ANNUAL REPORT

2020

Ercros

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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 19 February 2021, following a favourable report from the audit committee meeting on the same day.

Ercros

Contents

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

1 Letter from the Chairman

Dear Shareholders,

When 2020 got under way, there was no indication of the huge impact that the covid-19 pandemic was going to have on the economies of many countries. In fact, the competent authorities dismissed the idea that the pandemic that began in China would reach our country. The lack of preparation and anticipation had a great impact on the population as the virus spread quickly, leading to lockdowns and causing serious disruption to economic activity and employment. Today, one year after the onset of the pandemic, we are suffering the third wave of infections, but we trust that the vaccination process can be completed in 2021 and the economy will gradually improve.

The cost of the pandemic has been high. Spanish GDP closed 2020 with a historic fall of 11%, compared with a 7% fall in the Eurozone. Countries close to Spain, such as France and Italy, which are destination markets for our products, have suffered GDP declines greater than 8%.

Despite continuing to operate all its plants normally as it is an essential services provider, Ercros has also been affected by the pandemic. The volumes sold have fallen 8% on 2019, which, along with lower sales prices of caustic soda and chlorine derivatives, among other items, has led to a 14.3% fall in product sales.

The lower sales have been partially offset by an increase in the contribution margin thanks to the fall in variable costs of both raw materials and supplies. However, this has not prevented ebitda dropping to EUR 49,601 thousand, 18.6% lower than 2019.

The pandemic has had other effects, such as the depreciation of investment property, on the one hand, and the devaluation of the dollar, which has led to negative exchange differences, on the other.

As a result, the profit for the year has fallen to EUR 6,257 thousand, which entails a profit per share lower than the minimum 10 euro cents required by the shareholder remuneration policy. Therefore, despite having met the other two requirements —net financial debt/ebitda ratio (1.68) lower than 2.0 and net financial debt/total equity ratio (0.30) lower than 0.5— and in accordance with the criteria established in the shareholder remuneration policy, it is not possible to remunerate shareholders charged to 2020 profit. This circumstance, a direct result of the negative impact of covid-19, is exceptional. It should not call into question the positive effects of the shareholder remuneration policy or Ercros' commitment to remunerating shareholders again. In the 2016-2020 period, Ercros has paid EUR 60.4 million to shareholders, of which 21.2 million is represented by dividends and 39.2 million refers to share repurchases. Moreover, in its meeting of 19 February, Ercros' board of directors stated that it was impossible to remunerate shareholders charged to 2020 profit but also agreed to resume the repurchase of shares (from 1 March, under the fifth repurchase program, still in force) for their cancellation as part of the shareholder remuneration charged to 2021 profit.

As well as the commitment to its shareholders, Ercros is a company firmly committed to ESG ("Environmental, Social and Governance"), as shown by the rating granted to Ercros by Ecovadis, which classifies it as a Platinum company, with a score of 81 out of 100. This rating places us among the top 1% of the best rated companies. We have also contributed to the achievement of the UN's 17 Sustainable Development Goals ("SDGs") for people, the planet and prosperity.

In its strategic plan, in 2021, Ercros has implemented its 3D plan to follow the successful ACT Plan, which was in force from 2016 to 2020 and broadly met its targets. The strategy defined by the 3D Plan is to transform Ercros into a sustainable company in the long term. Sustainable due to the diversification of its production structure, which will allow it to dampen the cyclical volatility inherent to the chemical sector. Sustainable due to the digital transformation and automation of its processes, which will make it more competitive. And sustainable due to the alignment of its environmental performance with the official European and Spanish requirements to slow down climate change.

The 3D Plan contains 20 projects that will entail a cumulative investment across the 2021-2029 period of EUR 92 million and an additional cumulative ebitda of EUR 194 million, to be funded with internally generated funds. Any European public funding and other sources of finance secured will accelerate the execution of the plan. The premise is that this execution should not jeopardize the financial solvency of the company (the maximum annual capex, net of aid, is set at EUR 30 million) or shareholder remuneration.

The uncertainty caused by covid-19 remains rife and this makes it difficult to give a reliable forecast of the evolution of the chemical business in general and Ercros' results in particular for 2021.

Despite this, we believe the recovery noted in the fourth quarter of 2020 will be maintained in the first quarter of 2021 and potentially also in the rest of the year, due to: (i) the gradual increase in demand associated with the economic recovery; and (ii) the extension of the boom in PVC due to the increase in public works and construction aid under the protection of European funds.

Furthermore, the disruption to operations in several chlorine and caustic soda production plants on the Gulf Coast of the United States, as a result of the intense cold snap in this area in mid-February, could consolidate this forecast if one of its consequences is a lack of caustic soda in the market. If this forecast proves correct, the prolonged downward path of the price of caustic soda that began in mid-2018 could end soon, thereby bringing forward the start of the recovery of this product, which was not expected until the second half of 2021. Sodium chlorite and TCCA will be immune to market pressures and will continue to display a good price level throughout 2021.

We are also optimistic about the evolution of the intermediate chemicals division, which is expected to consolidate the recovery it displayed in the last quarter of 2020. As for the pharmacy division, we trust in the recovery of the fusidic acid market as the pandemic gradually abates and healthcare returns to normal in treating diseases other than covid-19 as a result of the vaccination process.

Antonio Zabalza Martí
Chairman and CEO of Ercros

Barcelona, 19 February 2021

2.1. Organizational structure

The governing bodies of Ercros, S.A. (hereinafter the 'Company' or 'Ercros') are the general meeting of shareholders and the board of directors and, within this: the audit committee, the appointments and remuneration committee and the new strategy and investments committee. The operating management bodies are the executive committee and the management committee.

a) General meeting of shareholders

On June 5, 2020 the Company held its first virtual general meeting of shareholders due to the restrictions imposed by the authorities within the framework of the state of emergency declared as a result of the covid-19 pandemic. The shareholders meeting approved, among other matters, the re-election of Antonio Zabalza Martí as Ercros's executive director.

At that meeting all proposed agreements submitted by the board of directors were approved. Its agenda included, in addition to the mandatory or usual proposals —approval of the financial statements, re-election of the external auditor, advisory vote on the report on the remuneration of the directors, and delegation to the board of directors and the secretary for executing the agreements—, the following proposals:

- The approval of the non-financial information statement pursuant to Law 11/2018 of December 28. The non-financial information statement extends the corporate social responsibility report that Ercros included as an informative point in the agenda of the shareholders meeting's and that was not put to the vote [see chapter 12].

- A payment of dividends amounting to EUR 5,246 thousand, equal to EUR 0.05 gross per share, which means a payout of 16.9% of the Ercros Group's 2019 consolidated profit [see chapter 9].

- A capital decrease amounting to EUR 1,183,375.20, through the redemption of the 3,945 thousand treasury shares that the Company held, which represent 3.8% of share capital, and which were acquired in the framework of the fifth treasury share repurchase program, with an acquisition cost of EUR 8,735 thousand, which accounts for a payout equal to 28% of the consolidated profit obtained in 2019 [see chapter 10].

- To establish the number of members of the board of directors at 6 and to re-elect Antonio Zabalza Martí as executive director, Lourdes Vega Fernández as independent director, and Laureano Roldán Aguilar and Eduardo Sánchez Morrondo as external directors; and to appoint the significant shareholder Joan Casas Galofré as proprietary director.

In attendance at the meeting were 6,420 shareholders of 73,042 thousand shares, representing 69.620% of the subscribed voting capital, of which 21.676% was present and the remaining 47.944% 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 5, 2020 the shareholders approved the proposed re-election for a new term, for the maximum legal period (currently four years), maintaining their current category, of the following directors, as the terms for which they had been appointed were about to expire: Antonio Zabalza Martí, executive director; Lourdes Vega Fernández, independent director; and Laureano Roldán Aguilar and Eduardo Sánchez Morrondo, external directors. Additionally, the shareholders meeting approved the appointment of Joan Casas Galofré, as a proprietary director.

The board of directors meeting, held also on June 5 after the general meeting of shareholders, approved the re-election of Mr. Zabalza Martí as president and CEO of Ercros; Ms. Carme Moragues Josa as coordinating director; and Ms. Fernández Vega as acting coordinating director.

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

- Chairman and executive director: Mr. Zabalza Martí.

- Independent directors: Mses. Moragues Josa (coordinator) and Vega Fernández (acting coordinator).

- Board of directors members classified as "other external board members": Messrs. Roldán Aguilar and Sánchez Morrondo.

- Proprietary director: Mr. Casas Galofré.

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

On June 5, the board of directors also appointed the members of the management and control committees created and resolved to create a new strategy and investments committee.

In 2020 the board of directors has held 12 sessions that were attended by all the directors. Four of the meetings were held via conference call, one on-site, five by videoconference and two in writing without the members attending personally.

At the meeting held on December 18, 2020, the board of directors evaluated the quality and efficiency of the functioning of the board, the audit committee and the appointments and remuneration committee, as well as the performance of the Company's CEO and board members. In the last meeting of the year, held on December 28, the board of directors resolved to review the rules of the board of directors, the audit committee, the appointments and remuneration committee, and the internal code of conduct in the securities market and policies on economic, financial and corporate information communication and contact with shareholders and stockbrokers, and corporate social responsibility.

Subsequent to year end, on January 22, 2021, the board of directors approved Ercros's new investment plan called 3D Plan (2021-2025), which is based on three pillars: Diversification, Digitalisation and Decarbonisation, and approved the duties and new name of the appointments and remuneration committee, which is now called appointments, remuneration, sustainability and corporate social responsibility committee.

(i) Audit committee

The composition of the Audit committee, after the changes made over 2020, is as follows:

– Chairwoman: Ms. Vega Fernández, independent director.

– Board of directors members: Ms. Moragues Josa, independent director, and Mr. Roldán Aguilar, a director belonging to the "other external directors" category.

On December 1 Mr. Ripley Soria, who is also the secretary to the board of directors of Ercros, was appointed the new secretary to the said committee, replacing Mr. Josep Rovira Pujals, the administration director of Ercros.

Over 2020 the audit committee held five meetings that were attended by all its members. One of them was held via conference call, three by videoconference and one on-site.

On December 28, 2020 the audit committee rules were approved in accordance with the code of good governance ("CGG") recommendations approved in June 2020 by the Spanish National Securities Market Commission ("CNMV" by its acronym in Spanish).

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

(ii) Appointments and remuneration committee

The composition of the appointments and remuneration committee, after the changes made over 2020, is as follows:

– Chairwoman: Ms. Moragues Josa, independent director.

– Board of directors members: Ms. Vega Fernández, independent director, and Mr. Sánchez Morrondo, a director belonging to the "other external directors" category.

On December 1 Mr. Ripley Soria, who is also the secretary to the board of directors of Ercros, was appointed the new secretary to the said committee, replacing Mr. Joaquín Sanmartín Muñiz, the human resources director of Ercros.

In 2020 the committee held four meetings that were attended by all its members. Three of them were held by videoconference and one on-site.

On December 28, 2020 the appointments and remuneration committee rules were approved in accordance with the code of good governance ("CGG") recommendations approved in June 2020 by the Spanish National Securities Market Commission ("CNMV" by its acronym in Spanish).

In accordance with subsection b) above, on January 22, 2021 the board of directors approved the duties and new name of the committee, which became the appointments, remuneration, sustainability and corporate social responsibility committee.

(iii) Strategy and investments committee

On June 5, 2020, the board of directors resolved to create a new strategy and investments committee with the following composition:

– Chairman: Mr. Zabalza Martí, executive director.

– Board of directors members: Ms. Moragues Josa, independent director, and Mr. Casas Galofré, proprietary director.

On June 5 Daniel Ripley Soria, who is also the secretary to the board of directors of Ercros, was appointed the new secretary to the said committee.

During 2020 this committee held 9 meetings, all of them by videoconference, that were attended by all its members.

Composition of the board of directors at 12-31-20

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 –Appointments and remuneration –Strategy and investments	03/21/17 [1]
Lourdes Vega Fernández	Proxy coordinating director	Independent	–Audit –Appointments and remuneration	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	–Appointments and remuneration	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 ordinary meeting held on June 23, 2017 the shareholders ratified the appointment by co-option of the director Ms. Moragues Josa.

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. This body replaces the former Ecofin 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 advice and R&D.

In 2020 the directors of legal advice, comprehensive logistics and R&D have jointed this committee. The management committee has held 11 meetings.

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 ("API").

At December 31, 2020, 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.

Centres and products

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

2.3. Operation

a) Mission and principles

The general purpose of the Ercros Group is to consolidate 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.
- 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) Industrial upgrade plan and extension of production capacity

In 2020 the Group has completed the upgrade and extension of its facilities in accordance with ACT Plan.

ACT Plan was initially designed to deal with the technological change derived from the EU prohibition to produce chlorine using mercury-based technology. It was subsequently extended and measures were adopted to upgrade and improve the energy efficiency of the Group's industrial park and to increase the manufacturing capacity of the most in-demand and best-selling products.

Once the said plan has been successfully completed, in January 2021 the Group started 3D Plan, which is based on three pillars: Diversification, Digitalisation and Decarbonisation.

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 fixed relation of 1 ton of chlorine per 1.12 tons of caustic soda. This assembly is known as the electrolytic unit ("ECU').

The margin of the ECU is determined by the portion of income, the selling price of caustic soda, chlorine and chlorine derivatives and by the portion of the cost, by the price of electricity, which accounts for about 45% of the production costs of the ECU and raw materials used in the production of chlorine, caustic soda and chlorine derivatives.

In 2020 approximately 60% of the chlorine produced by the Group has been used in the production of chlorine derivative products (sodium hypochlorite, hydrochloric acid, TCCA and the EDC/VCM/PVC chain) and the rest is piped to a customer. The agreement with this customer has been extended until the end of 2022. Should the supply of chlorine with this customer no longer continue beyond 2023, the Group would reorganize the distribution of available chlorine in order to manufacture larger amounts of own EDC for the EDC/VCM/PVC production chain.

The Group's profitability shows high sensitivity to the price of caustic soda, which usually has a cyclic nature because of the alternation of high demand and low supply periods, and therefore, high prices, with excess supply and low demand periods, and therefore, low prices. The supply of caustic soda, as it is a co-product of chlorine, is influenced by the demand for the main chlorine derivatives (PVC, MDI, etc.), which determine the amount of chlorine and caustic soda to be produced.

In 2021 the chlorine derivatives division faces the challenge of replacing the membrane technology of its older units with more energy-efficient equipment, and optimizing the extension of the capacity of the electrolysis plants, increasing the volume of sales of own caustic soda (whose margin is higher than marketed caustic soda) and of chlorine derivatives; all this, within a context of larger supply in the market and weakness of the main demanders as a result of the covid-19 pandemic. Another short-term goal is the launch of the 3D Plan projects, which most notably include the extension of the sodium chlorite plant in Sabiñánigo. In the medium term, the challenge of the division is to manage the end of the chlorine customer contract without it affecting business profitability. And in the long term, the challenge is to assume the costs derived from the industry decarbonisation goals and to increase the weight of higher added value products and expanding markets, all of which is included in 3D Plan.

Formaldehyde is the key product of the intermediate chemicals division, and methanol its main raw material. This consumable accounts for around 30% of the division's variable expenses. The Group has agreements of different duration with several suppliers of this raw material.

92% of formaldehyde produced by the Group is used in the manufacture of liquid as well as solid derivatives. These (paraformaldehyde, polyol, moulding compounds), which account for 70% of the business's revenue, have greater added value than the liquids and its market is global.

The challenge of this business, for 2021, 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 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 digitalisation process of the entire value chain, keeping its commitment to gradual decarbonisation of the processes to 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 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 principles for third parties, specially tailored for the customers. The key value of this business is its command of fermentation processes and its capacity to obtain sterile injectable products, and also its degree of internalization and the good position as a reliable quality supplier for the world's largest laboratories. 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 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. In the medium and long terms, in addition to extending the product portfolio as mentioned above, the strategy is to meet the quality demands from customers and regulatory agencies, and face competition from China and India.

3.1. Analysis of the business evolution and results

a) Production

2020 has been marked by the covid-19 pandemic, which hit Spain hard by the end of the first quarter and caused all non-essential activities to shut down for some time to control the spread of the virus. Subsequently, the pandemic has forced governments in Spain and worldwide to impose temporary restrictions on movements and in certain sectors, such as retail, hospitality and entertainment, among others.

Since the very outbreak of the covid-19 pandemic, the Group had to face the industrial risk derived from the possible partial shutdown of its activities due to the impact that the unprecedented circumstances, as a consequence of the state of emergency and the covid-19, may have on its activity and among its employees. To mitigate this risk, Ercros created a covid-19 corporate monitoring committee (CMC-19) and monitoring committees in all its centres that, in close cooperation with the employees' representatives, have continuously monitored the evolution of the pandemic.

Anticipation and continuous monitoring have allowed the Group to (i) implement preventive, organizational and control measures adapted to each production centre in accordance with the recommendations and orders from the corresponding administrative authorities in charge; (ii) prevent and, if not possible, reduce the spread of the virus among its employees; and (iii) ensure that activity continues. Thanks to these measures, during 2020 the Group, as an essential services chemical company, has continued its activity as normal, without production being affected by lack of staff.

In 2020 the appropriate operation of the extensions in production capacity carried out within the framework of ACT Plan has resulted in an increase in the production of chlorine in the electrolysis plants (8% higher than in 2019). However, the major pluriannual repair scheduled in the VCM plant and, especially, the negative effects of the pandemic, have generated a slightly lower volume of end products (own products plus marketed ones) than in the prior year.

The greater availability of chlorine has allowed the Group to increase the production volume of certain chlorine derivatives, such as TCCA and EDC. These larger amounts of own EDC have allowed us to reduce very significantly the purchases of this product, which is the chlorine derivative that the Group must buy to meet its chlorine needs as long as it continues to pipe chlorine to its main customer.

The production of TCCA and chlorite has continued to show an upward trend. This has not been the case, however, for the production of PVC, which has been affected, as mentioned above, by the major pluriannual repair scheduled for the current year in the VCM plant.

The intermediate chemicals division, which was hit hard by the general drop in the demand for its products during the second quarter because of the pandemic, has managed to register just a slight decrease in the production volume (4%) in comparison with the prior year as a result of a quick and sustained recovery in the second half of the year.

Unlike the other Group divisions, the production volume of the pharmaceuticals division has increased by 13%, in most of product families in general, since its customers have been less affected by the covid-19 pandemic in comparison with other sectors that use Ercros's products.

b) Income

The negative effects of the covid-19 pandemic have had an impact on global economic activity and hence Ercros. The Group's revenue from the sale of products amounted to EUR 547,236 thousand, that is, 14.3% lower than in the prior year, when it amounted to EUR 638,737 thousand. Approximately 8% of this drop is due to the lower volume of products sold, whereas approximately the other 6% is due to cheaper prices of the products sold, influenced by the downward pressure of raw material and energy prices within a context of weak demand.

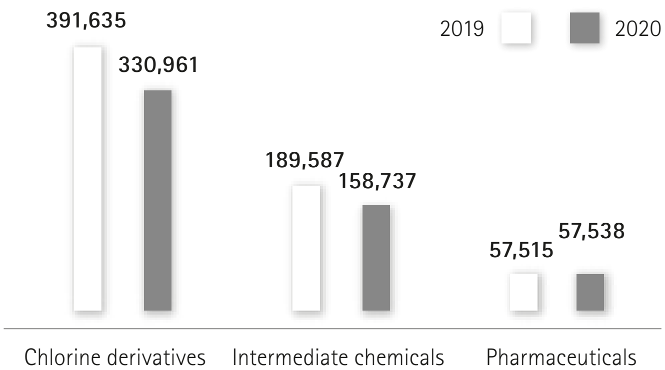
In the case of the chlorine derivative division, revenue decreased by 15.5% to EUR 330,961 thousand (2019: EUR 391,635 thousand). The drop in volume was 8.75% and the rest was due to the decrease in the prices of almost all our products, except for chlorite and hydrogen peroxide.

The intermediate chemicals division's revenue has also decreased (16%). This division's revenue decreased from EUR 189,587 thousand in 2019 to EUR 158,737 thousand in 2020. The volume of products sold in 2020, expressed in tonnes, decreased by 6% compared to 2019, whereas prices dropped by 10% due to, among other reasons, the strong fall in the price of methanol, the main raw material of this division, and the depreciation of the US dollar.

Additionally, the turnover of the pharmaceuticals division has been similar to last year's (EUR 57,538 thousand vs EUR 57,515 thousand). The volume of kilos sold increased by 13% whereas prices decreased in a similar proportion. The start-up of the production capacity extensions carried out in the fermentation, synthesis and sterile products plants has allowed the Group to have a higher volume of products to meet an upward market demand. Also, the depreciation of the US dollar has reduced revenue by EUR 407 thousand in comparison with 2019. The best-performing product family has been fosfomycin.

Sales by division

EUR THOUSAND



In addition to the pharmaceuticals division products, in the chlorine derivatives division, TCCA and hydrogen peroxide were the best-performing products in 2020.

However, the year was not good for the two products that contribute the most to the Group's turnover: PVC, due to the drop in the sales volume, although margins have improved significantly because of the drop in the price of ethylene, and caustic soda, which has decreased in terms of volume and margins.

No customer accounts for more than 10% of the Group's sales individually, although there is one customer that purchases 40% of the chlorine produced by the Group.

In 2020 the Group's turnover was affected by reduction of EUR 9,484 thousand in income from the rendering of services (-30.5% compared to 2019). This decrease is almost entirely due to the fact that in 2020 the Group received no remuneration for the interruptibility service, since no batch was auctioned during the first half of the year because of the lack of profitability and the disappearance of the service in the second half, and to a lesser extent the reduction in the services provided to third parties.

The "Other operating income" caption decreased by EUR 720 thousand. The grants received to compensate for indirect CO_2 emissions compared to 2019 have been reduced and the valuation of direct CO_2 emissions allowances has increased.

The overall result of these items meant a decrease in revenue of EUR 105,297 thousand compared to 2019, from EUR 689,073 thousand in 2019 to EUR 583,776 thousand in 2020.

c) Expenses

Expenses in 2020 amounted to EUR 535,719 thousand and were 14.7% lower than in 2019, when they amounted to EUR 628,169 thousand. Most of the captions composing this section showed a downward evolution, except for slight increase in personnel expenses and other operating expenses.

In 2020, the amount of supplies decreased by 22% compared to 2019 (EUR 267,946 thousands vs EUR 343,573 thousand in 2019), mainly due to the big drop in the average prices of the main raw materials, which in turn contributed to a reduction in the selling prices of end products, as explained in subsection b) above, and also due to fewer purchases of EDC and caustic soda because they have been replaced with own products. The drops in the average price of methanol, which is the basic raw material of the intermediate chemicals division, stand out.

The amount of supplies decreased by 24.9% in comparison with 2019 (EUR 72,194 thousand in 2020 vs EUR 96,171 thousand), mainly due to the drop in the price of electricity and gas.

As a result of this drop in purchases and utilities, larger than the drop in sales, the ratio of consumables and utilities over the Group's sales has significantly decreased, from 68.8% in 2019 to 62.2% in 2020.

Methanol, electricity and ethylene are the most significant raw materials/utilities in the Group's costs. These three utilities account for more than a third of total consolidated purchases, and exceed 40% of the total costs of the manufacturing processes of formaldehyde, chlorine-caustic soda and PVC, respectively.

The expenses chapter also includes personnel expenses, which amounted to EUR 84,296 thousand, that is, a 1.4% increase in comparison with 2019, whereas the average headcount of the Ercros Group has remained stable at 1,297 employees.

Other operating expenses amounted to EUR 98,398 thousand (2019: EUR 97,461 thousand), EUR 937 thousand more. This caption includes, as its main items, maintenance expenses, which increased by 6.7%; transport expenses, which decreased by 1.8% and insurance premiums, which increased by 40% due to higher prices in the insurance market.

The charges to provisions and other non-recurring expenses decreased by EUR 3,154 thousand in comparison with 2019 to EUR 4,683 thousand.

Additionally, the Group has recorded impairment losses again on investment property for an amount of EUR 4,335 thousand due to the reduction in the value resulting from the appraisals made, which in turn has been caused by the deterioration of the economic environment as a result of the pandemic. In 2019 impairment losses of EUR 5,615 thousand have been recorded. Should the value of these assets recover, impairment losses may be reversed in the future.

d) Results

(i) Consolidated results

As already commented, the activity of the Ercros Group in 2020 has been affected by the negative effects of the covid-19 pandemic on global economic activity. The Group has ended 2020 with a profit of EUR 5,757 thousand (-81.5%) and a gross operating profit/(loss) ("ebitda") of EUR 49,601 thousand (-18.6%).

The crisis caused by the covid-19 has impacted the volume of products sold (which has decreased by 8% in comparison with 2019) and the prices of end products. These effects have influenced almost all the Group's product portfolio, except for the pharmaceuticals division.

The evolution of income and expenses between 2019 and 2020 has given rise to ebitda decreasing by 18.6% and amounting to EUR 49,601 thousand (2019: EUR 60,904 thousand). Although ebitda is lower, the fewer amount of sales has caused the margin of ordinary ebitda [1] over sales to increase from 10.1% in 2019 to 10.8% in 2020.

Additionally, depreciation and amortization, amounting to EUR 30,329 thousand, were higher than in 2019 (14.1%) due to the volume of investments included in ACT Plan in the 2016-2020 period.

Considering also the impairment losses, operating profit/(loss) ("ebit") has decreased by 48% in 2020 compared to 2019, from EUR 28,713 thousand to EUR 14,937 thousand.

Finance expenses —amounting to EUR 6,207 thousand— have decreased by 3.4% from EUR 6,428 thousand in the prior year. However, the depreciation of the US dollar against the euro has resulted in exchange losses of EUR 2,254 thousand (EUR 74 thousand in 2019).

In 2020 the Group has recorded an income of EUR 509 thousand (EUR 414 thousand in 2019) from associated companies and an expense of EUR 728 thousand for the aforementioned income tax, whereas in 2019 there was an income tax income amounting to EUR 8,418 thousand, since in 2020 no deferred tax assets related to unused tax loss carry forwards arisen in prior years have been recorded. In 2019 deferred tax assets amounting to EUR 10,000 thousand were recorded for this concept. At December 31, 2020 the Group still has unrecognized deferred tax assets related to unused tax loss carry forwards arisen in prior years amounting to EUR 65,051 thousand (the same amount as at prior year end).

As a result of all this, profit amounting to EUR 6,257 thousand has been obtained, which is 81.5% lower than 2019 profit, when it amounted to EUR 31,043 thousand.

Earnings per share ("EPS") have decreased from EUR 0.292 in 2019 to EUR 0.061 in 2020.

Income statement

EUR THOUSAND

	2020	2019	Change (%)
Income	**585,320**	**689,073**	**-15.1**
Sales of goods	547,236	638,737	-14.3
Rendering of services	21,561	31,045	-30.5
Other operating income	12,746	13,466	-5.3
Reversal of provisions and other non-recurring income	3,777	2,233	69.1
Increase in inventories	–	444	–
Gains/(losses) on disposals of investment properties	–	3,148	–
Expenses	**-535,719**	**-628,169**	**-14.7**
Supplies	-267,946	-343,573	-22.0
Decrease in inventories	-8,202	–	–
Utilities	-72,194	-96,171	-24.9
Employee benefits expense	-84,296	-83,127	1.4
Other operating expenses	-98,398	-97,461	1.0
Charge of provisions and other non-recurring income	-4,683	-7,837	-40.2
Ebitda	**49,601**	**60,904**	**-18.6**
Depreciation and amortization	-30,329	-26,576	14.1
Impairment of non-current assets	-4,335	-5,615	-22.8
Ebit	**14,937**	**28,713**	**-41.8**
Finance costs	-6,207	-6,428	-3.4
Exchange gains (losses)	-2,254	-74	–
Share in the profit of associated companies	509	414	35.0
Profit/(loss) before tax	**6,985**	**22,625**	**-68.6**
Income tax	-728	8,418	-116.0
Profit/(loss) for the year	**6,257**	**31,043**	**-81.5**
Earnings per share (EUR)	**0.0610**	**0.2924**	**-80.8**

[1] Ordinary ebitda is obtained by subtracting non-recurring items from ebitda (EUR 50,507 in 2020 and EUR 63,360 in 2019).

Results by division

EUR THOUSAND

	Chlorine derivatives division			Intermediate chemicals division			Pharmaceuticals division		
	2020	**2019**	**%**	**2020**	**2019**	**%**	**2020**	**2019**	**%**
Income	**360,565**	**435,334**	**-17.2**	**162,707**	**191,427**	**-15.0**	**58,271**	**56,931**	**2.4**
Sales of goods	330,961	391,635	-15.5	158,737	189,587	-16.3	57,538	57,515	0.0
Rendering of services	21,533	31,005	-30.5	28	40	-30.0	—	—	—
Other income	8,071	9,123	-11.5	3,942	3,825	3.1	733	518	41.5
Changes in inventories	—	3,571	—	—	-2,025	—	—	-1,102	—
Expenses	**-333,374**	**-397,390**	**-16.1**	**-148,746**	**-176,719**	**-15.8**	**-48,916**	**-46,223**	**5.8**
Supplies	-154,257	-208,912	-26.2	-93,746	-116,007	-19.2	-19,943	-18,654	6.9
Changes in inventories	-8,917	—	—	2,037	—	—	-1,322	—	—
Utilities	-58,027	-77,912	-25.5	-10,960	-14,405	-23.9	-3,207	-3,854	-16.8
Employee benefits expense	-49,159	-48,786	0.8	-21,455	-21,373	0.4	-13,682	-12,968	5.5
Other expenses	-63,014	-61,780	2.0	-24,622	-24,934	-1.3	-10,762	-10,747	0.1
Ordinary ebitda	**27,191**	**37,944**	**-28.3**	**13,961**	**14,708**	**-5.1**	**9,355**	**10,708**	**-12.6**
Depreciation and amortization	-19,374	-16,169	19.8	-7,487	-7,296	2.6	-3,468	-3,111	11.5
Operating profit	**7,817**	**21,775**	**64.1**	**6,974**	**7,412**	**-12.7**	**5,887**	**7,597**	**-22.5**
Assets	275,383	289,893	-5.0	140,404	146,492	-4.2	56,320	55,773	1.0
Liabilities	76,901	82,372	-6.6	32,566	32,949	-1.2	9,420	9,261	1.7
Investments in non-current assets	28,583	25,250	5.3	1,651	2,835	-41.8	3,036	5,487	-44.7

(ii) Profit/(loss) from the chlorine derivatives division

As explained in the subsections above, 2020 has been market by the drop in the price of caustic soda, and by the recovery of the PVC and TCCA market as from the second half of the year.

The drop in the margins has been mitigated by decreased variable costs, especially electricity and ethylene, the main raw materials in the production of chlorine-caustic soda and PVC, respectively.

In this context, the business's ebitda, which amounted to EUR 27,191 thousand, was reduced by 28.3% in comparison with 2019. Ebitda over sales margin reached 8.2% in front of the 9.7% in 2019, that is, 1.8% below the 10% objective.

After discounting depreciation and amortization, amounting to EUR 19,374 thousand, the business's operating profit/(loss) amounts to EUR 7,817 thousand, 64.1% lower than in 2019.

(iii) Profit/(loss) from the intermediate chemicals division

The intermediate chemicals division, very affected during the first half of the year by the effects of the pandemic, showed a gradual recovery in the volume of sales during the second half.

The drop in income from the sale of products (-16.3%) was fully offset by the drop in variable costs. The ebitda of the business amounted to EUR 13,961 thousand (EUR 14,708 thousand in 2019), which means a 5.1% reduction in comparison with the prior year.

In line with the margin improvement, the ebitda over sales ratio has gone up from 7.8% in 2019 to 8.8% in 2020, which brings it closer to the usual values of this business.

After depreciation and amortization —which have increased by 2.6%— the business's operating profit/(loss) amounts to EUR 6,474 thousand compared to EUR 7,412 thousand in the prior year, a 12.7% drop.

(iv) Profit/(loss) from the pharmaceuticals division

The pharmaceuticals division has managed to maintain the level of sales registered in 2019, by increasing volumes and decreasing selling prices. Fusidic acid has been the only products whose demand has fallen.

The increase in the cost of raw materials could not be offset by the drop in the cost of utilities, which has caused ordinary ebitda to decrease by 12.6% in comparison with 2019 and therefore amounts to EUR 9,355 thousand (EUR 10,708 thousand in 2019).

The ebitda over sales margin has reached 16.3% (2018: 18.6%).

Finally, after subtracting depreciation and amortization amounting to EUR 3,468 thousand, the business's operating profit/(loss) amounted to EUR 5,887 thousand compared to EUR 7,597 thousand in 2019, a decrease of 22.5%.

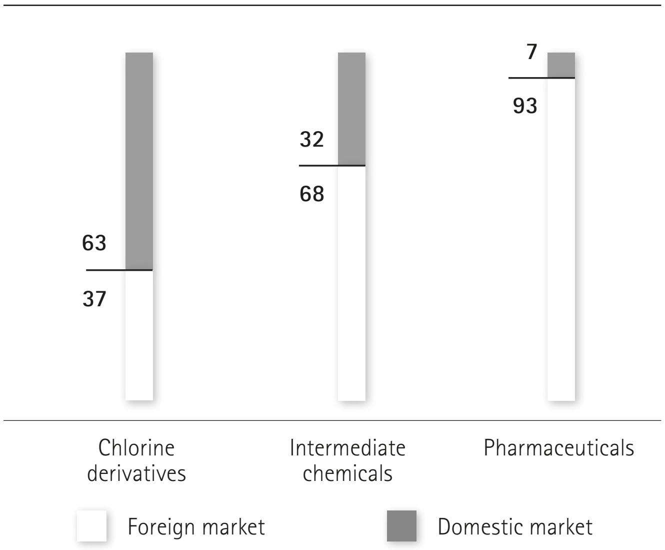
e) Geographical markets

Unlike last year, in 2020 the foreign market shows better performance than the domestic market due to the impact of the pandemic in the entire Spanish economy.

The domestic market accounted for 48% of sales, amounting to EUR 263,340 thousand (EUR 328,319 thousand in 2019). The remaining 52% of sales were made abroad and amounted to EUR 283,897 thousand (2019: EUR 310,418 thousand).

Business markets

% OVER TOTAL SALES OF EACH BUSINESS IN 2020



62.7% of the chlorine derivatives division's turnover was recorded in Spain. In this business, sales to the Spanish market decreased by 19.7% and exports by 7.4%.

In the intermediate chemicals division the reduction in turnover has affected both markets but has hit the domestic market harder, with sales decreasing by 24.3%, than the foreign market (11.9%). This business exports 64.7% of its turnover.

The pharmaceuticals division carries out 92.7% of its sales outside of Spain, increasing by 0.8% in comparison with 2019. Sales in our country have dropped by 8.2%.

The European Union ("EU") is the main destination of the Group's exports and accounts for 29.8% of consolidated sales. Revenue in this area decreased by 10.3% in comparison with 2019. Sales in OECD countries, however, increased significantly by 8.3%. The area that showed poorer performance, for the second year in a row, was the rest of the world, which accounts for 11% of consolidated turnover and saw a decrease in sales of 14.3% between 2019 and 2020.

France, Italy and Portugal, together with the US and Germany, are the main destinations of the Group's exports. In 2020 there has been a notable increase in exports to Turkey.

f) 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 2020 the average exchange rate of the US dollar depreciated against the euro. In the case of the Group's consolidated sales, the average exchange rate increased from 1.118 US dollar/euro in 2019 to 1.142 US dollar/euro in 2020 (a 2% difference). An average exchange rate of 1.230 has been estimated for 2021. Thus, if this forecast finally proves good, the profitability of the Group's products may be reduced, although not significantly.

The fact that the US dollar has depreciated against the euro has a negative effect for the Group as it reduces its competitive position in the products it exports.

In 2020 the sales in US dollars amounted to 104,757 thousand, slightly lower than in 2019 (105,394 thousand). The sales in this currency accounted for 16.8% of total consolidated sales (14.8% in the prior year).

The purchases in US dollars decreased from 48,978 thousand in 2019 to 42,170 thousand in 2020. This 13.9% reduction is due to fewer purchases of external EDC (replaced by domestic product).

However, purchases of raw materials in the pharmaceuticals division have increased. In 2020, purchases in US dollars accounted for 10.9% of total consumables and utilities paid for by the Group (9.9% in the prior year).

The decrease in purchases made in US dollars —with the volume of sales in this currency remaining stable— resulted in a higher net exposure of the Group to US dollar, which amounted to 62,587 thousand dollars in 2020 compared to 56,416 thousand dollars in 2019. The effect of the US dollar depreciation on the Group's ebitda was EUR -1,393 thousand, in addition to exchange losses.

3.2. Financial, operating and stock market indicators

Indicators[1]	2020	2019
Financial		
Leverage ratio (< 0.5)[2]	0.30	0.38
Solvency ratio (< 2)[2]	1.68	1.74
Liquidity	1.17	1.03
Funding of assets	1.07	1.02
ROCE (%)	3.87	6.76
Average collection period (days)	62.85	61.00
Average payment period (days)	61.69	53.74
Operating		
Production (thousands of tons)	1,457	1,488
Added value (EUR thousand)	133,897	144,031
Productivity (EUR/person)	103,236	111,049
Gross margin/revenue (%)	54.22	50.14
Ordinary ebitda/sales margin (%)	8.88	9.46
Stock market		
Quoted market value (EUR /share)	2.16	2.56
Capital value (EUR thousand)	218,098	268,585
EPS (EUR)[2]	0.061	0.292
CFS (EUR)	0.74	0.57
PER	34.86	8.65
P/BV	0.77	0.92

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

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

Average payment period:
– Calculation: in accordance with Law 15/2010 of 5 July.
– 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 the average 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 result for the year ÷ weighted average number of shares.
– Purpose: to measure the benefit that corresponds to each action.

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.

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

4.1. Economic analysis of the balance sheet

As a management tool, the Group uses the economic analysis of the balance sheet, which is obtained from certain presentation reclassifications of the consolidated statement of financial position in order to reduce the number of operating magnitudes and achieve a better analysis and comparison.

The reduction of EUR 25,339 thousand (-23%) in net financial debt ("NFD") stands out, decreasing from EUR 110,171 thousand to EUR 84,832 thousand. This reduction has been possible thanks to the generation of free cash flows, as disclosed in the consolidated cash flow statement. Most of the decrease is due to the reduction in working capital (EUR -35,031 thousand) from EUR 64,870 thousand at December 31, 2019 to EUR 29,839 thousand at December 31, 2020.

Despite the high volume of investments made in 2020 [see section 4.3 b) below], non-current assets have decreased by EUR 3,651 thousand because of depreciation and amortization and impairment of investment property.

The Group's equity has been reduced by EUR 7,868 thousand, after profit for the year amounted to EUR 6,257 thousand, due to the shareholder remuneration for an overall amount of EUR 14,125 thousand (of which EUR 5,049 thousand correspond to dividends; EUR 8,735 thousand, to repurchase of shares for redemption; and EUR 341 thousand; to meeting attendance bonus.

The provisions and other debts have decreased by EUR 4,975 thousand, mainly due to the payments associated with environmental remediation works.

Economic analysis of the balance sheet

EUR THOUSAND

	12/31/2020	12/31/2019	Change (%)
Non-current assets	**356,562**	**359,713**	**-1.0**
Working capital	**29,839**	**64,870**	**-54.0**
Current assets	148,609	184,470	-19.4
Current liabilities	-118,770	-119,600	-0.7
Applied funds	**386,401**	**424,583**	**-9.1**
Equity	**284,215**	**292,083**	**-2.9**
Net financial debt [1]	**84,832**	**110,171**	**-23.0**
Provisions and other borrowings	**17,354**	**22,329**	**-22.3**
Origin of funds	**386,401**	**424,583**	**-9.1**

[1] All financial debts with non-bank entities, as well as lease payables, are included in net financial debt (2020: EUR 9,145 thousand, and in 2019: EUR 13,378 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 2020: EUR 6,647 thousand, and in 2019: EUR 11,247 thousand).

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.

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.

The Group's financing is subject to meeting obligations and financial ratios, which have been appropriately fulfilled in 2020.

The significant increase in the resources generated by the Group's businesses in 2020 has provided the necessary liquidity to meet its obligations in a timely manner (payment on investments and shareholder remuneration) and to reduce the net financial debt [see section 4.1 above]. Forecasts for 2021 suggest free cash flows will continue to be generated despite the investments associated with the new 3D Plan. Consequently, it is expected that the Group will not be exposed to a liquidity risk in its transactions. In addition, at current year end the Group's liquidity amounts to EUR 72,081 thousand.

a) Major financing sources

In 2020 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, 2020, the drawndown balance of this facility amounts to EUR 57,206 thousand (EUR 51,105 thousand in the prior year).

- The revolving credit agreement, for an overall limit of EUR 30,000 thousand. At December 31, 2020 EUR 30,000 thousand have been drawn down (EUR 30,000 thousand in 2019).

- The capex tranche of the syndicated revolving agreement with a limit of EUR 15,000 thousand. At December 31, 2020, the drawndown balance of this tranche amounts to EUR 3,800 thousand (this tranche had not been drawn down in the prior year).

- The ICO loan, amounting to EUR 18,000 thousand. At December 31, 2020, the balance of this loan amounts to EUR 17,730 thousand (EUR 17,730 thousand in the prior year).

- The loans granted by the Department of Industry, Tourism and Trade, which are secured by deposits on a portion of the principal. At December 31, 2020, these deposits amount to EUR 3,020 thousand (EUR 2,956 thousand on 31 December, 2019).

- Several working capital financing facilities with an overall limit of EUR 18,100 thousand. At December 31, 2020, the drawndown balance of these facilities amounts to EUR 10,104 thousand (EUR 8,551 thousand in the prior year).

(ii) Internal [see table of consolidated cash flow statement in chapter 13.4]

In 2020, despite the covid-19 pandemic and the significant investing effort, the Group's activity has generated free cash flows amounting to EUR 40,583 thousand (2019: EUR 28,079 thousand), which have enabled it to remunerate shareholders for an amount of EUR 14,125 thousand and reduce debt by EUR 25,339 thousand.

- At December 31, 2020 the Group had cash amounting to EUR 38,249 thousand (EUR 61,117 thousand at 2019 year-end) and additional funding amounting to EUR 32,150 thousand (EUR 8,406 thousand at 2019 year-end).

- The refund of the 2018 income tax settlement amounting to EUR 7,724 thousand was received at the beginning of 2020 and the refund of the 2019 income tax settlement amounting to EUR 2,688 thousand was received in December 2020.

The Group has faith 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 2020 Ercros has received the following grants from public entities:

Entity	Item	Factories	Amount (EUR thousand)
Ministry of Industry, Trade and Tourism	Offset of cost related to 2019 indirect CO_2 emission allowances	Vila-seca I, Sabiñánigo, Vila-seca II, Tortosa, Almussafes and Flix	2,295
IDAE [1]	Conversion into membrane for the production of chlorine	Sabiñánigo	826
IDAE [1]	Conversion into membrane for the production of chlorine	Vila-seca I	816
Acció [2]	New silver catalysts for obtaining formaldehyde	Intermediate chemicals division	119
CDTI [3]	Improvements in chloroisocyanurate production processes	Chlorine derivatives division	52
CDTI [3]	New green chemistry-based solutions	Intermediate chemicals division	187
Total			**4,295**

[1] The Institute for Diversification and Saving of Energy ("IDEA") 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] Acció is an agency for business competitiveness affiliated to the Department of Business and Knowledge of the Regional Government of Catalonia.

[3] The Centre 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, for an amount of EUR 5,647 thousand, which are pending receipt while the investments that have generated them are justified and reviewed.

Additionally, in 2020 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 5,357 thousand (EUR 4,936 thousand in 2019).

– The State Foundation for Training in Employment ("Fundae") reimbursed a portion of the training expenses incurred, EUR 113 thousand, which is deducted from the contributions to the Social Security paid by the Group (EUR 195 thousand in 2019).

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 2017-2020 period, and which are as follows:

– Profit for the year/number of shares ratio is at least 0.10 euros/share.

– 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 was EUR 0.061 per share. Consequently, one of the dividend policy requirements were 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 16,370 thousand. At December 31, 2020, the NFD amounts to EUR 84,832 thousand in comparison with EUR 110,171 thousand at 2019 year end.

Liquidity risk management is explained in detail in chapter 5.

e) Payment period to suppliers

The average payment period to suppliers at 2020 year end was 61.69 days (53.74 days at 2019 year-end), which means an increase of 7.95 days between both years.

At December 31, 2020, the payments that exceeded 60 days accounted for 44.41% of all payments made (24.37% in 2019). The Group forecasts that will reduce the percentage of payments exceeding 60 days.

In the prior year the average collection period was 62.85 days (2019: 61 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 supplies 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, 2020 and 2019, according to the calculations made by the Group, is as follows:

EUR thousand	12/31/2020	12/31/2019
Bank borrowings:		
Non-current	93,553	65,984
Current	22,861	92,864
Current portion of non-current borrowings	5,851	10,309
Lease payables	9,145	13,378
Short-term deposits pledged	-2,477	-5,793
Other non-current assets, pledged deposits	-4,170	-5,454
Cash and cash equivalents	-39,931	-61,117
NFD balance	**84,832**	**110,171**

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

EUR thousand	12/31/2020	12/31/2019
NFD	84,832	110,171
Equity	284,215	292,083
Leverage ratio (NFD/total equity)	**0.30**	**0.38**

As shown in the table above, the leverage ratio (NFD/total equity) has decreased in 2020 compared to 2019, 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 the higher 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	12/31/2020	12/31/2019
NFD balance at January 1	**110.171**	**126.541**
Free cash flows	-40,583	-28,079
Dividends paid	5,049	6,295
Repurchase of shares	8,735	4,545
Payment of meeting attendance bonus	341	376
Accrual of finance costs that does not generate cash outflows	624	601
Effect of changes in exchange rates:		
In cash and cash equivalents	495	-108
NFD balance at December 31	**84,832**	**110,171**

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

EUR thousand	12/31/2020	12/31/2019
NFD	84,832	110,171
Ebitda from ordinary activities	50,507	63,360
Solvency ratio (NFD/ordinary ebitda)	**1.68**	**1.74**

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

EUR thousand	12/31/2020	12/31/2019
Gross operating income ("ebitda")	49,601	60,904
Reversal of provisions and other extraordinary income	-3,777	-2,233
Gains/(losses) on disposals of investment properties	–	-3,148
Charge of provisions and other non-recurring income	4,683	7,837
Ebitda from ordinary activities	**50,507**	**63,360**

The solvency ratio (NFD/ordinary ebitda) has improved in 2020 in comparison with 2019 and remains below 2. Therefore, another of the shareholder remuneration policy requirements is met. However, the third requirement, which establishes a minimum profit of 0.10 euros per share, has not been met in 2020, a year marked by the covid-19 pandemic. Nevertheless, the board of directors of Ercros, at the meeting held on February 19, while stating the impossibility of remunerating the shareholders against the 2020 profit, also agreed to resume the repurchase of shares (under the fifth repurchase program still in force) and redeeming them as part of the shareholder remuneration against 2021 profit.

a) Firm commitments to obtain capital resources

There are no firm commitments to obtain new capital resources.

b) Investment commitments or obligations

In 2020 the measures set forth in ACT Plan for the 2016-2020 period were almost completed.

For this reason, the meeting of the board of directors held on January 22, 2021 approved a new investment plan called 3D Plan, which is described in chapter 6.1.

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.

5.1. Identification of risks

The Group has implemented a risk alert system called "SARE" that makes it possible to identify, monitor and quantify the potential risks it is exposed to. This alert system that is triggered whenever a risk that might affect the Group is identified.

Since 2017 the Ercros Group has had a compliance committee that provides assistance to the audit committee —to which it reports— on criminal risk prevention. The duties of this committee are: (i) prepare and implement in the criminal risk prevention handbook, describing the corresponding compliance protocols to prevent any crimes that may be committed under the cover of the legal person; (ii) submit a proposal to the audit committee for the adoption of the appropriate measures to ensure compliance and monitoring of the criminal risk prevention handbook and report any breach detected; (iii) monitor the policies, procedures and controls established regarding the control of risks and, in general, compliance with the handbook and the principles established in the code of ethics, and (iv) see to the fulfilment of the internal code of conduct in the securities market.

On October 31, 2019 the board of directors approved, following a favourable report by the audit committee, the criminal risk prevention handbook and the criminal compliance policy. Additionally, the Group has (i) a code of ethics; (ii) an ethical channel procedure; (iii) an anti-corruption and crime prevention policy; and (iv) a conflict of interest procedure in place.

The Group tries to minimize the tax risks it is exposed as a result of its activity, trying to avoid aggressive interpretations of the tax regulations, and seeking the assistance of qualified external advisors in the preparation of tax information and analysing, before making any decisions, the tax impacts that may arise from its actions.

The Group also has the governance bodies necessary to supervise the development of the organization general strategy and carry out its duties with adequate efficiency, objectivity and independence. It also has procedures to identify, measure, assess, control and prioritize the risks it is exposed to, as well as management systems that define the control, follow-up and reduction or elimination of these risks.

Name of body	Description of duties
Board of directors	It establishes and supervises risk control systems in general
Audit committee	It is responsible for internal control and risk management systems
Internal audit department	It supervises the operation of internal control systems
Compliance committee	It supervises the prevention of criminal risks
Executive committee	It supervises operational management and risks in general
Management committee	It supervises operational management
Business committees	They supervise the management and operational risks of their corresponding areas
Risk and collection committee	It is responsible for controlling trade receivables risk
IFRS committee [1]	It is responsible for the correct application of IAS [2] and IFRS [3] in the preparation of financial information and control of tax risks
ICFR committee [4]	It is responsible for the operation of ICFR
CSG [5]	It supervises non-financial risks
CESR [6]	It supervises reputational risks

[1] International financial reporting standards.

[2] International accounting standards.

[3] International financial reporting standards.

[4] Internal control over financial reporting.

[5] Committee for sustainable growth.

[6] Committee for ethics and social responsibility.

5.2. Main risks for the Group

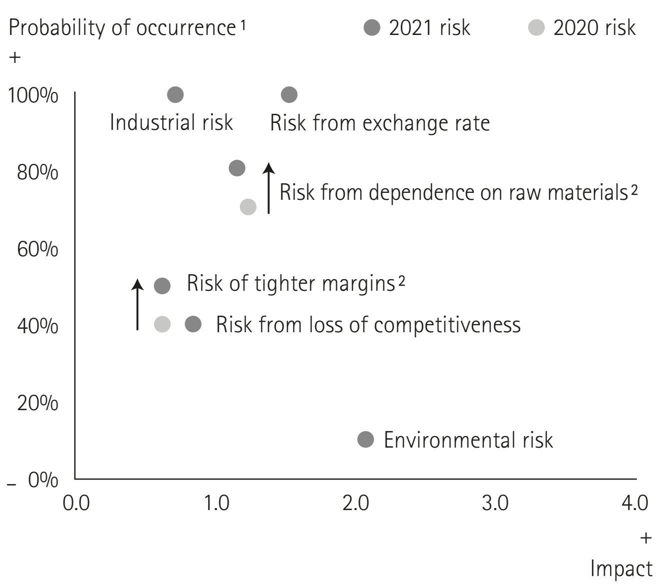
The Ercros Group's activity involves several kinds of risks, classified under the criteria that the Group considers most appropriate to manage them efficiently. In this regard, not all businesses entail the same risks, although sometimes they may share some of them. In general, the Ercros Group is exposed to operating, non-financial and financial risks.

Many of these risks are inherent in the development of the activities carried out by the Group or derive from external factors. Thus, it can try to avoid them, but it is not possible to eliminate them completely.

Relevant risks are those which may compromise the goals of the Group's business strategy, maintenance of financial flexibility and solvency.

On December 18, 2020 the business directors presented to the board of directors the risk maps for each business identifying the most relevant risks for 2021 based on the probability of occurrence (on a scale of 0% to 100%) and the impact that their materialization would entail for the Group (on a scale of 0 to 6). Based on the risk map, the Group has implemented controls to mitigate the risks detected.

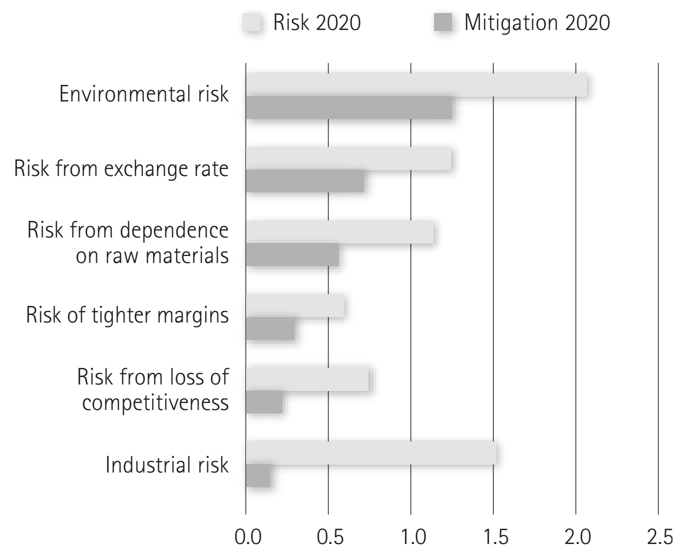
The graph below shows the relevant risks to the Group for 2021 based on the probability of occurrence and impact, and their evolution in comparison with 2020 according to the risk map prepared:



[1] To prepare this graph, in the event of risks shared by two or more businesses, the highest probability of occurrence percentage has been used.

[2] Risk that may worsen in 2021.

The graph below shows the same relevant risks after applying mitigating measures:



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

In 2020 the work plan of the external auditor, Ernst & Young, focused on analysing the following significant matters: (i) net sales and accounts receivable; (ii) provisions for environmental remediation, contingencies and litigation proceedings; (iii) tax credits and future tax recoverability; (iv) measurement of investment property and fixed assets; (v) tax inspections and special taxes; (vi) fulfilment of covenants related to financing agreements and (vii) covid-19 pandemic. No relevant incident was detected.

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

a) Operating risks

The Ercros Group is an industrial conglomerate with 10 production facilities that carry 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 execution of operations that are dangerous 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 modification of these facilities.

The safety of people and facilities is a priority for the Ercros Group. Therefore: (i) it guarantees compliance with legislation; (ii) it certifies its facilities with internationally approved standards; (iii) it submits its facilities to regular operability studies (HAZOP method) and inspections; (iv) each factory has a preventive maintenance plan for its industrial facilities; and (v) internal and external employees receive training on preventive matters adapted to their job. In addition, the Group investigates all accidents and incidents, analyses their causes and establishes, where appropriate, the corrective actions necessary to prevent their recurrence.

With the onset of the covid-19 pandemic in 2020, the Group has had to face a new industrial risk as a result of the possible partial suspension of its activities in light of the impact that exceptional circumstances generated by the state of emergency and covid-19 could have on its activity and among its workers. To mitigate this risk, Ercros established the covid-19 corporate monitoring committee (CSC-19) and monitoring committees in all its centres, which, in close collaboration with the workers' representatives, have constantly monitored the evolution of the pandemic.

Anticipating and constantly monitoring has enabled the Group (i) to implement preventive, organizational and control measures adapted to each production facility in accordance with the recommendations and mandates of the corresponding administrative authorities responsible; (ii) to avoid or, otherwise, reduce the spread of the virus among its workers; and (iii) to ensure that business activities are maintained. Thanks to these measures, during 2020, the Group has continued its production as an essential services chemical company with absolute normality and with no impact on production due to lack of staff.

The Group carries out programmed shutdowns of its production plants for maintenance, repair or modernisation, although on occasions there are also unplanned shutdowns that affect the compliance with the production and sales plans. In other cases, plants have to slow down or even stop production because of problems with key raw material suppliers or important customers of the final product. The Group has taken out insurance to cover the loss of earnings arising from these contingencies.

(ii) Risk of tightening margins (relevant)

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 of imbalance in which upward or downward fluctuations in product prices occur. 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 that, the trend shifted, marked by oversupply, falling prices and, in general, the weakening of global markets, entering a recessive chemical cycle exacerbated by the covid-19 pandemic that is expected to last until 2022.

In the Ercros Group, PVC and caustic soda are the products that weigh most heavily in consolidated billings (in 2020, their combined share was around 35%) and that suffer most from these tensions in the margins, a situation that increases the sensitivity of the Group's income statement to them.

In the case of caustic soda, the drop in demand in 2020 as a result of the reduction in economic activity on a global level due to the covid-19 restrictions has squeezed prices downward. This drop was greater than the drop in the price of electricity, its main input, with the consequent deterioration of the margin of the final product. During the year, the Group has attempted to mitigate this effect by increasing the sales volume of its own caustic soda.

During the year, hypochlorite, a product produced from the chlorine resulting from the same process as caustic soda manufacture, has behaved similarly to caustic soda. The fall in demand in the tourism and hospitality sectors, as well as in the recreational waters sector as a result of the covid-19 pandemic and the increased availability of product in the market due to the new capacities of rival companies emerging in 2020, led to excess supply in the market that caused prices to fall.

With regard to PVC, the first half of 2020 was strongly affected by the reduction in global construction activity as a result of the restrictions implemented in different countries. On the contrary, the second half of the year was characterised by a fast recovery in demand, not always coupled with an increase in supply, which translated to upward pressure on prices higher than the increase in the prices of the raw materials involved in the manufacturing process. The Group hopes the improved margins will remain in the first half of 2021.

The following table shows the analysis of the sensitivity of the Group's ebitda (approximate data) to possible variations, all other things being equal, in the price of caustic soda and PVC:

	Price variation	Effect on operating profit (thousands of euros)
Caustic soda	± €50/t	± 7,000
PVC	± €50/t	± 9,000

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

As seen in point (ii) above, the Group is heavily dependent upon 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 applying a procurement strategy based on: (i) long-term supply agreements for more volatile strategic raw materials; (ii) agreements with several alternative suppliers to ensure volumes and competitive prices of raw materials; and (iii) geographic diversification of sources for procuring strategic raw materials to ensure their supply in case of local shortage 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 methanol, electricity and ethylene, which account for over 35% of the total amount of the consolidated purchases in 2020.

Although the Ercros Group always tries to pass on the variations in its variable manufacture costs to the price of its products, sometimes, depending on the supply and demand situation, it cannot do so in full, or when it does, it does so with a certain time lag, which can lead to a temporary loss of profitability of the product in question. In 2020, the weakness of the markets has pressured sale prices of some products downward to a greater degree than the costs of their raw materials, as is the case with caustic soda, and has caused a reduction in the margins of this product as described in heading (ii) above.

Electricity is the primary supply of the chlorine derivatives division. The Group purchases its electricity from various distributors in Spain and France. The contracts with these companies are for less than 3 years and are renewed at the end of their term after a comparison of technical and economic conditions.

In 2020, the cost of electricity fell thanks to the lower price of the electricity pool in Spain due to (i) lower demand as a result of covid-19; (ii) lower fuel costs (oil and natural gas); and (iii) greater proportion of renewable energy as a supply source. However, this reduction in the price of the pool has been negatively offset in 2020 by the lack of remuneration received by the Group for the interruptibility service and the lower compensation received for indirect CO_2 emissions. The Group hopes to reduce the differential of the MWh price with its European competitors with the improvements introduced by the Royal Decree on the Electro-intensive Consumers Statute, which, although they are currently limited, it is hoped will be complemented with additional mechanisms to be developed in the future.

Moreover, the Group is currently exploring Power Purchase Agreements ("PPAs"). In addition, photovoltaic electricity generation projects will be carried out on land owned by Ercros that is not currently used for any industrial activity. It 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, and to ensure that it comes from renewable sources to be in a position to meet the decarbonisation goal set out in the draft Spanish National Integrated Energy and Climate Plan, in keeping with the targets set by the European Commission in the Green Pact.

It should be highlighted that, on 28 January 2021, the Group presented the new strategic 3D Plan (2021-2025) based on three dimensions: Diversification, Digitalisation, and Decarbonisation. The purpose of the decarbonisation strategy is to intensify Ercros's existing efforts to mitigate climate change and adapt to the new regulatory framework governing industrial activity. This dimension envisages 5 major projects in the areas of energy efficiency, adaptation to climate change, maximisation of hydrogen use, circular economy, and sustainability mobility.

In addition to electricity, the raw material in the production process of chlorine and caustic soda is sodium chloride (common salt). Membrane electrolysis plants require sodium chloride with very high 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 signed long-term agreements with several suppliers.

Methanol is the main raw material of the intermediate chemicals division and is produced from natural gas. The Group maintains supply agreements with various international suppliers from different areas and with different intervals to avoid supplier concentration risk and prevent agreements from renewing at the same time. In 2020 the EU maintained the suspension of the tariff on methanol imports that, otherwise, would have harmed the Group by making imports of this raw material more expensive.

In 2020, the greater volume of chlorine produced has allowed the Group to increase production of its own EDC —he product that starts the PVC chain— and reduce purchasing of external EDC. This has reduced the Group's dependence on this raw material and improved the PVC margin. The Group is also attempting to minimise the risk arising from the volatility of external EDC prices by signing supply agreements with suppliers of various origins.

The following table shows the analysis of the sensitivity of the Group's ebitda to possible variations, all other things being equal, in the price of electricity, ethylene and external EDC:

	Price variation	Effect on operating profit (thousands of euros)
Electricity	±€10/MWh	±10,000
Ethylene	±€100/t	±5,000
External EDC	±€50/t	±4,000

(iv) Risk of loss of competitiveness (relevant)

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

The main raw material used by the chlorine derivatives division is electricity. Although the market of caustic soda and the main chlorine derivatives —particularly PVC— are global in nature, the electrical production cost pertains to the Spanish market due to the different burden of the costs regulated in each country, and so this is a component that affects the Group's competitiveness.

Thus, as mentioned in the above subsection, in 2020, the cost of electricity fell thanks to the lower price of the electricity pool in Spain and the other European countries, which has tended to converge in recent years. However, this reduction in the price of the pool has been negatively offset in 2020 for Spanish electro-intensive consumers by the lack of remuneration received for the interruptibility service and for the lower compensation received for indirect CO_2 emissions.

Conversely, 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. In this line of improved competitiveness, the Ercros Group presented the aforementioned strategic 3D Plan (2021-2025) at the end of January, which is based on three dimensions: Diversification, Digitalisation, and Decarbonisation. The purpose of the digitalisation strategy is essentially to make Ercros more competitive by reducing operating costs, increasing production and sales, and strengthening customer loyalty.

Likewise, the government enacted Royal Decree Law 20/2018, of 7 December, on urgent measures to foster 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 passed Royal Decree 1106/2020 regulating the electro-intensive consumers Statute, the aim of this Statue is to reduce the electrical cost for electro-intensive industries through measures: (i) offsetting, up to a maximum of 85%, the charges on financing the specific remuneration for renewables and high-efficiency cogeneration and additional financing in non-peninsular territories, and (ii) covering risks arising from acquiring electricity in the medium and long term.

A relevant risk for the Group's competitiveness is the regulatory changes in the labour market announced by the government that, if confirmed, could significantly increase the cost of subcontracted services.

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 2020, the average dollar exchange rate depreciated significantly against the euro, which weakened the competitiveness of the Group's products. The forecast that in 2021 the dollar may again depreciate somewhat against the euro would worsen the competitive position [see paragraph c) (i) foreign exchange risk).

(v) Risk due to product concentration

Almost 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 and efficiency reasons— is consumed practically in full in the production facility during the manufacture of chlorine derivatives, caustic soda is sold worldwide.

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

(vi) Risk due to the cyclical nature of products

In general terms, the markets in which the Group operates are more active during the second and third quarters of the year, except for August. In recent years, the trend among customers of reducing orders at the end of the year as a result of Christmas holidays and the general desire to reduce their warehouse stocks at the end of the year has become more pronounced, causing activity to drop in December. Nonetheless, it should be highlighted that, in the atypical year 2020 of the covid-19 pandemic, the reduction in activity in December was not as prominent as in previous years in an attempt to recover part of the activity lost in the period in which mobility was heavily restricted.

The products with the most notable seasonal shifts are those used for treating and disinfecting water for human use —sodium hypochlorite, sodium chlorite and TCCA—, use of which peaks in the summer, and PVC, consumption that is slower in the cold months of the year due to the stoppage in construction. Demand for the other products was quite 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 and with greater intensity than in other sectors given that its products are commodities.

To dampen this cyclical volatility, on 28 January 2021, the Group presented the aforementioned strategic 3D Plan (2021-2025). The aim of the diversification strategy is essentially to control and, if possible, reduce Ercros' strong cyclical dependence on the chlorine-caustic soda process. The four projects included in this dimension are geared towards enhancing the intermediate chemicals and pharmacy divisions, along with the water purification segment that, although it belongs to the chlorine derivatives division, is not tied to the chlorine-caustic soda process.

(vii) Risk due to customer concentration

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

At the end of 2017, this customer announced that it would be building its own chlorine plant to meet the needs of its factory. Ercros has extended its chlorine supply agreement with this customer until the end of 2022. That chlorine is supplied by pipeline from the Vila-seca I factory (Tarragona). If supplies to this customer were not to continue after 2023, the Group would rearrange the distribution of the chlorine available to manufacture greater amounts of its own EDC, which would mean increasing ethylene purchases, reducing purchasing of external EDC/VCM and, foreseeably, ceasing production of dicalcium phosphate, which could affect the Group's overall profitability.

(viii) Market risk due to geopolitical tensions

The Group exported 52% of its sales to 91 countries in 2020. Given its exposure to foreign markets, the Group may sometimes be influenced by political or geostrategic conflicts that generate tension in the markets where it purchases or markets its products.

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

In 2020, global flows of PVC varied with regard to the usual patterns of previous years as a result of: (i) the different geographic impact of the covid-19 pandemic on economic activity; (ii) the global reduction in the supply of PVC (due to production problems caused by unforeseen technical shutdowns of several production plants; and (iii), in the second half of the year, the imposition of a 25% tariff on products imported to Europe from the USA.

In the first half of 2020, the reduction in international maritime trade due to the restrictions on activity in light of the covid-19 pandemic (estimated at 10% by specialist consultants) negatively affected the purchase options for some raw materials and global maritime transport. In the second half of 2020 and in early 2021, the subsequent asymmetrical economic reactivation of the different markets has led to a shortage of means of maritime transport, including containers, and congestion in Asian and American ports (origin and destination of the goods, respectively). This situation has led to a widespread increase in the cost of fleets, particularly for voyages from Asia to the USA and Europe, which has made it more difficult and more expensive to purchase some raw materials.

The Group has attempted to minimise this risk (i) by bringing forward purchases of the affected raw materials and (i) by extending the number of suppliers, routes and alternative shipping companies. However, it should be highlighted that this situation may also entail a competitive advantage for the Group because it favours marketing Ercros products in Europe and other markets over the competition of Asian producers.

The United Kingdom's departure from the EU at the end of 2020 has not significantly impacted the Group's income statement as this country is not a relevant market for the Ercros Group.

(ix) Technological and cybersecurity risk

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

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

The aforementioned plan addresses security against accidental or intentional internal and external cyber threats. The Group continuously has the means necessary to attempt to prevent, detect and, where applicable, eliminate this type of threat. That plan has been reviewed and updated in accordance with the risks arising from increased remote working.

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

In the event of an incident that partially or totally interrupts the normal functioning 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 of harmful substances or fires.

The Group: (i) conducts its business in compliance with that 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 does plan to do so in the medium term.

(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 costs of cleaning-up or remediating affected soils and sites.

The Ercros Group has submitted soil control and remediation 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 filed an appeal for judicial review challenging 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 was contaminated. The judicial review proceedings were filed with the judicial review chamber of the High Court of Justice of the Region of Murcia. Despite the judicial appeal, on 1 July 2020 Ercros submitted the technical project for the cleaning and recovery of El Hondón in order to comply with the obligation established in the Resolution on the declaration of contaminated soil. In December 2020, the Directorate General for the Environment of the Region of Murcia issued an order to rectify the soil remediation project for the El Hondón. On 5 February 2021, the Group filed an appeal for reversal against that order, requesting that it be set aside and that the remediation project submitted by Ercros in July 2020 be approved.

Ercros has also assumed the obligation with Reyal Urbis to decontaminate the land that was awarded to that company in the replotting project, equivalent to 25% of the remediation cost. Cartagena Council will bear the cost of the remaining 75% of the remediation.

The Group reestimates the value of the remediation obligations each year 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, laws related to the safety of facilities and people, occupational health, environmental protection and the transport, packaging and handling of dangerous goods.

Certain of the 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 this supply, 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 encourages modulated consumption and the use of renewable energy to reduce the price and environmental impact.

After the serious accident that occurred in the factory of a chemical company in Tarragona on 14 January 2020, which has called the safety and warning measures of chemical sector companies into question, the autonomous region and local administrations are considering implementing even stricter regulations for the whole sector. It is also foreseeable that government licenses and permits will be tightened, which could affect industrial activity.

(iv) Climate change risk

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

To try to mitigate these possible abnormal weather incidents, the Ercros Group's factories have plans in place to mitigate the adverse effects on activities caused by heavy floods of water, power cuts or delays in the transport of goods.

(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 current, active employees, rather, they are liabilities claimed of the Group as the universal successor of companies that have been defunct for many years and are not related in any way to current activities.

In 2020, a new public benefit surcharge procedure was initiated in connection with past exposure to asbestos. The Group has recognised provisions for the amounts it expects could be claimable in the legal proceedings for which a ruling has yet to be handed down.

(vi) Human resources risk

In 2020, the covid-19 pandemic posed a risk from the point of view of human resources. This disease could lead to permanent redundancies due to disability or death and many localised temporary redundancies that force some production activities to stop due to a lack of personnel.

To mitigate this risk, the Ercros Group has implemented a plan to prevent and, if this is not possible, reduce the spread of the disease at its facilities and at the same time guarantee their proper operation.

Human resources risk also mostly notably includes the risk of low productivity due to the high rate of staff absenteeism (4.5% in 2020), 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 causes 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, and prioritises 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.

c) Financial risks

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

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

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

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 1.68 in 2020, under the target that has been set at 2.

In 2020 the Group maintained the investment pace set out in the 2016-2020 ACT Plan, which involved investments of around EUR 100,000 thousand. During 2020, investments in the amount of EUR 31,250 thousand were made. The 3D Plan presented by the Group on 28 January, 2021 for the 2021-2025 period respects the principles of financial prudence, such that total annual investments will not exceed EUR 30 million and financial solvency will be preserved at all times.

(i) Foreign exchange risk (relevant)

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

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

In 2020, the US dollar depreciated against the euro, ending the year at 1.22 dollars per euro. This devaluation also had a negative impact of EUR 1,392 thousand on the Group's ebitda for 2020. Net exposure amounted to EUR 54,702 thousand.

An average exchange of 1.23 dollars per euro has been estimated for 2021. The devaluation of the dollar has a negative impact for the Group as it worsens the competitive position of the products it markets and reduces its profitability.

In 2021, the Group will increase its net exposure to this currency by reducing purchases in dollars by changing supplier for some raw materials.

The table below shows an analysis of sensitivity to variations in the exchange rate of the dollar compared with the average exchange rate in 2020, which was 1.14, keeping all the other variables constant in accordance with the net exposure to this currency in 2020:

Dollars for each euro	Effect on operating profit (thousands of euros)
1.30	-6,487
1.25	-4,558
1.20	-2,469
1.14	–
1.10	2,280
1.05	4,993
1.00	7,978

(ii) Credit risk (relevant)

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

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

Since January 2020, the Group has had a credit insurance policy with Compañía Española de Seguros de Crédito a la Exportación ("Cesce") covering 95% of the balance of the customers insured by the policy. The insured amount entails approximately half the outstanding balance of the portfolio. This policy insures customers whose invoices are assigned without recourse to the syndicated factoring facility.

With respect to the Group's remaining financial assets, such as cash and cash equivalents, credits, 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

External financing is mainly based on the syndicated factoring facility, the revolving credit facility and loans from government agencies. The 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.

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 result (thousands of euros)
200	-2,520
100	-1,260
-100	1,260
-200	2,520

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

It should be noted that the significant increase in resources generated by the Group's businesses in 2020 provided the necessary liquidity to meet its obligations on time (payment of investments and shareholder remuneration) and to reduce net financial debt. The Group expects the situation to remain the same in 2021 and, therefore, does not anticipate being exposed to liquidity risk in its transactions.

To extend its available financing lines, until the end of 2024, the Group has a syndicated factoring facility amounting to EUR 102,000 thousand; a credit with an overall limit of EUR 30,000 thousand and an additional tranche to finance investments for an amount of EUR 15,000 thousand; and a credit with the Instituto de Crédito Oficial ("ICO") amounting to EUR 18,000 thousand maturing in 2026. It has also taken out working capital financing lines for an overall amount of EUR 10,000 thousand with several financial institutions.

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, the issue of short —or medium— term bonds in organised markets or issue of a line of promissory notes in the Fixed Income Alternative 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 not to assume 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.

In 2017, Ercros presented submissions to the Central Economic-Administrative Court ("TEAC") contesting the definitive tax assessment after the inspection of the Aranjuez factory initiated by the tax authorities 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 that appeal. On 13 October 2020, Ercros filed an appeal before the judicial review chamber of the National High Court. The Company has guaranteed, by means of a surety bond, 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.

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

With reference to the personal income tax assessment ("IRPF") for 2012 and 2013 signed on a contested basis, which proposes a tax liability of EUR 312 thousand and late-payment interest of EUR 70 thousand, and as a result of the pleadings submitted, in 2018 the Company received a new settlement agreement for a tax liability of EUR 154 thousand and late-payment interest of 38 thousand euros, and payment will be made. The Company filed an appeal for reconsideration with the liquidator against this settlement, which was dismissed. Subsequently, an administrative appeal was filed with the TEAC, which was dismissed on 11 June, 2020. On 11 August an appeal was announced with the judicial review chamber of the National Appellate Court and on 13 January 2021 this appeal was submitted.

Finally, and with reference to the corporation tax assessment for 2012, 2013 and 2014 signed on a contested basis, which proposes a reduction in the tax credit of reinvestment of extraordinary income, evidenced in the 2008 and 2009 income tax returns, for a total of EUR 3,206 thousand, following the counter-valuation procedure by the appraisal expert, the reduction in the tax credit has been reduced to EUR 921 thousand. However, the Company filed an administrative appeal with the TEAC and the corresponding pleadings were submitted on 1 August 2019. On 20 January 2021, the TEAC dismissed the economic-administrative claim; the Group will file a judicial review appeal against that ruling before the National High Court's Judicial Review Chamber.

Since 2019, the Group has adopted the code of good tax practices.

5.3. Risks materialized during the year

Risk presented in the year	Causes	Functioning of the control systems
Industrial risk of activity shutdown.	Exceptional circumstances caused by the state of emergency as a result of covid-19.	The Group has established preventive and control measures in all its work centres to prevent the spread of the virus.
Risk from dependence on raw materials.	Increase in raw material prices.	The Group concludes supply agreements with several suppliers to ensure volumes and competitive prices in the supply of raw materials.
Risk of tighter margins.	Drop in demand.	The Group monitors the market in order to optimize margins and diversify customers.
Risk of claims for soil remediation.	Injunction in December 2020 for the correction of the soil remediation project for the plot of land in El Hondón.	Ercros has requested that the said injunction should be rendered invalid and that the remediation project submitted by Ercros in July 2020 be approved.
Exchange rate risk.	Euro appreciation.	The Group controls its exposure to foreign currency; however, it does not usually arrange any hedges to cover currency fluctuations.
Credit risk.	Unfavourable economic environment due to the pandemic.	Reduction in exposure to the most affected economies.

6 Subsequent events

6.1. 3D Plan

In 2016 the Group started ACT Plan to adapt to the technological change mainly derived from the prohibition to use mercury-based technology in the chlorine and soda production, which was the main technology used until then by the Group. The Group's current annual production capacity is 217,000 tons of chlorine.

As already said, the plan was initially designed to deal with the technological change. Subsequently, it was extended and measures were adopted to upgrade and improve the efficiency of the Group's industrial park and to increase the manufacturing capacity of the most in-demand and best-selling products.

This capacity increase were carried out together with other investments in other Group divisions that have also increased the capacity of their main products.

Once ACT Plan was completed, at the meeting held on January 22, 2021 the board of directors approved the new investment plan called 3D Plan defining the strategic actions to be carried out by the Group during the 2021-2025 period. The strategy defined in 3D Plan is based on three pillars: Diversification, Digitalisation and Decarbonisation and consists of 20 major projects.

3D Plan entails an investment of EUR 69 million and it is expected that it will contribute an additional amount of EUR 63 million to ebitda.

Although the time horizon of the plan is five years, the scope of the several digitalisation and decarbonisation projects extends beyond this period until 2029. As a result of 3D Plan, an investment of EUR 23 million and an additional contribution of EUR 131 million to ebitda are expected for the 2016-2019 period.

Therefore, the overall figures for the extended 2021-2019 period are as follows: accumulated investment of EUR 92 million and accumulated additional ebitda of EUR 194 million.

The estimated future generation of additional ebitda, and forecast investments, are based on assumptions on future economic conditions, such as future prices of raw materials, electricity and other prices, sales volumes and exchange rates and should therefore be understood as mere prospects that do not guarantee that they will be fulfilled, and are subject to significant risks, uncertainties, changes and other factors that are beyond the Group's control and may be difficult to predict.

It is expected that the plan will be funded with internally generated resources. Public aid from the European Recovery Fund and other aid that may be obtained will allow the Group to speed up the investment process and carry out some of the actions planned for the 2016-2019 period sooner.

3D Plan will be executed at a pace that makes it possible to achieve the goals in the EU agenda and maintain an annual maximum capex of EUR 30 million (net of aid). The general premise is that the execution of the plan jeopardizes neither the Group's financial solvency nor shareholder remuneration.

This is a brief description of the three pillars of 3D Plan:

a) Diversification

The purpose of diversification is to keep the Group's strong cyclical dependence on the chlorine-soda business under control and, if possible, reduce it. The four projects included in this pillar are aimed at boosting the intermediate chemicals and pharmaceuticals divisions and also the drinking water treatment segment which, even though it belongs to the chlorine derivatives division, is not subject to the chlorine-soda cycle.

These projects are highly profitable; they entail activities that the Group is extremely familiar with (highly acceptable level of risk) and the products manufactured are in short supply.

b) Digitalisation

The purpose of digitalisation is to improve the Group's competitiveness by reducing operating expenses, increasing the production and sales volumes and strengthening customer loyalty.

The 11 projects included in this pillar will allow the Group to have greater management capacity of the production, commercial, logistics and administrative process through automated data management.

The projects are aimed at improving the entire value chain of the company, focusing especially on the maintenance, logistics, production and IT departments.

c) Decarbonisation

The purpose of decarbonisation is to reinforce the efforts that the Ercros Group has already been making to mitigate climate change and adapt to the new regulatory framework for industrial activity.

This pillar includes five major projects in the following areas: energy efficiency; adaptation to climate change, maximization of hydrogen utilization; circular economy; and sustainable mobility. They affect all the company's business and the logistics department.

Ercros expects that when 3D Plan is completed by 2025 direct CO_2 emissions generated by its activity will have been reduced by 39% compared to the ones in 2020.

7 Foreseeable evolution

In 2021 has started with a significant increase in the cost of energy and the main raw materials, even though demand is in line with the fourth quarter of 2020, in which pre-covid values were reached again.

The evolution of the year will be marked by the pandemic. If vaccine rollout makes it possible to reach herd immunity by the middle of the year, and current restrictions on movement are not extended, we may be seeing a rebound of economic activity as from the second half of the year.

For the time being, caustic soda does not show any signs of recovery in an environment of large supply derived from the strong demand for chlorine derivatives, such as PVC and MDI.

As for the exchange rate, the forecasts for 2021 suggest that the US dollar will reach a similar 2020 year end levels, around 1.23 US dollar per euro, which means that the exchange rate will be significantly higher than the 2020 average of 1.14 US dollars per euro and will therefore damage the Group's competitiveness.

As for fixed costs, the Group does not expect any significant increases in personnel expenses. In 2020 the XIX collective agreement in force expired and the pay rise in 2021, if any, should be modest, as Spain's CPI in 2020 has been negative and the old agreement, for the 2018-2020 period, meant annual rises for employees of 2.5%, much higher than the inflation for the period.

In 2021 3D Plan will be launched, and its first impacts on ebitda will be noticed as from 2021.

As a result of the aforementioned, the Ercros Group expects that margins will slightly deteriorate in 2021, which it plans to offset with higher sale volume in comparison with 2020.

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 2020 innovation costs and investments incurred amounted to EUR 6,339 thousand (EUR 6,099 thousand in 2019).

Ercros has five registered operational patents and one new application in progress, on both products and manufacturing processes.

The Group's R&D&I activities in 2020 have mainly focused on four projects that are carried out in cooperation with the Centre for the Development of Industrial Technology ("CDTI"): (i) the development of the new range of ErcrosGreen+ resins; (ii) the process for obtaining magnesium hydroxide and potassium nitrate; (iii) the process for extracting multiproduct for the active ingredients obtained through biological fermentation; and (iv) the development of sustainable solutions in the production of biopolymers.

8.2. Development of products

Below are described the most relevant projects performed in 2020 regarding the development of new products and the expansion of applications and features of already existing products.

a) In the chlorine derivatives division

- Formulation of TCCA tablets with several additives that introduce fragrances and colours.
- Preparation of an engineering design process to study the feasibility of the manufacture of cyanuric acid.
- Application of PVC and its compounds in 3D printing and medical applications.
- Expansion of the PVC compounds portfolio to manufacture rigid parts for injection moulding.
- Reprocessing of postconsumer recycled PVC.

– New levels of ErcrosBio product range with improved mechanical and thermal properties that facilitate demoulding in the manufacture of injection parts.

b) In the intermediate chemicals division

– Development of a new range of technical polymers whose main application is coating in such diverse industries as construction, automotive, food-packaging, etc.; and also development of resins to be used in high-performing technical boards. Both lines of products are included in the new trademark ErcrosTech.

– Research for obtaining a new organic compound oriented towards increasing the portfolio of the division with sustainable final outputs.

– Development of new qualities of moulding compounds that substantially enhance their application for sanitary equipment.

c) In the pharmaceuticals division:

– Development in laboratory of new antibiotic active ingredients obtained through fermentation.

– 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:

– Program in the pilot plant for obtaining chlorine through the zero-gap membrane-based technology, which is more energy-efficient, including the trial of new internally developed anode activations.

– Optimization of the working conditions of the caustic soda concentration plant of the Vila-seca factory, increasing its capacity by 25%.

– 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.

– Improvements in the production process of dipentaerythritol to increase the plant's productivity.

– Extension of the low formaldehyde emissions resin family (Ercros Green+) with new developments aimed at specific applications in particleboards with water-repellent properties and plywood.

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

8.4. In the field of research

In 2020 the Group has developed research lines in cooperation with several reference research centres, including:

– Cooperation programs with CDTI for the development of a new magnesium hydroxide and potassium nitrate combined production system, of joint extraction techniques in fermentation processes of active pharmaceutical ingredients, of a new range of ErcrosGreen+ resins, and of sustainable solutions in the production of biopolymers.

– The agreement with Polymat (Technological Centre 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 Centre Tecnològic de Catalunya ("Eurecat") and the Universitat Rovira i Virgili ("URV") for a project for developing and characterizing new resins.

– Agreement with Instituto Químico de Sarriá ("IQS") for doing research on the development of industrial processes for generic drugs and thermal stabilization of copolymers.

– Sponsorship of the UAM-Ercros chair of Universidad Autónoma de Madrid ("UAM") 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 Group's R&D department. The dissertation is the result of the cooperation agreement signed between the Ercros Group and Universitat Politécnica de Catalunya ("UPC").

– The Group also collaborates with Consejo Superior de Investigaciones Científicas ("CSIC»" and el Centre Català del Plàstic of UPC.

9.1. Treasury shares purchased

In 2020 and 2019, the Company has repurchased treasury shares for their redemption within the shareholder remuneration policy, for the following amounts:

EUR THOUSAND

	2020	2019
Amount invested in the repurchase of treasury shares	**8,735**	**4,545**
Against 2018 profit		4,545
Against 2019 profit	8,735	

9.2. Treasury share repurchase programs

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 shares are purchased within the shareholder remuneration policy for the 2016-2020 five-year period.

The repurchase programs completed from 2016 to 2020 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	1/20/2017	3/27/2017	3,107	9,000
2017	23%	Second	6,000	10/4/2017	3/9/2018	2,117	6,030
2017	23%	Third	6,000	3/12/2018	5/8/2018	987	3,995
2018	26%	Third	6,000	5/21/2018	7/9/2018	453	1,975
2018	26%	Fourth	12,000	7/9/2018	12/21/2018	1,139	4,957
2018	26%	Fourth	12,000	1/7/2019	4/27/2019	1,369	4,545
2020	28%	Fifth	18,000	2/12/2020	6/30/2021	3,945	8,735
						13,117	**39,237**

In the meeting held on February 10, 2020 the board of directors approved the fifth repurchase program of treasury shares for redemption. The repurchase program has a maximum monetary amount of EUR 18,000 thousand and will be in force until June 30, 2021. In no case, however, the number of treasury shares to be purchased can exceed 7% of the Company's share capital, which consisted of EUR 104,916 thousand. Considering the maximum 2019 payout (45%) and the proposed dividend (EUR 5,246 thousand), the amount to be allocated to the repurchase of treasury shares with a charge to the 2019 payout, totalled EUR 8,735 thousand.

The capital decrease carried out to redeem the treasury shares acquired from February 10 to April 23, 2020 was approved by the shareholders at the general meeting held on June 5, 2020 and filed with the Barcelona Mercantile Registry on July 20, 2020.

The Company did not have any treasury shares at December 31, 2020.

10.1. Shareholder remuneration

a) Shareholder remuneration policy

Ercros's 2017-2020 shareholder remuneration policy was ratified by the shareholders at the ordinary general meeting held on June 23, 2017.

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

According to this policy, the Company remunerates the shareholder with a maximum payout of: 35% of 2017 consolidated profit; 40% of 2018 consolidated profit; 45% of 2019 consolidated profit; and 50% of 2020 consolidated profit.

The repurchase of shares is the preferred shareholder remuneration procedure, provided that it establishes a payment of a dividend of at least: 12% of 2017 consolidated profit; 14% of 2018 consolidated profit; 16% of 2019 consolidated profit; and 18% of consolidated 2020 profit.

This payout is conditional on (i) obtaining minimum consolidated earnings per share ("EPS") equal to 0.10 euros/share; and (ii) fulfilling the following ratios at each year end: 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 2020 two of the three ratios improved in comparison with 2019 —a year in which all conditions were met—, but 2020 earnings per share were below the required minimum of 0.10 euros/share, therefore, the conditions established for remunerating shareholders against 2020 profit were not met.

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) Paid and proposed shareholder remuneration in 2020

(i) Dividends paid and dividends proposed

The summary of dividends paid and proposed in 2020 and 2019 is as follows:

EUR THOUSAND

	2020	2019
Dividends in cash approved and paid on ordinary shares	**5,049**	**6,295**
Against 2018 profit (0.06 euro/share)		6,295
Against 2019 profit (0.05 euro/share)	5,049	
Proposed dividends in cash on ordinary shares	**–**	**5,246**
Against 2019 profit (0.05 euro/share)		5,246

On June 17, 2020 the Company paid dividends of EUR 0.05 gross per outstanding Ercros share, against the 2019 consolidated profit, which meant an overall amount of EUR 5,049 thousand, that is, a 16.26% payout, EUR 197 thousand s less than the amount proposed, once the treasury shares were excluded from the payment.

(ii) Acquisition and redemption of treasury shares

See chapter 9 above.

10.2. Stock market information

a) Share capital

In 2020 share capital decreased by EUR 1,183 thousand (EUR 888 thousand in 2019) through the redemption of 3,945 thousand shares that had been purchased for redemption within the shareholder remuneration policy.

All the shares in the share capital of Ercros are ordinary, with a nominal value of 0.30 euros, constitute a single class, are fully paid up and represented by means of book entries.

Evolution of the number of outstanding shares

Number of shares	2020	2019
At January 1	**104,915,821**	**107,876,621**
Redemption	-3,944,584	-2,960,800
At December 31	**100,971,237**	**104,915,821**

b) Share evolution

2020 has not been a good year for Ercros shares due to the effects of the global covid-19 pandemic worldwide, showing worst figures in all parameters (quoted price, shares and traded cash) than in 2019.

Like the main stock indexes, Ercros shares dropped dramatically because of the covid-19 pandemic, reaching its lowest level on March 16, 2020. At 2020 year end Ercros share's quoted price had increased by 47% from the low reached in March, but closed below the quoted price it had at the beginning of the year.

Thus, Ercros closed 2020 with a market capitalization of EUR 217,593 thousand (EUR 268,585 thousand in 2019). At December 31, Ercros share's quoted price was EUR 2.16 (2019: EUR 2.56).

Ercros share reached the highest quoted price on February 11 (EUR 2.8). In 2020 the average quoted price was EUR 2.2 (2019: EUR 2.5).

The overall volume of traded cash amounted to EUR 143,021 thousand (EUR 220,570 thousand in 2019) since the number of traded shares amounted to EUR 64,918 thousand (EUR 88,225 thousand in 2019).

The day on which the highest number of securities was traded was May 14, 2020 1,856 thousand. The yearly average purchase was 252,598 securities.

Main share-related parameters

	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016
Shares on the stock market	**100,971,237** [1]	**104,915,821** [2]	**107,876,621** [3]	**110,979,611** [4]	**114,086,471**
Market capitalization EUR)	**217,593,015**	**268,584,501**	**335,496,291**	**317,401,687**	**209,919,106**
Traded shares:					
In the course of the year	64,917,707	88,224,937	128,748,505	186,848,681	130,902,035
Highest in one day	1,856,361	2,413,214	3,814,986	3,618,126	4,700,641
Lowest in one day	21,994	84,469	92,124	111,569	24,004
Daily average	252,598	345,980	504,896	732,739	509,346
Traded volume (EUR):					
In the course of the year	143,021,336	220,569,600	526,361,941	536,068,883	187,864,193
Daily average	556,503	864,979	2,064,165	2,102,231	730,990
Share price (EUR):					
Highest	2.89	3.95	5.57	3.63	2.41
Lowest	1.41	1.56	2.66	1.83	0.44
Average	2.20	2.50	4.09	2.87	1.44
Last	2.16	2.56	3.11	2.86	1.84
Frequency rate (%)	**100**	**100**	**100**	**100**	**100**
Liquidity rate (%)	**64.29**	**84.09**	**119.35**	**168.36**	**114.74**

[1] Yearly average 2020 = 102,614,814 shares.

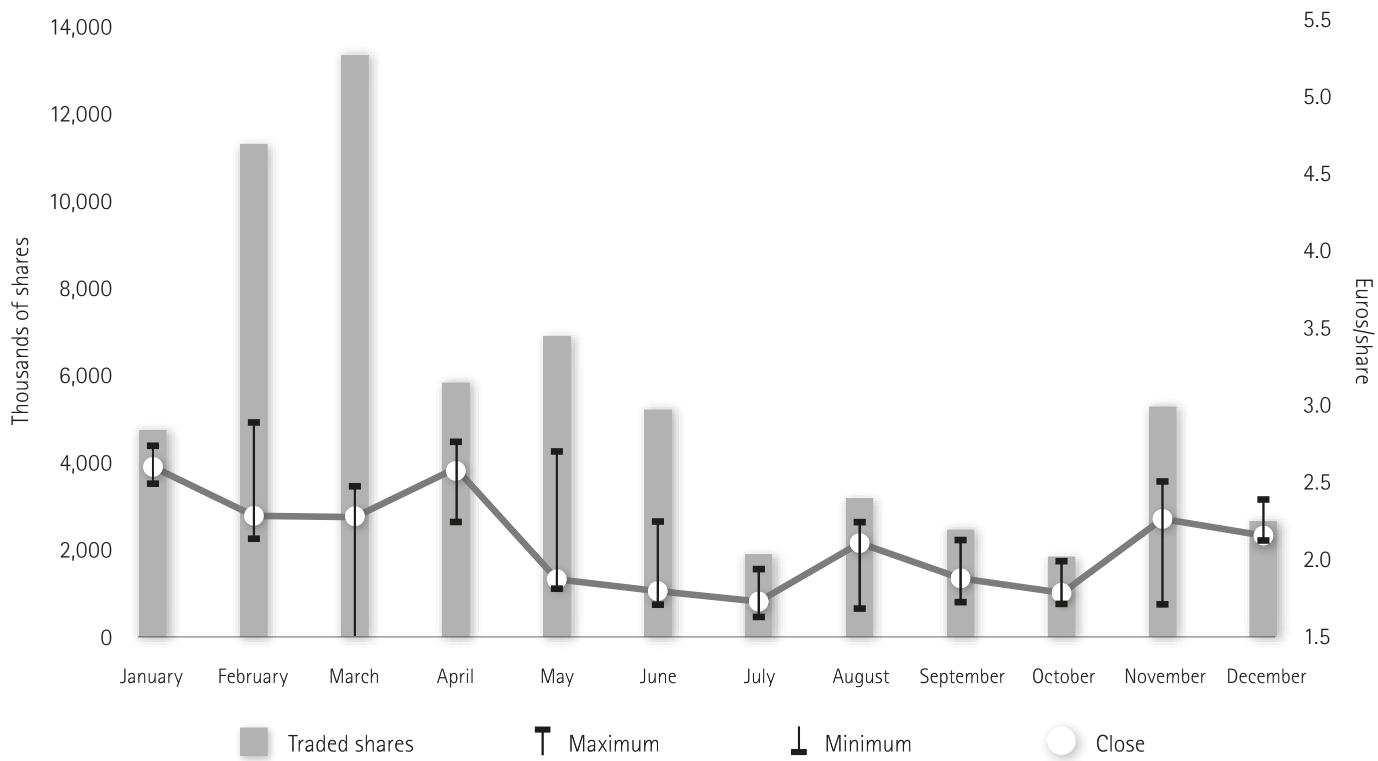
[2] Yearly average 2019 = 106,149,488 shares.

[3] Yearly average 2018 = 109,169,534 shares.

[4] Yearly average 2017 = 112,801,167 shares.

Evolution of share and traded volume

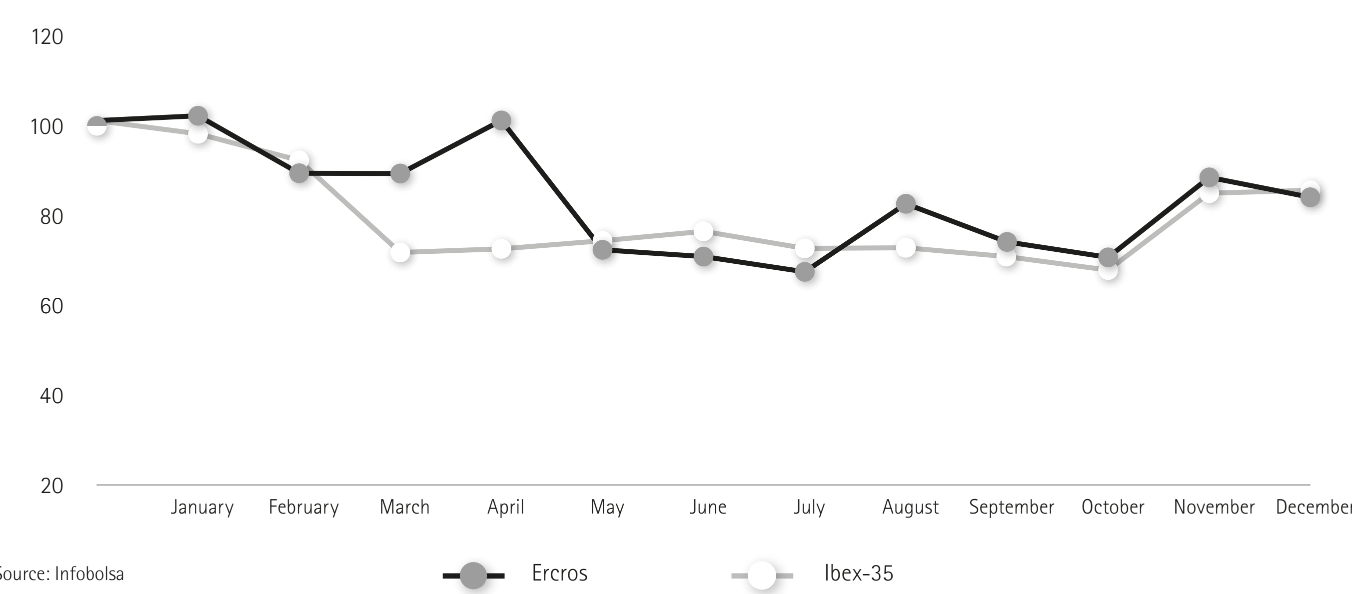
2020



Comparison between Ercros and Ibex-35

BASE 100 = 12-31-19

2020



Source: Infobolsa

c) Key stock market ratios

Between 2019 and 2020 CFA —calculated as the operating cash flow divided by the number of shares— has significantly improved from 0.57 to 0.74. This increase is related to the lower amount of outstanding shares and the high volume of funds generated in the prior year. CFA is a ratio that allows the Group to measure the generated cash flow corresponding to each share.

The evolution of the result, the decrease in quoted price and the reduction in the number of shares in share capital has damaged EPS, which has gone up from 0.293 euros/share in 2019 to 0.057 euros/share in 2020. This ratio is the profit/(loss) for the year divided by the weighted average price of outstanding shares considering the redemption of 3,945 thousand treasury shares and is used to measure earnings per share.

In 2020 PER —calculated by the number of times that market capitalization is included in profit/(loss) for the year— has increased from 8.65 times in 2019 to 37.8 times in 2020.

In the reference period P/BV —market capitalization divided by total equity and that relates the Company share's value in the stock exchange to its underlying net carrying amount— decreased from 0.92 in 2019 to 0.77 in 2020.

d) Significant shareholders

On July 29, 2020 the shareholder Joan Casas Galofré informed the CNMV of an increase in his direct ownership interest of up to 5.45%, as a result of the capital reduction carried out by Company on July 20, 2020. On November 13, 2020 the shareholder Victor Manuel Rodríguez Martín informed the CNMV of an increase in its direct ownership interest of up to 5.01%. The other significant shareholders have kept their number of shares, although their interests in share capital have increased by 3.8% as a result of the said reduction.

According to the shareholder communications to the CNMV, at December 31, 2020 the shareholders that hold significant ownership interest own directly or indirectly 19,435 thousand shares in Ercros's share capital, which accounts for 19.25% therein, according to the following detail:

Name or corporate name of shareholder	No. of direct shares (Thousands)	No. of indirect shares (Thousands)	Interest in share capital (%) [1]
Dimensional Fund Advisors	–	5,557 [2]	5.50
Joan Casas Galofré [3]	5,500	–	5.45
Victor Manuel Rodríguez Martín	5,061	–	5.01
Montserrat García Pruns	3,317	–	3.29

[1] The percentages are calculated over the number of shares at 12/31/2020.

[2] It includes the direct ownership interest of its subsidiary, DFA International Small Cap Value Portfolio, for 3,330 thousand shares, and thus, this subsidiary it is also a significant shareholder of Ercros.

[3] Mr. Casas Galofré was appointed a proprietary director of the Company by the shareholders at the meeting held on June 5, 2020.

The Company's free float at December 31, 2020 is estimated at 80.75%.

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

From December 31, 2019 to December 31, 2020 the number of Ercros shares held by the members of the board of directors has changed, from 100,100 shares (100 held by Laureano Roldán Aguilar and 100,000 held by Antonio Zabalza Martí) to 5,600,100 shares, as Mr. Casas Galofré became a proprietary director with 5,500,000 shares after being appointed at the shareholders' general meeting. The number of shares held by Mr. Roldán Aguilar and Mr. Zabalza Martí has remained the same during the year, although -due to the capital reduction, the ownership interest held by Mr. Zabalza Martí has increased from 0.095% to 0.099%.

Name or corporate name of the director	No. of direct shares	No. of indirect shares	Interest in share capital (%) [1]
Joan Casas Galofré [2]	5,500,000	–	5.45
Antonio Zabalza Martí [3]	100,000	–	0.10
Laureano Roldán Aguilar	100	–	0.00

[1] The percentages are calculated over the number of shares at 12/31/2020.

[2] On July 29, 2020 the shareholder communicated an increase in his direct ownership interest of up to 5.45%, as a result of the capital reduction carried out.

[3] On that same date, the CEO Antonio Zabalza Martí voluntarily communicated a change in his ownership percentage from 0.095% to 0.099%.

At December 31, 2020 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) Capital reduction

See section 10.2 a) above.

b) Purchase of treasury shares

See chapter 9 above.

c) Dividends paid

See chapter 9 above.

d) Ordinary shareholders' meeting

See section 2.1 a).

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.

The structure and content of the ACGR follows the model established in appendix I to Circular 5/2013 of June 12, modified by Circular 2/2018 of June 12, both issued by the CNMV.

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, 2020 is available on Ercros's (www.ercros.es) and CNMV's (www.cnmv.es) websites.

12 Non-financial information statement

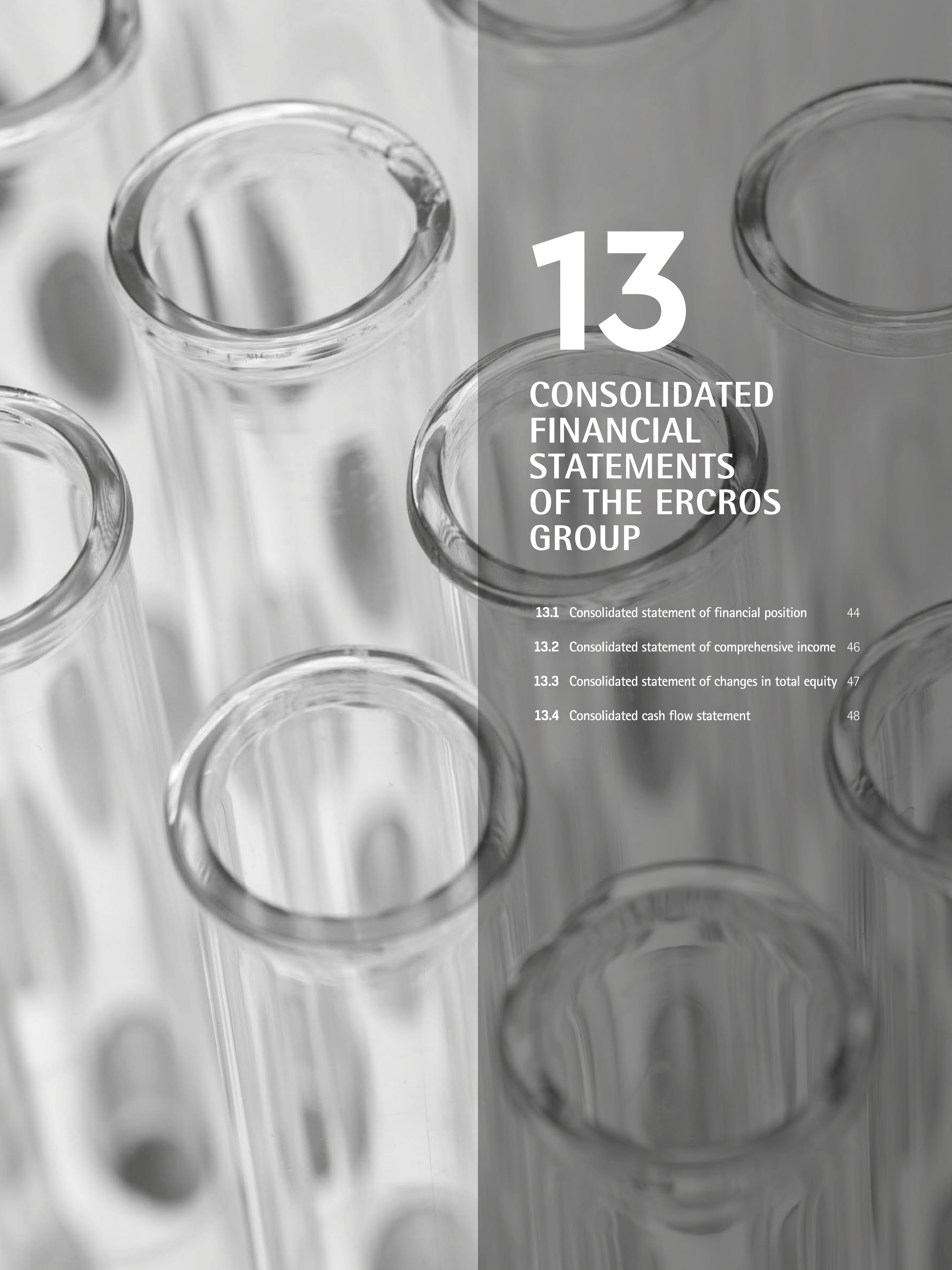
The Ercros Group publishes a non-financial information statement ("NFIS") in compliance with articles 44 of the Code of Commerce and 253 and 262 of the Spanish CEA. The NFIS is part of this CMR but is presented as a separate document as allowed by regulations.

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.

The NFIS of the Ercros Group for the year ended December 31, 2020 is available on Ercros's (www.ercros.es) and CNMV's (www.cnmv.es) websites.



13

CONSOLIDATED FINANCIAL STATEMENTS OF THE ERCROS GROUP

13.1 Consolidated statement of financial position

EUR THOUSAND

Assets	12/31/2020	12/31/2019
Non-current assets	**399,202**	**405,035**
Property, plant and equipment	311,291	296,937
Investment property	19,866	30,456
Intangible assets	7,162	6,795
Right-of-use assets	8,903	12,933
Investments accounted for using the equity method	6,403	6,654
Financial assets	6,667	10,997
Deferred tax assets	38,910	40,263
Current assets	**191,017**	**251,380**
Inventories	82,278	82,244
Trade and other receivables	56,070	86,595
Other current assets	11,968	11,051
Current income tax assets	770	10,373
Cash and cash equivalents	39,931	61,117
Total assets	**590,219**	**656,415**

EUR THOUSAND

Equity and liabilities	12/31/2020	12/31/2019
Total equity attributable to owners of the controlling entity	**284,215**	**292,083**
Total liabilities	**306,004**	**364,332**
Non-current liabilities	**142,189**	**120,937**
Loans	93,553	65,984
Lease payables	3,730	6,760
Deferred tax liabilities	23,197	24,114
Provisions for environmental remediation	9,180	9,286
Other provisions	520	2,010
Commitments to active staff	2,088	1,965
Accrued income and grants	9,921	10,818
Current liabilities	**163,815**	**243,395**
Loans	22,861	92,864
Current portion of non-current loans	5,851	10,309
Lease payables	5,415	6,618
Trade payables	102,447	101,226
Provisions for environmental remediation	3,061	6,208
Other provisions	7,856	7,796
Other liabilities	16,324	18,374
Total equity and liabilities	**590,219**	**656,415**

13.2 Consolidated statement of comprehensive income

EUR THOUSAND

	Year 2020	Year 2019
Income	**585,320**	**689,073**
Sale of finished products	547,236	638,737
Rendering of services	21,561	31,045
Other income	12,746	13,466
Reversal of provisions and other non-recurring income	3,777	2,233
Increase of inventory of finished products and work in progress	–	444
Gains/(losses) on disposals of investment properties	–	3,148
Expenses	**-535,719**	**-628,169**
Consumption of raw material and secondary materials	-267,946	-343,573
Decrease in inventory of finished products and work in progress	-8,202	–
Utilities	-72,194	-96,171
Employee benefits expense	-84,296	-83,127
Other expenses	-98,398	-97,461
Charge of provisions and other non-recurring income	-4,683	-7,837
Gross operating profit ("ebitda")	**49,601**	**60,904**
Depreciation and amortization expense	-30,329	-26,576
Impairment of non-current assets	-4,335	-5,615
Operating profit	**14,937**	**28,713**
Finance income	381	1,109
Interest cost	-6,521	-7,159
Losses on disposal of financial assets at amortized cost	–	-281
Impairment losses on financial assets (accounts receivable)	-67	-97
Exchange gains (losses)	-2,254	-74
Share in the profit of associated companies	509	414
Finance cost	**-7,952**	**-6,088**
Profit before tax	**6,985**	**22,625**
Income tax income/(expense)	-728	8,418
Profit for the year attributable to owners of the parent	**6,257**	**31,043**
Profit per basic and diluted share (EUR)	**0.0610**	**0.2924**

13.3 Consolidated statement of changes in total equity

EUR THOUSAND

	Share capital	Other reserves	Treasury shares acquired	Profit for the year	Equity
Balance at 12-31-18	**32,363**	**202,231**	**-6,932**	**44,594**	**272,256**
Transfer of 2018 retained earnings	–	38,299	–	-38,299	–
Dividends	–	–	–	-6,295	-6,295
2019 comprehensive income	–	–	–	31,043	31,043
Transactions with shareholders and owners:					
Meeting attendance bonus	–	-376	–	–	-376
Purchase of treasury shares	–	–	-4,545	–	-4,545
Redemption of treasury shares	-888	-10,589	11,477	–	–
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**

13.4 Consolidated cash flow statement

EUR THOUSAND

	Year 2020	Year 2019
A) Cash flows from operating activities	**74,591**	**59,431**
Customer collections	641,646	761,775
Proceeds from the net variation in the non-recourse tranche of the factoring facility	25,390	3,145
Payments to suppliers	-513,501	-597,279
Proceeds from VAT returns	7,251	1,231
Payments to and on account of ordinary employees	-84,384	-82,598
Payments to and on account of retired employees on the payroll and collective dismissal	-857	-1,618
Payments against provisions for environmental remediation	-5,136	-20,281
Payments against other provisions	-320	-3,102
Other operating proceeds/payments	750	-443
Grants received related to indirect CO_2 emissions	2,295	6,056
Other grants received	1,642	472
Interest paid	-5,545	-5,065
Interest received	368	111
Payments on/proceeds from net exchange gains (losses)	-1,420	-111
Dividends received	840	600
Proceeds from prior years' income tax refund	10,438	4,618
Payment on account of the income tax for the year	-1,079	-4,172
Payments of local and other taxes	-3,787	-3,908
B) Cash flows from investing activities	**-34,008**	**-31,352**
Purchase of property of plant, and equipment:		
Investments in capacity extension	-11,134	-21,469
Other investments	-22,971	-15,631
Disposal of investment property	97	5,748
Free cash flows (A+B)	**40,583**	**28,079**
C) Shareholders remuneration	**-14,125**	**-11,216**
Purchase of treasury shares	-8,735	-4,545
Payment of meeting attendance bonus	-341	-376
Dividends paid	-5,049	-6,295
D) Cash flows from financing activities	**-47,149**	**28,301**
Amounts drawn down on non-current loans	5,909	27,257
Repayment and redemption of non-current loans	-16,957	-12,218
Net variation of current revolving lines	-36,468	21,287
New finance lease arrangements	3,269	1,189
Finance lease payables	-7,502	-7,045
Cancellation of deposits	4,768	789
Constitution of deposits	-168	-2,958
E) Net increase/decrease in cash and cash equivalents (A+B+C+D)	**-20,691**	**45,164**
Cash and cash equivalents at the beginning of the period	61,117	15,845
Effect of foreign exchange rate	-495	108
Cash and cash equivalents at the end of the period	39,931	61,117

14

HISTORICAL DATA SERIES

14.1 Consolidated statement of financial position

EUR THOUSAND

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

Equity and liabilities					
Equity	**284,215**	**292,083**	**272,256**	**247,361**	**219,826**
Non-current liabilities	**142,189**	**120,937**	**112,191**	**124,149**	**124,298**
Long-term loans	93,553	65,984	48,393	46,258	58,811
Long-term provisions	11,788	13,261	17,150	28,102	35,080
Deferred tax liabilities and other non-current liabilities	36,848	41,692	46,648	49,789	30,407
Current liabilities	**163,815**	**243,395**	**240,945**	**250,456**	**216,057**
Short-term loans	28,712	103,173	83,837	79,620	89,341
Trade accounts payable and other accounts payable	102,447	101,226	107,655	118,654	106,855
Provisions and other current liabilities	32,656	38,996	49,453	52,182	19,861
Equity and total liabilities	**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 by application for the first time in 2019 of IFRS 16.

14.2 Consolidated statement of comprehensive income

EUR THOUSAND

	Year 2020	Year 2019	Year 2018 [1]	Year 2017 [1]	Year 2016
Income	**585,320**	**689,073**	**684,802**	**694,037**	**619,589**
Turnover	568,797	669,782	671,940	681,470	602,543
Other operating income and variation in inventories	16,523	19,291	12,862	12,567	17,046
Expenses	**–535,719**	**–628,169**	**–613,690**	**–619,726**	**–561,159**
Supplies	-267,946	-343,573	-341,780	-316,581	-270,215
Staff	-84,296	-83,127	-79,870	-83,387	-81,822
Other operating expenses	-183,477	-201,469	-192,040	-219,758	-209,122
Ebitda	**49,601**	**60,904**	**71,112**	**74,311**	**58,430**
Depreciation	-30,329	-26,576	-26,365	-18,252	-19,371
Profit/loss from impairment of assets	-4,335	-5,615	—	—	11,990
Costs for abandoning mercury technology	—	—	—	-21,732	—
Ebit	**14,937**	**28,713**	**44,747**	**34,327**	**51,049**
Financial result	-7,952	-6,088	-7,029	-5,644	-5,727
Earnings before taxes	**6,985**	**22,625**	**37,718**	**28,683**	**45,322**
Income taxes and non-controlling interests	-728	8,418	6,876	15,899	-157
Another comprehensive result		—	—	-90	—
Profit of the year	**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 by application for the first time in 2019 of IFRS 16.

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Ercros

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