amount of the cash flow hedge reserve, net of tax, amounting to EUR 10,957 thousand derived from the fluctuations in the purchase price of a portion of the electricity that the group expects to consume in 2022, according to the financial derivative arranged by the Company. This contract considers a fixed purchase price below the price at December 31, 2021 of the futures for the electricity to be supplied in 2022. The amount of this reserve will be reclassified to profit/(loss) for the year 2022, giving rise to "Other comprehensive income" for the same amount, with opposite sign.

Other total comprehensive income

EUR THOUSAND

	Year 2021	Year 2020	%
Profit for the year	**43,297**	**6,257**	**× 7.3** [1]
Other comprehensive income-items that will subsequently be reclassified to profit or loss for the year	10,957	–	–
Total comprehensive income	**54,254**	**6,257**	**× 8.7** [1]

[1] Times in which the 2021 figure exceeds the 2020 figure (in absolute terms).

3.4. Income statement

EUR THOUSAND

	Year 2021	Year 2020	%
Income	**852,124**	**585,320**	**45.6**
Sale of finished products	772,317	547,236	41.1
Rendering of services	27,738	21,561	28.6
Other income	23,340	12,746	83.1
Reversal of provisions and other non-recurring income	6,569	3,777	73.9
Increase in inventories of finished goods and work in progress	22,160	–	–
Expenses	**-766,444**	**-535,719**	**43.1**
Provisions	-400,012	-267,946	49.3
Decrease in inventories of finished goods and work in progress	–	-8,202	–
Supplies	-154,993	-72,194	× 2.1 [1]
Employee benefits expense	-86,965	-84,296	3.2
Other operating expenses	-117,519	-98,398	19.4
Charge of provisions and other non-recurring expenses	-6,955	-4,683	48.5
Ebitda	**85,680**	**49,601**	**72.7**
Depreciation and amortization	-28,549	-30,329	-5.9
Impairment of assets	-3,450	-4,335	-20.4
Ebit	**53,681**	**14,937**	**× 3.6** [1]
Finance result	-2,525	-7,952	-68.2
Profit before taxes	**51.156**	**6.985**	**× 7.3** [1]
Taxes on earnings	-7,859	-728	× 10.8 [1]
Profit for the year	**43,297**	**6,257**	**× 6.9** [1]

[1] Times in which the 2021 figure exceeds the 2020 figure (in absolute terms).

Reconciliation of adjusted ebitda

EUR THOUSAND

	Year 2021	Year 2020	%
Ebitda	**85,680**	**49,601**	**72.7**
Non-recurring income items	-6,569	-3,777	73.9
Non-recurring expense items	6,955	4,683	48.5
Adjusted ebitda	**86,066**	**50,507**	**70.4**

3.5. Results by business

Demand started to recover in the last quarter of the prior year and has remained very solid throughout 2021. However, it was accompanied by a strong rise in global prices of raw materials, energy and sea freight charges. Additionally, there were repeated supply chain failure events and greater forces that limited supply in several sectors and countries.

As for chlorine-related businesses, in 2021 the Group managed to: (i) maintain a high operational ratio of the plants, which allowed it to increase production and sales; and (ii) pass on the strong increase in the cost of raw materials, energy and freight charges to the selling prices of most of the products marketed by the division, thanks to the robustness of demand. The increase in the prices of the two products that register the highest volumes marketed by this division (PVC and caustic soda) was especially relevant, because of their total impact.

As a result, sales increased by 46.0% in comparison with 2020, whereas ebitda, amounting to EUR 53.52 million, almost doubled the 27.19 million obtained in 2020. Lastly, the ebitda/sales ratio was 11.1%.

Strong demand and increase in selling prices was also the environment in the intermediate chemicals division. Sales increased by 50.3%, a higher increase than the rise in energy costs, sea freight and raw materials, especially in urea, cellulose, melamine, acetaldehyde and methanol. As a result, adjusted ebitda in 2021 (EUR 30.49 million) was 2.2 times higher than adjusted ebitda in 2020 (EUR 14.00 million). The ebitda/sales ratio of this division was 12.8%.

Unlike in the two prior divisions, in the case of the pharmaceuticals division, the economic environment in 2021 was not favourable. In addition to the production issues caused at the beginning of the year by the storm Filomena, which was especially fierce in central Spain, where the factory of this division is located, there was a strong increase in the costs of energy and raw materials, and weak demand for some of the products marketed by the division, especially fusidic acid and erythromycin and its by-products.

Low demand was a direct consequence of restrictions and other measures adopted to deal with the pandemic in 2021 by the governments of the main countries where our products are sent. However, in the second half of 2021 sales of this division recovered gradually, and are expected to grow further in 2022.

Results by division

EUR THOUSAND

	Chlorine derivatives division			Intermediate chemicals division			Pharmaceuticals division		
	Year 2021	Year 2020	%	Year 2021	Year 2020	%	Year 2021	Year 2020	%
Income	**542,370**	**360,565**	**50.4**	**251,198**	**162,707**	**54.4**	**51,987**	**58,271**	**-10.8**
Sales of products	483,047	330,961	46.0	238,567	158,737	50.3	50,703	57,538	-11.9
Rendering of services	27,707	21,533	28.7	31	28	10.7	0	0	–
Other income	14,771	8,071	83.0	8,245	3,942	109.2	324	733	-55.8
Change in inventory	16,845	0	–	4,355	0	–	960	0	–
Expenses	**-488,853**	**-333,374**	**46.6**	**-220,713**	**-148,746**	**48.4**	**-49,923**	**-48,916**	**2.1**
Consumables	-235,679	-154,257	52.8	-144,358	-93,746	54.0	-19,975	-19,943	0.2
Change in inventory	0	-8,917	–	0	2,037	-100.0	0	-1,322	-100.0
Utilities	-130,625	-58,027	125.1	-18,512	-10,960	68.9	-5,856	-3,207	82.6
Transport	-25,126	-21,513	16.8	-17,625	-11,952	47.5	-1,084	-1,017	6.6
Employee benefits expense	-50,664	-49,159	3.1	-22,566	-21,455	5.2	-13,705	-13,682	0.2
Other expenses	-46,759	-41,501	12.7	-17,652	-12,670	39.3	-9,303	-9,745	-4.5
Ordinary ebitda	**53,517**	**27,191**	**96.8**	**30,485**	**13,961**	**118.4**	**2,064**	**9,355**	**-77.9**
Depreciation and amortization	-18,345	-19,374	-5.3	-6,595	-7,487	-11.9	-3,609	-3,468	4.1
Operating profit	**35,172**	**7,817**	**349.9**	**23,890**	**6,474**	**269.0**	**-1,545**	**5,887**	**-126.2**
Assets	328,277	278,433	17.9	174,456	140,404	24.3	67,837	56,320	20.4
Liabilities	126,261	78,374	61.1	46,506	32,566	42.8	14,741	9,420	56.5
Investments in non-current assets	17,997	26,583	-32.3	3,369	1,651	104.1	12,170	3,036	300.9

As a result, the sales of the division dropped by 11.9% compared to 2020, which together with the rise in the price of raw materials and energy and less elasticity in the selling prices of the products of this division, resulted in a drop in adjusted ebitda by 77.9% and in an unusually low level of the ebitda/sales ratio (4.1%).

3.6. Geographical markets

Unlike last year, in 2021 the domestic market shows better performance than the foreign market due to the impact of the pandemic in the entire Spanish economy.

The domestic market accounted for 52% of sales and amounted to EUR 418,082 thousand (EUR 263,340 thousand in 2020). The remaining 48% of sales were made abroad and amounted to EUR 381,973 thousand (2020: EUR 283,897 thousand).

64.3% of the chlorine derivatives division's turnover was recorded in Spain. In this business, sales to the Spanish market increased by 49.3% and exports by 40.4%.

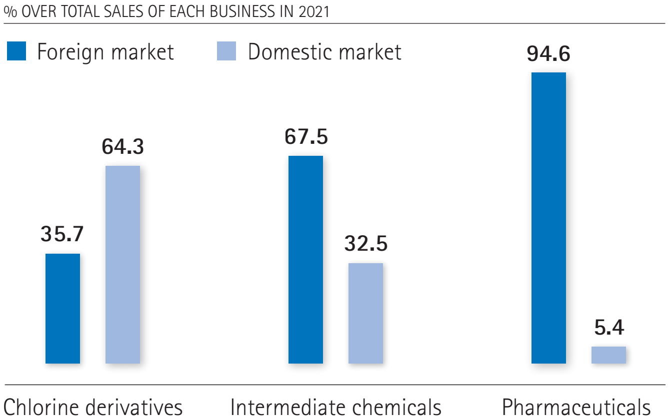
In the intermediate chemicals division, turnover increased by 50.3% (53.5% in domestic market and 48.8% in foreign market). This business exports 67.5% of its turnover.

The pharmaceuticals division carries out 94.6% of its sales outside of Spain, decreasing by 11.9% in 2021 in comparison with the prior year. Sales in our country have dropped by 34.8%.

The European Union ("EU") is the main destination of the Group's exports and accounts for 27.8% of consolidated sales. Turnover in this area increased by 32% in comparison with 2020. Sales to OECD countries increased significantly by 42.8% and account for 11.5% of total sales. The rest of the world area, which accounts for 10.1% of consolidated turnover, saw an improvement in sales of 30.7% between 2020 and 2021.

Business markets

% OVER TOTAL SALES OF EACH BUSINESS IN 2021



In terms of sales, France, Italy and Portugal, together with the US, Germany and Turkey, are the three main destinations of the Group's exports.

3.7. Exchange rate

The only assets and liabilities exposed to foreign currency risk are those arisen as a result of ordinary purchases and sales. No other assets in the Group's balance sheet are exposed to foreign currency risk.

The US dollar is —by far— the main foreign currency that the Group is exposed to. No derivative instrument to hedge this risk is arranged.

In 2021 the average US dollar to euro exchange rate was 1.18 US dollars per euro, whereas in 2020 the average US dollar to euro exchange rate was 1.14 US dollars per euro. This depreciation in the average exchange rate has had a negative impact of EUR 2,775 thousand on the Group's ebitda in 2021 in comparison with 2020. Net exposure amounted to US dollars 89,839 thousand.

An average exchange rate of 1.20 US dollars per euro has been estimated for 2022, although so far it has reached 1.13 US dollars per euro, in line with the rate at 2021 year end. This potential US dollar depreciation against the euro will have a negative impact for the Group as it will worsen the competitive position of the products it markets and reduce its profitability. On the contrary, appreciation will improve the Group's competitive position and profitability.

In 2022 it is expected that the Group will increase its net exposure to this foreign currency to reduce purchases in US dollars due to a change of supplier of some raw materials.

In 2021 the sales in US dollars amounted to 155,977 thousand, way over the 104,757 thousand in 2020. The sales in this currency accounted for 17.1% of total consolidated sales (16.8% in the prior year).

The purchases in US dollars increased from 42,077 thousand in 2020 to 66,138 thousand in 2021. This 57.2% increase is due to the higher purchase price of raw materials. In 2021, purchases in US dollars accounted for 10.2% of total consumables and utilities paid for by the Group (10.9% in the prior year).

3.8. Financial, operating and stock market indicators

Indicators [1]	Year 2021	Year 2020
Financial		
Leverage ratio (<0,5) [2]	0.20	0.30
Solvency ratio (<2) [2]	0.77	1.68
Liquidity	1.30	1.17
Funding of assets	1.17	1.07
ROCE (%)	12.88	3.87
Average collection period (days)	57.92	62.85
Average payment period (days)	55.62	61.69
Operating		
Production (thousands of tons)	1,563	1,457
Added value (EUR thousand)	172,645	133,897
Productivity (EUR/person)	129,906	103,236
Gross margin/revenue (%)	53.06	54.22
Ordinary ebitda/sales margin (%)	10.76	8.88
Stock market		
Quoted market value (EUR/share)	2.97	2.16
Capital value (EUR thousand)	299,885	218,098
EPS (EUR) [2]	0.429	0.061
CFS (EUR)	0.60	0.74
PER	6.93	34.86
P/BV	0.90	0.77

[2] Conditions for the payment of dividends.

[1] **Calculation method and purpose of each indicator:**

Leverage ratio:
– Calculation: net debt ÷ total equity.
– Purpose: evaluate the level of non-group financing over the Group's equity.

Solvency ratio:
– Calculation: net debt ÷ ordinary gross operating profit/loss.
– Purpose: evaluate the capacity to repay third-party financing in number of years.

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

Funding of assets:
– Calculation: (equity + non-current liabilities) ÷ non-current assets.
– Purpose: evaluate to which extent non-current assets are financed with permanent resources.

ROCE:
– Calculation: operating profit/loss ÷ resources used
– Purpose: measure the level of return obtained by the Group in its business over the investment made.

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

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 made in accordance with Law 15/2010, of July 5.
– 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 produced.

Added value:
– Calculation: ordinary 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 / revenue:
– Calculation: (Income – consumables) ÷ revenue.
– Purpose: evaluate the profitability of the Group's product portfolio.

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

Quotation:
– Calculation: Ercros share quoted price at year end.
– Purpose: know the value given by the market to each Company share.

Market capitalization:
– Calculation: quoted price at year end × number of issued shares.
– Purpose: know the value allocated by the market to the Group's total equity.

EPS:
– Calculation: consolidated profit/(loss) for the year ÷ weighted average number of shares.
– Purpose: measure the earnings corresponding to each share.

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

PER:
– Calculation: market capitalization ÷ profit/(loss) for the year
– Purpose: know how many times earnings per share is included in the share value.

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

4 / Liquidity and capital resources

4.1. Economic analysis of the balance sheet

"Non-current assets" increased by EUR 2.15 million, mainly due to the heavier weight of investments in property, plant and equipment over depreciation. "Working capital" increased by EUR 28.27 million, mainly due to the increase in accounts receivable as a result of higher turnover and to the increase in the carrying amount of inventory due to the higher price of raw materials.

"Equity" increased by EUR 47.40 million, the net result of profit for the year amounting to EUR 43.30 million and other comprehensive income amounting to 10.96 million and, with opposite effect, the repurchase of treasury shares, amounting to EUR 6.52 million, and the premium paid for attending the general meeting of shareholders amounting to EUR 0.33 million.

"Net financial debt" decreased by EUR 18.99 million. As seen above, this decrease is the result, on the one hand, of the free cash flow generated, amounting to EUR 26.06 million and, on the other hand, of the shareholder remuneration, for EUR -6.84 million and other non-monetary variations, amounting to EUR -0.23 million.

Economic analysis of the balance sheet

EUR THOUSAND

	12/31/21	12/31/20	%
Non-current assets	**358,713**	**356,562**	**1.2**
Working capital	**58,104**	**29,839**	**90.1**
Current assets	248,876	148,609	66.5
Current liabilities	-190,772	-118,770	60.6
Applied funds	**416,817**	**386,401**	**8.1**
Equity	**331,613**	**284,215**	**17.0**
Net financial debt [1]	**65,841**	**84,832**	**-22.4**
Provisions and other borrowings	**19,363**	**17,354**	**11.6**
Origin of funds	**416,817**	**386,401**	**8.1**

[1] All financial debts with non-bank entities, as well as lease payables, are included in net financial debt (2021: EUR 6,226 thousand, and in 2020: EUR 9,145 thousand). Additionally, apart from cash and cash equivalents, those deposits that guarantee debt commitments have been recognized as a decrease in the financial debt (in 2021: EUR 2,588 thousand, and in 2020: EUR 6,647 thousand).

Breakdown of net financial debt

EUR THOUSAND

	12/31/21	12/31/20	Change	%
Loans	65,250	66,471	-1,221	-1.8
Finance lease payables	6,226	9,145	-2,919	-31.9
Working capital financing	48,526	55,794	-7,268	-13.0
Gross financial debt	**120,002**	**131,410**	**-11,408**	**-8.7**
Cash	-51,573	-39,931	-11,642	29.2
Deposits	-2,588	-6,647	4,059	-61.1
Net financial debt	**65,841**	**84,832**	**-18,991**	**-22.4**

4.2. Liquidity

The Group manages liquidity risk by using financial planning techniques, which take into consideration cash inflows and outflows relating to operating, investing and financing activities, and shareholder remuneration. The Group's objective is to keep a balance between the flexibility, the terms and the conditions of the financing sources registered, based on expected needs in the short, medium and long terms.

It should be noted that the significant increase in the resources generated by the Group's businesses in 2021 has provided it with the necessary liquidity to meet its obligations in a timely manner (payment on investments) and to reduce the net financial debt. The Group's forecast for 2022 is that this situation will continue and therefore it is not expected that it will be exposed to liquidity risk in its transactions.

As for the available financing facilities, until the end of 2024 the Group has a syndicated factoring facility amounting to EUR 102,000 thousand and a syndicated credit with an overall limit of EUR 30,000 thousand. It has also taken out working capital financing facilities for an overall amount of EUR 61,000 thousand from several financial institutions.

It has taken out several loans from financial institutions and public entities for an overall amount of EUR 64,981 thousand.

Additionally, on December 23, 2021 the Ercros Group signed an agreement with the European Investment Bank ("EIB") to finance with EUR 40 million Ercros's investments in research, development and innovation (R&D&i), digitalization, decarbonisation and modernization of its main facilities within the 3D Strategic Plan that Ercros has launched for the period 2021-2025. The Group plans to draw down this loan within the next 24 months.

Also, if needed, the Group considers that it can use other supplementary mechanisms for obtaining occasional liquidity, such as the partial and selective disposal of assets not used in operations, the issue of short and medium term bonds in organized markets or the issue of a line of promissory notes in the Alternative Fixed-Income Market ("MARF").

a) Major financing sources

In 2021 the Group has used the following financing sources:

(i) External

- The factoring facility in euros, which allows the Group to finance working capital up to a limit of EUR 102,000 thousand. At December 31, 2021, the drawndown balance of this facility amounts to EUR 64,475 thousand (EUR 57,206 thousand in the prior year).
- The revolving credit agreement, for an overall limit of EUR 30,000 thousand. At December 31, 2021 EUR 30,000 thousand have been drawn down (EUR 30,000 thousand in 2019).
- The Capex tranche of the syndicated revolving agreement that takes the form of a loan, which at December 31, 2021 had an outstanding balance of EUR 13,125 thousand (EUR 3,800 thousand in the prior year).
- The ICO credit facility, which at December 31, 2021 had a balance of EUR 18,011 thousand (EUR 17,864 thousand in the prior year).
- The ICF credit facilities, which at December 31, 2021 had a balance of EUR 5,940 thousand (EUR 6,873 thousand in the prior year).
- Several loans from public entities such as the Ministry of Industry, Tourism and Commerce, CDTI and other financial institutions for an overall amount of EUR 41,040 thousand. During 2021 EUR 3,020 thousand that had been deposited as collateral of loans granted by the Ministry have been released.
- Several working capital financing facilities with an overall limit of EUR 24,100 thousand. At December 31, 2021 no amount had been drawn down from these working capital financing facilities.
- The financing facility taken out from the EIB last December 23, 2021 for an overall amount of EUR 40,000 thousand, which has not yet been drawn down.

(ii) Internal

In 2021, despite the covid-19 pandemic and the significant investing effort, the Group's activity has generated free cash flows amounting to EUR 26,086 thousand (2020: EUR 40,583 thousand), which have allowed it to remunerate shareholders for an amount of EUR 6,856 thousand and reduce debt by EUR 18,991 thousand.

- At December 31, 2021 the Group had cash amounting to EUR 51,573 thousand (EUR 39,931 thousand at 2020 year-end) and additional funding amounting to EUR 87,317 thousand (EUR 32,150 thousand at 2020 year-end).
- During the year 2021 no amount has been received in relation to the refund of prior-year income tax settlement, since the 2020 income tax settlement was received in January 2022. In comparison with the prior year, it should be taken into account that the refund of the 2018 and 2019 income tax settlements was received during 2020 for an overall amount of EUR 10,438 thousand. Additionally, due to the increase in profit before tax, during 2021 the income tax payment on account has amounted to EUR 8,029 thousand (EUR 1,079 thousand in the prior year).
- The overall amount received in 2021 related to grants (for indirect CO_2 emissions, electro-intensive consumption and others) amounting to EUR 10,654 thousand (EUR 3,937 thousand in 2020) should be highlighted.

The Group relies that, as it has happened until now, if new investment opportunities and needs arise in some production facilities to meet its growth expectations, other supplementary mechanisms could be used to obtain one-off liquidity, such as the partial and selective sale of non-operating items, additional funding, issue of promissory notes, or the issue of bonds in the short and medium terms in organized markets.

b) Grants and public aid

In 2021 Ercros has received the following grants from public entities:

Entity	Item	Factories	Amount (EUR thousand)
Ministry of Industry, Trade and Tourism	Compensation of cost related to 2020 indirect CO_2 emission allowances	Almussafes, Flix, Tortosa, Sabiñánigo, Vila-seca I and Vila-seca II	7,140
Ministry of Industry, Trade and Tourism	Compensation to electrointensive consumers in 2021	Almussafes, Flix, Tortosa, Sabiñánigo, Vila-seca I and Vila-seca II	1,502
IDAE [1]	Improvement in equipment technology and polymerization process for PVC	Vila-seca II	775
IDAE [1]	Improvement in fermentation process technology	Aranjuez	70
IDAE [1]	Improvement in energy efficiency in polyol production	Tortosa	582
IDAE [1]	Improvement in equipment technology and chlorate production process	Sabiñánigo	585
CDTI [2]	Obtaining of new polyols for industrial applications	Intermediate chemicals division	96
CDTI [2]	New line of polymers for urea-formaldehyde and urea-melamine-formaldehyde resins	Intermediate chemicals division	66
CDTI [2]	New catalysts for obtaining formaldehyde	Intermediate chemicals division	81
Total			**10,897**

[1] The Institute for Diversification and Saving of Energy ("IDAE") is a public company affiliated to the Ministry for Ecological Transition and Demographic Challenge that grants aid to improve energy efficiency and implement renewable energies.

[2] The Center for the Development of Industrial Technology ("CDTI") is an entity depending on the Ministry of Science and Innovation that grants aid for innovation and technological development projects.

Additionally, the Group has been granted aid by IDAE and ICAEN, for an amount of EUR 5,339 thousand, which are pending receipt while the investments that have generated them are justified and reviewed.

Additionally, in 2021 the Group was granted the following public aid:

- The Ministry of Industry, Trade and Tourism granted the Group free assignment of emission allowances for an amount equal to EUR 10,443 thousand (EUR 5,443 thousand in 2020).
- The State Foundation for Training in Employment ("Fundae") reimbursed a portion of the training expenses incurred, EUR 185 thousand, which is deducted from the contributions to the Social Security paid by the Group (EUR 113 thousand in 2020).

c) Limitations on the distribution of dividends

There are no restrictions on the distribution of dividends provided the ratios set forth in the syndicated financing are met, which are less restrictive than the three conditions established in the shareholder remuneration policy in force for the 2021-2025 period, and which are as follows:

- Profit for the year exceeds EUR 10,000,000.
- NFD/ordinary ebitda ratio (solvency ratio) is lower than or equal to 2.
- NFD/total equity ratio (leverage ratio) is lower than or equal to 0.5.

In 2020 earnings per share were EUR 0.061 per share. Consequently, one of the dividend policy requirements was not met, but the ratios set in the syndicated financing agreements were.

d) Level of indebtedness

As indicated in section 4.1 above, the NFD has been reduced by EUR 18,991 thousand. At December 31, 2021, the NFD amounts to EUR 65,841 thousand in comparison with EUR 84,832 thousand at 2020 year-end.

The liquidity risk management is explained in chapter 5.

e) Supplier payment period and customer collection period

The average payment period to suppliers at 2021 year end was 55.62 days (61.69 days at 2020 year-end), which means a reduction of 6.01 days between both years, in line with recent years' trend.

At December 31, 2021, the payments that exceeded 60 days accounted for 40.27% of all payments made (44.41% in 2020). The Group forecasts that it will continue reducing the percentage of payments exceeding 60 days,

In the prior year the average collection period was 57.92 days (2020: 62.85 days).

4.3. Capital resources

Ercros is the parent of a chemical group industrially based in Spain that serves customers worldwide. Most of the Group's business is based on chlorine and its derivatives chemistry and is therefore subject to the usual cyclical nature of this industries, which alternate adjusted demand and supply periods (with high returns) with other periods with higher supply and/or lower demand, and consequently, lower returns, which makes it necessary to operate the plants at the highest utilization ratio possible for efficiency purposes.

Additionally, the main raw materials (methanol, ethylene, EDC) and utilities (electricity, steam) have considerable relevance to the Group's costs. Consequently, the cyclical fluctuations in the prices of these raw materials and consumables also cause fluctuations in the Group's profitability as it is not always possible to pass on the increases, not even immediately. There are no appropriate financial instruments to cover these fluctuations.

The Group's activity is subject to regulatory changes, mainly of an environmental nature that require recurring investments to adapt to new demands, as occurred in 2013 with the prohibition of using mercury-based technology for chlorine production as from 2017. The Group was given four years to adapt to these new requirement.

The Group manages capital considering the characteristics of its business and is not subject to externally imposed capital requirements.

The Group's objectives in capital management are:

- Follow a prudent financial policy, based on the stage and duration of the economic cycles and its industry.
- Maintain the capacity to perform transactions with a high level of solvency, in order to provide satisfactory returns to the shareholder and profit to other stakeholders, such as employees, customers, providers, etc.
- Comply with the shareholder remuneration policy.

The Group periodically measures and analyses the ratios regulating the shareholder remuneration policy and estimates their projections. Additionally, the Group analyses free cash flow generation, which is the key factor when determining the policy of investments, sale of investments to reduce debt, payment of dividends, returns of capital to its share capital and issue of new shares.

The volume of capital is established based on the existing risks, making the corresponding adjustments to capital, based on the changes in economic conditions and the risks associated with the activity.

The balance of net financial debt ("NFD") at December 31, 2021 and 2020, according to the calculations made by the Group, is as follows:

EUR thousand	12/31/21	12/31/20
Bank borrowings:		
Non-current	92,793	93,553
Current	5,739	22,314
Current portion of non-current borrowings	15,244	6,398
Lease payables	6,226	9,145
Short-term deposits pledged	-1,331	-2,477
Other non-current assets, pledged deposits	-1,257	-4,170
Cash and cash equivalents	-51,573	-39,931
NFD balance	**65,841**	**84,832**

The ratio of the NFD divided by total equity has been as follows:

EUR thousand	12/31/21	12/31/20
NFD	65,841	84,832
Equity	331,613	284,215
Leverage ratio (NFD/total equity)	**0.20**	**0.30**

As shown in the table above, the leverage ratio (NFD/total equity) has decreased in 2021 compared to 2020, reducing the Group's leverage, and it remains below 0.50 times, which is one of the shareholder remuneration policy requirements.

The improved ratio is due to (i) the comprehensive income generated in 2021 and (ii) the generation of free cash flows, which has allowed the Company to reduce the level of indebtedness and remunerate the shareholders, as summarized in the NFD evolution table below:

EUR thousand	12/31/21	12/31/20
NFD balance at January 1	**84,832**	**110,171**
Free cash flow	-26,086	-40,583
Dividends paid	–	5,049
Repurchase of shares	6,522	8,735
Payment of meeting attendance bonus	334	341
Accrual of finance costs that does not generate cash outflows	474	624
Effect of changes in exchange rates:		
In cash and cash equivalents	-235	495
NFD balance at December 31	**65,841**	**84,832**

The evolution of the NFD ratio divided by ordinary ebitda is as follows:

EUR thousand	12/31/21	12/31/20
NFD	65,841	84,832
Ebitda from ordinary activities	86,066	50,507
Solvency ratio (NFD/ordinary ebitda)	**0.77**	**1.68**

The table below shows the reconciliation between gross operating profit/(loss) and ebitda from operating activities:

EUR thousand	12/31/21	12/31/20
Gross operating profit (ebitda)	85,680	49,601
Reversal of provisions and other non-recurring income	-6,569	-3,777
Charge of provisions and other non-recurring expenses	6,955	4,683
Ebitda from ordinary activities	**86,066**	**50,507**

The solvency ratio (NFD over ordinary ebitda) has improved significantly in 2021 compared to 2020 due to (i) the increase in ebitda and (ii) the reduction in net finance debt, and remains well below 2.

a) Firm commitments to obtain capital resources

There are no firm commitments to obtain new capital resources.

b) Investment commitments or obligations

The meeting of the board of directors held on January 22, 2021 approved a new investment plan called 3D Plan, that is explained in section 2.3 c).

4.4. Contractual or out-of-balance obligations

The Group has not assumed any contractual or out-of-balance obligations that require significant financial resources other than the investment commitments, the repurchase of treasury shares commitments and contingencies for legal claims.

5 / Key risks and uncertainties

5.1. Identification of risks

The Group has implemented a risk alert system, "SARE", which enables it to identify, monitor and quantify the potential risks to which it is exposed. This alert system is activated when any risk that may affect the Group is identified.

Since 2017, the Ercros Group has had a compliance committee that works together with the audit committee, to which it reports organically, to prevent criminal risks. Among the duties of this committee, are the following: (i) prepare and implement 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) propose to the audit committee the adoption of those measures it deems appropriate to guarantee compliance with and follow-up of the criminal risk prevention manual and inform this committee of the violations detected; (iii) monitor the policies, procedures and controls established in relation to risk control and, in general, monitor compliance with the manual and the principles established in the Code of Ethics; and (iv) ensure compliance with the internal code of conduct in matters related to the securities market.

On 31 October 2019, the board approved, following a favourable report from the audit committee, the criminal risk prevention manual and the criminal compliance policy. In addition, the Group has (i) a code of ethics; (ii) a whistle-blower channel procedure; (iii) an anti-corruption and crime prevention policy; and (iv) a conflict of interest procedure.

The Group attempts to minimise the tax risks to which it is exposed due to its activity by avoiding aggressive interpretations of the tax regulations that affects it. It is aided by external advisers who are qualified to prepare tax information and, before taking decisions, it analyses the possible tax effects of its actions.

On 17 December 2021, the board approved the tax policy, with zero tolerance for market manipulation and personal data protection and the updating of sustainability and diversity policies in the board.

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

Name of the body	Description of duties
Board of directors	Establishes and supervises risk control devices in general
Audit committee	Responsible for internal control and risk management systems
Appointment, remuneration, sustainability and corporate social responsibility committee	It is responsible (supervises) for compliance with the Company's environmental, social and corporate governance policies and rules (ESG), and internal codes of conduct
Strategy and investment committee	It advises the board in analysing and monitoring the Group's strategic policy and investments
Internal audit service	Supervises the operation of internal control systems
Compliance committee	Supervises criminal risk prevention
Executive committee	Supervises operational management and risks in general
Steering committee	Supervises operational management and risks in general
Business committee	Supervise the management and operational risks of their business activities
Risk and collection committee	It is responsible for controlling the risk of trade credit
IFRS [1] committee	It is responsible for the correct application of IAS [2] and IFRS [3] in preparing financial information and controlling tax risk
ICFR [4] committee	It is responsible for the operation of the ICFR
Systems committee	Management of cybersecurity risk
CEDES [5]	Supervises non-financial risks
CERS [6]	Supervises reputational risks

[1] International financial reporting standards.

[2] International accounting standards.

[3] International financial reporting standards.

[4] Internal control system for financial reporting.

[5] Sustainable development committee.

[6] Ethics and social responsibility committee.

5.2. Key risks to which the Group is exposed

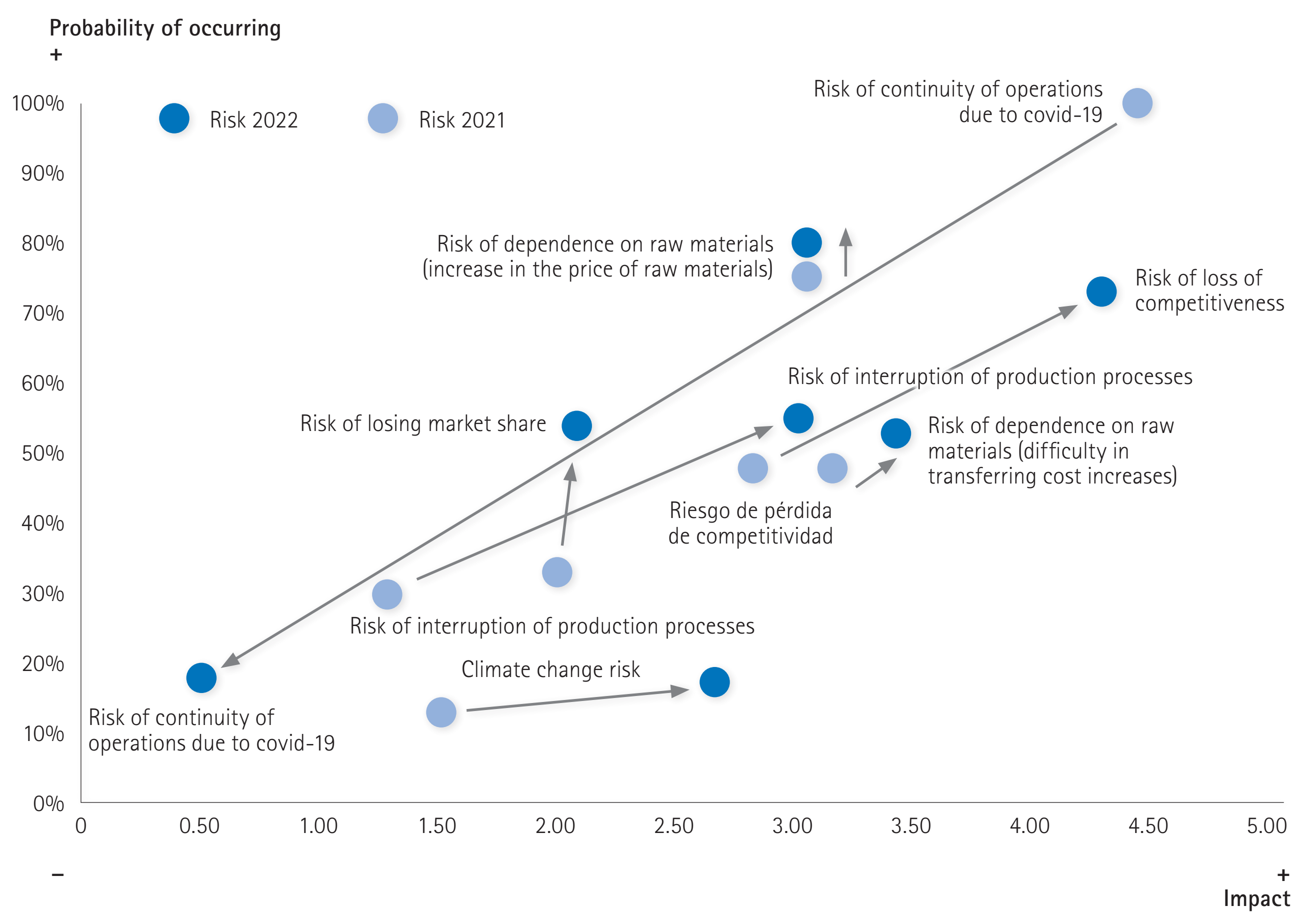
The Ercros Group's activity involves various risks that are classified into different types, based on the criteria that the Group considers most appropriate for their efficient management. In this respect, not all the activities present the same risks, although on occasion they do share some. In general,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

Many of these risks are inherent to the performance of the activities that the Group carries on, or are the result of external factors and, therefore, an attempt may be made to mitigate such risks but it is not possible to eliminate them completely. In other cases, the Group transfers the risks by contracting insurance policies.

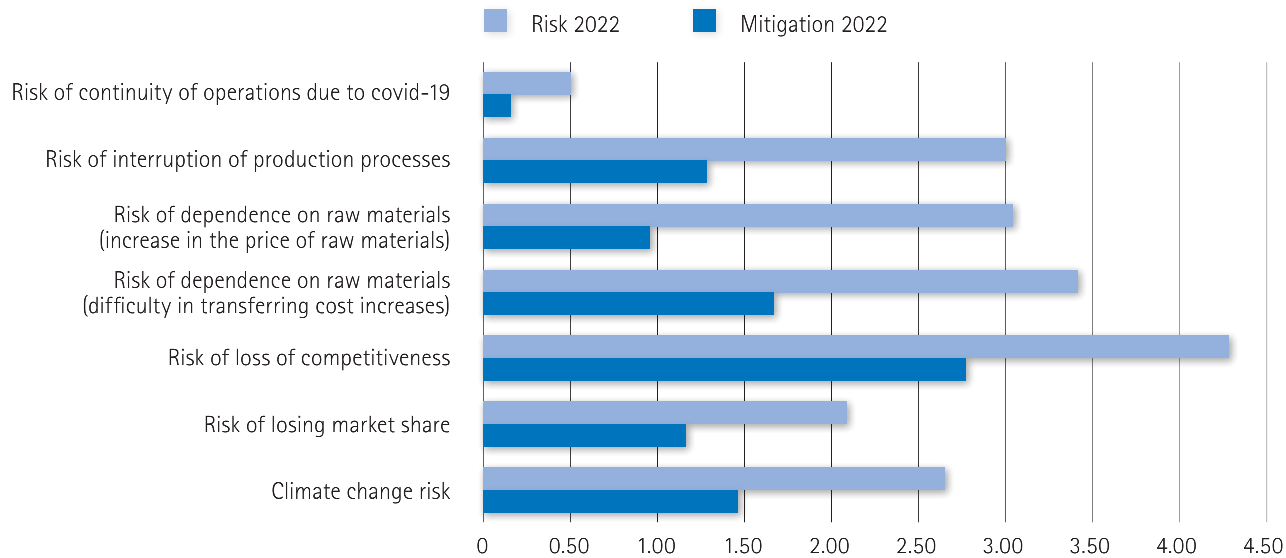
Risks that could jeopardise achievement of the objectives of the business strategy, the Group's financial flexibility and its solvency are considered significant.

On 17 December 2021, the business managers and general managers presented to the board the risk maps for each business and an aggregate risk map for the Group identifying the most relevant risks for 2022, based on the probability of occurrence (on a scale of 0% to 100%) and the impact that their materialisation would have on the Group (on a scale of 0 to 6). Based on the above maps, the Group has implemented controls aimed at mitigating the risks detected.

The following graph shows the Group's relevant risks expected in 2022, based on their probability of occurrence and impact, and their evolution with regard to 2021 in accordance with the risk map drawn up:



The following graph shows the same significant risks expected in 2022 after the application of mitigating measures:



The risk map does not include risks related to corruption, bribery and money laundering because these types of risks have not been identified as relevant to the Group.

In relation to the 2021 financial statements, the work plan implemented by the external auditor, Ernst & Young, focused on analysing the following significant issues: (i) net sales and accounts receivable; (ii) provisions for environmental remedies, contingencies and litigation; (iii) tax credits and future tax recoverability of these; (iv) valuation of investment properties and fixed assets; (v) tax inspections and excise duties; and (vi) review of the electricity contracts signed in 2021, without detecting any impact that could affect its opinion on the financial statements.

The key risks that may affect the Group, classified by type, are described below:

a) Operating risks

The Ercros Group, with 10 production facilities, carries out its production activities within the framework of its commitment to the safety of its facilities and the health of its staff, respect for the environment, the quality of its products and dialogue and transparency in relation to society.

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

(i) Industrial risk (relevant)

The production activity carried out by the Ercros Group involves the implementation of operations that imply danger and require diligent action on the part of the staff performing them. In addition, industrial facilities in the chemical industry have intrinsic potential risks arising from the use of substances, some of which are dangerous, that they use or manufacture; from human failure; and from the maintenance or restructuring of these facilities.

The safety of people and facilities is a priority for the Ercros Group and, therefore it: (i) ensures compliance with legislation; (ii) certifies its facilities with internationally approved standards; (iii) submits its facilities to regular operational analysis (Hazop method) and inspections; (iv) each factory has a preventive maintenance plan for its industrial facilities; and (v) its own and external employees receive preventive training adapted to their work place. In addition, the Group investigates all accidents and incidents, analyses their causes and establishes, where appropriate, the corrective actions necessary to prevent their recurrence.

Since the start of the covid-19 pandemic in 2020, the Group has had to face a new industrial risk arising from the possible suspension of part of its activities. This was due to the impact of exceptional circumstances, from the initial state of alarm and the successive "waves" of peak infection, caused by the appearance of the different variants and strains of covid-19, could generate on its activity and among its workers. To mitigate this risk, Ercros formed the covid-19 corporate monitoring committee (CSC-19) and other monitoring committees in all its facilities that, in close collaboration with the workers' representatives, have continuously monitored the evolution of the pandemic.

This preparation and continuous monitoring have enabled the Group (i) to implement preventive and organisational measures adapted to each production facility, in accordance with the recommendations and mandates of the relevant administrative authorities; (ii) to prevent and, if not possible, reduce the spread of the virus among its workers; and (iii) to ensure that business activities are maintained. Thanks to these measures and the high vaccination rates achieved among the workforce, in 2021 the Group continued its production as a chemical company for essential services with total normality, without any productive impact due to lack of staff.

In 2021, and largely as a result of the covid-19 pandemic, the Group had to face a new industrial risk caused by the possible disruption of certain production processes as a result of: (i) possible failures in the supply chain of certain raw materials and intermediate products due to operating restrictions on several suppliers and (ii) disruptions in the dispatch and transport of finished products, due to, among others, the lack of available land and sea transport, and containers. The strategy applied by the Group during the year to mitigate this risk was as follows: (i) the signing of long-term supply agreements with greater guarantees; (ii) the search for alternative suppliers; (iii) the implementation of long-term production and consumption schedules with forecasts for restrictions and planning for alternatives; and (iv) the temporary increase in inventory capacity.

The Group carries out scheduled shutdowns of its production plants for maintenance, repair or modernisation, although on occasions there are also unplanned shutdowns which have an impact on fulfilment of the production and sales plans. In other cases, the plants must slow down their production pace to match the pace of supply of key suppliers of raw materials or consumption of the end product by major clients. The Group has taken out insurance to cover the loss of profit arising from these contingencies.

(ii) Risk of smaller margins

In the chemical 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 and stable to alternate with other periods, generally shorter, in which there are imbalances between supply and demand that may cause significant fluctuations in prices. From 2016 to the first half of 2018, the cycle maintained an upward trend, in a context of demand pressure, supply shortages and high prices; however, after the first half of 2018, the trend shifted, marked by oversupply, falling prices and, in general, the weakening of global markets, entering a recessive chemical cycle aggravated by the covid-19 pandemic. However, the strong recovery in demand for consumer goods coupled with the shortage of post-pandemic supply, which started in the second half of 2020, remained very solid throughout 2021, consolidating the onset of a new cycle with an upward trend that is expected to continue in 2022 with economic growth.

In the Ercros Group, PVC and caustic soda are the products that weigh most heavily on consolidated billings and that suffer most from these margin tensions, increasing the sensitivity of the Group's income statement to this situation.

In the case of caustic soda, the recovery of demand for this product in 2021 as a result of the reactivation of economic activity at global level, and the shortage of overall supply due to multiple operating problems of several producers, has pushed prices up throughout the year. However, this price increase has been accompanied by a historic increase in the price of electricity, its main input, which during the year has been offset by the increase in the price of the above-mentioned product, the good profitability of some derivative products and the good service factor of the facilities that have made it possible to meet the high quantities of product requested by our clients.

During the year, sodium hypochlorite, a product manufactured from the chlorine resulting from the same process of manufacturing the caustic soda, despite the improvement in economic and tourist activity, has suffered from smaller margins due to the limited capacity to transfer the increase in electricity cost to the price of the final product.

Trichloroisocyanuric acid ("TCCA"), one of the products with the highest added value within the Group's portfolio, continues to consolidate its growth and in 2021, as in the second half of 2020, benefited from the strong demand in the pool water treatment sector. This strong demand has made it possible to transfer part of the increases in logistics, raw materials and energy costs in the year to the price of the final product.

With regard to PVC, in 2021 the overall demand for this product maintained the strong growth started in the second half of 2020. In Europe, good demand was accompanied by a limited supply of products from local producers and very limited imports of products from other regions, in both cases due to different production events that took place during the year. In these circumstances, it was possible to make repeated upward adjustments to the price of the product beyond the increases in the prices of raw materials and energy involved in the manufacturing process. The Group expects margins to remain at reasonable levels in 2022.

(iii) Risk of dependence on raw materials (relevant)

As seen in point (ii) above, the Group is heavily dependent on the main raw materials it uses in its industrial processes, 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 Group attempts to mitigate the risk of dependence on raw materials by implementing a purchase strategy based on: (i) long-term supply agreements for strategic raw materials with higher volatility; (ii) negotiation with its clients to reach product supply agreements indexed to the prices of the most significant raw materials involved in the manufacturing process; (iii) purchase agreements with several alternative suppliers to secure volumes and competitive prices for the supply of raw materials; and (iv) the geographical diversification of the sources of supply of strategic raw materials to ensure supply in the event of shortages by areas or logistical problems. In addition, to reduce the impact on the business of the volatility of the prices of raw materials, the Group efficiently manages stocks.

The Group's three main inputs are electricity, methanol and ethylene, which represent more than 48.5% of the total amount of consolidated purchases in 2021.

As mentioned above, the Ercros Group always tries to pass on the variations in its variable manufacturing costs to the price of its products; however, sometimes, depending on the supply-demand situation, it cannot do so completely or when it does, it does so with a certain time lag, which can lead to the temporary loss of profitability of the product in question. In 2021, the strength of the markets generated by strong economic growth and increased demand for post-pandemic consumer goods, was accompanied by a strong global increase in raw materials, energy and sea freight. This increase in variable and transport costs has increased the sales prices of certain products, such as caustic soda, PVC or polyols, among others. In some of cases, depending on the supply-demand balance, price increases have materialised resulting in improvements in the margins of these products, while in others, it has only been possible to offset part of the increases in manufacturing costs.

Electricity is the primary supply of the chlorine derivatives division. The Group purchases electricity from different marketers of this supply. Supply agreements with these companies are of varying duration.

Likewise, the government enacted Royal Decree Law 20/2018, of 7 December, on urgent measures to encourage economic competitiveness in the industrial and commerce sector in Spain, including measures to promote the fair transition of energy-intensive industries, including the approval of the energy-intensive consumer Statute. On 15 December 2020, the government approved Royal Decree 1106/2020, regulating this Statute, the objective of which is to lower the electricity cost for energy-intensive industries through the following measures: (i) by offsetting, up to a maximum of 85%, charges for financing of specific remuneration for renewable energy and high-efficiency cogeneration and for additional financing in non-peninsular territories; and (ii) for hedging of risks arising from the medium- and long-term acquisition of electricity. On 15 September 2021, the government published Royal Decree Law 17/2021, on urgent measures to mitigate the impact of escalating natural gas prices in retail gas and electricity markets, including the following measures: (i) reduction to 0% of the tax rate on the value of electricity production in the third and fourth quarters of 2021; (ii) reduction of the excise tax rate on electricity to 0.5%; and (iii) reduction of electricity system charges from 16 September 2021 to 31 December 2021.

In 2021, the cost of electricity pool prices increased significantly in Spain, mainly due to: (i) the increase in the price of natural gas; and (ii) the increase in the price of CO_2 emission allowances. This increase in the electricity pool price was partially offset in 2021 to a greater degree by higher offsetting received for indirect CO_2 emissions with regard to those received in 2020, for the offsetting of charges arising from the Statute of the energy-intensive consumer and for the reductions during the last part of the year of electricity charges and tax due to the application of Royal Decree Law 17/2021, as mentioned above. The Group expects to reduce the spread of the final price of the MWh with regard to its European competitors, using to this end additional mechanisms that may be introduced by amendments to the current Royal Decree of the Statute for energy-intensive consumers, or by new legislation that may be approved in the future aimed at maintaining the energy-intensive industry located in Spain.

Furthermore, the Group has contracted long-term "renewable energy packages" known as PPA (Power Purchase Agreements), and continues to explore the possibility of reaching additional agreements. In addition, a solar power generation project is being developed on land owned by Ercros in Flix, which currently is not being used for any industrial activity, while other renewable facility projects are being studied under a self-consumption system in other Group factories. The Group also continues to implement operational measures aimed at making its processes more energy efficient. With these measures, the Group aims to reduce energy consumption and the future cost of this supply, while increasing the percentage of energy consumed from renewable sources to be ready to meet the company's decarbonisation target.

On 28 January 2021, the Group presented the new strategic plan known as 3D Plan (2021-2025), which is based on three dimensions: Diversification, Digitalisation, and Decarbonisation. The purpose of the decarbonisation strategy is to intensify Ercros' existing efforts to mitigate climate change and adapt to the new regulatory framework governing industrial activity. This dimension includes five major projects in the following areas: energy efficiency, adaptation to climate change, maximisation of hydrogen use, circular economy, and sustainable mobility.

In addition to electricity, the other significant raw material in the production process of chlorine and caustic soda is sodium chloride (common salt). Membrane electrolysis plants require sodium chloride with a very high level of purity. Although sodium chloride is an abundant raw material, currently, there are a limited number of manufacturers in Europe that can provide the quality required. To ensure the availability of this product at competitive prices, the Group has entered into long-term agreements with several suppliers.

Methanol is the main raw material of the intermediate chemical division. The Group has signed supply agreements with various international suppliers from different areas and with different intervals, with the aim to avoid supplier concentration risk and prevent agreements from renewing at the same time. In 2021, the EU upheld the suspension of the tariff on methanol imports, otherwise it would have harmed the Group by making imports of this raw material more expensive.

In 2021, the higher volume of chlorine produced allowed the Group to increase production of its own EDC —an intermediate product that starts the PVC chain— and reduce the purchase of external EDC. This has reduced the Group's dependence on this raw material and helped to improve the PVC margin. The Group also seeks to minimise the risk arising from the volatility of the external EDC price by signing supply agreements with suppliers from different regions.

(iv) Risk from loss of competitiveness and market share (relevant)

The Ercros Group engages in its business in a global environment in which new competitors are continually entering the market. These competitors have benefited from looser regulations in their countries of origin, fewer environmental requirements compared to the European market, lower wages and energy costs and have measures supporting development. The cost spread 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 main raw material used by the chlorine derivatives division is electricity. Although the market for caustic soda and the main chlorinated derivatives, PVC in particular, is global in nature, the cost of electricity used in manufacturing processes is typical of the Spanish market, due to the different costs regulated in each country. Therefore, this is a component that affects the Group's competitiveness.

As mentioned in point (iii) above, the cost of electricity increased in 2021 due to the higher price of the MWh in the wholesale electricity market of the various European countries, although in unequal amounts in all these countries. In Spain, this significant increase in the electricity pool price was partially offset in 2021 by higher offsetting received from indirect CO_2 emissions, the offsetting of charges arising from the energy-intensive consumer statute, and the reductions in charges and electricity tax during the last part of the year as a result of the approval of Royal Decree Law 17/2021. In any case, the final price of electricity for an energy-intensive consumer located in Spain was substantially higher in 2021 than that of competing producers located in France or Germany, all with the same power supply level.

On the other hand, the technological updating of the production processes undertaken by the Group resulted in greater energy efficiency and a higher utilisation ratio, which improved the profitability of its products. Along this same line of improving competitiveness, the Ercros Group is implementing a strategic plan, 3D Plan (2021-2025), which is based on three dimensions: Diversification, Digitalisation, and Decarbonisation. The digitalisation strategy is meant to improve Ercros' competitiveness through the reduction of operating costs; the increase in production and sales volume arising from improvements in the reliability of production processes and facilities, and; the strengthening of client loyalty due to improvements in the service provided by Ercros.

Another risk relevant to the Group's competitiveness is the risk of loss of market share caused by capacity increases of competitors of some of the products manufactured by the company, a risk that has been mitigated by the increase in market share in current clients.

Another factor that has traditionally affected 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. In 2021, the average exchange rate of the euro was 1.18 US dollar per euro, significantly higher than the average rate in 2020, which was US dollar 1.14. This higher valuation of the euro (dollar depreciation) has caused a loss of competitiveness of the Group's products. However, at the end of 2021, the exchange rate was US dollar 1.14, compared to the 2020 closing price of US dollar 1.22, which represents appreciation of the dollar against the euro between the beginning and end of 2021 and, therefore, a gain in competitiveness of the Group's products throughout 2021. If the dollar depreciates against the euro in 2022, the Group's competitive position would deteriorate.

(v) Risk of product concentration

About 60% of the Group's activity revolves around the production of chlorine, caustic soda and its derivatives. Chlorine and caustic soda are produced in the same process; however, while chlorine, for safety, efficiency and application reasons, is consumed almost totally in the production facility during the manufacture of chlorine derivatives, caustic soda is sold at European level.

The most significant product manufactured from chlorine is PVC, the performance of which is closely tied to the performance of the construction industry. This fact lends an element of volatility to the price of caustic soda (a chlorine coproduct) that must be taken into account in the Group's projected results. As explained in section (a) (iii), PVC and caustic soda account for more than one third of the Group's turnover.

(vi) Risk of 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 clients of reducing orders at the end of the year as a result of Christmas holidays, including the general desire to reduce warehouse stocks at year end, 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, e.g., sodium hypochlorite, sodium chlorite and trichloroisocyanuric acid, the use of which peaks in spring and summer, and PVC, with lower consumption in the cold months of the year due to construction stoppage. Demand for other products is steady throughout the year, except in August and December.

As explained in point (iii) above, the chemical industry in which the Group carries out its activity is characterised by its cyclical nature. Therefore, the Group is not immune to the market uncertainties generated by changes in supply and demand, whose repercussions on the margins of the products it sells can affect their profitability and, on occasion, earlier than expected and with greater intensity than in other sectors, given that its products are commodities. To mitigate this cyclical volatility, on 28 January 2021, the Group presented the above strategic plan, 3D Plan (2021-2025). The aim of the diversification strategy is to control and, if possible, reduce Ercros' strong cyclical dependence on the caustic soda-chloride process. The four projects included in this dimension are geared towards enhancing the intermediate chemical and pharmacy divisions, along with the water purification segment that, although it belongs to the chlorine derivatives division, is not tied to the caustic soda-chloride process.

(vii) Risk of client concentration

Although no client represents more than 10% of the Ercros Group's turnover, it is worth highlighting the importance of the main chlorine client, which currently consumes nearly 40% of the chlorine produced by the Group.

At the end of 2017, this client announced that it would be building its own chlorine plant to meet the needs of its factory. Ercros extended the chlorine supply agreement with this client until the end of 2022. This chlorine will be supplied by pipeline from the Vila-seca I factory (Tarragona). If the supply of chlorine to this client does not continue as of 2023, Ercros has an industrial plan to rearrange the distribution of available chlorine among its current internal consumption needs, mainly by increasing its own production of EDC and future internal consumption.

(viii) Market risk due to geopolitical tensions

In 2021, the Group exported 48% of its sales to 93 countries. Given its exposure to foreign markets, the Group may sometimes be influenced by political or geostrategic conflicts that generate tension in the markets where its products are sold.

During the year, the Group minimised exposure to market risk in Turkey by mainly marketing its products through a multinational distribution company, with headquarters in other countries, or directly through subsidiaries of large multinational groups.

In 2021, the increase in activity in international maritime trade, initiated in the second half of 2020 as a result of the economic reactivation after the first lockdown caused by the pandemic, has exacerbated the shortage of sea transport carriers, especially for the transport of containers. This situation has been exacerbated by: (i) the closures of some ports (mainly in China) as a result of the pandemic; (ii) the saturation and collapse of others (in the US and in northern Europe at the end of the financial year); and (iii) certain specific events, such as the blockade of the Suez canal for a few days as a result of the accident of a container ship. All these incidents, and the repeated increases in fuel prices, have significantly strained the supply chain, both in terms of supply and the issuance of finished products, and have caused very significant increases in freight costs, which have tripled the values of 2020 and quadrupled the average values over the last five years. The same scenario is expected to continue in 2022, although a downward trend is expected as of the second half of the year.

The Group tried to minimise this market risk: (i) by concluding agreements based on fixed freight with different shipping lines; and (ii) by early purchases of strategic raw materials that have minimised the continued escalation of their prices.

However, it should also be noted that this situation has created a competitive advantage for the Group's sales in some of our markets, to the extent that the scarcity of sea transport facilities and their high costs have reduced product competition from other geographical areas.

(ix) Technological and cybersecurity risk

The Group is exposed to cybersecurity risks 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 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 above plan addresses security issues arising from internal and external cybersecurity threats, whether accidental or intentional. The Group continuously uses the means necessary to attempt to prevent, detect and, where applicable, eliminate these types of threats. This plan has been reviewed and updated in accordance with the risks arising from the increase in telecommuting.

As a preventive measure, specialised external consultants periodically carry out a penetration test, which allows continuous improvements to be applied to the security system.

In the event of an incident that partially or totally interrupts the normal operation of its business processes, the Group has a disaster recovery plan that would allow the operations of its critical processes to be resumed within a reasonable period of time.

b) Non-financial risks

(i) Environmental risk (relevant)

All Ercros Group factories have environmental management systems in place to minimise the potential impact of the industrial activity on the environment. Even so, in the course of their activity, these facilities are subject to risks that may cause environmental harm, such as accidental emissions or discharges or fires.

To minimise these risks or, if possible, eliminate them, the Group: (i) conducts its business in compliance with provisions established in its environmental authorisations and the requirements arising from applicable regulations and voluntary agreements signed; (ii) officially monitors its environmental performance; and (iii) carries out external verifications of its sustainability management system. Furthermore, it has implemented indices to evaluate its overall emissions to water and air, and waste generation, enabling it to verify the performance of its environmental management. The Group periodically reports on the reduction of emissions achieved in its industrial activity.

All Ercros Group facilities conduct an environmental risk analysis, with the exception of Monzón. This facility is categorised as a low risk facility and, therefore, in accordance with the Spanish Environmental Responsibility Act *(Ley de Responsabilidad Medioambiental),* it is not required to carry out this analysis, although it plans to do so in 2022.

(ii) Claims risk due to soil remediation (relevant)

The Ercros Group has a long history of industrial activity and, although it has always complied with and applied the law as it stands at any given time, legal requirements introduced in recent years and their application, some of them retroactively, have raised the risk of claims of pecuniary liability to assume the cleaning-up or remediation costs related to affected soils and sites.

The Ercros Group has submitted soil control and remediation projects and landscape regeneration projects to the competent authorities for all land that has been identified as affected.

In relation to the former site located in El Hondón (Cartagena), on 30 June 2020, the Group sought judicial review of the ruling of the director-general for the environment handed down on 16 October 2019, which declared that the soil of the El Hondón sector in Cartagena was contaminated. Judicial review was sought before the administrative court of the high court of the Region of Murcia. On 2 September 2021, Ercros filed a claim and, through a court order dated 3 November 2021, a notice was served to the defendant authority to submit a defence.

Despite the judicial challenge, and due to the enforceability of the resolution declaring the soil contaminated, on 1 July 2020, Ercros submitted the technical project for the cleaning and recovery of El Hondón, so as to comply with the obligation established in the Resolution on the declaration of contaminated soil. On 30 November 2020 and 12 February 2021, the directorate-general of the environment requested the remediation of technical project.

On 5 and 23 February 2021, the Group filed appeals for reversal against the above remediation requirements of the project, requesting that they be dismissed and that the remediation project submitted by Ercros in July 2020 be approved.

On 29 November 2021, Ercros was notified of the resolution of the director of water, agriculture, fisheries and the environment of the Murcia Region dated 19 November 2021, which decided to reject the above appeals for reversal. Finally, on 21 January 2022, Ercros sought judicial review against the above decision which declared inadmissible the appeals for reversal filed before the high court of Murcia.

The soil remediation requirement to adapt it for residential use is accepted by the owners, in accordance with the zoning plan and subdivision project approved in 2013. The city council of Cartagena is currently the main owner of the land.

Each year the Group estimates the value of the remediation requirements and makes the corresponding provisions for remediation.

(iii) Risks related to regulatory changes

In recent years legal requirements in relation to environmental matters have become increasingly demanding and have given rise to significant changes in the chemical industry, in Europe, Spain and at the autonomous community level. The Ercros Group makes a significant effort to adapt to this new legal framework and carries out the activities and actions necessary to comply with the requirements set forth in the various regulations. Specifically, the laws related to the safety of facilities and people, occupational health, environmental protection and climate change, and the transport, packaging and handling of dangerous goods.

Certain rules, restrictions 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.

With regard to changes in the energy market, the Group's main risk is the uncertainty arising from the absence of a stable legal framework and the impossibility of determining, in the medium term, the amount of remuneration and administrative exemptions for energy-intensive companies. This prevents the Group from making predictions about the price of electricity, the weight of which is very significant in its variable costs. To mitigate the impact of this risk, the Group carries out actions to improve energy efficiency and promotes the use of renewable energy to reduce both its cost and its environmental impact.

(iv) Climate change risk (relevant)

Heavy rains, blizzards and other extreme weather events are becoming more frequent and can cause flooding or other situations that prevent the normal operation of production facilities.

In an effort to mitigate the adverse effects of these abnormal weather incidents on its activities, the Ercros Group factories have procedures and plans that include the different levels of alert, the responsibilities and action protocols for potential weather events, such as heavy flooding, frost and snowfall, strong winds, heat waves, or earthquakes, and power outages or delays in the transport of goods.

In turn, at the facilities where it is considered necessary, the competent authorities have been requested to improve the external infrastructure (water drainage network, access to main roads, etc.) necessary to minimise the adverse effects of abnormal weather events.

(v) Risk of employee claims

Occasionally, the Group must face claims from former employees, or their heirs, related to compensation for damages arising from asbestos exposure and public benefit surcharges for an alleged lack of safety measures for exposure to asbestos.

These types of liabilities are not attributable to the Group's current management, nor do they relate to damage caused to currently 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.

(vi) Human resources risk

In 2021 the covid-19 epidemic posed a risk from the point of view of human resources. This disease could lead to localised temporary redundancies that might force some production activities to stop due to a lack of personnel.

To mitigate this risk, from the start of the pandemic, the Ercros Group has implemented a plan (currently still in effect) to prevent and, if this is not possible, reduce the spread of the disease at its facilities and at the same time guarantee their ongoing operation.

In addition, among the human resource risks, the risk of low productivity due to the high rate of staff absenteeism (5.6% in 2021) can be pointed out, which in some workplaces can make it difficult to cover all production shifts. To mitigate the impact of this risk, multidisciplinary working groups have been created to analyse the specific circumstances of each workplace and propose concrete solutions.

The Group is subject to talent risk as a result of the departure of key employees. To mitigate this risk, the Group: (i) makes it easier for its staff to perform their work by implementing social measures and measures to promote a work-life balance, flexible working hours, etc.; (ii) facilitates personal and professional growth with training plans, which includes master's and postgraduate degrees, prioritising internal promotion to fill vacant positions; and (iii) encourages loyalty to the Group through long-service bonuses, defined contributions to pension plans and life and health insurance.

The nature of the work performed at the Ercros Group factories brings with it a risk of work accidents among its staff; to mitigate this risk, the Group has safety equipment and material available, provides training for its workforce in prevention of occupational hazards, controls and updates all its equipment to comply with the highest safety standards, and analyses all accidents and incidents at its facilities to prevent their repetition in the future.

c) 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), liquidity risk and taxation risk.

The Group's main financial instruments include syndicated factoring facilities, revolving credit facilities, loans from public financial institutions, bank loans, credit lines for working capital, credit facilities, finance leases, and cash and short-term deposits.

The Group has no derivatives to hedge interest rates or foreign exchange rate risk.

In 2021, the Group contracted a financial derivative to hedge cash flows in the event of changes in the price of electricity for part of the electricity consumption planned in 2022. This derivative is the result of signing a long-term electricity supply contract that, due to the impossibility of physical energy supply in 2022, has required the signing of the derivative to secure the purchase price in 2022, planned for the entire term of the contract. It is therefore an exceptional contract, within the framework of a long-term contract for the physical supply of electricity for consumption in the Group's industrial processes. The Company therefore does not intend to trade with this derivative, nor to contract additional derivatives.

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

The Group notes that the financial risk remains within parameters that can be assumed by a cyclical company. The solvency ratio (consolidated net financial debt/consolidated ordinary ebitda) was 0.76 in 2021, under the maximum limit that has been set at 2.

3D Plan, presented by the Group on 28 January 2021 for the period 2021-2025, respects the principles of financial prudence, so that total annual investments will not exceed EUR 35 million on average and the Company's financial solvency will be preserved at all times, and shareholder remuneration.

In addition, at 2021 year end, the financial solvency conditions for shareholder remuneration were met, as provided for in the policy for remunerating shareholders out of the profits from the 2021-2024 period.

(i) Exchange rate risk

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

In 2021, the average exchange rate of the euro was US dollar 1.18 per euro, compared to an average exchange rate of US dollar 1.14 per euro in 2020. This revaluation of the euro (devaluation of the dollar) had an adverse effect of EUR 2,775 thousand on the 2021 Group's ebitda compared to 2020. Net exposure amounted to USD 89,839 thousand.

An average exchange rate of US dollar 1.20 per euro is estimated for 2022, although it has reached US dollar 1.13 per euro so far this year, in line with the exchange rate at year-end 2021. This revaluation of the dollar is currently improving the Group's competitiveness. If the dollar were eventually devalued, this would have an adverse effect on the Group, since it would worsen the competitive position of the products it markets and reduce profitability. If, on the contrary, the dollar was revalued, this would improve the Group's competitive position and profitability.

In 2022, the Group expects to increase its net exposure to the dollar by reducing purchases in dollars due to the change of supplier of certain raw materials.

The following is a table summarising the purchases and sales made by the Ercros Group in dollars:

	Year 2021	Year 2020
Sales in dollars (thousands)	**155,977**	**104,757**
US dollar/euro exchange rate	*1.182*	*1.141*
Equivalent in euros (thousands)	131,989	91,792
Purchases in dollars (thousands)	**66,138**	**42,077**
US dollar/euro exchange rate	*1.173*	*1.135*
Equivalent in euros (thousands)	56,383	37,090
Net exposure to the dollar (thousands)	**89,839**	**62,680**
Equivalent in euros (thousands)	75,606	54,702

Based on the above transactions, the table below shows a sensitivity analysis of possible reasonable variations in the average exchange rate of the Ercros Group's sales and purchases, with regard to the average exchange rate in 2021, which was 1.18, and where all other variables remained constant:

Dollars for euro (USD/EUR)	Effect on profit from operations (EUR thousand)
1.30	-7,028
1.25	-4,263
1.20	-1,269
1.18	–
1.15	1,986
1.10	5,537
1.05	9,426

(ii) Credit risk

The Group has in place a client credit management policy that is managed in the normal course of its business. Solvency assessments are carried out on all clients who require a credit limit greater than a certain amount. Likewise, in certain sales, the Group requires the client to deliver a letter of credit or a bank guarantee.

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

Since January 2020, the Group has a credit insurance policy with the Compañía Española de Seguros de Crédito a la Exportación (official Spanish export credit agency) ("CESCE") that covers 95% of the balance of clients insured by the policy. The insured amount represents approximately half of the outstanding balance of the portfolio. This policy ensures the collection of invoices that are assigned under non-recourse to syndicated factoring.

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.

(iii) Interest rate risk

The Group's external financing is based on the syndicated factoring facility, the revolving credit facility and loans from government agencies. Financing accrues interest at variable rates normally tied 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.

On 23 December 2021, the Ercros Group signed an agreement with the European Investment Bank ("EIB") to finance with EUR 40 million the investments of Ercros in research, development and innovation (R+D+I), digitalisation, decarbonisation and modernisation of its main facilities included in the strategic plan, 3D Plan, that Ercros launched for 2021-2025.

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

Increase/decrease in basis points of the cost of the debt	Effect on financial results (EUR thousand)
200	-2,649
100	-1,324
-100	1,324
-200	2,649

(iv) 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, financing and remuneration of shareholders. 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 short, medium and long term requirements.

It should be noted that the significant increase in resources generated by the Group's business activities in 2021 provided the necessary liquidity to meet its obligations on time (payment of investments) and to reduce net financial debt. The Group expects the situation to remain the same in 2022 and, therefore, does not anticipate being exposed to liquidity risk in its transactions.

In relation to the financing lines available, the Group has a syndicated factoring line of EUR 102,000 thousand and a syndicated loan with an overall limit of EUR 30,000 thousand until the end of 2024. It has also subscribed credit lines for working capital for an overall amount of EUR 45,000 thousand with several financial institutions.

It has arranged several loans with financial institutions and public institutions for an overall amount of EUR 37,963 thousand.

In turn, on 23 December 2021, the Ercros Group signed an agreement with the European Investment Bank ("EIB") to finance with EUR 40 million the investments of Ercros in research, development and innovation (R+D+I), digitalisation, decarbonisation and modernisation of its main facilities included in the strategic plan, 3D Plan, that Ercros launched for 2021-2025. The Group expects to use this loan in the next 24 months.

In addition, if 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 in organised markets, or the issue of a line of promissory notes in the Alternative Fixed-Income Market ("MARF").

(v) Tax risk

The Group tries to minimise the tax 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 to avoid risks in the interpretation of the regulations.

Practically all the Group's operations are carried out at the parent company, Ercros, S.A., which has its registered office in Spain and pays taxes in full in Spain. Only its marketing subsidiary in France is taxed in that country.

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

Along these lines, in 2017, Ercros submitted a statement of defence to the Central tax appeals board *(Tribunal Económico Administrativo Central)* ("TEAC") contesting the definitive tax assessment issued by the tax authorities after their review of the Aranjuez factory 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. On 5 February 2020, the TEAC dismissed this appeal. On 13 October 2020, Ercros filed an appeal with the Administrative court of the national court of appeals. On 4 March 2021, the experts were summoned to court to ratify the expert report provided by Ercros. On 16 June 2021, Ercros submitted the corresponding written summary of conclusions. On 28 September 2021, Ercros was served a copy of the written summary of conclusions from the State lawyer and the proceedings were declared concluded, with voting and ruling pending.

The Company has guaranteed, by means of surety policy, the payment of the amount resulting from this assessment, although it has not made any provision as it believes that its claims will be upheld by the National court of appeals.

Concerning the notice of disagreement in relation to the income tax for individuals ("Personal Income Tax") ("IRPF") for 2012 and 2013, in which a tax payment of EUR 312 thousand and a default interest of EUR 70 thousand were proposed, an amount fully provided for, notice of the date for voting and ruling by the National court of appeals is still pending.

Lastly, in relation to the notice of disagreement signed regarding Spanish corporation tax act (*Ley de Impuestos Sobre Sociedades)* for 2011, 2012 and 2013, which, after several estimates, proposed that the deductions for reinvestment of EUR 921 thousand be reduced, regarding which the National court of appeals is yet to issue a ruling. The Company has recorded in accounts as a deferred tax asset the right to offset EUR 921 thousand as deduction for reinvestment.

Since 2019, the Group adheres to the Code of Best Tax Practices.

The Company's directors consider that there are not any tax contingencies of material amounts that could arise from possible discrepancies in the interpretation of the tax legislation applicable to the Group's operations.

5.3. Risks arising in the year

Risks arising in the year	Circumstances which gave rise to the risks	Operation of the control systems
Business continuity risk due to covid-19.	Increase in cases of infection among Group employees as a result of the last variant of covid-19 omicron.	The Group has established preventive and organisational measures to prevent the spread of the virus in all its work facilities, while achieving high vaccination rates among its staff.
Risk of disruption of production processes.	Failures in the supply chain.	Long-term supply agreements and search for alternative suppliers. Establishing long-term schedules and increasing inventories.
Risk of dependence on raw materials.	Increase in the price of raw materials and difficulty in transferring the increase in costs to end clients.	The Group entered into supply agreements with several suppliers to secure volumes and competitive prices for the supply of raw materials and, in turn, it negotiated product supply agreements with its clients indexed to the prices of the most significant raw materials.
Risk of loss of competitiveness.	Loss of competitiveness due to increased local energy costs.	Inclusion of price review clauses in product supply agreements with clients based on changes in energy costs. Signature of long-term energy supply agreements at competitive prices.
Risk of loss of market share.	Capacity increases by current competitors.	Increase in market share in current clients.
Claims risk due to soil remediation.	Requirement, in December 2020, for the remediation of the soil remediation project on the El Hondón plot.	The competent authorities were requested to dismiss this requirement and to approve the remediation project submitted by Ercros in July 2020.
Climate change risk.	Natural disasters caused by floods, snow or frost affecting the facilities.	Request submitted to the competent authorities for improvements to external infrastructure (water drainage network, access to main roads, etc.) to minimise the adverse effects of abnormal weather events; implementation of procedures and action plans for emergency situations due to adverse weather events and training of workers in their implementation.

6 / Subsequent events

No events have occurred after the balance sheet date that have had an impact on the 2021 financial statements.

Within the share repurchase program, in 2022 until February 17, 2022 the Group has purchased 660,451 shares for an amount of EUR 2,063 thousand.

7 / Foreseeable evolution

2022 has started with almost the same risks identified in 2021. The costs of energy, raw materials and transport continue to be high and, according to specialized publications, this situation can go on for the entire year. In fact, an additional risk has recently arisen: the possibility of a geopolitical conflict between Russia and the United States due to the crisis in Ukraine, which could considerably worsen gas availability.

Fortunately, the risk posed by the covid-19 omicron variant is quickly disappearing. As a result, restrictions on movement were lifted, which was good news to consolidate economic recovery in Spain and the rest of the world.

In this context, demand for most of our products is still quite strong, which should keep favouring a positive evolution of prices that counteracts the high cost of energy and raw materials, in line with 2021.

Thus, we anticipate that market patterns in the first half of 2022 will be similar to 2021, especially if US demand keeps absorbing all domestic production. In the second half of the year, to the extent that international competition from other regions with lower energy costs increases, we may observe some weakening in the prices of our products, which would make it harder to pass on the high costs, which we will probably keep assuming, to prices.

It is still too soon to give more accurate forecasts. There is the risk of relative deterioration in the second half of the year, but there is also the possibility that the crisis in Ukraine is solved satisfactorily, which together with the lower demand for gas already observed in China, could lead to a decrease in energy prices over the year.

8 / R&D&i activities

8.1. R&D&i activities

The Group has four R&D&i centres in Aranjuez, Monzón, Sabiñánigo and Tortosa that provide service to the pharmaceuticals, chlorine derivatives and intermediate chemicals divisions, and cooperate with several universities and technological centres. In 2021 innovation costs and investments incurred amounted to EUR 6,637 thousand (EUR 6,339 thousand in 2020).

Ercros has six patents on both products and manufacturing processes.

The Group's research and development activities in 2021 have mainly focused on four projects. Three of them have been carried out in cooperation with the Center for the development of industrial technology ("CDTI"): (i) process for obtaining magnesium hydroxide and potassium nitrate combined; (ii) development of sustainable solutions in the production of biopolymers; and (iii) development and scaling of a bioprocess for the production of biopolymers. The fourth project is the development of the new ErcrosTech resin range.

8.2. Development of products

Below are described the most relevant projects in 2021 regarding the development of new products and the expansion of applications and features of already existing products.

a) In the chlorine derivatives division

- Improvement in own formulations of TCCA tablets and development of specific formulations for customers.
- Formulation of PVC compounds suitable for 3D printing for both rigid and flexible applications.
- Expansion of the range of PVC compounds for making injection moulding rigid parts.
- The development of PVC compounds that incorporate post-consumer recycled content.
- New customized levels of ErcrosBio product range to meet the requirements of our customers.

b) In the intermediate chemicals division

- Development of new type of resin in the ErcrosTech family, which will allow us to reach higher added value sectors.
- New developments in resin in the ErcrosGreen+ family to expand their application sectors.
- Development of a new HD moulding compounds quality aimed at the electricity sector for preparing parts with more complex designs.
- Research for obtaining a new line of moulding compounds that is more sustainable and leaves a smaller carbon footprint.

c) In the pharmaceuticals division

- Development in laboratory of processes for new antibiotic active ingredients by fermentation and for other already existing products.
- Changes in the production processes of pharmaceutical products to offer particle sizes that meet each customer's specific needs.
- Development of processes to extend the catalogue of sterile pharmaceutical products.

8.3. Process improvement

These are the most relevant measures taken to improve processes:

- Development of catalysts for decomposing residual hydrogen peroxide.
- Development of a procedure for eliminating silicon and aluminium in brine in chlorine-alkali plants.
- Trial in pilot electrolyzer of anodes and cathodes from several origins and, specifically, of internally developed anode activations.
- Optimization of the working conditions of the NaOH concentration plant in Vila-seca, increasing its capacity by 30%.
- Optimization of the cracker operation conditions at the VCM plant. Purification of fed chlorine.
- Decrease in the production costs for the PVC polymerization process by simplifying suspension agents and changing auxiliary products.

– Actions included in the 3D Plan of the company related to the production of polyols that have resulted in greater productivity: (i) within the diversification projects, the capacity of the plants has been increased, up to 15% for dipentaerythritol, the product with highest added value in the intermediate chemicals division, which will allow Ercros to expand its presence in the Asian and US markets; and (ii) in connection with decarbonisation projects, stages for the re-utilization of residual energy have been introduced that have increased energy efficiency and reduced CO_2 emissions.

– Change of technology in the formaldehyde plants in Tortosa by setting up high-efficiency equipment that allow for lower consumption of energy and fewer CO_2 emissions. The project is included in the 3D decarbonisation Plan.

– Implementation of different improvements that will favour an increase in production capacity and quality levels in the production of moulding compounds to meet demanding market requirements.

– Definition of standard conditions for extractive processes for both new and existing active ingredients.

8.4. In the field of research

In 2021 the Group has developed research lines in cooperation with several reference research centres, including:

– Cooperation programs with the CDTI for the development of a new magnesium hydroxide and potassium nitrate combined production system, of sustainable solutions in the production of biopolymers and the development and scaling of a bioprocess of the production of biopolymers.

– The agreement with Polymat (Technological Center of the Basque Country University) for the characterization and development of biopolymers.

– The agreement with the Leartiker technological centre in Vizcaya, for the development of formulations of PVC and its compounds for 3D printing.

– Agreements for the development of research projects with the Instituto de tecnología química de la Universidad Politécnica de Valencia ("ITQ-UPV-CSIC") to continue with the research into new solid catalysts for the heterogeneous transformation of formaldehyde.

– Agreement with the Technological center of catalonia ("Eurecat") and the Universitat Rovira i Virgili ("URV") for the development and characterization of new types of resin, related to the new ErcrosTech resin range.

– Agreement with Institut químic de Sarrià ("IQS") for doing several research studies on the development of industrial processes for active pharmaceutical ingredients.

– Sponsorship of the UAM-Ercros chair of Universidad Autónoma de Madrid for the promotion of research and teaching activities in the pharmaceutical chemistry area.

– Cooperation in the PhD dissertation 'Nuevos materiales bioplásticos con efecto barrera' by José Ignacio Valero, a chemical engineer who works at the Ercros Group's R&D department. The dissertation is the result of the cooperation agreement signed between the Group and UPC.

– Agreement with Consejo superior de investigaciones científicas ("CSIC") for the experimental study on bacterial colonization and degradation of materials in mountain areas.

– Agreement with CSIC for the development of strains for the production of biopolymers.

– Agreement with Centro nacional de energías renovables ("CENER") for the development and scaling of bioprocesses for the production of biopolymers.

– Cooperation with UPC's Centre català del plàstic and the board of trustees of the Foundation for the development of new hydrogen technologies of Aragon.

9 / Acquisition and disposal of treasury shares

9.1. Treasury shares purchased

In 2021 and 2020, the Company has repurchased treasury shares for their redemption within the shareholder remuneration policy, for the following amounts:

EUR thousand	Year 2021	Year 2020
Amount invested in the repurchase of treasury shares	**6,522**	**8,735**
Against 2019 profit	–	8,735
Against 2021 profit	6,522	–

9.2. Treasury share repurchase program

The repurchase of treasury shares is based on the authorization granted to the board of directors by the ordinary general meeting of shareholders held on June 23, 2017 for a period of five years up to the legal limit permitted by law for a maximum price or equivalent amount to the price of the Company shares in the continuous market at the date of the derivative acquisition of the shares and a minimum amount equal to 75% of the maximum price described.

The current repurchase of shares falls within the shareholder remuneration program for the 2021-2024 period.

The repurchase programs completed from 2016 to 2021 are as follows:

Year	Payout	Program	Limit (EUR thousand)	Start date	End date	Shares acquired (Thousands)	Invested amount (EUR thousand)
2016	20%	First	9,000	01/20/2017	03/27/2017	3,107	9,000
2017	23%	Second	6,000	10/04/2017	03/09/2018	2,117	6,030
2017	23%	Third	6,000	03/12/2018	05/08/2018	987	3,995
2018	26%	Third	6,000	05/21/2018	07/09/2018	453	1,975
2018	26%	Fourth	12,000	07/09/2018	12/21/2018	1,139	4,957
2018	26%	Fourth	12,000	01/07/2019	04/27/2019	1,369	4,545
2019	28%	Fifth	18,000	02/12/2020	04/23/2021	3,945	8,735
2021	32%	Fifth	18,000	03/01/2021	06/30/2021	1,284	3,511
2021	32%	Sixth	15,000	07/01/2021	06/22/2022	906	3,011
						15,307	**45,759**

In the meeting held on June 10, 2021 the board of directors approved the sixth repurchase program of treasury shares for redemption. The repurchase program consisted of a maximum monetary amount of EUR 15,000 thousand and will be in force until June 22, 2022. In no case, however, the number of treasury shares to be purchased could exceed 6% of the Company's current share capital, which consisted of EUR 100,971 thousand.

Considering the maximum 2021 payout (50%) and the proposed dividend (EUR 8,215 thousand), the amount to be allocated to the repurchase of treasury shares with a charge to the 2021 payout totalled EUR 13,272 thousand.

The Company holds 2,190,147 treasury shares at December 31, 2021.

10.1. Shareholder remuneration

a) Shareholder remuneration policy

On April 30, 2021 the board of directors approved the shareholder remuneration policy against the Group's consolidated profit for the years 2021-2024, which was subsequently ratified by the shareholders at the general meeting held on June 11.

Shareholder remuneration will be implemented through the repurchase of treasury shares, which will subsequently be redeemed, and the payment of dividends.

According to the said policy, the Company will remunerate shareholders with a maximum payout of 50% of consolidated profit for the years 2021, 2022, 2023 and 2024.

The repurchase of treasury shares for redemption will be carried out provided that it establishes a dividend payout of at least: 18% of 2021 consolidated profit; 20% of 2022 consolidated profit; 22% of 2023 consolidated profit; and 24% of consolidated 2024 profit.

This payout is conditional on (i) obtaining minimum profit of EUR 10 million; and (ii) fulfilling the following ratios at the end of the year to which the payout relates: net financial debt/ordinary ebitda (solvency ratio) lower or equal to 2 and net financial debt/ total equity (leverage ratio) lower or equal to 0.5.

In 2021 these conditions were met since profit for the year amounts to EUR 42,975 thousand; the solvency ratio was 0.77 (1.68 in 2020) and the leverage ratio was 0.20 (0.30 in 2020).

Ercros's dividend policy is defined within the shareholder remuneration policy. There are no restrictions on the payment of dividends other than meeting the aforementioned conditions.

b) Proposed shareholder remuneration in 2021

(i) Proposed dividends

The appropriation of 2021 profit of the parent company proposed by the directors to be approved by the shareholders in general meeting is as follows:

EUR thousand	Year 2021
Proposed appropriation	
Profit for the parent company	42,975
Appropriation to:	
Dividend payment (EUR 0.085 per share with dividend rights)[1]	8,215
Capitalization reserve	2,219
Voluntary reserves	32,541

[1] The amount allocated to dividend payment is an estimated amount at the date these financial statements are authorized for issue. At the time the general meeting of shareholders is called, a final amount of EUR 0.085 per share with dividend rights will be established.

Pursuant to the shareholder remuneration policy, the board of directors resolved to propose allocating at least 18% of profit for the year to dividends, proposing the payment of EUR 0.085 per share with dividends rights, and allocating the rest of the amount up to 50% of the Company's profit to the repurchase of shares for redemption. At year end, the number of shares with dividend rights is 98,781,090 shares, which are the ones currently outstanding, 100,971,237 shares, less 2,190,147 treasury shares held by the Company at that date that had been acquired for redemption.

(ii) Acquisition and disposal of treasury shares

See chapter 9 above.

10.2. Stock market information

a) Share capital

In 2021 no capital reductions have been carried out associated with the repurchase and redemption of treasury shares set forth in the shareholder remuneration policy since in 2020 not all the necessary requirements for remunerating the shareholder were met. In 2020 capital reductions were carried out.

Evolution of the number of outstanding shares

	Year 2021	Year 2020
At January 1	**100,971,237**	**104,915,821**
Redemption of shares	–	-3,944,584
At December 31	**100,971,237**	**100,971,237**

Capital decrease and other reserves

EUR thousand	Year 2021	Year 2020
Capital decrease (0.30 euro/share)	–	-1,183
Decrease in freely distributable reserves	–	-7,552
Total investment in the purchase of redeemed treasury shares	**–**	**-8,735**

b) Share evolution

2021 has been a good year for Ercros shares overcoming the negative effects of the covid-19 pandemic worldwide showing better figures than in 2020 in almost all parameters (quoted price and traded cash).

The good performance of Ercros share is even more significant when compared to the modest increase in the main stock exchanges —Madrid stock exchange index ("IGBM") by 7%, and IBEX-35 by 8%; and Basic industrial materials and construction index ("ICNS") by 9%. At 2021 year end share price rose by 38% in value compared to the prior year.

Thus, Ercros closed 2021 with a market capitalization of EUR 299,885 thousand (EUR 218,098 thousand in 2020). At December 31, Ercros share's quoted price was EUR 2.97 (2020: EUR 2.16).

Ercros share reached the highest quoted price on September 14: EUR 3.98. In 2021 the average quoted price was EUR 3.14 (2020: EUR 2.20).

The overall volume of traded cash amounted to EUR 187,837 thousand (EUR 143,021 thousand in 2020) since the number of traded shares amounted to 59,866 thousand (64,918 thousand in 2020).

The day on which the highest number of securities was traded was June 1, 2021 2,443 miles. The yearly average purchase was 233,850 securities.

c) Key stock market ratios

Between 2020 and 2021 CFS —calculated as the operating cash flow divided by the number of shares— has dropped from 0.74 to 0.60. CFS is a ratio that allows the Group to measure the generated cash flow corresponding to each share.

The evolution of the result has had a direct impact on the improvement in EPS, which has increased from EUR 0.061 per share in 2020 to EUR 0.4288 per share in 2021. This ratio is the profit/(loss) for the year divided by the weighted average price of outstanding shares and is used to measure earnings per share.

In 2021 PER —calculated by the number of times that market capitalization is included in profit/(loss) for the year— has increased from 34.86 times in 2020 to 6.93 times in 2021.

In the reference period P/BV —market capitalization divided by total equity and relates the Company share's value in the stock exchange to its underlying net carrying amount— decreased from 0.77 in 2020 to 0.90 in 2021.

Main share-related parameters

	12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017
Shares on the stock market	**100,971,237**	**100,971,237** [1]	**104,915,821** [2]	**107,876,621** [3]	**110,979,611** [4]
Market capitalization (EUR)	**299,884,573**	**217,593,015**	**268,584,501**	**335,496,291**	**317,401,687**
Traded shares:					
In the course of the year	59,865,606	64,917,707	88,224,937	128,748,505	186,848,681
Highest in one day	2,443,430	1,856,361	2,413,214	3,814,986	3,618,126
Lowest in one day	40,160	21,994	84,469	92,124	111,569
Daily average	233,850	252,598	345,980	504,896	732,739
Traded volume (EUR):					
In the course of the year	187,836,695	143,021,336	220,569,600	526,361,941	536,068,883
Daily average	733,737	556,503	864,979	2,064,165	2,102,231
Share price (EUR):					
Highest	3.98	2.89	3.95	5.57	3.63
Lowest	2.08	1.41	1.56	2.66	1.83
Average	3.14	2.20	2.50	4.09	2.87
Last	2.97	2.16	2.56	3.11	2.86
Frequency rate (%)	**100**	**100**	**100**	**100**	**100**
Liquidity rate (%)	**59.29**	**64.29**	**84.09**	**119.35**	**168.36**

Yearly average: [1] 2020 = 102,614,814 shares. [2] 2019 = 106,149,488 shares. [3] 2018 = 109,169,534 shares. [4] 2017 = 112,801,167 shares.

d) Significant shareholders

According to the shareholder communications to the CNMV (National Stock Market Commission), at December 31, 2021 the shareholders that hold significant ownership interest own directly or indirectly 18,903 thousand shares in Ercros's share capital, which accounts for 18.73% therein, according to the following detail:

On May 11, 2021 the shareholder Dimensional Fund Advisors LP notified a decrease in its ownership interest to 4.99%.

Name or corporate name of shareholder	No. of direct shares (Thousands)	No. of indirect shares (Thousands)	Interest in share capital [1] (%)
Dimensional Fund Advisors	–	5,035 [2]	4.99
Joan Casas Galofré [3]	5,500	–	5.45
Victor Manuel Rodríguez Martín	5,051	–	5.01
Montserrat Garcia Pruns	3,317	–	3.29

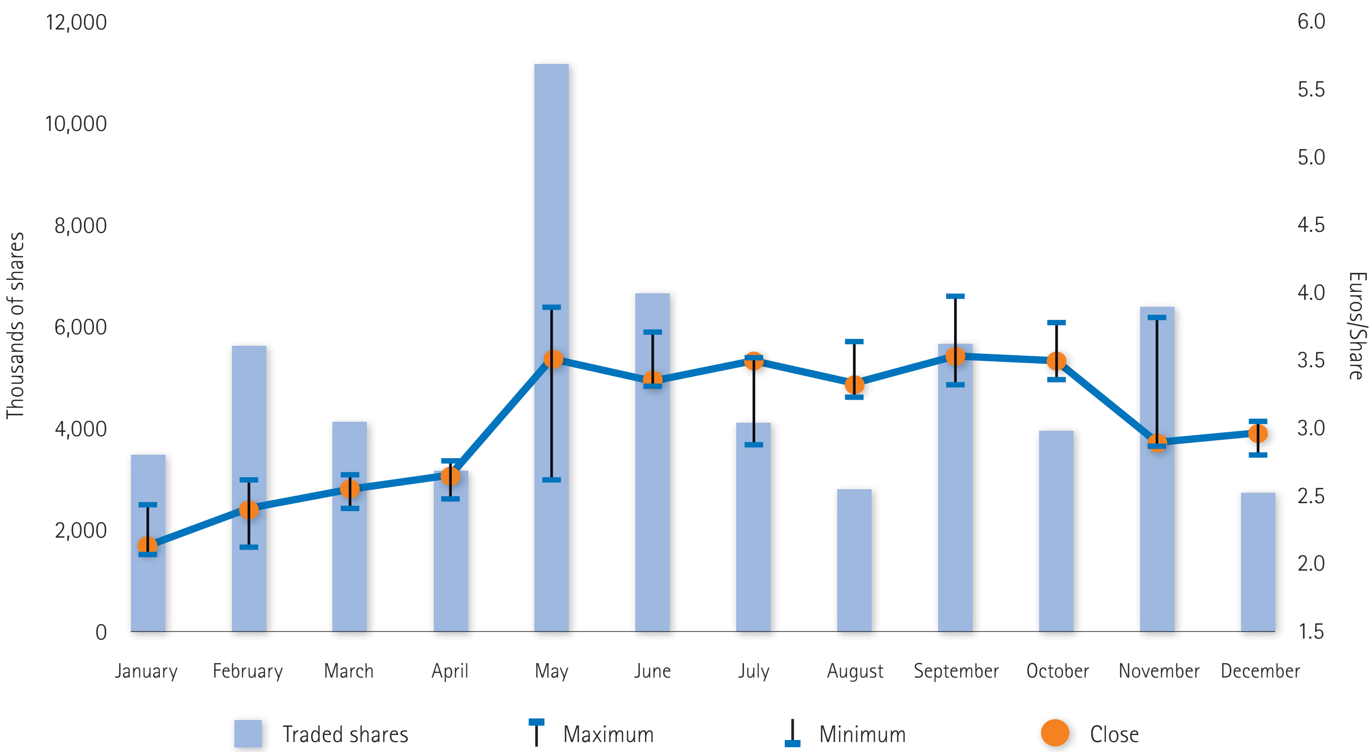
[1] The percentages are calculated over the number of shares at December 31, 2021.

[2] It includes the direct ownership interest held by its subsidiary, DFA international small cap value portfolio.

[3] Mr. Casas Galofré has been a proprietary director of the Company since June 5, 2020.

Evolution of share and traded volume

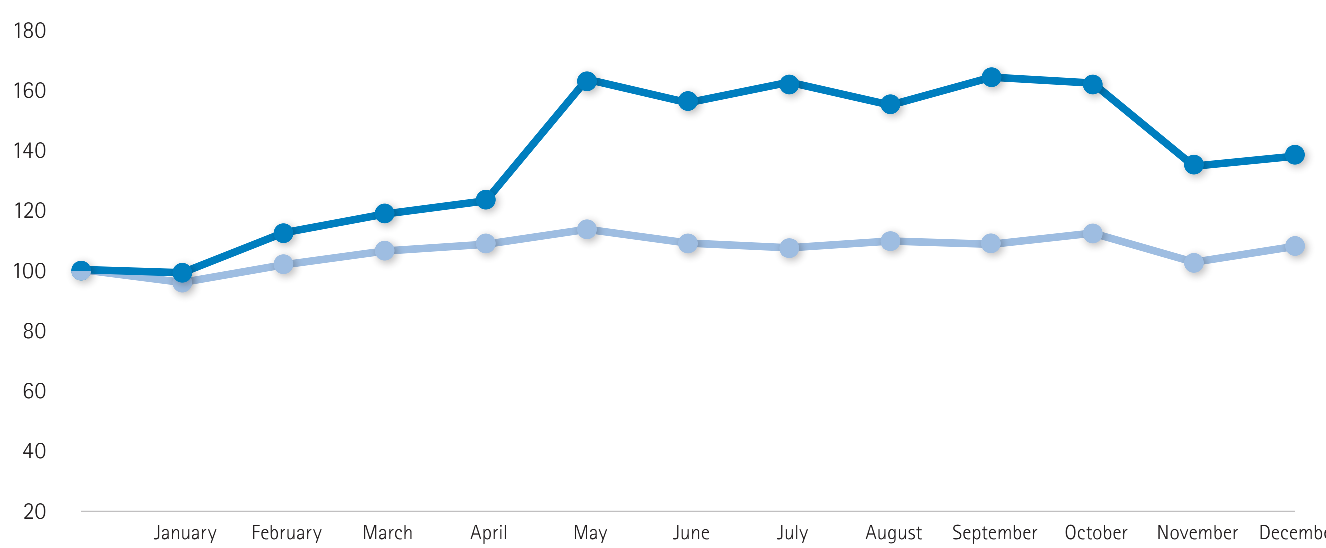
2021



Comparison between Ercros and Ibex 35

BASE 100= 12/31/20

2021



Source: Infobolsa.

The Company's estimated free float at December 31, 2021 is 79.11% after discounting significant ownership interest (18.73%) and treasury shares (2.17%).

The movements in the significant ownership interests in Ercros's share capital can be checked in the CNMV's registry (wwww.cnmv.es).

Between December 31, 2020 and 2021 the number of Ercros shares held by the members of the board has not changed.

Name or corporate name of shareholder	No. of direct shares	No. of indirect shares	Interest in share capital [1] (%)
Joan Casas Galofré	5,500,000	–	5.45
Antonio Zabalza Martí	100,000	–	0.10
Laureano Roldán Aguilar	100	–	0.00

[1] The percentages are calculated over the number of shares at at December 31, 2021.

At December 31, 2021 the total percentage of voting rights held by the board of directors is 5.55%.

e) Credit rating

The Company is not aware of any credit rating for the Group.

10.3. Significant events in the current year

a) Purchase of treasury shares

See chapter 9.

b) Dividends paid

See section 10.1 above.

c) General meeting of shareholders

See chapter 2.

11 / Corporate governance report

The Ercros Group publishes an annual corporate governance report ("ACGR") in compliance with article 540 of the Spanish corporate enterprises act ("CEA"). The ACGR is part of this CMR but is presented as a separate document as allowed by regulations.

It is prepared in accordance with article 540 of the Spanish corporate enterprises act and the model established in Circular 3/2021 of September 28 issued by the Spanish national securities market commission amending Circular 5/2013 of June 12.

The ACGR provides information on the adopted corporate governance practices, including a description of the main characteristics of the risk management and internal control systems in place in connection with the financial reporting issuance process.

The ACGR of the Ercros Group for the year ended December 31, 2021 is available on Ercros's (www.ercros.es) and CNMV's (www.cnmv.es) websites.

12 / Non-financial information statement

The Ercros Group publishes a non-financial information statement ("NFIS") in compliance with articles 44 of the Code of commerce and 253 and 262 of the Spanish CEA. The NFIS is part of this CMR but is presented as a separate document as allowed by regulations.

The structure and content of the NFIS is in accordance with article 49 of the Code of Commerce, which has been modified by Law 11/2018 of December 28.

The NFIS is presented as part of the corporate social responsibility report ("CSRR"), which also explains the level of compliance with the 183 indicators in the guide to the application of the CSR in the chemical and life sciences industry, promoted by the Spanish Chemical Industry Federation ("Feique") in collaboration with Forética, which in turn sets out the indicators required for the certification of an ethic and socially responsible management system according to SGE 21:2008 standard.

Pursuant to article 49 of the Code of commerce, the NFIS has been verified by the company Bureau Veritas.

Based on Regulation 2020/852 regarding the establishment of a framework to facilitate sustainable investment, the EU Taxonomy for sustainable economic activities applies to all participants in financial markets offering financial products and undertakings subject to mandatory publication of non-financial statements or consolidated non-financial statements pursuant to article 19 bis or 29 bis of Directive 2013/34/EU of the European Parliament and of the Council, respectively. Articles 19 bis and 29 bis indicate that they are applicable to large undertakings that are public-interest entities that, at the balance sheet date, have an average headcount of more than 500 employees during the year.

The Company's level of alignment with the EU taxonomy is used in the preparation of the IEAF ESG Rating (environmental pillar score).

Activity	Income (%)	Operating expenses (%)	Investments (%)
Eligible			
Chlorine derivatives	64.2	64.4	53.8
Intermediate chemicals	29.7	28.8	10.0
Total eligible	**93.9**	**93.2**	**63.7**
Not eligible			
Pharmaceuticals	6.1	6.8	36.2
Total not eligible	**6.1**	**6.8**	**36.2**
Total Group	**100.0**	**100.0**	**100.0**

The activities of the chlorine derivatives and intermediate chemicals divisions are listed in CNAE C2013, C2014 and C2016. The activity of the pharmaceuticals division is classified in CNAE C2110.

The NFIS of the Ercros Group for the year ended December 31, 2021 is available on Ercros's (www.ercros.es) and CNMV's (www.cnmv.es) websites.

13

CONSOLIDATED FINANCIAL STATEMENTS OF THE ERCROS GROUP

Consolidated annual accounts for the year ended December 31, 2021.

13.1 / Consolidated statement of financial position

EUR THOUSAND

Assets	12/31/2021	12/31/2020
Non-current assets	**408,176**	**399,202**
Property, plant and equipment	324,517	311,291
Investment property	19,400	19,866
Intangible assets	11,598	7,162
Right-of-use assets	6,117	8,903
Investments accounted for usingthe equity method	6,410	6,403
Financial assets	4,476	6,667
Deferred tax assets	35,658	38,910
Current assets	**301,780**	**191,017**
Inventories	122,696	82,278
Trade and other receivables	99,232	56,070
Cash flow hedging derivative at fair value through other comprehensive income	14,610	–
Other current assets	9,339	11,968
Current income tax assets	4,330	770
Cash and cash equivalents	51,573	39,931
Total assets	**709,956**	**590,219**

EUR THOUSAND

Equity and liabilities	12/31/2021	12/31/2020
Equity attributable to owners of the controlling entity	**331,613**	**284,215**
Total liabilities	**378,343**	**306,004**
Non-current liabilities	**146,057**	**142,189**
Loans	92,793	93,553
Lease payables	2,608	3,730
Deferred tax liabilities	26,766	23,197
Provisions for environmental remediation	10,041	9,180
Other provisions	662	520
Commitments to active staff	2,190	2,088
Accrued income and grants	10,997	9,921
Current liabilities	**232,286**	**163,815**
Loans	5,739	22,314
Current portion of non-current loans	15,244	6,398
Lease payables	3,618	5,415
Trade payables	169,905	102,447
Provisions for environmental remediation	4,357	3,061
Other provisions	12,556	7,856
Other liabilities	20,867	16,324
Total equity and liabilities	**709,956**	**590,219**

13.2 / Consolidated profit/(loss) for the year

EUR THOUSAND

	Year 2021	Year 2020
Income	**852,124**	**585,320**
Sale of finished products	772,317	547,236
Rendering of services	27,738	21,561
Other income	23,340	12,746
Reversal of provisions and other non-recurring income	6,569	3,777
Increase in inventory of finished products and work in progress	22,160	–
Expenses	**-766,444**	**-535,719**
Consumption of raw material and secondary materials	-400,012	-267,946
Decrease in inventory of finished products and work in progress	–	-8,202
Utilities	-154,993	-72,194
Transportation services	-43,835	-34,482
Employee benefits expense	-86,965	-84,296
Other expenses	-73,684	-63,916
Charge of provisions and other non-recurring expenses	-6,955	-4,683
Gross operating profit (ebitda)	**85,680**	**49,601**
Depreciation and amortization expense	-28,549	-30,329
Impairment of non-current assets	-3,450	-4,335
Operating profit	**53,681**	**14,937**
Finance income	21	381
Financial cost	-5,551	-6,521
Impairment losses on/(reversal of) financial assets (accounts receivable)	1,012	-67
Exchange gains (losses)	1,386	-2,254
Share in the profit of associated companies	607	509
Finance result	**-2,525**	**-7,952**
Profit before tax	**51,156**	**6,985**
Income tax expense	-7,859	-728
Profit for the year	**43,297**	**6,257**
Basic and diluted earnings per share (EUR)	**0.4288**	**0.0610**

13.3 / Consolidated statement of comprehensive income

EUR THOUSAND

	Year 2021	Year 2020
Profit for the year	**43,297**	**6,257**
Other comprehensive income (net of tax effect)	**10,957**	**–**
Items that will subsequently be reclassified to profit for the year	10,957	–
Total comprehensive income attributable to owners of the controlling entity	**54,254**	**6,257**

13.4 / Consolidated statement of changes in equity

EUR THOUSAND

	Share capital	Other reserves	Treasury shares acquired	Profit for the year	Valuation adjustments	Equity
Balance at 12/31/19	**31,475**	**229,565**	**–**	**31,043**	**–**	**292,083**
Transfer of 2019 retained earnings	–	25,994	–	-25,994	–	–
Dividends	–	–	–	-5,049	–	-5,049
2020 comprehensive income	–	–	–	6,257	–	6,257
Transactions with shareholders and owners:						
Meeting attendance bonus	–	-341	–	–	–	-341
Purchase of treasury shares	–	–	-8,735	–	–	-8,735
Redemption of treasury shares	-1,183	-7,552	8,735	–	–	–
Balance at 12/31/20	**30,292**	**247,666**	**–**	**6,257**	**–**	**284,215**
Transfer of 2020 retained earnings	–	6,257	–	-6,257	–	–
2021 comprehensive income	–	–	–	43,297	10,957	54,254
Transactions with shareholders and owners:						
Meeting attendance bonus	–	-334	–	–	–	-334
Purchase of treasury shares	–	–	-6,522	–	–	-6,522
Balance at 12/31/2021	**30,292**	**253,589**	**-6,522**	**43,297**	**10,957**	**331,613**

13.5 / Consolidated cash flow statement

EUR THOUSAND

	Year 2021	Year 2020
A) Cash flows from operating activities	**60,324**	**74,591**
Customer collections	836,331	641,646
Proceeds from the net variation in the non-recourse tranche of the factoring facility	14,487	25,390
Payments to suppliers	-702,958	-513,501
Proceeds from VAT returns	6,107	7,251
Payments to and on account of ordinary employees	-86,645	-84,384
Payments to and on account of retired employees on the payroll and collective dismissal	-508	-857
Payments against provisions for environmental remediation	-3,820	-5,136
Payments against other provisions	-75	-320
Other operating proceeds/payments	848	750
Grants received related to indirect CO_2 emissions	7,140	2,295
Other grants received	3,514	1,642
Interest paid	-3,798	-5,545
Interest received	9	368
Payments on / proceeds from net exchange gains (losses)	840	-1,420
Dividends received	600	840
Proceeds from prior years' income tax refund	–	10,438
Payment on account of the income tax for the year	-8,029	-1,079
Payments of local and other taxes	-3,719	-3,787
B) Cash flows from investing activities	**-34,238**	**-34,008**
Purchase of property, plant, and equipment:		
Investments in capacity extension	-12,901	-11,134
Other investments	-21,337	-22,971
Disposal of investment property	–	97
Free cash flows (A+B)	**26,086**	**40,583**
C) Shareholder remuneration	**-6,856**	**-14,125**
Purchase of treasury shares	-6,522	-8,735
Payment of meeting attendance bonus	-334	-341
Dividends paid	–	-5,049
D) Cash flows from financing activities	**-7,823**	**-47,149**
Amounts drawn down on non-current loans	13,165	5,909
Repayment and redemption of non-current loans	-7,528	-16,957
Net variation of current revolving lines	-14,600	-36,468
New finance lease arrangements	3,558	3,269
Finance lease payables	-6,477	-7,502
Cancellation of deposits	4,166	4,768
Constitution of deposits	-107	-168
E) Net increase/decrease in cash and cash equivalents (A+B+C+D)	**11,407**	**-20,691**
Cash and cash equivalents at the beginning of the period	39,931	61,117
Effect of foreign exchange rate	235	-495
Cash and cash equivalents at the end of the period	51,573	39,931

14

HISTORICAL DATA SERIES

14.1 / Consolidated statement of financial position

EUR THOUSAND

Assets	12/31/21	12/31/20	12/31/19	12/31/18[1]	12/31/17[1]	12/31/16
Non-current assets	**408,176**	**399,202**	**405,035**	**387,735**	**373,239**	**305,620**
Property, plant and equipment	324,517	311,291	296,937	281,689	269,388	249,231
Other non-current assets	83,659	87,911	108,098	106,046	103,851	56,389
Current assets	**301,780**	**191,017**	**251,380**	**237,657**	**248,727**	**254,561**
Inventories	122,696	82,278	82,244	97,675	79,739	72,009
Trade accounts receivable	99,232	56,070	86,595	98,656	123,040	102,135
Other current assets and cash	79,852	52,669	82,541	41,326	45,948	80,417
Total assets	**709,956**	**590,219**	**656,415**	**625,392**	**621,966**	**560,181**

Equity and liabilities						
Equity	**331,613**	**284,215**	**292,083**	**272,256**	**247,361**	**219,826**
Non-current liabilities	**146,057**	**142,189**	**120,937**	**112,191**	**124,149**	**124,298**
Long term loans	92,793	93,553	65,984	48,393	46,258	58,811
Long-term provisions	12,893	11,788	13,261	17,150	28,102	35,080
Deferred tax liabilities and other non-current liabilities	40,371	36,848	41,692	46,648	49,789	30,407
Current liabilities	**232,286**	**163,815**	**243,395**	**240,945**	**250,456**	**216,057**
Short term loans	20,983	28,712	103,173	83,837	79,620	89,341
Trade accounts payable and other accounts payable	169,905	102,447	101,226	107,655	118,654	106,855
Provisions and other current liabilities	41,398	32,656	38,996	49,453	52,182	19,861
Equity and total liabilities	**709,956**	**590,219**	**656,415**	**625,392**	**621,966**	**560,181**

[1] Some amounts do not correspond to those reflected in the Annual Accounts for the years 2018 and 2017 as they have been restated due to the application of IFRS 16 for the first time in 2019.

14.2 / Consolidated profit (loss) for the year

EUR THOUSAND

	Year 2021	Year 2020	Year 2019	Year 2018 [1]	Year 2017 [1]	Year 2016
Income	**829,964**	**585,320**	**689,073**	**684,802**	**694,037**	**619,589**
Turnover	800,055	568,797	669,782	671,940	681,470	602,543
Other operating income and changes in inventories	29,909	16,523	19,291	12,862	12,567	17,046
Expenses	**-744,284**	**-535,719**	**-628,169**	**-613,690**	**-619,726**	**-561,159**
Supplies	-400,012	-267,946	-343,573	-341,780	-316,581	-270,215
Staff	-86,965	-84,296	-83,127	-79,870	-83,387	-81,822
Other operating expenses	-257,307	-183,477	-201,469	-192,040	-219,758	-209,122
Ebitda	**85,680**	**49,601**	**60,904**	**71,112**	**74,311**	**58,430**
Amortization	-28,549	-30,329	-26,576	-26,365	-18,252	-19,371
Profit/loss due to impairment of assets	-3,450	-4,335	-5,615	—	—	11,990
Mercury technology abandonment costs	—	—	—	—	-21,732	—
Ebit	**53,681**	**14,937**	**28,713**	**44,747**	**34,327**	**51,049**
Financial result	-2,525	-7,952	-6,088	-7,029	-5,644	-5,727
Earnings before taxes	**51,156**	**6,985**	**22,625**	**37,718**	**28,683**	**45,322**
Income taxes and non-controlling interests	-7,859	-728	8,418	6,876	15,899	-157
Profit of the year	**43,297**	**6,257**	**31,043**	**44,594**	**44,492**	**45,165**

[1] Some amounts do not correspond to those reflected in the Annual Accounts for the years 2018 and 2017 as they have been restated due to the application of IFRS 16 for the first time in 2019.

Corporation

Headquarter
Av. Diagonal, 593-595
08014 Barcelona – SPAIN
E-mail: ercros@ercros.es
Tel.: +34 934 393 009

Shareholders office
Av. Diagonal, 593-595
08014 Barcelona – SPAIN
E-mail: accionistas@ercros.es
Tel.: +34 934 393 009

Chlorine derivatives division

Headquarter
Av. Diagonal, 593-595
08014 Barcelona – SPAIN
E-mail: derivadosdelcloro@ercros.es
Tel.: +34 609 880 630 and +34 934 393 009

Basic chemicals
E-mail: quimicabasica@ercros.es
Tel.: +34 609 880 630 and +34 934 446 651

Customer service centre ("CSC")
E-mail: cac@ercros.es
East zone:
Tel.: +34 902 518 100 and +34 934 446 682
West zone:
Tel.: +34 902 518 400
Export:
Tel.: +34 934 445 337 and +34 934 446 675

Sales office in France
E-mail: ercrosfrance@ercros.fr
Tel.: +33 140 267 480

Plastics
E-mail: plasticos@ercros.es
Tel.: +34 609 880 630 and +34 933 230 554

Customer service centre ("CSC")
E-mail: cac@ercros.es
Tel.: +34 934 446 687

Water treatment
E-mail: tratamientoaguas@ercros.es
Tel.: +34 609 880 630 and +34 934 532 179

Customer service centre ("CSC")
E-mail: cac@ercros.es
Tel.: +34 934 532 179

Production facilities

Flix factory
C/Afores, s/n
43750 Flix (Tarragona) – SPAIN
E-mail: flix@ercros.es
Tel.: +34 977 410 125

Monzón factory
Carretera Nacional 240, Km 147
22400 Monzón (Huesca) – SPAIN
E-mail: monzon@ercros.es
Tel.: +34 974 400 850

Sabiñánigo factory
C/Serrablo, 102
22600 Sabiñánigo (Huesca) – SPAIN
E-mail: sabinanigo@ercros.es
Tel.: +34 974 498 000

Tarragona Industrial Complex

Tarragona factory
Polígon industrial La Canonja
Carretera de València, s/n
43110 La Canonja (Tarragona) – SPAIN
E-mail: complejotarragona@ercros.es
Tel.: +34 977 548 011

Vila-seca I factory
Autovia Tarragona-Salou C-31 B, Km 6
43480 Vila-seca (Tarragona) – SPAIN
E-mail: complejotarragona@ercros.es
Tel.: +34 977 370 354

Vila-seca II factory
Carretera de la Pineda, Km 1
43480 Vila-seca (Tarragona) – SPAIN
E-mail: complejotarragona@ercros.es
Tel.: +34 977 390 611

Intermediate chemicals division

Headquarter
Av. Diagonal, 593-595
08014 Barcelona – SPAIN
E-mail: quimicaintermedia@ercros.es
Tel.: +34 609 880 630 and +34 934 393 009

Customer service centre ("CSC")
E-mail: cac@ercros.es
Tel.: +34 933 069 320/19/25
and +34 934 445 336

Sales office in China
E-mail: ercros@netvigator.com
Tel.: +85 231 494 521

Innovation and technology department
Polígon industrial Baix Ebre, carrer A
43897 Tortosa (Tarragona) – SPAIN
E-mail: quimicaintermediait@ercros.es
Tel.: +34 977 597 207

Production facilities

Almussafes factory
Polígon industrial Nord
C/ Venta de Ferrer, 1
46440 Almussafes (Valencia) – SPAIN
E-mail: almussafes@ercros.es
Tel.: +34 961 782 250

Cerdanyola factory
C/ Santa Anna, 105
08290 Cerdanyola del Vallès
(Barcelona) – Spain
E-mail: cerdanyola@ercros.es
Tel.: +34 935 803 353

Tortosa factory
Polígon industrial Baix Ebre, carrer A
43897 Tortosa (Tarragona) – SPAIN
E-mail: tortosa@ercros.es
Tel.: +34 977 454 022

Pharmaceuticals division

Headquarter and Aranjuez factory
Paseo del Deleite, s/n
28300 Aranjuez (Madrid) – SPAIN
E-mail: aranjuez@ercros.es
Tel.: +34 918 090 340

Commercial department
E-mail: farmaciacomercial@ercros.es
Tel.: +34 918 090 344

This annual report was published
in Barcelona in April 2022.

Coordination and editing: Ercros

Design: Maestra vida s.l.

For further information:
Ercros
Av. Diagonal, 593-595
08014 Barcelona - SPAIN
Tel: +34 609 880 630 and 934 393 009
E-mail: ercros@ercros.es
www.ercros.es