Ercros

ANNUAL REPORT

2022

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The annual report includes the management report, annual accounts, and the audit report of the consolidated Group and of the individual Company, Ercros, S.A., for the year ended 31 December 2022. The Board of Directors unanimously approved these reports on 17 February 2023, following a favourable report from the Audit Committee meeting held on the same day.

Ercros

Contents

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

Bearing those cases in which the comprehension of the text requires, all references contained in this document using the male gender will indistinctly refer to all persons, male or female, in order to avoid the reiteration of terms and facilitate the reading thereof.

1 / Letter from the Chairman

Ladies and Gentlemen shareholders:

In 2022, the coronavirus pandemic was behind us, but the war in Ukraine began, with significant negative consequences, such as the sharp rise in the price of raw materials and energy. For Ercros, 2022 was also a year in which the company achieved very good results, thanks to strong demand in the first half and low supply in the second half, which allowed us to increase our margins.

The strong supply shock had its effects: firstly, in the sharp rise in industrial costs and inflation, and secondly, in the fall in demand and, as a result, in production. At Ercros, these developments in economic activity were reflected in a slight decline in tonnage in the first half of the year, later accentuated in the second half, due in part to additional recessionary effects triggered by increased interest rates to curb inflation.

Despite this adverse macroeconomic context, Ercros has managed to be continuously present in all the markets in which it operates, and has benefited from high prices for products sold, at a time when European supply is constrained by the declining rate of installed capacity utilisation.

Ercros, S.A.'s profit for the year amounted to 64,967 thousand euros. In addition, all the requirements established in the shareholder remuneration policy were met. Thus, the Board of Directors will propose at the general meeting to remunerate shareholders with the largest amount in the history of Ercros: 32.48 million euros, 50% of the profit for the 2022 financial year. This amount will be divided between: (i) a per-share dividend of 15 cents, which will yield shareholders approximately 13.72 million euros (21.1% of profit); and (ii) the repurchase of treasury shares for amortisation, for a value of approximately 18.76 million euros (28.9% of profit).

In addition to its commitment to its shareholders, Ercros is firmly committed to ESG factors (environmental, social and governance). This commitment is reflected in the scores achieved in the most prestigious international indices. The Group obtained 84 points out of 100 in the CSR EcoVadis rating, a result that places us in the top 1% of companies.

In the evaluation questionnaire of the Responsible Care programme, an initiative of the global chemical industry, the Ercros Group scored 81 points out of 100. Finally, in the ESG rating promoted by the *Instituto Español de Analistas Financieros* ("IEAF"), the Group scored 78 out of 100.

Similarly, in 2022 the Ercros Group certified its compliance with its Good Corporate Governance Index with the highest rating, G++, and completed the Carbon Disclosure Project (CDP) questionnaire.

On a strategic level, Ercros launched the so-called 3D Plan in 2021. The 3D Plan contains 20 projects which, over the period 2021-2029, will represent an accumulated investment of 92 million euros and an additional ebitda, also accumulated, of 194 million euros. The Plan's investments are being carried out according to schedule.

In diversification, the projects to expand the manufacturing capacity of dipentaerythritol at the Tortosa plant and moulding compounds at the Cerdanyola plant came into operation in 2021. In the first half of 2022, the expansion of the polyols plant in Tortosa began operations.

In Q4 2022, the projects to expand the sodium chlorite plant at the Sabiñánigo factory and to build a new extraction plant for the manufacture of two new antibiotics (vancomycin and gentamycin) at the Aranjuez factory were completed. As of this writing, the new sodium chlorite plant is fully operational and the manufacturing processes of the different salts of erythromycin, vancomycin and gentamycin have begun at the extraction plant.

With regard to digitisation, in addition to the projects already completed (the updating of production control and Business Intelligence systems for the purchasing and logistics areas, the tracking of containers shipped by sea, etc.), we continue to make progress on mobility and logistics projects, Big Data and IoT, infrastructure improvement, cybersecurity, optimisation of the work environment and automation, sensorisation and updating of control systems in the production area.

In decarbonisation, we have completed the following projects: (i) improvement of energy efficiency in Tortosa (unit for the recovery of waste heat generated at the polyol plant and replacement of various equipment with more efficient alternatives); (ii) replacement of lights with LEDs in the factories of the intermediate chemicals division; (iii) optimisation of consumption of chemical products and raw materials in Aranjuez; and (iv) improvement of hydrogen use in Sabiñánigo and Vila-seca I. Progress was made on the following projects: (i) optimisation of energy consumption at Cerdanyola; (ii) replacement of lighting fixtures with LEDs at the Tarragona complex; and (iii) recrystallization of salt at Sabiñánigo. We also completed the engineering for the projects to produce steam from biomass and manufacture EDCs with more efficient technology at Vila-seca II.

The general consensus of trade publications is that the European chemical industry's performance in 2023 will be weaker than in 2022. This situation should gradually correct itself in 2024. We will have to wait until later this year to be able to give more precise forecasts.

In any case, Ercros will continue to implement the 3D Plan, maintain its presence in all the markets in which it operates, and take advantage of opportunities to defend its margins.

Antonio Zabalza Martí
Chairman and CEO of Ercros

Barcelona, 17 February 2023

2.1. Organisational structure

The governing bodies of Ercros, S.A. (the 'Company' or 'Ercros') are the General Meeting of Shareholders and the Board of Directors and, within this: the Audit Committee and the Appointments, Remuneration, Sustainability and Corporate Social Responsibility Committee and the Strategy and Investment Committee. The operating management bodies are the Executive Committee and the Management Committee.

a) General Meeting of Shareholders

On 10 June 2022, the Company held its General Meeting of Shareholders in person —for the first time since the pandemic— and online.

At the meeting, all proposed resolutions submitted by the Board of Directors were approved. The agenda included, in addition to the mandatory or usual proposals, —approval of the financial statements, the management report, and the non-financial statement of Ercros and its consolidated Group ("the Ercros Group" or "the Group"), re-election of the external auditor, advisory vote on the directors' remuneration report, and delegation to the managing director and the secretary to implement— the following resolutions:

– The proposed payment of a dividend of 8,211 thousand euros, equal to 0.085 euros gross per share, meaning a payout of 19.1% of the Ercros's 2021 profit [see section 11.1 b) (i) of this report].

– A capital decrease amounting to 1,311,614.40 euros, through the amortization of the 4,372 thousand treasury shares held by Ercros, representing 4.33% of the share capital, which were acquired under the fifth and sixth treasury share repurchase program, with an acquisition cost of 13,266 thousand euros, representing a payment equal to 31% of the consolidated profit obtained in 2021 [see section 11.2 a)].

– Approval of the directors' remuneration policy.

– The authorisation for Ercros to acquire treasury shares, pursuant to article 146 of the Spanish Corporate Enterprises Act for a period of five years.

The meeting was attended by 6,056 shareholders owning 73,989 thousand shares, representing 73.277% of the subscribed voting capital, of which 18.457% was present and the remaining 54.820% was represented.

Ercros paid a premium of 0.005 euros gross per share to shareholders attending the meeting.

b) The Board of Directors

The composition of the Board of Directors of Ercros has not changed during 2022 and its configuration is as follows:

– Chairman and executive director: Antonio Zabalza Martí.

– Independent directors: Carme Moragues Josa (coordinator) and Lourdes Vega Fernández (deputy coordinator).

– Board members classified as "other external directors": Laureano Roldán Aguilar and Eduardo Sánchez Morrondo.

– Proprietary director: Joan Casas Galofré.

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

In 2022, the board held eight meetings attended by all directors. Six meetings were held by videoconference and two in person.

At the meeting held on 16 December 2022, the Board of Directors assessed: (i) the quality and efficiency of the functioning and composition of the board and committees, as well as the performance of the Company's top executive and of every director, (ii) the presentation of the risk map reflecting the business and financial impact of climate-related risks and opportunities.

(i) Audit Committee

The composition of the Audit Committee, which remained unchanged in 2022, is as follows:

– Chairwoman: Ms. Moragues Josa, independent director.

– Board members: Ms. Vega Fernández, independent director, and Mr. Roldán Aguilar, director classified as "other external directors".

Mr. Ripley Soria, secretary of the Board of Directors of Ercros, acts as secretary of this committee.

In 2022, the Audit Committee held five meetings attended by all members and all held by videoconference.

The internal audit department, which is headed by Xavier Álvarez García, and the Compliance Committee, which consists of Xavier Álvarez García and Asunción Loste Madoz, director of the legal counsel department, report to the Audit Committee.

Composition of the Board of Directors at 31-12-22

Board member	Position	Category	Committees	Last appointment
Antonio Zabalza Martí	Chairman and CEO	Executive	–Strategy and Investment	6/5/2020
Carme Moragues Josa	Coordinating director	Independent	–Audit –ARS&CSRC	6/11/2021
Lourdes Vega Fernández	Proxy coordinating director	Independent	–Audit –ARS&CSRC –Strategy and Investment	6/5/2020
Laureano Roldán Aguilar	Board member	Other external board members	–Audit	6/5/2020
Eduardo Sánchez Morrondo	Board member	Other external board members	–ARS&CSRC	6/5/2020
Joan Casas Galofré	Board member	Proprietary	–Strategy and Investment	6/5/2020
Daniel Ripley Soria	Secretary, non-board member			

(ii) Appointments, Remuneration, Sustainability and Corporate Social Responsibility Committee (ARS&CSRC)

In 2022, there were no changes to the composition of the ARS&CSRC, which consists of:

- Chairwoman: Ms. Vega Fernández, independent director.

- Board members: Ms. Moragues Josa, independent director, and Mr. Sánchez Morrondo, director classified as "other external directors".

Mr. Ripley Soria, secretary of the Board of Directors of Ercros, acts as secretary of this committee.

In 2022, the committee held two meetings, both by videoconference, where were attended by all members.

The members of this committee are trained in the analysis of climate-related risks and opportunities.

(iii) Strategy and Investment Committee

On 18 February 2022, the Board of Directors approved the replacement of Ms. Moragues Josa by Ms. Vega Fernández as a member of the Strategy and Investment Committee.

As a result, the composition of the Strategy and Investment Committee is as follows:

- Chairman: Mr. Zabalza Martí, executive director.

- Board members: Ms. Vega Fernández, independent director, and Mr. Casas Galofré, proprietary director.

Mr. Ripley Soria, the secretary to the Board of Directors of Ercros, is also the secretary of this committee.

In 2022, this committee held six meetings attended by all members and all held by videoconference.

c) Executive Committee

This body ensures the implementation and monitoring of the resolutions adopted by the Board of Directors, carries out continuous control of operational management and risks in general, and approves the execution of the Group's investments and financing.

Members include the executive director, the general manager of business, and the chief financial officer. The committee meets at least once a week.

Centres, products, and applications

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

d) Management Committee

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

Members include the executive director, the two managing directors, the directors of the three divisions, the commercial directors of each division, and the directors of institutional relations and communication, administration, finance, sustainable development, human resources, information systems, integrated logistics, legal counsel, and R&D&i.

The Management Committee met 11 times in 2022.

2.2. Industrial structure

The Ercros Industrial Group is diversified into three business segments: (i) the chlorine derivatives division, a strategic business unit whose common link is chlorine; (ii) the intermediate chemicals division, focused on formaldehyde chemistry, from which the rest of the products in its portfolio are manufactured; and (iii) the pharmaceuticals division, which is dedicated to the manufacture of active pharmaceutical ingredients (APIs).

At 31 December 2022, the Group had ten production centres, all located in Spain. In December, the Group resolved to close the Flix production centre for the production of dicalcium phosphate due to the impossibility of renewing the supply and toll-manufacturing agreements. The Group plans to support industrial initiatives by third parties, which could be set up on the Flix site, for which it will undertake the appropriate dismantling to make the land available for potential new industries.

2.3. Operation

a) Mission and principles

The general aim of the Ercros Group is to establish itself as a solid and long-lasting industrial group that contributes in a sustainable manner to the generation of wealth and the well-being of society, providing shareholders with suitable returns and favouring the full personal and professional development of its employees.

The Group's measures, aimed at increasing its value, are guided by four core principles: (i) maximum safety for its employees, community, and facilities; (ii) sustainability; (iii) satisfying the needs of customers; and (iv) ensuring the utmost quality of its products.

b) Corporate strategy

The Ercros Group defines its business strategy according to multiannual plans that establish the measures to adopt in order to increase productivity and the efficient use of resources.

The Group's three main long-term strategic objectives are:

- To create a sustainable, efficient, healthy, and profitable chemical group with international presence.
- To have modern, sustainable, eco-friendly and industrially-integrated productive premises with a European scope located at competitive sites.
- Focus on high added-value products, which present competitive advantages and offer growth expectations.

c) Diversification, Digitalization and Decarbonisation Plan: The 3D Plan

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

With regard to diversification, projects to increase the manufacturing capacity of dipentaerythritol began during 2021 at the Tortosa factory and of molding compound at Cerdanyola factory. In the first half of 2022, the extension of the polyol plant in Tortosa began operations. The projects to expand the sodium chlorite plant at the Sabiñánigo factory and build a new extraction plant for the production of two new antibiotics (vancomycin and gentamycin) at the Aranjuez factory were completed in Q4 2022.

As of this writing, the extension of the sodium chlorite plant at the Sabiñánigo factory is fully operational and the production of erythromycin salts and new antibiotics (vancomycin and gentamycin) at the extraction plant in Aranjuez has begun.

As for digitisation, in addition to already-completed projects (updating production monitoring and business intelligence systems for the purchasing and logistics areas, tracking and monitoring of containers shipped by sea), work continues on projects related to mobility and logistics, big data and IoT, infrastructure improvement, cybersecurity, optimising the work environment, automation, sensorisation, and updating control systems in the production area.

On the topic of decarbonisation, the following projects have been completed: (i) energy efficiency improvement in Tortosa (waste heat recovery unit at the polyol plant and replacement of several equipment items with more efficient alternatives); (ii) replacement of lighting with LED lights in the intermediate chemicals division; (iii) optimization of consumption of chemical products and raw materials in Aranjuez; and (iv) improvement of hydrogen utilization in Sabiñánigo and Vila-seca.

Work continues on the following projects: (i) optimization of energy consumption in Cerdanyola; (ii) replacement of lighting with LED lights at the Tarragona complex; and (iii) salt recrystallization in Sabiñánigo.

Additionally, the engineering for the following production projects has been completed: (i) steam from biomass; and (ii) manufacture of EDC with more efficient technology at Vila-seca II.

d) Business model and challenges

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

The margin of the ECU is determined: (i) on the income side, by the selling price of co-produced caustic soda and the profitability from the different chlorine applications; and (ii) on the cost side, by the price of energy power at any given time, which in 2022 accounted for more than 50% of production costs, and by the cost of the raw materials consumed in the production of chlorine derivatives.

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

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

The key strengths of the chlorine derivatives division are integrated production, the synergies and complementarity between the factories and the division, and the efficiency of its state-of-the-art industrial park.

The main challenges of this business are to reduce the carbon footprint of processes, increase the production capacity of products with the highest added value, such as sodium chlorite, and diversify its portfolio by incorporating new products.

Formaldehyde is the core product of the Intermediate Chemical Division, and methanol is its main raw material. This supply accounts for around 40% of the division's total costs. The Group has agreements of different durations with several suppliers of this raw material.

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

The key strengths of this division are know-how and proprietary technologies in the production processes, as well as the capacity to develop tailored products to meet our customers' needs.

The main challenges of this business are to: (i) boost sales volumes in line with recent increase in the production capacity of solid products, (ii) develop new resin ranges (ErcrosGreen+ and ErcrosTech), (iii) continue digitising the entire value chain, (iv) remain committed to the gradual process of decarbonisation, (v) enhance quality and the level of product services, and (vi) diversify the current portfolio.

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

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

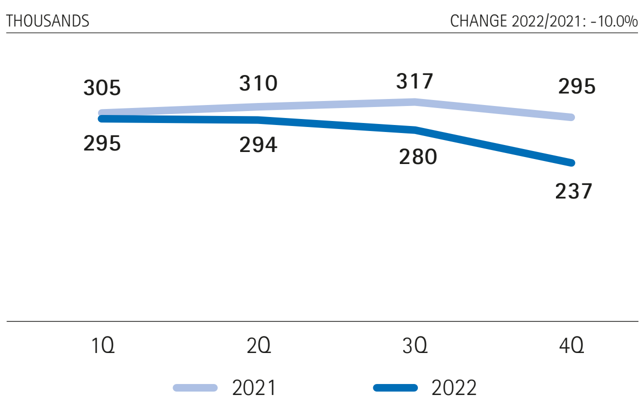
The main challenges for this business are: (i) to make the increased manufacturing capacity of sterile medicines profitable, by incorporating new products and introducing them to new markets; (ii) to optimise the installed fermentation capacity, increasing the sales volume of existing products and manufacturing new ones (the project for the construction of a new extraction plant to manufacture the antibiotics vancomycin and gentamycin, under the 3D Plan, is an example of product portfolio expansion); (iii) to continuously adapt to the new quality standards required by customers and regulatory bodies, and (iv) to face competition from emerging markets.

3 / Business evolution and results

3.1. Analysis of the evolution of the main indicators

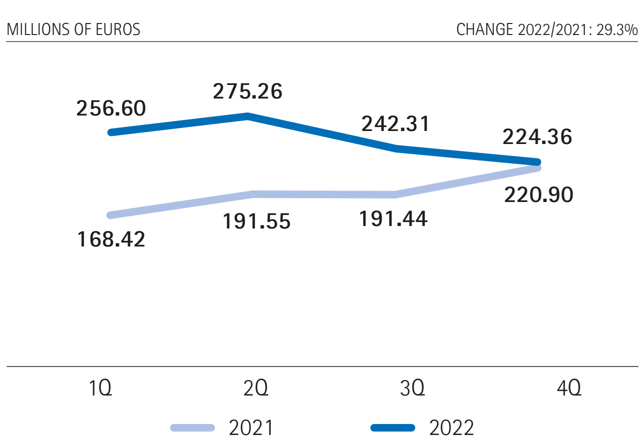
1. In 2022, Ercros sold 1,105 thousand tonnes of manufactured products, compared to 1,227 thousand tonnes sold in 2021: a 10% drop. Volumes decreased slightly in the first half of 2022 (-4.4%), and sharply in the second half (-15.7%), when the effects of a major shock in supply, caused by the rise in energy costs on capacity utilization, became more apparent.

Tonnes sold per quarter



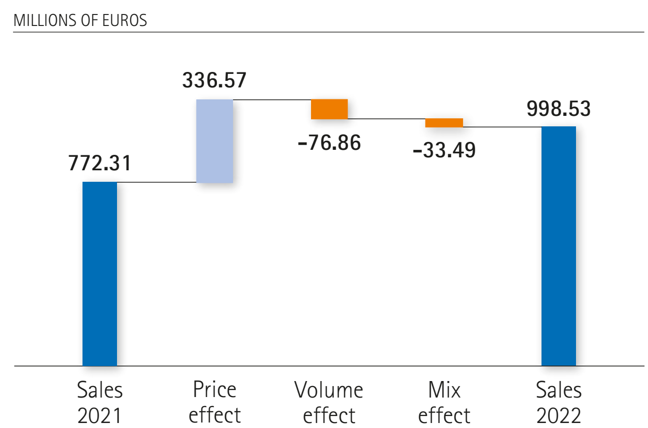
2. Total product sales in 2022 amounted to 998.53 million euros compared to 772.31 million euros in 2021: that is an increase of 226.22 million euros or 29.3%. Sales in the first half of the year were 47.8% higher than in 2021, and 13.2% higher in the second half. As with tonnes sold, the second half of the year showed some weakening compared to the first half.

Product sales per quarter



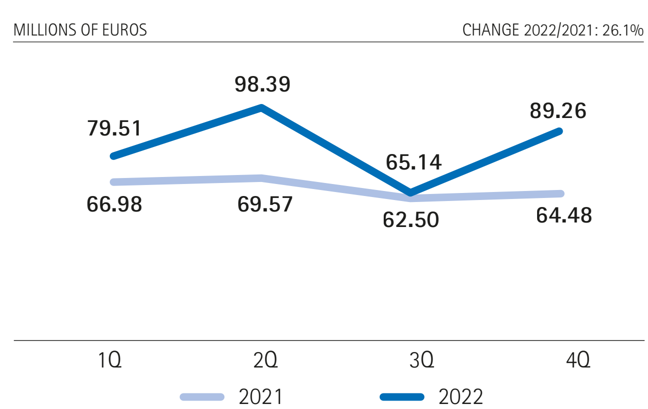
3. The contrast between the variation in sales (29.3%) and tonnes sold (-10%) reveals that throughout 2022 the average price of products sold rose very significantly. Of the 226.22 million-euro increase in sales, the rise in the average price accounts for 336.57 million (148.8%), while decreased volumes account for -76.86 million (-34.0%), and the mix effect accounts for the remaining -33.49 million (-14.8%).

Price and volume effects on sales growth



4. The contribution generated by the sale of products and the rendering of services amounted to 332.30 million euros in 2022, compared to 263.53 million euros in 2021; a 26.1% increase. Despite this good result in cumulative terms, the rise in variable costs, in particular energy costs, and the smaller increase in sales in the second half of the year caused contributions to be higher in the first half than in the second half of the year (30.3% vs. 21.6%).

Contribution [1]

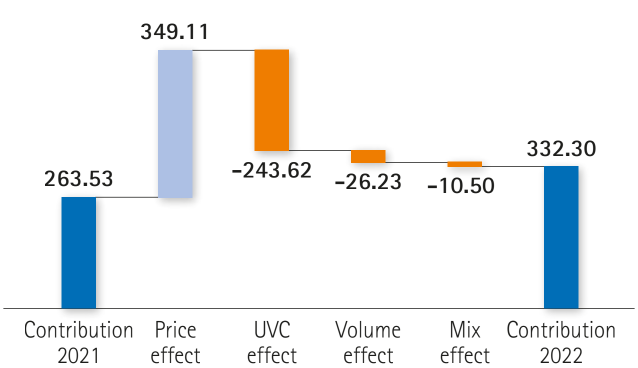


[1] Contribution margin: (sales of products + services rendered – cost of sales – supplies + change in inventories).

5. Strong demand coupled with limited global supply in 2022, mainly during the first half of the year, accounted for the strong effect that the rising average price of sold products had on contribution (349.11 million euros). This effect was partially offset by the rise in the unit variable cost (UVC), caused by higher costs of energy and raw materials, which reduced contribution by 243.62 million euros. The net effect of both forces amounted to 105.49 million euros (a 153.4% increase in contribution), with the volume effect being -26.23 million euros (-38.1%) and the mix effect being -10.50 million (-15-3%).

Price, UVC and volume effects on the contribution increase

MILLIONS OF EUROS

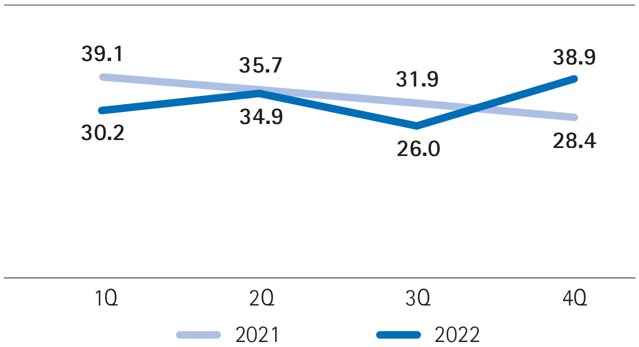


6. The contribution margin (contribution divided by the sum of products sold plus services rendered) decreased from 33.4% in 2021 to 32.4% in 2022: a -2.9% variation due to the fact that in 2022 the increase in the sum of sales and services (29.9%) was higher than the increase in contribution (26.1%).

Contribution margin per quarter[1]

PERCENTAGE

2022: 32.4%
2021: 33.4%



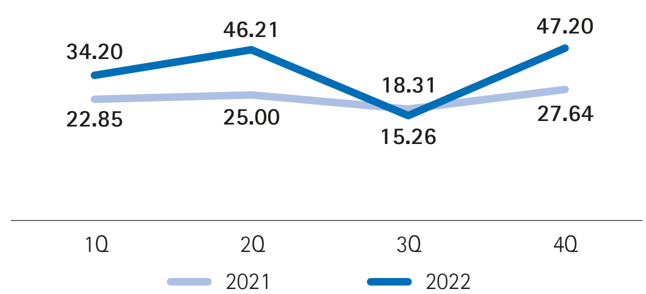
[1] Contribution margin: contribution / (products sold + services rendered).

7. Adjusted ebitda in 2022 amounted to 142.87 million euros compared to 93.80 million euros in 2021: a 52.3% increase. The strong recovery in Q4 relative Q3 is due to the sharp rise in the price of caustic soda and significantly lower gas and electricity prices. Additionally, in December the Group recorded the offset for indirect CO_2 (4.60 million), a 1.19 million reduction in electricity charges (as the Group is considered an electro-intensive company), and compensation as a gas-intensive company (0.40 million).

Adjusted quarterly Ebitda[1]

MILLIONS OF EUROS

VARIATION 2022/2021: 52.3%



[1] Adjusted ebitda: ebitda excluding atypical items.

8. The increase in adjusted ebitda in 2022 is mainly due to strong contribution growth, which in the graph below is represented by price, UVC, volume, and mix effects, with a net contribution to ebitda of 68.76 million euros, which far exceeds the 19.70 million euro impairment caused by the increase in other revenues and other operating costs, including higher international freight (8.53 million euros) and fixed costs (3.92 million euros).

Effects of price, UVC, volume and others on the increase in adjusted ebitda

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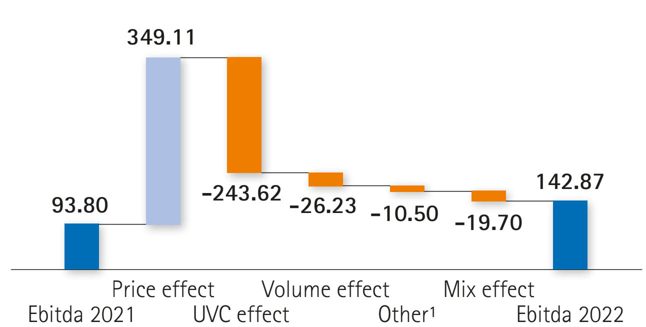
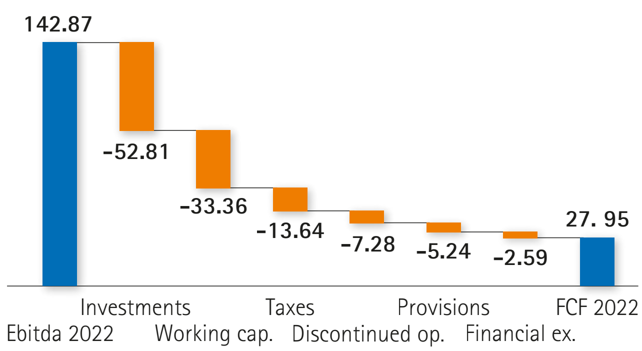


[1] Other: change in service provision, other income, fixed and non-standard costs.

9. Free cash flow (FCF) in 2022 amounted to 27.95 million euros, the result of subtracting investments of 52.81 million, working capital of 33.36 million, taxes of 13.64 million, discontinued operations of 7.28 million (Flix closure), provisions of 5.24 million, and net financial result of 2.59 million from an ebitda of 142.87 million euros.

From ebitda to free cash flow (FCF)

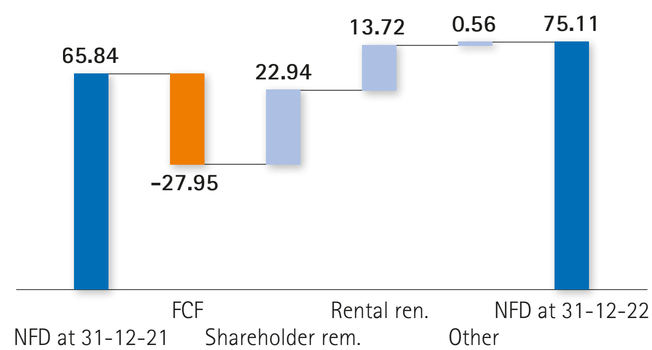
MILLIONS OF EUROS



10. The Group's net financial debt at the beginning of 2022 amounted to 65.84 million euros. Throughout the year, the main debt-reducing factor was the FCF generated in the period amounting to 27.95 million euros. The causes prompting an increase in debt were shareholder remuneration, amounting to 22.94 million, renewal of rentals, amounting to 13.72 million, and other minor factors totalling a net amount of 0.56 million. In total, Ercros increased its debt by 9.27 million euros. Consequently, its debt at 31 December 2022 was 75.11 million euros.

Evolution of net financial debt (NFD)

MILLIONS OF EUROS



11. At 31 December 2022, the Group's liquidity amounted to 158.15 million euros, of which 58.28 million corresponded to cash and 99.87 million to undrawn financing facilities, including the loan of 20 million euros granted by the European Investment Bank aimed at funding 3D Plan investments, which were already partially complete in 2022.

3.2. Results

With regard to profit for the 2022 financial year, the following is worth noting:

The 'Rendering of services' section increased by 57.6% as a result of greater demand for these services from customers. 'Other income' increased by 22% mainly due to the rising value of free-of-charge CO_2 emission allowances, with a reduction in both compensation for indirect CO_2 emission allowances and income from the mechanism for compensating charges to electro-intensive consumers.

The combined amount of supplies plus the change in stocks of finished products and work in progress increased by 24.7%, due to the significant increase in the price of raw materials, especially ethylene, EDC, and methanol, and the purchase of third-party products for commercialization.

Utilities increased by 49.2%, mainly due to the strong increase in energy prices, especially electricity.

Employee benefit costs increased by 7.2% compared to 2021, due to a 1.1% growth in average headcount, a 2% collective agreement-linked salary increase, and improvements to the collective agreement for the 2021-2023 period.

The 17.2% increase in 'Other operating expenses' is attributable to the rise in transportation expenses, mainly given the higher price of international freight charges and, through symmetry with 'Other income', of CO_2 emission costs per the rise in the average price of CO_2 emission allowances.

'Charge of provisions and other non-recurring expenses' increased by 196.4% compared to 2021, mainly as a result of provisions made to discontinue dicalcium phosphate production activity at Flix, to cover the costs for the agreed-upon dismissals, and to dismantle the facilities and close production. Provisions have also been made for soil remediation based on the latest information available on environmental remediation commitments and obligations.

'Depreciation and amortization' increased by 6.5% relative to the prior year due to the higher depreciation of right-of-use leased assets and property, plant, and equipment.

The financial result increased by 66.3% on (i) higher provisions for the impairment of receivables, compared to a reduction in the previous year, (ii) higher financial costs due to the rise in interest rates, and (iii) higher bank fees.

The increase in income tax expense is due to the higher profit obtained.

3.3. Other comprehensive income

'Other comprehensive income' includes the amount, net of tax, corresponding to the settlement of cash flow hedges from the purchase of electricity contracted in 2022, changes in the value of the hedge during the year, and the tax-rate adjustment relative to the estimated tax rate at 2021 year-end.

3.4. Profit and loss account

THOUSANDS OF EUROS

	Year 2022	Year 2021	%
Continuing operations			
Income	**1,059,685**	**841,055**	**26.0**
Sale of finished products	998,532	772,317	29.3
Rendering of services	26,370	16,728	57.6
Other income	28,394	23,281	22.0
Reversal of provisions and other non-recurring income	399	6,569	-93.9
Increase in inventories of finished goods and work in progress	5,990	22,160	-73.0
Expenses	**-937,024**	**-747,642**	**25.3**
Provisions	-470,572	-394,812	19.2
Supplies	-228,015	-152,867	49.2
Employee benefits expense	-89,582	-83,603	7.2
Other operating expenses	-128,243	-109,405	17.2
Charge of provisions and other non-recurring expenses	-20,612	-6,955	×3.0[1]
Ebitda	**122,661**	**93,413**	**31.3**
Amortizations	-29,966	-28,130	6.5
Impairment assets	-539	-3,450	-84.4
Ebit	**92,156**	**61,833**	**49.0**
Finance result	-4,198	-2,525	66.3
Profit before tax	**87,958**	**59,308**	**48.3**
Income tax expense	-17,314	-9,897	74.9
Profit of continuing operations	**70,644**	**49,411**	**43.0**
Net loss of profit from discontinuing operations	-7,655	-6,114	25.2
Profit for the year	**62,989**	**43,297**	**45.5**

[1] Times in which the 2022 figure exceeds the 2021 figure (in absolute terms).

Reconciliation of adjusted

THOUSANDS OF EUROS

	Year 2022	Year 2021	%
Ebitda	**122.661**	**93.413**	**31,3**
Atypical income items	-399	-6.569	-93,9
Atypical spending items	20.612	6.955	196,4
Adjusted ebitda	**142.874**	**93.799**	**52,3**

Other total comprehensive income

THOUSANDS OF EUROS

	Year 2022	Year 2021	%
Profit for the year	**62.989**	**43.297**	**45,5**
Other comprehensive income-items that will subsequently be reclassified to profit or loss for the year	-10.957	10.957	–
Total comprehensive income	**52.032**	**54.254**	**-4,1**

3.5. Results by business

The year 2022 was marked by (i) the impact of the war in Ukraine and its effect on European energy markets; and (ii) the removal of Covid-related restrictions.

As a result of these two factors, Q3 2022 saw an end to the recovery in the demand for durable consumer goods that began in Q4 2020 and continued throughout 2021 and into the first half of 2022. The decision by the central banks of the largest economies to raise interest rates in an effort to curb surging inflation, coupled with the removal of Covid-related restrictions, changed consumer habits: demand for durable consumer goods decreased, whereas demand for services increased.

This context was accompanied by extremely high energy costs in Europe (gas and electricity reached all-time highs in Q3 2022), due to the war in Ukraine, the subsequent reduction in Russian gas supplies to Europe, and greater uncertainty about whether future supply alternatives are sufficient enough to satisfy demand.

Consequently, business efforts focused on adapting production to demand (which was higher in the first half of the year and lower in the second) and defending margins in a situation of highly volatile markets subject to growing competitiveness. In Q4 2022, in particular, Ercros was able to take advantage of easing energy costs (derived from the strong reduction in industrial gas consumption, mild winter weather, an uptick renewable energy production, and greater natural gas supplies to Europe) and the reduced supply from its European competitors to maximize sales volumes and margins. Especially relevant was the case of caustic soda, the price of which rose to all-time highs as a result of a supply shortage in the European market in Q4.

All of this, in addition to the government subsidies obtained to alleviate high energy costs of electro —and gas— intensive companies, helped Q4 2022 yield the best quarterly ebitda of the year, although sales volumes were lower than in previous months (15.5% reduction compared to Q3 and 19.7% reduction compared to Q4 2021), in line with the declining demand for chemical products observed since mid-2022.

Throughout the year, the volumes sold by the chlorine derivatives division decreased by 7.9% compared to 2021, affecting almost all products, though to a different extent. Despite lower volumes, the division's sales increase 39.3% and ebitda grew 103.8%, in a context marked by heightened market tensions (in Q1 for most of the division's products and in Q4 for caustic soda) as a result of higher production costs. The ebitda/sales ratio reached 18.5%, 5.8 points higher than in the same period of the prior year (12.7%).

In 2021, the intermediate chemicals division responded very effectively to the increase in demand for durable consumer goods triggered by the Covid-19 pandemic and the low interest rates at the time. In 2022, on the other hand, the division was affected by lower demand for these goods due to the aforementioned change in consumer habits and the rise in interest rates. Additionally, despite the dollar/euro appreciation, European producers were forced to compete with producers based in regions with lower raw material and —especially— energy costs (mainly Asia and North America). The consequence of all this (2022 vs. 2021) was: (i) a 15.3% reduction in the volumes sold, although turnover increased by 9.2% on rising prices; and (ii) a drop in ebitda of 51.4%. The ebitda/sales ratio reached 5.7% compared to 12.8% in 2021.

With regard to the pharmaceuticals division, and relative to 2021, sales volumes increased by 13.1%, continuing the recovery the division initiated in the second half of 2021. This recovery was accompanied by an increase in sales prices, resulting in a 28% uptick in turnover. However, strictly regulated pricing policies in many countries, which prevent the transfer of rising energy and raw material costs, reduced the ebitda increase by 1.2 million euros. The ebitda/sales ratio reached 5% compared to 4.1% in 2021, still very far from the division's usual margin, which it expects to recover in the coming quarters as raw material prices decrease and regulated pricing policies for pharmaceutical products in European countries become more flexible.

In Q3 2022, Ercros started to sell three new products that increased the division's portfolio: erythromycin dehydrate, micronized fatomidine, and sterile fosfomycin with citrus. In Q4, commercial channels were opened in new markets. Additionally, the required approvals for the manufacture and marketing of this division's other new products —vancomycin, gentamycin, and sterile fusidic acid, among others—will be obtained in 2023.

Results by division

THOUSANDS OF EUROS

	Chlorine derivatives			Intermediate chemicals			Pharmaceuticals		
	Year 2022	Year 2021	%	Year 2022	Year 2021	%	Year 2022	Year 2021	%
Income	**716,478**	**531,301**	**34.9**	**277,910**	**251,198**	**10.7**	**65,315**	**51,987**	**25.6**
Sales of products	673,099	483,047	39.3	260,518	238,567	9.2	64,915	50,703	28.0
Rendering of services	26,334	16,697	57.7	36	31	16.1	–	–	–
Other income	17,045	14,712	15.9	10,949	8,245	32.8	400	324	23.5
Change in inventory	–	16,845	–	6,407	4,355	–	–	960	–
Expenses	**-591,662**	**-470,051**	**25.9**	**-263,091**	**-220,713**	**19.2**	**-62,076**	**-49,923**	**24.3**
Consumables	-273,309	-230,479	18.6	-169,935	-144,358	17.7	-27,328	-19,975	36.8
Change in inventory	-183	–	–	–	–	–	-234	–	–
Utilities	-190,335	-128,499	48.1	-29,813	-18,512	61.0	-7,867	-5,856	34.3
Transport	-29,905	-25,780	16.0	-20,617	-17,625	17.0	-1,416		
Employee benefits expense	-51,517	-47,332	8.8	-23,112	-22,566	2.4	-14,953	-13,705	9.1
Other expenses	-46,413	-37,961	22.3	-19,614	-17,652	11.1	-10,278	-10,387	-1.0
Ordinary ebitda	**124,816**	**61,250**	**103.8**	**14,819**	**30,485**	**-51.4**	**3,239**	**2,064**	**56.9**
Depreciation and amortization expense	-19,414	-17,926	8.3	-6,563	-6,595	-0.5	-3,989	-3,609	10.5
Operating profit	**105,402**	**43,324**	**143.3**	**8,256**	**23,890**	**-65.4**	**-750**	**-1,545**	**-51.5**
Assets	355,986	328,277	8.4	173,778	174,456	-0.4	83,001	67,837	22.4
Liabilities	108,463	126,260	-14.1	39,900	46,506	-14.2	16,541	14,741	12.2
Investments in non-current asset	26,095	17,997	45.0	4,361	3,369	29.4	16,834	12,170	38.3

3.6. Geographic markets

In 2022, as in the previous year, the domestic market performed better than the foreign market.

The domestic market accounted for 53.3% of sales, with an amount of 532,662 thousand euros (410,697 thousand euros in 2021). The remaining 46.7% of sales occurred abroad and amounted to 464,370 thousand euros (380,840 thousand euros in 2021).

The chlorine derivatives division sold 63.7% of its turnover in Spain. In this business, sales to the Spanish market increased by 39.9% and exports by 38.4%.

In the intermediate chemicals division, the increase in turnover was 9.2%. The rise in turnover has affected the domestic market to a greater extent, with an increase of 21.7%, and the foreign market to a lesser extent, with an increase of 3.2%. This business exports 63.7% of its turnover.

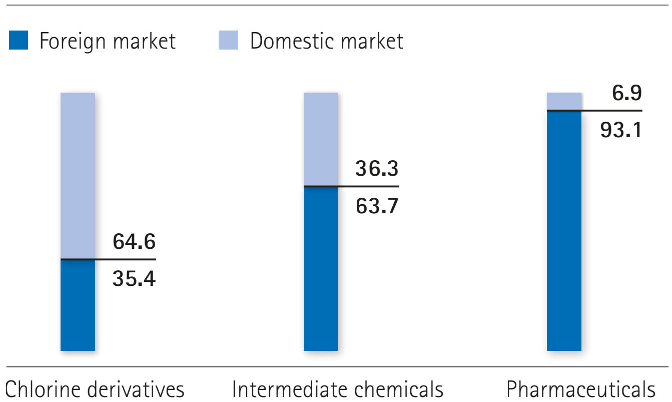
The pharmaceuticals division carries out 93.1% of its sales outside of Spain, increasing by 28% in 2022 in comparison with the prior year. Domestic sales grew 64.2% and foreign sales 26%.

The European Union is the main destination of Ercros's exports, accounting for 27.7% of sales. Turnover in the EU increased by 29.1% relative to 2021. Sales to OECD countries increased 22.8%, representing 10.9% of total sales. The rest of the world, which accounts for 7.9% of turnover, saw an improvement in sales of 1.2% between 2021 and 2022.

In terms of sales, France, Italy, Portugal, the US, Germany, and Turkey are the main destinations for Ercros' exports.

Business markets

% OF SALES OF EACH BUSINESS IN 2022



3.7. Exchange rate

The only assets and liabilities exposed to foreign currency risk are those resulting from ordinary purchases and sales. The Group has no other assets exposed to currency risk on its balance sheet.

By far, the US dollar represents the Group's main foreign currency exposure. No derivative instruments hedge this risk.

In 2022, the US dollar appreciated vis-à-vis the euro, standing at 1.07 US dollars per euro at year-end. This appreciation had a positive impact of 8,806 thousand euros on the Group's ebitda in 2022. Net exposure amounted to 89,669 thousand euros.

In 2023, an average exchange rate of 1.02 US dollars per euro is estimated. This potential US dollar depreciation will have a negative effect on the Group, as it will worsen the competitive position of the products it markets and reduce their profitability.

In 2023, the Group will increase its net exposure to this foreign currency to reduce the purchase of some raw materials acquired in US dollars.

In 2022, sales in US dollars amounted to 154,900 thousand, slightly below the 155,977 thousand of 2021. Sales in this currency accounted for 14.7% of total consolidated sales (17.1% in the prior year).

Purchases in US dollars increased from 66,138 thousand in 2022 to 65,231 thousand in 2022. Although the volume of purchases in tonnes decreased, in 2022 the purchase price of raw materials increased again. In 2022, purchases in US dollars accounted for 9% of total supplies and utilities paid for by the Group (10.3% in the prior year).

3.8. Financial, operational and stock market indicators

Indicators[1]	Year 2022	Year 2021
Financial		
Leverage ratio (<0.5)[2]	0.21	0.20
Solvency ratio (<2)[2]	0.53	0.70
Liquidity	1.35	1.30
Funding of assets	1.17	1.17
ROCE (%)	19.59	14.83
Average collection period (days)	60.09	57.92
Average payment period (days)	48.78	54.45
Operating		
Production (thousands of tons)	1,183	1,563
Added value (thousands of euros)	212,243	177,016
Productivity (EUR/person)	157,450	133,195
Gross margin/revenue (%)	55.59	53.06
Ordinary ebitda/sales margin (%)	13.94	11.89
Stock market		
Quoted market value (EUR/share)	3.24	2.97
Capital value (thousands of euros)	312,981	299,885
EPS (EUR)[2]	0.640	0.429
CFS (EUR)	0.91	0.70
PER	4.97	6.93
P/BV	0.87	0.90

[2] Conditions for the payment of dividends.

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

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

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

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

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

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

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

Average payment period:
– Calculation made in accordance with Law 15/2010, of July 5.
– Purpose: evaluate the average of days between purchases and total payments in the year.

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

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

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

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

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

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

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

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

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

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

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

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

4 / Liquidity and capital resources

4.1. Economic analysis of the balance sheet

Non-current assets increased by 34.3 million euros, mainly on to the higher amount of new investments in property, plant, and equipment over depreciation. Working capital amounted to 19.25 million euros, primarily due to a reduction in accounts payable and an increase in inventory, despite a reduction in accounts receivable.

Equity increased by 29.1 million euros, the net result of profit for the year amounting to 62.99 million euros and, with opposite effect, other comprehensive income amounting to -10.96 million; the repurchase of treasury shares, amounting to -14.38 million euros; dividend payouts of -8.21 million euros; and the premium paid for attending the General Meeting of Shareholders, amounting to -0.34 million euros.

Net financial debt increased by 9.27 million euros on the free cash flow generated, amounting to 27.95 million euros and, with opposite effect, shareholder remuneration, totalling -22.94 million euros; the renewal of long-term rental agreements, amounting to -13.72 million euros; and other non-monetary variations, amounting to -0.56 million euros.

Economic analysis of the balance sheet

THOUSANDS OF EUROS

	21/31/22	21/31/21	%
Non-current assets	**393.040**	**358.713**	**9,6**
Working capital	**77.349**	**58.104**	**33,1**
Current assets	241.119	248.876	-3,1
Current liabilities	-163.770	-190.772	-14,2
Applied funds	**470.389**	**416.817**	**12,9**
Equity	**360.710**	**331.613**	**8,8**
Net financial debt [1]	**75.110**	**65.841**	**14,1**
Provisions and other borrowings	**34.569**	**19.363**	**78,5**
Origin of funds	**470.389**	**416.817**	**12,9**

[1] All financial debts with non-bank entities, as well as lease payables, are included in net financial debt (2022: 12,324 thousand euros, and in 2021: 6,226 thousand euros). Additionally, apart from cash and cash equivalents, those deposits that guarantee debt commitments are recognized as a decrease in financial debt (in 2022: 2,034 thousand euros, and in 2021: 2,588 thousand euros).

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, as well as shareholder remuneration. The Group's objective is to maintain a balance between flexibility, the term, and conditions of the financing sources, based on expected needs in the short, medium, and long terms.

It should be noted that the significant increase in resources generated by the Group's businesses in 2021 and 2022 provided the liquidity necessary to meet its obligations on time (payment of investments) and to reduce net financial debt. Looking ahead to 2023, an increase in net financial debt is foreseeable due to the weaker economic environment, albeit to levels that can be assumed by the company, which will not compromise its financial position given the ample liquidity available.

Furthermore, most of the Group's financing includes compliance with covenants in connection with the level of indebtedness, finance costs, and maximum capex. There is a risk that, on occasion, some of these covenants may not be met. Historically, in all cases in which a covenant has not been met, Ercros has obtained the corresponding waiver from the financial institution. Consequently, it is expected that a waiver will be obtained in the event that a covenant is not met in the future.

In 2022, Ercros obtained a waiver in connection with the maximum volume of investments, which was authorized up to 50 million euros, an amount higher than initially authorized.

As for the available financing facilities, until the end of 2024, the Group has a syndicated factoring facility amounting to 102,000 thousand euros and a syndicated loan with an overall limit of 30,000 thousand euros. It has also taken out working capital financing facilities for an overall amount of 47,000 thousand euros from several financial institutions. The Group considers that all these facilities will be renewed upon maturity.

The Group has taken out several loans from financial institutions and public entities for a total amount of 74,498 thousand euros.

On 23 December 2021, the Ercros Group signed an agreement with the European Investment Bank (EIB) for 40 million euros to finance Ercros's investments in research, development and innovation (R&D&i), digitisation, decarbonisation, and the modernization of its main facilities within the 3D Strategic Plan. The Group drew down 20 million euros from this financing facility in 2022 and another 20 million euros in January 2023.

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

a) Main sources of financing

In 2022, the Group used the following financing sources:

(i) External

- The factoring facility in euros, which allows the Group to finance working capital up to 102,000 thousand euros. At 31 December 2022, the drawdown balance of this facility amounted to 76,048 thousand euros (64,475 thousand euros in the prior year).

- The revolving credit agreement, for an overall limit of 30,000 thousand euros. At 31 December 2022, the amount drawn down was 20,000 thousand euros (previous year: 30,000 thousand euros).

- The capex tranche of the syndicated revolving agreement that takes the form of a loan, which at 31 December 2022 had an outstanding balance of 9,375 thousand euros (13,125 thousand euros in the prior year).

- The Instituto de Crédito Oficial (ICO) credit facility, which at 31 December 2022 had a balance of 14,532 thousand euros (18,011 thousand euros in the prior year).

- The loan contracts with the Institut Català de Finances (ICF), which at 31 December 2022 had balances of 4,985 thousand euros (5,940 thousand euros the previous year).

- Various loans with public entities, such as the Ministry of Industry, Tourism, and Trade, the Centre for Technological Development and Innovation (CDTI), and other financial entities for a total amount of 12,888 thousand euros. In FY 2022, guarantees were released for an amount of 2,493 thousand euros (deposited as a guarantee for loans with the Ministry).

- Several working capital financing facilities with an overall limit of 27,000 thousand euros. At 31 December 2022, no amount had been drawn down from these working capital financing facilities.

- The financing facility taken out from the European Investment Bank (EIB) on 23 December 2022 for an overall amount of 40,000 thousand euros, with a drawdown balance of 19,971 thousand euros at 31 December 2022.

(ii) Internal

In 2022, despite the Covid-19 pandemic and significant investment efforts, the Group's activity generated free cash flows amounting to 27,933 thousand euros (2021: 29,978 thousand euros), which allowed it to remunerate shareholders for an amount of 6,856 thousand euros and reduce debt by 18,991 thousand euros.

- At 31 December 2022, the Group held cash amounting to 58,283 thousand euros (51,573 thousand euros at 2021 year end) and additional funding amounting to 99,863 thousand euros (87,317 thousand euros at 2021 year-end).

- In 2022, the amount received as an income tax refund for 2020 and 2021 totalled 4,339 thousand euros. Additionally, due to the increase in profit before tax, in 2021 the income tax payment on account amounted to 15,431 thousand euros (8,029 thousand euros in the prior year).

- The overall amount received in 2022 related to grants (for indirect CO_2 emissions, electro-intensive consumption, and others) amounted to 8,460 thousand euros (10,654 thousand euros in 2021).

The Group is confident that, as in the past, 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, the issue of promissory notes, or the issue of bonds in the short and medium terms in organized markets.

b) Government grants and subsidies

In 2022, Ercros received the following grants from public entities:

Entity	Item	Factories	Amount (thousands of euros)
Ministry of Industry, Trade and Tourism	Compensation of cost related to 2021 indirect CO_2 emission allowances	Vila-seca I and Sabiñánigo	4,603
Ministry of Industry, Trade and Tourism	Compensation to electro-intensive consumers in 2022	Vila-seca I, Sabiñánigo, Vila-seca II, Tortosa, Almussafes, Aranjuez and Cerdanyola	1,194
Ministry of Industry, Trade and Tourism	Compensation to gas-intensive consumers in 2022	Vila-seca II	400
IDAE [1]	Extension of electrolyzer H	Vila-seca I	1.728
IDAE [1]	Improvement in equipment technology and chlorine-potash production process	Sabiñánigo	530
ARC [2]	Removal of waste from insulation material containing asbestos	Tortosa	5
Total			**8,460**

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

2 The Agència de Residus de Catalunya (ARC) is a public law entity dependent on the Department of Climate Action, Food and Rural Agenda of the Government of Catalonia.

The Group was also granted aid by IDAE and the Institut Català d'Energia (ICAEN) for an amount of 5,710 thousand euros, which are pending receipt while the investments that generated them are justified and reviewed.

Additionally, in 2022 the Group was granted the following public aid:

- The Ministry of Industry, Trade, and Tourism granted the Group free allocations of greenhouse-gas emission allowances for an equivalent value of 16,833 thousand euros (10,443 thousand euros in financial year 2021).
- The Fundación Estatal para la Formación en el Empleo (Fundae) reimbursed a portion of the training expenses incurred, 202 thousand euros, which was deducted from the Social Security contributions paid by the Group (185 thousand euros in 2021).

c) Restrictions on dividend distributions

There are no restrictions on the distribution of dividends, provided the ratios established in the syndicated loan are met, which are less restrictive than the three conditions established in the shareholder remuneration policy in force for the 2021-2024 period, cited below:

- Profit for the year exceeds 10,000,000 euros.
- 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 2022, earnings per share amounted to 0.640 euros. Consequently, the dividend policy requirements were met.

d) Level of indebtedness

As indicated in section 4.1 above, NFD increased by 9,269 thousand euros. At 31 December 2022, NFD amounted to 75,110 thousand euros in comparison with 65,841 thousand euros at 2021 year-end.

Breakdown of net financial debt

THOUSANDS OF EUROS

	12/31/22	12/31/21	Change	%
Loans	85,007	65,250	19,757	30.3
Finance lease payables	12,324	6,226	6,098	97.9
Working capital financing	38,096	48,526	-10,430	-21.5
Gross financial debt	**135,427**	**120,002**	**-15,425**	**12.9**
Cash	-58,283	-51,573	-6,710	13.0
Deposits	-2,034	-2,588	554	-21.4
Net financial debt	**75,110**	**65,841**	**9,269**	**14.1**

The breakdown of long-term and short-term loans is as follows:

THOUSANDS OF EUROS

	Limit	12/31/22	12/31/21
Non-current	**97,151**	**97,151**	**92,793**
Loans granted by ICF	4,013	4,013	4,979
Loans granted by ICO	10,752	10,752	14,250
Loans granted by the Ministry of Industry, Trade and Tourism	7,916	7,916	28,389
Revolving credit facility	20,000	20,000	30,000
Revolving credit facility, tranche B for investments	5,625	5,625	9,375
Bank loans	26,718	26,718	3,699
Loan granted by the European Investment Bank	19,910	19,910	–
Other payables	2,217	2,217	2,101
Current	**102,279**	**9,277**	**5,739**
Other bank loans	279	279	1,143
Recourse syndicated factoring facility	102,000	8,998	4,596
Current portion of non-current loans	**16,675**	**16,675**	**15,244**
ICF debt	972	972	961
Loan granted by ICO	3,600	3,600	3,761
Loans granted by the Ministry of Industry, Trade and Tourism	1,545	1,545	5,935
Revolving credit facility, tranche B for investments	3,750	3,750	3,750
Bank loans	5,544	5,544	–
Loan granted by the European Investment Bank	61	61	–
Other payables	1,203	1,203	837

The maturity breakdown of non-current loans at 31 December 2022 and 2021 is as follows:

THOUSANDS OF EUROS

	12/31/22	12/31/21
2023		15,860
2024	39,735	46,154
2025	18,680	13,498
2026	16,738	11,265
2027	10,537	3,010
2028 and subsequent years	11,461	3,006
Total	**97,151**	**92,793**

e) Supplier payment period and customer collection period

The average period to pay suppliers at 2022 year-end was 48.78 days (55.62 days at 2021 year-end), meaning a reduction of 6.84 days, in line with the trend in recent years.

At 31 December 2022, the payments that exceeded 60 days accounted for 32.47% of all payments made (40.27% in 2021). The Group expects that it will continue reducing the percentage of payments exceeding 60 days.

In the previous year, the average collection period was 60.09 days (2021: 57.92 days).

Information on payment terms to trade creditors

THOUSANDS OF EUROS

	Year 2022	Year 2021
Average payment period to suppliers (days)	48.78	54.45
Ratio of transactions paid (days) [1]	49.60	57.27
Ratio of transactions pending payment (days) [1]	39.92	36.57
Total payments made (thousands of euros)	958,532	680,144
Total payments outstanding (thousands of euros)	139,027	169,905
Total invoices paid	69,213	66,147
Total payments exceeding 60 days (thousands of euros)	321,005	260,336
% payments exceeding 60 days	32.47%	37.03%
Total invoices exceeding 60 days (thousands of euros)	50,719	50,680

[1] At December 31, 2022 and 2021.

4.3. Capital resources

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:

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

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

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

a) Firm commitments to obtain capital resources

There are no firm commitments to obtain new capital resources.

b) Investment commitments or obligations

The meeting of the Board of Directors held on 22 January 2021 approved a new investment plan called the 3D Plan, which is described sections 2.3 c) above and 4.4 b) below.

4.4. Contractual or off-balance sheet obligations

The Group has not assumed any contractual or out-of-balance obligations that require significant financial resources in addition to the commitment for investments and the purchase of treasury shares to be amortised.

a) Commitment to buyback treasury shares

At the meeting held on 10 June 2022, the Board of Directors of Ercros approved the seventh programme to buyback treasury shares for amortization, as part of the shareholder remuneration charged to 2022 profit.

In accordance with the shareholder remuneration policy, the Company plans to earmark approximately 18,733 thousand euros to repurchase treasury shares against the 2022 payout. Of this amount, 7,636 thousand euros had already been used at year-end. The remaining 11,097 thousand euros will be used in 2023, likely before the general meeting convenes.

b) Approved investments pending implementation

THOUSANDS OF EUROS

	Year 2022	Year 2021
Not committed to third parties	**11,913**	**12,840**
For capacity extension	101	3,936
Other investments	11,812	8,904
Committed to third parties	**9,502**	**17,670**
For capacity extension	2,577	6,456
Other investments	6,925	11,214
Total investments approved pending execution	**21,415**	**30,510**

5 / Key risks and uncertainties

5.1. Identification of risks

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

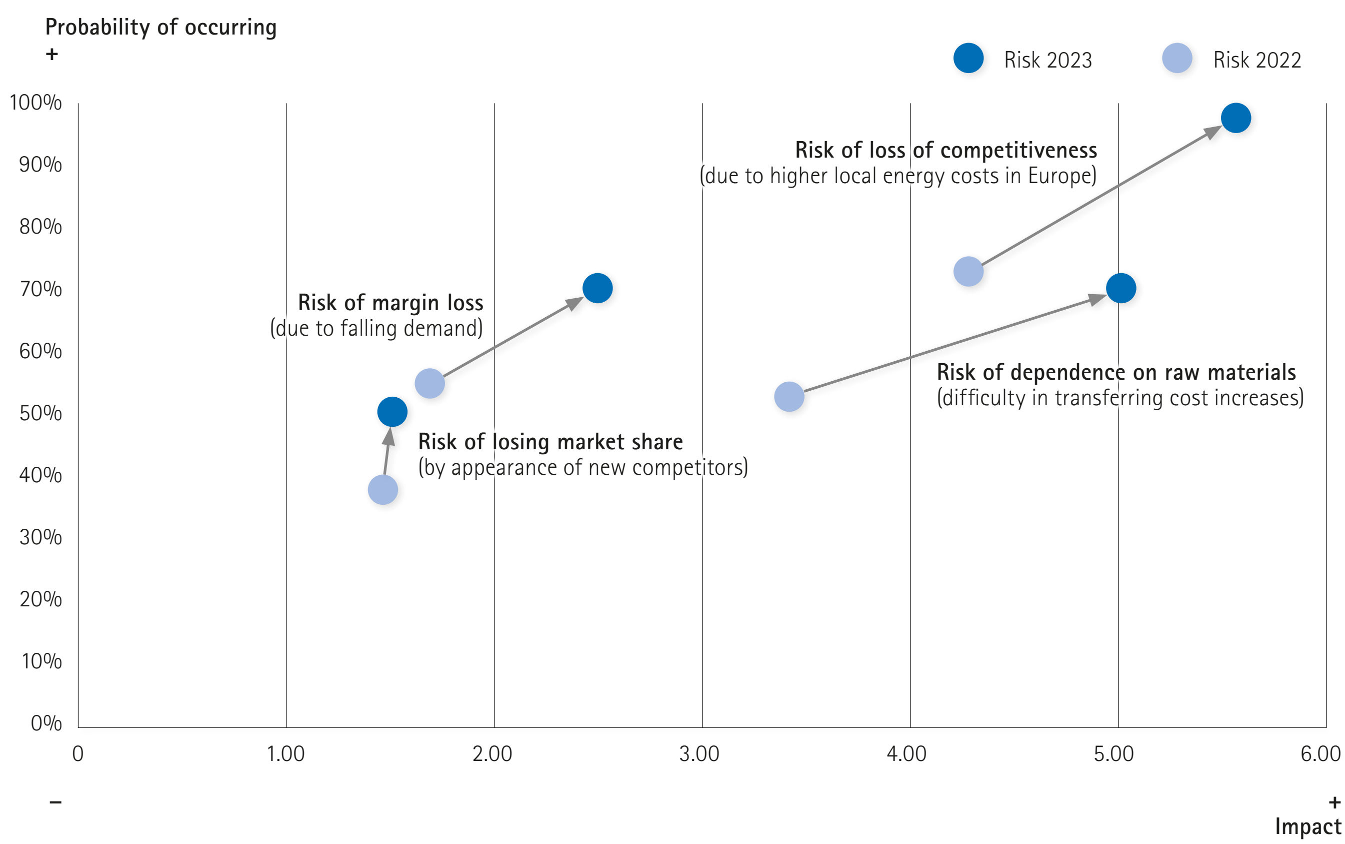
The Ercros Group's activity is associated with the existence of different types of risks, which are classified into different types according to the criteria the Group considers most appropriate for their efficient management. In this respect, not all the businesses have the same risks, though they may share some. In general, the Ercros Group is subject to operational, non-financial, and financial risks.

Many of these risks are inherent to the Group's business activities or are the result of external factors and can be mitigated but not completely eliminated. In many cases, the Group transfers the risks by taking out insurance policies.

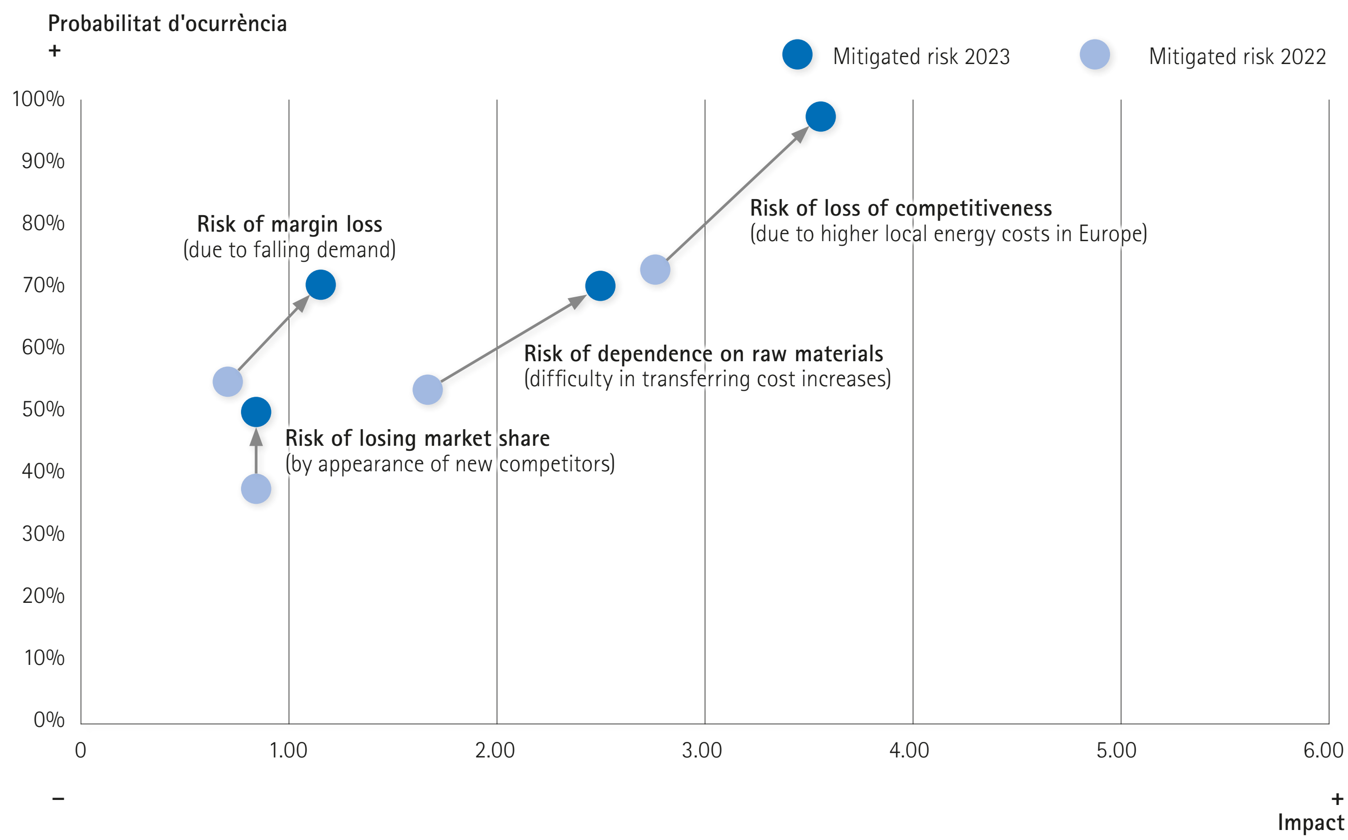
Relevant risks are those that could jeopardise the fulfilment of the business strategy, the maintenance of the Group's financial flexibility, and solvency.

On 16 December 2022, the general managers presented the Board with the risk maps of each business and an aggregate risk map for the Group, identifying the most relevant risks foreseen for 2023, based on the probability of occurrence (on a scale of 0% to 100%) and the impact their eventuality could have on the Group (on a scale of 0 to 6). Based on these maps, the Group implemented controls aimed at mitigating the risks detected.

The following graph shows the Group's relevant risks foreseen in 2023, based on their probability of occurrence and impact, and their evolution with regard to 2022, in accordance with the risk map drawn up:



The following graph shows the same relevant risks foreseen in 2023 after the implementation of mitigating measures:



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

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

a) Operational risks

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

In the course of conducting its business activity, the Group is exposed to the following operating risks:

(i) Industrial risk

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

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

In 2022, the Group faced the industrial risk generated by a potential interruption of some production processes as a result of: (i) possible failures in the supply chain of certain raw materials and intermediate products, due to operating restrictions of several suppliers and (ii) disruptions in the dispatch and transport of some finished products, due to, among other factors, a land transport strike that took place in March and the shortage of containers available for maritime transport. The strategy applied by the Group during the year to mitigate this risk was as follows: (i) the signing of long-term supply agreements with greater guarantees; (ii) the temporary increase in storage capacity; (iii) the search for alternative suppliers; and (iv) the implementation of long-term production and consumption schedules with forecasts for restrictions and planning for alternatives.

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

(ii) Risk of narrower margins (relevant)

In the chemical industry, due to the high volume of products manufactured worldwide and the unequal growth of supply and demand, there are, customarily, two —to five— year periods in which supply and demand are balanced and product profitability is adequate and stable, that alternate with other periods of imbalance, in which there are upward or downward variations in product prices. From 2016 until the first half of 2018, the cycle remained on an upward trend, in a context of demand pressure, supply shortages and high prices; but, from this date, the trend changed, pushed by oversupply, falling prices and, in general, weakening global markets, entering a recessionary chemical cycle, aggravated by the initial impact of Covid-19 in Q2 2020. From the second half of 2020 onwards, there was a turnaround based on the rapid and strong recovery in demand for consumer goods, coupled with post-pandemic supply shortages, which remained very solid throughout 2021 and into the first half of 2022.

The second half of 2022 saw a further change in the trend in demand for consumer durables. Interest-rate hikes by the central banks of the major economies to curb escalating inflation and the removal of Covid-19 restrictions led to a change in consumption habits, triggering a higher demand for services and lower demand for durable goods.

The past year was characterized by exceptionally high energy costs in Europe (gas and electricity prices both reached record highs in Q3), driven primarily by drastic reductions in Russian gas supplies to the continent. This was a by-product of the ongoing war in Ukraine, as well as a general feeling of unease about whether potential future supply alternatives could meet customer demand.

The Ercros Group always tries to pass on increases in its variable manufacturing costs to the price of its products. However, occasionally, depending on the supply-demand situation, it cannot do so completely, or when it does, there is a certain time lag, which can lead to the temporary loss of profitability on the product in question. In the second half of 2022, demand for consumer goods fell and there was a sharp rise in raw material and energy prices. This put downward pressure on margins for PVC and polyols, among others. In some cases, price increases were passed on to the end-customer to maintain margins, and in other cases part of the cost increases were offset.

In this context, the Group tried to minimise declining demand for durable goods and maintain its margins in the second half of the year by (i) adapting its production rates to the existing demand as efficiently as possible, and (ii) adapting its contracts and commercial objectives to the new and changing market conditions (implementation of periodic reviews of sales prices linked to variations in energy and raw material costs, as well as the search for new markets and customers).

At the Ercros Group, PVC and caustic soda are the products with the greatest weight in consolidated turnover and which suffer most from these tensions in margins, a situation that increases the sensitivity of the Group's income statement to the market situation of these products.

In the second half of 2022, the demand for caustic soda and PVC (whose main raw materials are chlorine, which is produced in the same electrolytic process as caustic soda, and ethylene) experienced a certain slowdown, but in different proportions. The PVC market, linked to the construction sector, suffered a significant drop in demand, while the caustic soda market, which is more general-purpose and linked to GDP, did not. This decoupling of demand, paired with high energy costs in Europe, forced producers in the region to adapt their operating rhythms and led to a shortage of caustic soda, causing a historical price increase (in particular during Q4 2022).

Looking ahead to 2023, competitive pressure on the European caustic soda and PVC market is expected to increase from companies with production sites in other regions of the world (mainly Asia and the USA), which have lower energy costs, as they are not as affected as European producers by the gas and oil restrictions from Russia. If this increase in competitive pressure materialises, European producers will have to adapt their volumes and sales prices for both products to the new market situation. In any case, some easing of energy product prices in Europe, as was already evident in Q4 2022 and early 2023, cannot be ruled out, as a consequence of the various measures implemented by the European Commission to tackle the energy crisis and help Member States' industries improve their competitiveness in global markets.

During the year, sodium hypochlorite, a product made from the chlorine resulting from the same process as the manufacture of caustic soda, suffered from narrowing margins due to the market's limited capacity to transfer the increased cost of electricity to the price of the final product.

TCCA, one of the products with the highest added value in the Group's portfolio, consolidated its growth in 2022 and benefited from the strong demand in the swimming pool water treatment sector and the shortage of product supply, which made it possible to pass on a large part of the increases in logistics, raw materials and energy costs to the final sale price.

Among the risks of narrowing margins, following the preparation of the financial impact map derived from risks and opportunities associated with climate change [see chapter 7. Risks and opportunities related to climate change], the potential increase in costs of some raw materials associated with the transition to a low-emission economy should be highlighted. To mitigate this risk, the Group will continue to work on improving the efficiency and adaptation of its production processes to minimise the consumption of resources, while endeavouring to transfer these potential cost increases to customers.

(iii) Commodity dependence risk (relevant)

As mentioned in section (ii) above, the Group is highly dependent on the main raw materials used in its industrial processes, the prices of which are subject to cyclical fluctuations and, on occasion, may not be available in the quantities required or in a timely manner.

The Group attempts to mitigate the risk of dependence on raw materials by implementing a purchase strategy based on: (i) long-term supply agreements for strategic raw materials with higher volatility; (ii) increasing storage capacity (temporary increase depending on the current situation of inventory capacity) and internal production of intermediate products; (iii) purchase agreements with several alternative suppliers to secure competitive volumes and prices for the supply of raw materials and energy; and (iv) geographical diversification of supply sources for strategic raw materials to ensure their availability in the event of shortages in areas or logistical problems.

In order to reduce the impact of raw material price volatility on the business, the Group promotes negotiations with customers for product supply contracts that are indexed to the price of the most significant raw materials involved in the manufacturing process and manages inventories as efficiently as possible, according to consumption and price forecasts.

The Group's three main inputs are electricity, methanol, and ethylene, which represent more than 46.7% of the total amount of consolidated purchases and supplies in 2022.

During the year, the Group tried to minimise the effect on results derived from the sharp increase in the price of raw materials and energy in Europe by: (i) signing commercial agreements for the sale of products including price review clauses that take into account variations in the price of raw materials and energy referenced in official and/or sectorial publications of repute; (ii) focusing on customers with better profitability, and (iii) signing agreements for the supply of raw materials that use as a reference the sale price of the finished product for which it is an input.

Electricity is the main supply for the chlorine derivatives division. The Group purchases electricity from various electricity supply companies. The supply contracts with these companies are of varying duration.

On 7 December 2018, the government enacted Royal Decree-Law 20/2018, concerning urgent measures to promote economic competitiveness in the industrial and commercial sectors in Spain, including measures to promote the fair transition of energy-intensive industries, including the approval of the Energy-Intensive Consumer Statute.

On 15 December 2020, the government approved Royal Decree 1106/2020, which regulates this Statute. The aim of this is to reduce the cost of electricity for electro-intensive industries through the following measures: (i) compensation of up to a maximum of 85%, for charges related to the specific remuneration for renewables and high-efficiency cogeneration, as well as for additional financing in non-peninsular territories; and (ii) coverage of risks derived from medium —and long— term acquisition of electricity.

On 30 March 2022, the government published Royal Decree-Law 6/2022, implementing urgent measures within the framework of the National Response Plan to the economic and social consequences of the war in Ukraine. These measures include: (i) a support mechanism for the electricity-intensive industry consisting of an 80% reduction of the cost corresponding to the access tolls to the electricity transmission and distribution networks, in effect from 1 January to 31 December 2022; (ii) a reduction of electricity system charges from 31 March to 31 December 2022; (iii) an extension of the 0.5% electricity tax rate from 30 April to 30 June 2022; (iv) an increase of the budget item for indirect CO2 compensation by 65 million euros; (v) an extension of the 0% electricity generation tax rate from 31 March to 30 June 2022; and (vi) a modification of the mechanism included in Royal Decree-Law 17/2021 for mitigating the impact of natural gas on the electricity market, extending its applicability until 30 June 2022, and establishing a limit price of 67 €/MWh for hedges made from 31 March 2022.

On 14 May 2022, the government published Royal Decree-Law 10/2022, which established a production cost adjustment mechanism to reduce the price of electricity in the wholesale market. This mechanism, applicable from 15 June 2022 to 31 May 2023, is charged to indexed demand, adjustment services, and hedging from 26 April 2022.

On 26 June 2022, the government published Royal Decree-Law 11/2022, adopting and extending certain measures to respond to the economic and social consequences of the war in Ukraine.

These measures include: (i) extending the list of activities that benefit from direct aid to the gas-intensive industry; (ii) extending the 0.5% electricity tax rate from 1 July until 31 December 2022; (iii) extending the 0% electricity generation tax rate from 1 July until 31 December 2022; and (iv) extending the applicability of the mechanism for mitigating the impact of natural gas on the electricity market, included in Royal Decree-Law 17/2021, until 31 December 2022.

In 2022, the pool price for electricity in Spain experienced a large increase, mainly due to the rising price of natural gas and the price of CO_2 emission allowances. As of 15 June 2022, the price of the consumer adjustment mechanism was added to this. This increase in the electricity pool price, coupled with the additional price of the aforementioned mechanism, was only partially offset in 2022 by the aid received to compensate increases in electricity costs resulting from indirect CO_2 emissions, by the compensation of charges deriving from the Statute of the electro-intensive consumers and by the reductions in tolls, charges and electricity taxes pursuant to the provisions of the aforementioned Royal Decree-Laws. The Group expects to reduce the final per MWh price spread relative to its European competitors with additional mechanisms that may be introduced by amendments to the current Royal Decree on the Statute of Electro-intensive consumers or by new legislation that may be approved in the future aimed at maintaining the competitiveness of industries with very high energy consumption located in Spain.

The Group also has long-term "renewable energy packages", known as PPAs (Power Purchase Agreements), and continues to explore the possibility of reaching additional agreements. In addition, a photovoltaic electricity generation project in development on land owned by Ercros in Flix, which currently unused for industrial activity, while other renewable facility projects are being studied under a self-consumption system in other Group factories. The Group also continues implement operational measures aimed at making its processes more energy efficient. With these measures, the Group aims to reduce energy consumption and the future cost of this supply, while increasing the percentage of energy consumed from renewable sources in order to meet the company's decarbonisation target.

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

Methanol is the main raw material of the intermediate chemical division. The Group has signed supply agreements with various international suppliers from different areas and with different intervals with the aim of avoiding supplier concentration risk and preventing simultaneous agreement renewals. In 2022, the EU upheld the suspension of the tariff on methanol imports. To do otherwise would have harmed the Group by making imports of this raw material more expensive.

In 2022, the higher volume of chlorine produced enabled the Group to increase the production of its own EDC - the intermediate product that starts the PVC chain - and reduce the purchase of external EDC. This reduced the Group's dependence on this raw material. The Group also plans to increase its own EDC production in 2023.

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

The Ercros Group engages in its business in a global environment in which new competitors continually enter the market. These competitors benefit from looser regulations in their countries of origin, more lax environmental requirements compared to the European market, lower wages and energy costs, and have measures supporting development.

In recent months, the difference in energy costs faced by European manufacturers compared to those producing in other parts of the world has been particularly relevant, as a result of the varying impact of the restricted supply of energy products from Russia. The cost spread becomes a decisive factor in setting the final price of commodity products, such as the Group's main products.

The Group mitigates the risk of loss of competitiveness by: (i) signing supply hedging contracts; (ii) negotiating commercial agreements for the sale of products, including price review clauses that take into account variations in the price of raw materials and energy referenced in official and/or industry publications of repute; (iii) making investments in technological improvements to its facilities; and (iv) implementing improvements in its operating and control processes.

In this scenario of loss of competitiveness of European producers caused by the aforementioned difference in energy costs, the technological upgrading of production processes undertaken by the Group has led to greater energy efficiency and a higher utilisation ratio, which has improved the profitability of its products. Along the same lines, the Ercros Group is implementing a strategic plan, the 3D Plan (2021-2029), which is based on three dimensions: diversification, digitalisation and decarbonisation. The digitalisation strategy is meant to improve Ercros' competitiveness through the reduction of operating costs, the increase in production and sales volume arising from improvements in the reliability of production processes and facilities, and the strengthening of client loyalty due to improvements in the service provided by Ercros. For its part, the objective of decarbonisation aims to reduce manufacturing costs through efficiency improvements in the consumption of energy and raw materials, as well as the replacement of fossil fuels with others of renewable origin and less volatile in price.

Another risk relevant to the Group's competitiveness is the risk of loss of market share caused by the appearance of new competitors or by the increased capacity of some competitors that manufacture the same products as the Company.

The Group addresses these risks by: (i) continuously searching for new markets and customers; (ii) improving its competitive position by making investments to modernise facilities; (iii) implementing operational improvements that result in lower manufacturing and transport costs; (iv) improving customer service aimed at strengthening commercial ties; and (iv) developing new specialities.

Another factor that has traditionally affected the Group's competitiveness is the euro/dollar exchange rate. In 2022, the average exchange rate was 1.06 dollars per euro, significantly lower than the average rate in 2021, which was 1.18 US dollars per euro. This devaluation of the euro (appreciation of the dollar) s led to a certain improvement in the competitiveness of the Group's products. If the dollar continues to appreciate in 2023, this would have a positive effect on the Group by improving the competitive position of the products it markets and increasing its profitability. If, on the other hand, the dollar depreciates, this would worsen the Group's competitive position and profitability (see section c) (i) Exchange rate risk below).

(v) Risk of product concentration

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

The most significant product manufactured from chlorine is PVC, the evolution of which is closely tied to the construction industry. This fact lends an element of volatility to the price of both PVC and soda caustic soda (a chlorine co-product) that must be taken into account in the Group's projected results. Sales of PVC and caustic soda (liquid plus solid) accounted for 45.3% of the Group's turnover in 2022.

(vi) Risk of the cyclical nature of products

In general terms, the markets in which the Group operates experience more activity in the second and third quarters of the year (with the exception of August). In recent years, the trend among clients of reducing orders at the end of the year as a result of Christmas holidays, including the general desire to reduce warehouse stocks at year-end, has become more pronounced, causing activity to drop in December.

The products with the most notable seasonal shifts are those used for treating and disinfecting water for human use —sodium hypochlorite, sodium chlorite and TCCA— the use of which peaks in spring and summer, and PVC, with lower consumption in the cold months of the year due to construction stoppages. Demand for other products is steady throughout the year, except in August and December.

As explained in point (iii) above, the chemical industry in which the Group conducts its activity is characterised by its cyclical nature. Therefore, the Group is not immune to the market uncertainties generated by changes in supply and demand, whose repercussions on the margins of the products it sells can affect their profitability and, on occasion, earlier than expected and with greater intensity than in other sectors, given that its products are commodities.
To mitigate this cyclical volatility, on 28 January 2021, the Group presented the aforementioned strategic plan, known as the 3D Plan (2021-2029). The aim of the diversification strategy is to control and, if possible, reduce Ercros' strong cyclical dependence on the caustic soda-chloride process. The four projects included are geared towards enhancing the intermediate chemical and pharmacy divisions, along with the water purification segment that, although it belongs to the chlorine derivatives division, is not tied to the caustic soda-chloride process. As of 31 December 2022, the dipentaerythritol production expansion project in Tortosa is fully operational and the projects to expand sodium chlorite production in Sabiñánigo and to manufacture two new antibiotics in Aranjuez are in the start-up phase.

(vii) Risk of client concentration

Although no client represents more than 10% of the Ercros Group's turnover, it is worth highlighting the importance of the main chlorine client has had for the Group over the years, accounting for around 30-40% of the chlorine produced by the Group.

At the end of 2022, this client informed the Group of its intention to terminate the chlorine supply contract and become self-sufficient from its new chlorine-soda production plant. In 2023, the Ercros Group plans to allocate larger quantities of chlorine to the production of its own EDC (intermediate product in the manufacture of PVC) and other chlorine-derived products (sodium hypochlorite, hydrochloric acid, TCCA, etc.).

(viii) Market risk due to geopolitical tensions

The Group exported 47% of its sales to 90 countries in 2022. Given its exposure to foreign markets, the Group can sometimes be influenced by political or geostrategic conflicts that generate tensions in the markets where its products are sold.

2022 was marked by factors related to Covid-19 and its disruption of normal international trade flows and transport costs (freight rates, although gradually falling during the year, have remained above historical levels). However, it was been primarily affected by the fallout from Russia's invasion of Ukraine, which impacted the markets for certain raw materials (potash, urea, etc.), agricultural products (corn and wheat, etc.), and energy products, and particularly the gas supply to Europe.

With the war in Ukraine came a series of trade sanctions by the European Commission and other Western countries against Russia, which have (i) limited trade transactions with the countries directly affected (Russia, Belarus and Ukraine), (ii) disrupted certain international maritime and land transport routes and, above all, (iii) limited the volume of gas and oil to Europe from Russia.

Although in 2022 the impact on Ercros of the restrictions imposed by the European Commission on commercial transactions with these countries was minimal in terms of the volume of raw material purchases and product sales, there was a clear impact on the increase in the energy costs (mainly gas and electricity) for the Group, which saw its competitiveness decrease compared to producers with manufacturing plants located in countries outside Europe.

The Group attempted to mitigate these risks in 2022 by: (i) closing agreements with fixed freight rates with different shipping lines; (ii) anticipating the purchase of strategic raw materials that minimised the continual escalation of prices; (iii) increasing the purchase volume of raw materials and ancillary products from countries outside the EU (less affected by increases in energy costs); (iv) signing supply hedging contracts; (v) negotiating commercial agreements for the sale of products, including price review clauses that take into account variations in the prices of raw materials and energy referenced in official and/or sectoral publications of repute; (vi) promoting the internal production of intermediate products (salt pea).

During the year, the Group minimised its exposure to market risk in Turkey by marketing most of its products through a multinational distribution company and invoicing its headquarters in the US, or directly through subsidiaries of large multinational groups.

(ix) Technology and cybersecurity risk

The Group is exposed to cybersecurity risks that could lead to an interruption of its business processes, which would temporarily compromise 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, which is part of the operational security plan.

This plan includes security against cyber threats —accidental or intentional— both external and internal. The Group has the means necessary to try to prevent, detect and, if necessary, eliminate this type of threat. This plan is reviewed and updated in line with the risks arising from the increase in teleworking.

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

In the event of an incident that partially or totally disrupts the normal course of business, the Group has a disaster recovery plan that allows 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, discharges, or fires.

To minimise these risks or, if possible, eliminate them, the Group: (i) conducts its business in compliance with provisions established in its environmental authorisations and the requirements arising from applicable regulations and voluntary agreements signed; (ii) officially monitors its environmental performance; and (iii) has implemented a sustainability management system certified by Aenor, which is audited annually. It has also implemented indicators to assess its environmental performance.

The Group also periodically reports on the reduction of greenhouse gas emissions achieved in its industrial activity and currently has the 3D Plan underway, with projects and investments to implement more efficient technologies that facilitate the transition to low-carbon production, in line with the objective of the 2015 Paris Agreement.

All Ercros Group centres have an environmental risk analysis study.

(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 the prevailing legislation, the legal requirements of recent years and their application, some, retroactively, have raised the risk of liability claims for the cost of cleaning up or remediating affected soils and environments.

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

In relation to the former site located in El Hondón (Cartagena), on 30 June 2020, the Group filed a contentious-administrative appeal challenging the resolution of the Director General for the Environment of 16 October 2019, which declared the El Hondón sector in Cartagena to be contaminated land.

Despite the legal challenge, and given the enforceability of the resolution declaring the land contaminated, on 1 July 2020 Ercros submitted the technical project for the clean-up and recovery of El Hondón in order to comply with the obligation established in the resolution declaring the land contaminated. The Directorate General for the Environment requested that the technical project be rectified by means of requirements dated 30 November 2020 and 12 February 2021.

On 5 and 23 February 2021, the Group filed appeals against the aforementioned requirements to remedy the project, requesting that they be rescinded and that the remediation project submitted by Ercros in July 2020 be approved.

Regardless of the appeals, on 20 October 2021 Ercros presented a new updated version of the El Hondón remediation technical project, which incorporates the findings of the different experts and academic centres that have assessed the project.

On 29 November 2021, Ercros was notified of the decision of the Regional Minister for Water, Agriculture, Fisheries and the Environment of the Region of Murcia of 19 November 2021, which ruled that the aforementioned appeals were inadmissible. On 21 January 2022, Ercros filed a second contentious-administrative appeal against the aforementioned decision rejecting the appeal before the Murcia High Court of Justice.

The status of the two contentious-administrative appeals is as follows:

a) Appeal filed on 30 June 2020 against the decision to declare the land contaminated (P.O. 206/2020): On 2 September 2021, Ercros filed a statement of claim and on 14 February 2022, the reply from the Regional Ministry of Water, Agriculture, Livestock and Fisheries of the Autonomous Community of the Region of Murcia was issued opposing the claim. Likewise, ADIF, summoned to the proceedings and appearing as a co-defendant, also opposed Ercros' claim in a letter dated 30 June 2020. On 26 July 2022, an order was issued to admit the appeal for the purposes of which a hearing will be held on a date yet to be determined.

b) Action brought on 21 January 2022 against the decision rejecting the appeals lodged against the requirements to remedy the updated remediation project submitted by Ercros (P.O. 27/2022):

On 23 September 2022, Ercros filed a statement of claim, which was admitted for processing by a writ of summons dated 29 September 2022. On 1 December 2022, the administration's reply was served, and on 5 December 2022 and 16 January 2023 the replies of the City Council of Cartagena and Reyal Urbis were served. Likewise, on 28 September a writ of summons was served accepting the appearance of the Asociación de Vecinos Sector Estación as a co-defendant. On 20 January 2023, this association filed a defence to the claim.

In parallel, Ercros is working to reach an agreement with the competent administrations on a remediation project using *in situ* confinement techniques to avoid mass extraction of the waste. In this respect, the remediation project proposal submitted by Ercros has been favourably reported by the Confederación Hidrográfica del Segura. As of this writing, the project submitted is pending a favourable report from the Nuclear Safety Council.

With regard to the restoration of Terrera Vella de Cardona, where the Group was operating when the Cardona factory ceased operations in 2017, Ercros submitted an updated restoration plan to the Directorate General for Environmental Quality and Climate Change of the Government of Catalonia in the same year, which proposes surface water management compatible with the environment and consistent with the comprehensive restoration project of the Salt Valley, and whose objective is to leave the Terrera Vella ready for potential future use of the salt resource it contains. The Group is currently awaiting a decision on the approval of the plan.

In October 2022, Ercros voluntarily relinquished exploitation of the quarry. Despite this, the administration agreed, subsequent to this renunciation, to the expiry of the mining right, declaring Ercros' obligation to leave the site in safe conditions for people and things, and to restore the land in accordance with the conditions established in the restoration programme and the new environmental impact statement approved by the administration in September 2022. This programme requires the Ercros Group to carry out restoration work on the Terrera Vella de Cardona site that far exceeds the restoration programme proposed in 2018 and establishes a bond to guarantee the execution of the restoration work. Ercros appealed this resolution via administrative appeal in November 2022.

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

(iii) Regulatory change risk

In recent years, legal requirements in environmental matters have become increasingly demanding, leading to significant changes in the chemical sector, on a European, national and regional level. The Ercros Group makes significant efforts to adapt to this new legal framework; it carries out the adaptation investments required by the regulations in force and develops the activities and actions necessary to comply with the requirements set out in the different regulations, specifically the legislation on the safety of facilities and people, occupational health, environmental protection and climate change, and the transport, packaging, and handling of hazardous materials.

With respect to changes in the energy market, the main risk faced by the Group is the uncertainty arising from the lack of a stable and predictable legal framework, which makes it impossible to know in the medium term the amount of remuneration and administrative exemptions for electricity-intensive companies and prevents the Group from being able to make accurate forecasts of the price of electricity in the future. To mitigate the impact of this risk, the Group monitors the sector through its participation in sector groups and associations, carries out actions to improve energy efficiency, and enters into long-term contracts for the supply of electricity from renewable energies in order to reduce price volatility and its environmental impact.

On 1 January 2023, the application of the "plastic tax" concerning the use of this material in the supply of containers and packaging began. The Group is prepared and does not expect major consequences in terms of its application, as in recent years it has taken steps to incorporate recycled material in packaging, reuse, and reduce the thickness of packaging.

(iv) Risks and opportunities associated with climate change (relevant)

In accordance with the recommendations of the task force on climate-related financial disclosures, the Ercros Group has divided climate-related risks into two categories: (i) those related to the transition to a low-emission economy (considering technological, market, reputational aspects, and those that may arise from climate change policies) and (ii) those related to the physical impacts of climate change on Ercros' activities (increase in extreme weather events, change in weather patterns, increase in average temperature or sea level).

With regard to the risks concerning the transition to a low-carbon economy, the Group is implementing the 3D Strategic Plan (2021-2025), presented on 28 January 2021, one of the dimensions of which is decarbonisation. The Group's objective is to intensify the efforts Ercros makes to mitigate climate change and adapt to the new regulatory framework for industrial activity. This dimension includes five major projects in the areas of energy efficiency; adaptation to climate change; maximising the use of hydrogen; circular economy; and sustainable mobility. The Plan's investments are being carried out according to schedule. Several projects have already been completed to improve energy efficiency, make better use of the hydrogen produced in the electrolytic processes of chlor-alkali production, and optimise consumption of chemical products and raw materials; progress has been made in the execution of the energy improvement and circular economy project for salt recrystallization, as well as in the engineering of the projects to produce steam from biomass and manufacture EDC with more efficient technology.

With regard to risks related to the physical impacts of climate change on Ercros' activities, the variation in weather patterns worldwide, the increase in average temperatures, and increasingly extreme weather phenomena, such as heavy rains, storms, snow and winds, are becoming more frequent and can cause flooding, droughts, heat waves, serious damage or other situations that endanger the people who work at the Group and prevent the normal operation of production facilities.

In an effort to mitigate the adverse effects of these abnormal weather incidents, the Ercros Group's factories have procedures and action plans that contemplate the different levels of alert, responsibilities, and protocols for action in the event of potential meteorological phenomena, such as heavy flooding, frost, snowfall, strong winds, heat waves or earthquakes, as well as power cuts or delays in the transport of goods, and carries out investments for the reuse of resources, improving insulation, residual heat utilisation, and cooling capacities.

On the other hand, in the centres where it is considered necessary, the competent administrations have been asked to improve the external infrastructures (water evacuation network, access to main roads, etc.) necessary to minimise the adverse effects of abnormal climatic episodes.

Finally, it should be noted that the opportunities assessed as a result of efforts to mitigate and adapt to climate change have been divided into five main categories as they relate to: (i) resource efficiency and cost savings; (ii) the adoption of low-carbon energy sources; (iii) the development of new products and services; (iv) access to new markets and financial support; and (v) building climate resilience along the entire production chain [see chapter 7].

(v) Risk of labour claims

From time to time, the Group is faced with claims from former employees, or their heirs, for damages related to asbestos exposure and for surcharges on public benefits for alleged failure to comply with safety measures due to asbestos exposure.

These types of liabilities are not attributable to the current management of the Group, nor are they due to damages caused to current employees, but rather are liabilities claimed against it as the universal successor of companies that have been defunct for many years and which have no connection with the current activity.

(vi) Human resources risk

The Group is subject to the risk of low productivity, which stems from the high rate of staff absenteeism (5.3% in 2022) and which in some work centres can cause occasional difficulties in covering all production shifts. To mitigate the impact of this risk, multidisciplinary working groups have been created to analyse the specific circumstances of each centre and propose specific solutions.

In addition, among the human resources risks, there is the risk of loss of talent as a result of the departure of key employees. To mitigate this risk, the Group: (i) provides work facilities that implement social measures, actions to promote a work/life balance, and initiatives to make work days more flexible; (ii) facilitates personal and professional growth with training plans, including masters and postgraduate courses, and prioritises internal promotion to fill vacant positions; and (iii) encourages loyalty to the Group through rewards for permanence, defined contributions to pension plans and life and medical insurance.

The nature of the work carried out at the Ercros Group's factories entails an associated risk of occupational accidents among its personnel; to mitigate this risk, the Group provides safety equipment and material, trains its staff in occupational risk prevention, controls and updates all its equipment to ensure that it complies with the strictest safety standards, and analyses all accidents and incidents that occur at its facilities to prevent their repetition in the future. In addition, triennial accident reduction plans are established, with actions in all the fields described above.

c) Financial risks

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

The Group's main financial instruments comprise syndicated factoring, revolving credit agreement, loans with public financial institutions, bank loans, working capital financing facilities, credit facilities, finance leases, cash and short-term deposits.

The Group does not have any derivative contracts in place to hedge exchange rate or interest rate risks.

In 2021, the Group contracted a financial derivative to hedge cash flows in the event of changes in the price of electricity for part of the electricity consumption forecast for 2022. This derivative is the result of the signing of a long-term electricity supply contract which, due to the impossibility of physically supplying energy in 2022, required the signing of the derivative as an exceptional contract to ensure the purchase price in 2022 foreseen for the entire life of the contract. The company did not trade with this derivative, nor did it contract additional derivatives. For 2023, the Group has signed a long-term contract for the physical supply of electricity for consumption in the Group's industrial processes.

The Group's policy, which has been maintained in recent years, is not to trade in financial instruments.

The Group notes that the financial risk remains within acceptable parameters for a cyclical company. The solvency ratio (consolidated net financial debt/consolidated ordinary ebitda) was 0.53 in 2022, below the target of 2.

The 3D Plan for the period 2021-2029 respects the principles of financial prudence, such that total annual investments will not exceed 35 million euros on average and the financial solvency of the company and shareholder remuneration will be preserved at all times. The total investments made in the financial year 2022 amounted to 49.49 million euros; the Group received the corresponding waivers from the financial institutions.

Furthermore, at the end of 2022, the financial solvency conditions for shareholder remuneration, as set out in the shareholder remuneration policy charged to the profits for the years 2021 to 2024, were met.

(i) Exchange rate risk

The dollar is by far the main currency to which the Group is exposed and, as indicated above, it has not contracted any derivative products to hedge this risk, due to the ineffectiveness and high cost of these instruments.

In 2022, the average exchange rate was USD 1.06 per euro, compared to an average exchange rate of USD 1.18 per euro in 2021. This depreciation of the euro against the dollar had a positive effect of 8,806 thousand euros on the Group's ebitda in 2022 compared to 2021.

An average exchange rate of USD 1.02 per euro has been estimated for 2023, although so far this year the exchange rate has been above this level. If the dollar continues to depreciate against the euro in 2023, it would worsen the Group's competitive position and profitability. If, on the other hand, the dollar were to appreciate against the euro, the Group's competitive position and profitability would improve.

In 2023, the Group expects to increase its net exposure to the US dollar by reducing purchases in US dollars due to a reduction in the purchase of some raw materials.

A summary table of the Group's US dollar purchase and sale transactions is attached below:

	Year 2022	Year 2021
Sales in US dollars (thousands)	**154,900**	**155,977**
Exchange rate dollar/euro	*1.052*	*1.182*
Equivalent in euros (thousands)	147,237	131,989
Purchases in US dollars (thousands)	**65,231**	**66,138**
Exchange rate dollar/euro	*1.036*	*1.173*
Equivalent in euros (thousands)	62,979	56,383
Net exposure to US dollar (thousands)	**89,669**	**89,839**
Equivalent in euros (thousands)	84,258	75,606

Based on the above transactions, the following table shows a sensitivity analysis to reasonable variations in the average dollar exchange rate of the Ercros Group's sales and purchases with respect to the average exchange rate in 2022, which was 1.06, all other variables remaining constant:

Dollars for euro ($/EUR)	Effect on profit from operations (EUR thousand)
1.20	-9,533
1.15	-6,284
1.10	-2,740
1.06	–
1.02	3,653
1.00	5,411
0.95	10,131

(ii) Credit risk

The Group has a customer credit management policy in place, which is managed in the normal course of business. Creditworthiness assessments are performed for all customers requiring a credit limit above a certain amount. In addition, the Group requires customers to provide letters of credit or bank guarantees for certain sales.

There is no high concentration in the Group's customer portfolio.

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 is approximately half of the outstanding balance of the portfolio. This policy insures the collection of invoices that are assigned without recourse to syndicated factoring.

For the Group's other financial assets, such as cash, cash equivalents, loans and receivables and available-for-sale financial assets, the maximum exposure to credit risk is equal to the carrying amount of these assets at year-end.

(iii) Interest-rate risk

External financing is based on syndicated factoring, revolving credit agreements, bank working capital financing lines, and long-term loans from public bodies and banks. Part of the financing is contracted at fixed interest rates and another part at variable interest rates, normally referenced to Euribor at different maturities. In an environment of rising interest rates, these Euribor hikes will entail a higher financial cost for the Group.

In the first half of 2022, Ercros took out several bank loans for a total amount of 31,000 thousand euros with fixed interest rates for 5-7 year terms, which were mainly used to repay loans from the Ministry of Industry, Tourism, and Trade at a higher financial cost. Some of these loans include an ESG (environmental, social and governance) component.

In December 2022, a further bank loan of 10,000 thousand euros was taken out at a fixed interest rate to be drawn down during 2023 for a term of five years.

The following table shows a sensitivity analysis to reasonable changes in the interest rate, with all other variables being constant:

Increase/Decrease in basis points of debt cost	Effect on profit from operations (EUR thousand)
2022:	
200	-2,903
100	-1,452
-100	1,452
-200	2,903
2021:	
200	-2,649
100	-1,324
-100	1,324
-200	2,649

(iv) Liquidity risk

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

It should be noted that the significant increase in resources generated by the Group's businesses in 2021 and 2022 provided the necessary liquidity to meet its obligations on time (payment of investments) and to reduce net financial debt. Looking ahead to 2023, an increase in net financial debt is foreseeable due to the weaker economic environment, albeit to levels that can be assumed by the company, which do not compromise its financial position given the high liquidity available.

Furthermore, much of the Group's financing includes compliance with covenants in relation to its level of indebtedness, financial expenses, and maximum capex. There is a risk that some of these covenants may be breached from time to time. Historically, in all cases in which there has been a breach of any covenant, Ercros has obtained the corresponding waiver from the financial institutions, and therefore expects to obtain such a waiver in the event of a breach of any covenant in the future.

In 2022, Ercros obtained a waiver regarding the maximum investment volume, which was authorised up to 50 million euros, which is higher than the initial authorisation.

In relation to available financing facilities, the Group has a syndicated factoring line until the end of 2024 for an amount of 102,000 thousand euros and a syndicated loan with an overall limit of 30,000 thousand euros. It has also signed working capital financing facilities for a total amount of 47,000 thousand euros with several financial institutions. The Group considers that all these lines will be renewed upon maturity.

The Group has arranged several loans with financial entities and public institutions for a total amount of 74,498 thousand euros.

On 23 December 2021, the Ercros Group signed an agreement with the European Investment Bank (EIB) to provide 40 million euros in financing for Ercros' investments in research, development and innovation, digitalisation, decarbonisation and the modernisation of its main facilities under the 3D Strategic Plan, which Ercros has launched for the period 2021-2029. The Group drew down 20 million of this financing in 2022 and a further 20 million in January 2023.

In addition, if necessary, the Group can resort to other complementary mechanisms to obtain liquidity, such as the partial and selective disposal of non-operating assets, the issue of short —or medium— term bonds in organised markets or the issue of a line of promissory notes in the Alternative Fixed Income Market (MARF).

(v) Tax risk

The Group seeks to minimise the tax risk arising from its activities. To this end, it endeavours to comply scrupulously with its tax obligations and avoids making decisions based on aggressive or controversial interpretations of tax rules. Nor does it plan its operations with a view to minimising the tax burden through companies located outside Spain. The Ercros Group is advised by external tax experts in order to comply with tax regulations and not to take risks in their interpretation.

Practically all of the Group's operations are carried out at the parent company, Ercros, S.A., which is based in Spain and fully taxed in Spain. Only its sales subsidiary in France, which closed in Q4 2022, is taxed in that country.

However, the tax inspectorate sometimes uses interpretative criteria of the applicable regulations with respect to the activities carried out by the Group that generate discrepancies with the criteria used by the Group.

On 10 May 2022, section 7 of the administrative litigation division of the National High Court declared final the ruling annulling the non-conformity report for 5.3 million euros initiated by the tax inspectorate in relation to the exemption from tax on alcohol used in the production of medicines at the Aranjuez factory.

With reference to the non-conformity assessment for personal income tax (IRPF), corresponding to the 2012 and 2013 financial years, in which an amount of 312 thousand euros and late payment interest of 70 thousand euros is proposed, an amount that has been fully provisioned, a date for voting and ruling is awaited from the National Court of Appeals.

Finally, in relation to the corporate tax assessments for 2011, 2012, and 2013, which, following various estimates, propose the reduction of reinvestment tax credits amounting to 921 thousand euros, a ruling is also pending before the National Court of Justice. Ercros derecognised the deferred tax asset corresponding to these deductions in 2022 on the basis of prudence.

Since 2019, the Group has adhered to the Code of Good Tax Practices.

In the opinion of the directors of Ercros, there are no significant tax contingencies that could arise from possible different interpretations of the tax legislation applicable to the transactions carried out by the Group.

5.2. Risks materialised during the financial year

Risks arising in the year	Circumstances which gave rise to the risks	Operation of the control systems
Risk of loss of competitiveness	Loss of competitiveness due to increased local energy costs (Europe).	Signature of contracts covering the supplies. Inclusion of price review clauses in customer contracts, considering fluctuations in energy costs.
Risk of dependence on raw materials	Increase in the price of raw materials and difficulty in transferring the increase in costs to end clients.	The Group entered into supply agreements with several suppliers to secure volumes and competitive prices for the supply of raw materials and, in turn, it negotiated product supply agreements with its clients indexed to the prices of the most significant raw materials.
Risk of margin loss	Falling demand. Increased costs associated with transitioning to low-emission technologies. Increasing the price of raw materials.	Search for new markets and customers. Enhance customer loyalty through improved service, multi-year contracts, and offering products tailored to specific requirements. Invest in more efficient technologies. Improved competitiveness through lower costs. Transferring the increased cost of raw materials to customers.
Risk of loss of market share	Appearance of new competitors and capacity increases on the part of current competitors.	Improving competitiveness through investments in modernization of facilities, operational improvements and the development of specialties. Increased market share by seeking new markets and customers and a better price or service to customers current.
Climate change risk	Average temperature increases and extreme weather phenomena, including natural disasters such as flooding, snowstorms, or frost, which can have an impact on the facilities.	Implementing investments to adapt facilities and minimize resource consumption; request submitted to the competent authorities for improvements to external infrastructure (water drainage network, access to main roads, etc.); implementation of procedures and action plans for emergency situations caused by adverse weather episodes, as well as training workers on their execution.

6 / Subsequent events

No events have occurred after the balance sheet date that have had an impact on the 2022 financial statements.

Under the share buyback programme, the Group has purchased 3,395,789 shares for a total of 11,382 thousand euros during the period of 1 January 2022 to 17 February 2023.

7 / Risks and opportunities associated with climate change

In accordance with the recommendations of the task force on climate-related financial disclosure, the Group produced and presented, for the first time at the board meeting on 16 December 2022, financial impact maps derived from risks and opportunities associated with climate change in order to assess its financial implications.

The analysis methodology has been carried out according to the following criteria:

a) Probability of occurrence of risks and opportunities:
- Remote: < 15%
- Possible: > 15% and < 50%
- Probable: ≥ 50% and < 90%
- Certain: ≥ 90%

b) Time horizon:
- Short term: < 3 years
- Medium term: > 3 y ≤ 10 years
- Long term: > 10 years

c) Range of financial impact:
- Mild: < 6 million euros
- Moderate: ≥ 6 and < 15 million euros
- High: ≥ 15 and < 30 million euros
- Severe: ≥ 30 million euros

d) Impact area of the financial strategy:
- Operational costs ("opex")
- Investments in assets ("capex")
- Assets and liabilities
- Capital and financing

The baseline climate scenario considered is a greenhouse gas emissions trajectory aligned with the 2015 Paris Agreement target to keep global temperature rise below 2 ˚C above pre-industrial levels and strive to limit temperature rise to 1.5 ˚C by the end of this century.

The Group's sustainable development department has coordinated the analysis of the risks and opportunities associated with climate change. No risks have been identified that could result in an impairment of the company's assets or that could generate new liabilities that would make it necessary to record new provisions.

No risks with serious or high impact have been identified as a result of the analysis.

One risk with a moderate impact has been identified within the category of technological transition risks and two with a slight impact in the category of physical risks, as detailed below:

Climate risks	Associated financial impact	Probability	Time horizon	Impact on financial strategy
Technology transition risk:				
Costs associated with transition towards low-emission technologies	New investment in more efficient assets	Probable	Short Term	Capex
Chronic Physical Risks:				
Environmental risk of changes on precipitation and operational variability extreme of climatic patterns	Lack of water supply, increase in costs in auxiliary services and loss of production	Probable	Short Term	Opex
Increased average temperature	Increased investments to increase the capacity for cooling and heat exploitation	Probable	Short Term	Capex

Using the same methodology, five opportunities with a mild estimated impact have been identified below:

Climate opportunity	Associated financial impact	Probability	Time horizon	Impact in financial strategy
Related to resource efficiency and cost saving:				
Reduce the use and consumption of water	Small operating costs	Probable	Short Term	Opex
Derived from the adoption of low carbon energy sources:				
Use of political incentives of support	Lesser exposure to cost increases for use of fossil fuels	Certain	Short Term	Opex
Use of new technologies	Small operating costs and GEI emissions. Minor exposure to changes in CO_2 price	Probable	Short Term	Opex
Use of energy sources low emisión	Reduction operation costs	Probable	Short Term	Opex
Switch to decentralised sustainable power generation	Greater available funding, reputational, improved reputation, major revenues	Possible	Short Term	Opex
Related to the increase in climate resilience throughout the production chain:				
Participation in programs. Renewable energy and implementation of energy efficiency measures	Increased resilience of the company higher market rating	Probable	Short Term	Opex
Relacionada amb el desenvolupament de nous productes i serveis:				
Development of new products throug R&D&I	Improved competition, adapting to customer demands and increased revenue	Possible	Short Term	Opex

8 / Foreseeable evolution

The consensus among trade publications is that the chemical sector, in general, is expected to have a weaker first half of 2023 compared to the spectacular performance in the first half of 2022. However, the situation is expected to gradually improve over the second half of 2023.

2023 has begun with the same risks that were identified in 2022. We are still grappling with high costs for energy, raw materials, and transportation. As long as the conflict in Ukraine persists, this situation is likely to endure. The decrease in activity witnessed in the European chemical industry during 2022 is expected to gradually return to normal levels over the course of 2023. However, this increase in supply may lead to a widespread decline in sale prices, which could adversely affect profit margins unless there is moderation in the costs of raw materials and energy.

2023 poses new competitiveness risk given the announcement of aid plans for industry in countries like the US (Inflation Reduction Act, endowed with 369 billion dollars) and Germany (200 billion euro aid programme for industry and consumers). If these aid schemes are not counterbalanced by similar support measures in the other EU countries, the loss of competitiveness for the latter could be significant.

For the chemical sector in general, and for energy-intensive consumers in particular, the outcome of the planned reform of the EU wholesale electricity market and the Spanish regulatory development of the aid programme for gas-intensive consumers will be very important.

Therefore, we anticipate that the outcome of the planned reform of the EU wholesale electricity market and the regulatory development of the aid program for gas-intensive consumers in Spain will have a highly significant impact on the chemical sector as a whole, with particular relevance for energy-intensive consumers.

9 / R&D&i activities

9.1. Activities

The Group has four of its own R&D&i centres in Aranjuez, Monzón, Sabiñánigo and Tortosa, which serve the pharmaceutical, chlorine derivatives and intermediate chemical divisions, and collaborate with several universities and technological centres. In 2022, it has incurred expenses and investments in innovation amounting to 6,658 thousand euros (6,637 thousand euros in 2021).

Ercros has five registered patents, on both products and manufacturing processes.

The Group's research and development activity in 2022 focused mainly on six projects. Five of these were carried out in collaboration with the Centre for Technological Development and Innovation (CDTI): (i) the development of sustainable solutions in the manufacture of biopolymers; (ii) the development and scale-up of a bioprocess for the production of biopolymers; (iii) research into eco-sustainable alternatives to the use of intentionally added microplastics in detergent and cosmetic applications; (iv) the development of PVC profiles, including thermal insulation made from recycled material; and (v) new technology related to the evaporation stage in the antibiotic extraction plant. The sixth is a public-private collaboration project of the State Research Agency for the development of bio-based and biodegradable antifouling paints for marine applications.

9.2. Product development

The most important projects in 2022 in relation to the development of new products and the expansion of applications and performance of existing products are described below.

a) In the chlorine derivatives division

— Improvement of TCCA's own tablet formulations and development of customer-specific formulations.

– Anode activations specifically developed for oxygen discharge applicable to customer electrolytic processes.

– Formulation of 3D printable PVC compounds for both rigid and flexible applications.

– Expansion of the range of PVC composite products for the manufacture of rigid parts by injection moulding and rotational moulding.

– The development of PVC compounds incorporating post-consumer recycled material.

– New grades of the ErcrosBio product range customised to meet the requirements of our customers.

b) In the intermediate chemistry division

– New resins from the ErcrosGreen+ and ErcrosTech families to extend their field of application to more value-added sectors.

– New moulding compound grades with extra-fluid properties, specifically designed for the sanitaryware sector.

– Research into obtaining moulding compound formulations that allow laser marking of finished parts.

– Study for the manufacture of more sustainable moulding compounds with a lower carbon footprint.

c) In the pharmacy division

– Laboratory development of processes for new antibiotic active ingredients obtained through fermentation and for other existing products.

– Modification of pharmaceutical manufacturing processes to provide particle sizes tailored to specific customer needs.

– Development of processes to expand the catalogue of pharmaceutical products offered in sterile quality.

– Research for the synthesis of new antibiotic salts.

9.3. Process improvement

Among the most relevant actions carried out in the improvement of processes, the following should be highlighted:

– Development of a process to remove silicon and aluminium from the brine of chlor-alkali plants.

– Pilot electrolyser testing of anodes and cathodes from various sources, in particular self-developed anode activations.

– Modification of the brine purification process in the chlorine production process to use salt of different purities.

– Optimisation of the operating conditions of the Vila-seca caustic soda concentration plant, increasing its capacity.

– Optimisation of the operating conditions of the VCM plant crackers by analysis and purification of the chlorine feed.

– Reducing the production costs of the PVC polymerisation process by simplifying the suspending agents and changing auxiliary products.

– Commissioning the thermal oxidation plant for the treatment of gaseous effluents from the VCM and PVC plants.

– Feasibility study for the replacement of the direct chlorination unit at the VCM plant with a new, more energy-efficient technology unit. This project is included as part of the decarbonisation project of the Ercros 3D Plan.

– New improvements in the process of obtaining polyols that will increase energy efficiency and reduce CO_2 emissions, included among the decarbonisation objectives of the 3D Plan.

– The expansion of production capacity in moulding compounds, as well as an increase in the quality levels of these powders, included in the diversification projects of the 3D Plan.

– Various activities aimed at improving the management of production processes in the different Ercros factories, as part of the digital transformation arm of the 3D Plan.

– Definition of standard conditions for extractive processes to be common for new and existing active ingredients.

9.4. In the research field

In 2022, the Group developed several lines of research in collaboration with various leading research centres, including the following:

- Collaboration programmes with the CDTI for the development of sustainable solutions in the manufacture of biopolymers and PVC profiles with recycled insulating materials; development of a new technology related to the evaporation stage in the antibiotic extraction plant; and the development and scaling-up of a bioprocess for the production of biopolymers.

- The public-private partnership programme with the State Research Agency for the development of bio-based and biodegradable antifouling paints for marine applications.

- The contract with Polymat, a technology centre of the Universidad del País Vasco, for the characterisation and development of biopolymers.

- Contracts with the *Centre Tecnològic de Catalunya* (Eurecat) and the *Universitat Rovira i Virgili,* for a project to develop and characterise new resins, related to the new range of ErcrosTech resins, as well as in the search for eco-sustainable alternatives for packaging in detergency and cosmetics applications.

- The contract with the *Institut quimic de Sarria* (IQS) for the performance of several studies on the development of industrial processes for active pharmaceutical ingredients.

- The contract with Leitat for the development of compounds for the production of an insulating foam made from post-consumer recycled PVC.

- The contract with the AINIA technology centre for the application of spray drying techniques for powders.

- The sponsorship of the UAM-Ercros chair of the *Universidad Autónoma de Madrid,* for the promotion of research, teaching, and study activities in the field of pharmaceutical chemistry.

- Collaboration with the doctoral thesis, "Development of new bioplastic materials with barrier effect" by José Ignacio Valero, chemical engineer and member of the R&D department of the Ercros Group. This thesis is the result of the collaboration agreement signed between the Group and the UPC within the industrial doctorate plan of the Generalitat de Catalunya.

- Agreement with the *Consejo Superior de Investigaciones Científicas* ("CSIC") for the experimental study of microbial colonisation and degradation of materials in mountain environments.

- The contract with CSIC, for the development of strains for the production of biopolymers.

- The contract with the *Centro Nacional de Energías Renovables* (Cener) for the development and scale-up of a bioprocess for the production of biopolymers.

- Collaboration with the Board of Trustees of the Foundation for the development of new hydrogen technologies in Aragon.

- The contract with the Centre of Design and Optimization of Processes and Materials (Diopma) of the Universidad de Barcelona to study the degradation under photooxidative conditions of different grades of the ErcrosBio product range.

- The contract with Technip Energies Iberia for feasibility studies for the production of certain sulphur and chlorine derivatives.

10 / Acquisition and disposal of treasury shares

a. Acquisition of treasury shares

As part of the sixth share buyback programme charged against the 2021 payout, Ercros bought back 2,181,901 shares in the first four months of 2022, at an acquisition cost of 6,744 thousand euros.

At its meeting of 10 June 2022, the Board of Directors approved the seventh treasury share buyback programme, which began on 23 June 2022 and will end on 23 June 2023, or at an earlier date if the maximum number of shares provided for in the programme, 7,727,935, equivalent to 8% of the share capital, is reached or if the maximum amount allocated to the programme, 25 million euros, is invested. At 31 December 2022, 2,369,938 shares had been repurchased at an acquisition cost of 7,636 thousand euros (see section 11.1 b) (ii) below).

On 10 June 2022, the Board of Directors approved the seventh share buy-back programme to redeem treasury shares.

The buyback programme has a maximum monetary amount of 25,000 thousand euros and is valid until 23 June 2023. In no case, however, may the number of treasury shares acquired exceed 8% of Ercros' current share capital of 96,599 thousand shares.

Considering the maximum amount of the 2022 payout (50%) and the proposed dividend amount of 13,751 thousand euros, the amount allocated to repurchase treasury shares, charged to the 2022 payout, amounts to 18,733 thousand euros.

At 31 December 2022, Ercros held 2,369,938 treasury shares.

b. Treasury share buy-back programme

The repurchase of treasury shares is based on the authorisation granted to the Board of Directors by the Ordinary General Meeting of Shareholders on 10 June 2022, for a period of five years and up to the maximum permitted by law, for a maximum price or countervalue equivalent to the price of Ercros shares on the continuous market at the time of the derivative acquisition of the shares and a minimum equivalent to 75% of the maximum price described above.

The current share buyback is based on the shareholder remuneration policy for the period 2021-2024.

The buyback programmes implemented from 2016 to 2022 are as follows:

Year	Payout	Program	Limit (thousands of euros)	Start date	End date	Shares acquired (thousands)	Inverted amount (Thousands of euros)
2016	20%	First	9,000	01/20/17	03/27/17	3,107	9,000
2017	23%	Second	6,000	10/04/17	03/09/18	2,117	6,030
2017	23%	Third	6,000	03/12/18	05/08/18	987	3,995
2018	26%	Third	6,000	05/21/18	07/09/18	453	1,975
2018	26%	Fourth	12,000	07/09/18	12/21/18	1,139	4,957
2018	26%	Fourth	12,000	01/07/19	04/27/19	1,369	4,545
2019	28%	Fifth	18,000	02/12/20	06/30/21	3,945	8,735
2021	32%	Fifth	18,000	03/01/21	06/30/21	1,284	3,511
2021	32%	Sixth	15,000	07/01/21	06/22/22	3,088	9,756
2022	30%	Sixth	25,000	06/23/22	06/23/23	2,370	7,636
						19,859	**60,140**

11.1. Shareholder remuneration

a) Shareholder remuneration policy

On 30 April 2021, the Board of Directors approved the policy for shareholder remuneration from the Group's consolidated profits for the years 2021 to 2024, which was subsequently ratified by the Ordinary General Meeting of Shareholders held on 11 June.

Shareholder remuneration is implemented through the repurchase of treasury shares for redemption and the payment of dividends.

According to this policy, Ercros must remunerate shareholders with a maximum payout: 50% of consolidated profit for 2021, 2022, 2023 and 2024.

The repurchase of treasury shares for redemption is carried out provided that a dividend of at least 18% of consolidated profit in 2021; 20% of consolidated profit in 2022; 22% of consolidated profit in 2023; and 24% of consolidated profit in 2024 is expected to be paid out.

Shareholder remuneration is contingent upon (i) the achievement of a minimum profit of 10 million euros and (ii) the following ratios being met at the end of the financial year to which the remuneration refers: net financial debt/ordinary ebitda ("solvency ratio") less than or equal to 2, and net financial debt/total equity ("gearing ratio") less than or equal to 0.5.

In 2022, these conditions were met, as the result for the year was 64,967 thousand euros; the solvency ratio was 0.53 (0.70 in 2021); and the gearing ratio was 0.21 (0.20 in 2021).

Ercros' dividend policy is defined in this shareholder remuneration policy. There are no restrictions on the payment of dividends in addition to compliance with the above conditions.

b) Shareholder remuneration paid and proposed in 2022

(i) Proposed dividends

The proposed distribution of the parent company's profit for 2022, as formulated by the directors, pending approval by the shareholders at the AGM, is as follows:

THOUSANDS OF EUROS

	Year 2022	Year 2021
Fact dividends on approved ordinary actions and paid	**8,211**	**–**
With charge to the benefit of 2021 (0.085 euro/action)	8,211	–
Cash dividends proposed on ordinary actions	**13,751**	**8,215**
With charge to the benefit of 2021 (0,085 euro/action)	–	8,215
With charge to the benefit of 2022 (0,15 euro/action)	13,751	

(ii) Acquisition and redemption of treasury shares

In 2022 and 2021, Ercros repurchased treasury shares for redemption, as part of its shareholder remuneration policy, for the following amounts:

THOUSANDS OF EUROS

	Year 2022	Year 2021
Amount to repurchase own actions	**14,380**	**6,522**
With charge to the benefit of 2021	6,744	6,522
With charge to the benefit of 2022	7,636	–

11.2. Stock market information

a) Share capital

On 11 July 2022, the Barcelona Mercantile Registry registered a reduction in Ercros' share capital of 1,311,614.40 euros, corresponding to the nominal amount of the 4,372 thousand treasury shares that the Company had acquired between 1 March 2021 and 26 April 2022, in order to redeem them as part of the shareholder remuneration policy. The redemption of these shares reduced the number of share capital units by 4.33% and entailed a payment of 13,266 thousand euros for Ercros.

Following this transaction and until 17 February 2023, the share capital of Ercros amounted to 28,980 thousand euros, represented by 96,599 thousand ordinary shares, each with a par value of 0.30 euros.

The table below shows the evolution of Ercros' share capital between 2021 and 2022:

	Share capital (euros)	Number of actions
At 12/31/21	30,291,371.10	100,971,237
Capital reduction	-1,311,614.40	-4,372,048
At 12/31/22	28,979,756.70	96,599,189

b) Evolution of the share

Ercros shares appreciated 9% in 2022 (38% in 2021).

This increase is significant when compared to the decline between 2021 and 2022 by the main indices: Ibex 35 (-6%), the Madrid Stock Exchange General Index (IGBM) (-5%), and the Industrial Basic Materials and Construction Index (ICNS) (-11%).

Ercros thus closed 2022 with a market capitalisation of 312,981 thousand euros (299,885 thousand euros at the end of 2021).

At 31 December, the Ercros share price reached 3.24 euros (2.97 euros at the end of 2021).

The share price reached its highest level for the year on 28 June: 3.91 euros. The average share price in 2022 was 3.21 euros (3.14 euros in 2021).

For the year as a whole, the volume of cash traded amounted to 144,495 thousand euros (187,837 thousand euros in 2021), while the number of shares changing hands was 44,958 thousand (59,866 thousand in 2021).

The most securities were traded on 7 March 2022: 750,000. The average daily turnover for the year was 174,935 securities.

Main parameters related to the share

	12/31/22	12/31/21	12/31/20	12/31/19	12/31/18
Shares on the stock market	**96,599,189** [1]	**100,971,237**	**100,971,237** [2]	**104,915,821** [3]	**107,876,621** [4]
Market capitalization (EUR)	**312,981,372**	**299,884,573**	**217,593,015**	**268,584,501**	**335,496,291**
Traded shares:					
In the course of the year	44,958,441	59,865,606	64,917,707	88,224,937	128,748,505
Highest in one day	750,362	2,443,430	1,856,361	2,413,214	3,814,986
Lowest in one day	42,483	40,160	21,994	84,469	92,124
Daily average	174,935	233,850	252,598	345,980	504,896
Traded volume (EUR):					
In the course of the year	144,495,425	187,836,695	143,021,336	220,569,600	526,361,941
Daily average	562,239	733,737	556,503	864,979	2,064,165
Share price (EUR):					
Highest	3.91	3.98	2.89	3.95	5.57
Lowest	2.60	2.08	1.41	1.56	2.66
Average	3.21	3.14	2.20	2.50	4.09
Last	3.24	2.97	2.16	2.56	3.11
Frequency rate (%)	**100**	**100**	**100**	**100**	**100**
Liquidity rate (%)	**46.54**	**59.29**	**64.29**	**84.09**	**119.35**

[1] Yearly average 2022 = 98,420,876 shares.

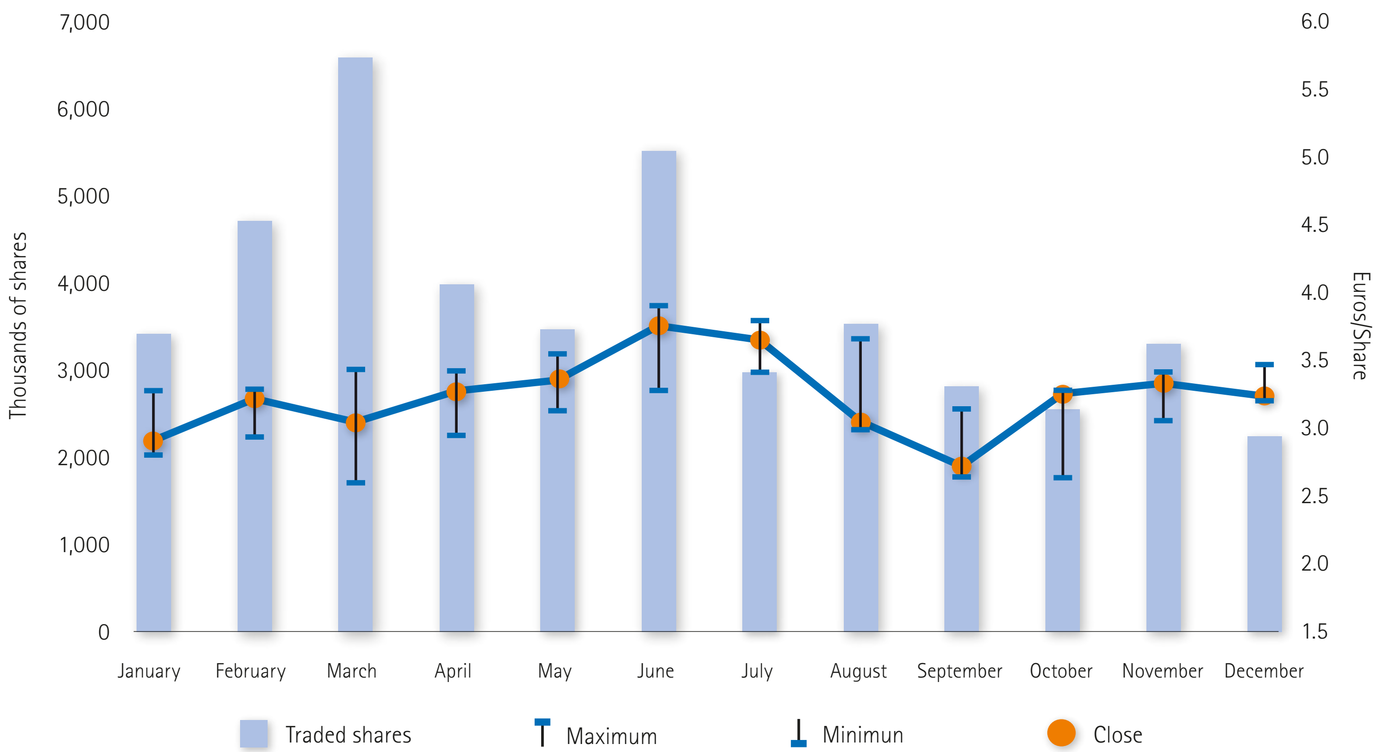
[2] Yearly average 2020 = 102,614,814 shares.

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

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

Evolution of share and traded volume

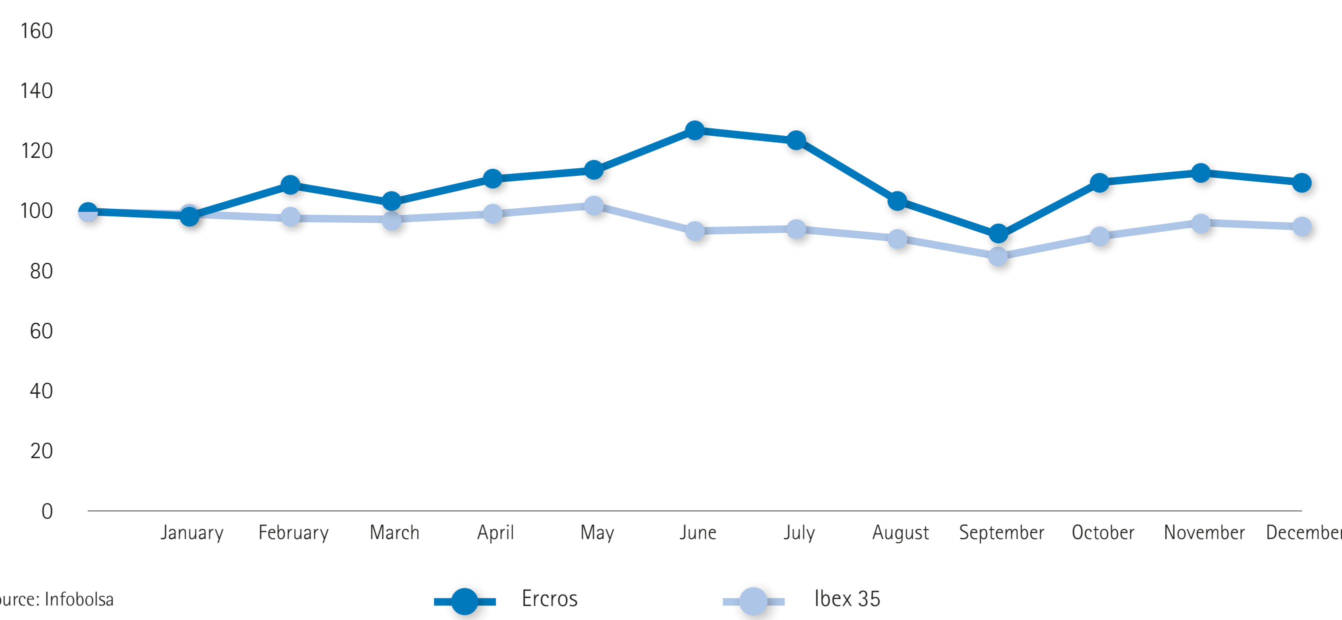
2022



Comparison between Ercros and Ibex 35

BASE 100= 12/31/21

2022



Source: Infobolsa

c) Key stock market ratios

In 2021 and 2022, the CFA —operating cash flow divided by the number of shares— increased from 0.70 to 0.90. The CFA is a ratio that measures the cash flow generated corresponding to each share.

The evolution of the result had a direct impact on the improvement of the EPS, which rose from 0.429 euros/share in 2021 to 0.640 euros/share in 2022. This ratio is the quotient of the profit for the year by the weighted average number of shares outstanding and is used to measure the profit corresponding to each share.

In 2022, the P/E ratio —market capitalization divided by income— fell from 6.93x in 2021 to 4.97x in 2022.

In the reference period, the P/BV—market capitalisation divided by the total equity value, relating the value of Ercros shares on the stock market to their underlying book value—fell from 0.90 in 2021 to 0.87 in 2022 [see section 3.8 above].

d) Significant shareholders

As a result of the capital reduction carried out by Ercros on 11 July 2022, on 21 July 2022, the shareholder Joan Casas Galofré notified the Spanish National Securities Market Commission (CNMV) of an increase in his direct shareholding to 5.69% and, on 24 July 2022, the shareholder Montserrat Garcia Pruns notified the CNMV of an increase in her direct shareholding to 3.42%.

The shareholder, Dimensional Fund Advisors LP, announced an increase in its shareholding to 5.23% on 26 July 2022.

The shareholder, Victor Manuel Rodríguez Martín, has maintained his number of shares, although his stake has increased to 5.23% as a result of the aforementioned reduction.

According to the notifications made by the shareholders to the CNMV, as of 31 December 2022, those with significant holdings own, directly and indirectly, 18,905 thousand shares or 19.57% of Ercros share capital.

Performance of the main stock market indicators

Name or corporate name of shareholder	No. of direct shares (thousand)	No. of indirect shares (thousand)	Interest in share capital (%) [1]
Joan Casas Galofré [2]	5,500	–	5.69
Dimensional Fund Advisors LP	–	5,054 [3]	5.23
Víctor M. Rodríguez Martín	5,051	–	5.23
Montserrat Garcia Pruns	3,300	–	3.42

[1] Percentages are calculated based on the number of shares outstanding at 31 December 2022.

[2] Mr. Casas Galofré was appointed proprietary director of Ercros at the shareholders' meeting held on 5 June 2020.

[3] Includes the direct participation of its subsidiary, DFA International Small Cap Value Portfolio. On 1 February 2023, this shareholder reported a decrease in its shareholding to 4.997%.

The estimated free float of Ercros at 31 December 2022 is 77.98%, after excluding significant shareholdings (19.57%) and treasury shares (2.45%).

The movements of significant shareholdings in Ercros capital during the financial years 2022 and 2021 can be consulted in CNMV registry (www.cnmv.es).

Between 31 December 2021 and 2022, the number of Ercros shares held by the members of the Board of Directors is as follows:

	Rights to vote to 12/31/22 [1]		Rights to vote to 12/31/21 [2]	
Board membre	**Number**	**%**	**Number**	**%**
Joan Casas Galofré [3]	5,500,000	5.69	5,500,000	5.45
Antonio Zabalza Martí [3]	100,000	0.10	100,000	0.10
Laureano Roldán Aguilar	100	0.00	100	0.00

[1] Percentages are calculated based on the number of shares outstanding at 31 December 2022.

[2] Percentages are calculated based on the number of shares outstanding at 31 December 2021.

[3] As a result of the capital reduction carried out by Ercros on 11 July 2022, (i) the proprietary director Joan Casas Galofré reported on 21 July 2022 an increase in his direct holding to 5.69%, and (ii) the managing director Antonio Zabalza Martí reported on the same date a change in the percentage from 0.099% to 0.104% of the number of shares held (100,000), which has not changed.

e) Credit rating

Ercros is not aware of the existence of any credit rating for the Group.

11.3. Significant events of the year

a) Purchase of treasury shares

See Chapter 10 and paragraph 11.1(b)(ii) of this chapter.

b) Dividend payment

See paragraph 11.1(b)(i) of this chapter.

c) Ordinary General Meeting of Shareholders

See chapter 2.1 a).

12 / Corporate governance report

The Ercros Group publishes an annual corporate governance report (ACGR) in compliance with article 540 of the Spanish Companies Act (LSC). The ACGR forms part of the management report of both Ercros and the consolidated Group, but is presented in a separate document as permitted by law.

This report is made in accordance with article 540 of the LSC and follows the model established in CNMV circular 3/2021 of 28 September, which amends circular 5/2013 of 12 June.

The ACGR provides information on corporate governance practices, including a description of the main features of risk management and control systems.

The Ercros Group's ACGR for the year ended 31 December 2022 is available on the websites of Ercros (www.ercros.es) and the CNMV (www.cnmv.es).

13 / Non-financial information statement

The Ercros Group publishes a statement of non-financial information (NFI) in compliance with articles 44 of the Commercial Code and 253 and 262 of the LSC. The NFI forms part of the management report of both Ercros and the consolidated Group, but is presented in a separate document as permitted by law.

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

The NFI is presented as part of the Corporate Social Responsibility Report (IRSE), which also explains the degree of compliance with the 183 indicators of the CSR application guide in the chemical and life sciences sector, promoted by the Spanish Chemical Industry Federation (Feique) in collaboration with Forética, which in turn includes the indicators required for the certification of an ethical and socially responsible management system according to the SGE 21:2008 standard.

In accordance with article 49 of the French Commercial Code, the NFI has been verified by Bureau Veritas.

The NFI of the Ercros Group for the year ended 31 December 2022 is available on the websites of Ercros (www.ercros.es) and the CNMV (www.cnmv.es).

14

CONSOLIDATED FINANCIAL STATEMENTS OF THE ERCROS GROUP

Consolidated financial statements for the year ended 31 December 2022.

14.1 / Consolidated statement of financial position

THOUSANDS OF EUROS

Assets/Note	12/31/22	12/31/21
Non-current assets	**446,372**	**408,176**
Property, plant and equipment	341,495	324,517
Investment properties	26,046	19,400
Intangible assets	19,034	11,598
Right-of-use assets	12,265	6,117
Investments accounted for usingthe equity method	6,691	6,410
Financial assets	6,465	4,476
Deferred tax assets	34,376	35,658
Current assets	**300,179**	**301,780**
Inventories	134,773	122,696
Trade and other accounts receivable	98,507	99,232
Cash flow hedging derivative at fair value through other comprehensive income	–	14,610
Other current assets	6,759	9,339
Current income tax assets	1,857	4,330
Cash and cash equivalents	58,283	51,573
Total assets	**746,551**	**709,956**

THOUSANDS OF EUROS

Equity and liabilities	12/31/22	12/31/21
Equity attributable to owners of the controlling entity	**360,710**	**331,613**
Total liabilities	**385,841**	**378,343**
Non-current liabilities	**163,283**	**146,057**
Loans	97,151	92,793
Lease payables	7,331	2,608
Deferred tax liabilities	22,919	26,766
Provisions for environmental remediation	18,215	10,041
Other provisions	2,464	662
Commitments to active staff	2,401	2,190
Accrued income and grants	12,802	10,997
Current liabilities	**222,558**	**232,286**
Loans	9,277	5,739
Current portion of non-current loans	16,675	15,244
Lease payables	4,993	3,618
Trade payables	139,027	169,905
Provisions for environmental remediation	5,969	4,357
Other provisions	21,874	12,556
Other liabilities	24,743	20,867
Total equity and liabilities	**746,551**	**709,956**

14.2 / Consolidated income statement

THOUSANDS OF EUROS

Continuing operations	Year 2022	Year 2021
Income	**1,059,685**	**841,055**
Sale of finished products	998,532	772,317
Rendering of services	26,370	16,728
Other income	28,394	23,281
Reversal of provisions and other non-recurring income	399	6,569
Increase in inventory of finished products and work in progress	5,990	22,160
Expenses	**-937,024**	**-747,642**
Consumption of raw material and secondary materials	-470,572	-394,812
Utilities	-228,015	-152,867
Transportation services	-51,938	-43,405
Employee benefits expense	-89,582	-83,603
Other expenses	-76,305	-66,000
Charge of provisions and other non-recurring expenses	-20,612	-6,955
Gross operating profit (ebitda)	**122,661**	**93,413**
Depreciation and amortization expense	-29,966	-28,130
Impairment of non-current assets	-539	-3,450
Operating profit	**92,156**	**61,833**
Finance income	84	21
Financial cost	-6,531	-5,551
Impairment losses on/(reversal of) financial assets (accounts receivable)	-124	1,012
Exchange gains (losses)	1,496	1,386
Share in the profit of associated companies	877	607
Finance result	**-4,198**	**-2,525**
Profit before tax	**87,958**	**59,308**
Income tax expense	-17,314	-9,897
Profit from continuing operations	**70,644**	**49,411**
Net loss before taxes from discontinued operations	**-7,655**	**-6,114**
Profit for the year	**62,989**	**43,297**
Basic and diluted earnings per share (EUR)	**0.6400**	**0.4288**

14.3 / Consolidated statement of total comprehensive income

THOUSANDS OF EUROS

	Year 2022	Year 2021
Profit for the year	**62,989**	**43,297**
Other comprehensive income (net of tax effect)	**-10,957**	**10,957**
Items that will subsequently be reclassified to profit for the year	-10,957	10,957
Total comprehensive income attributable to owners of the controlling entity	**52,032**	**54,254**

14.4 / Consolidated statement of changes in total equity

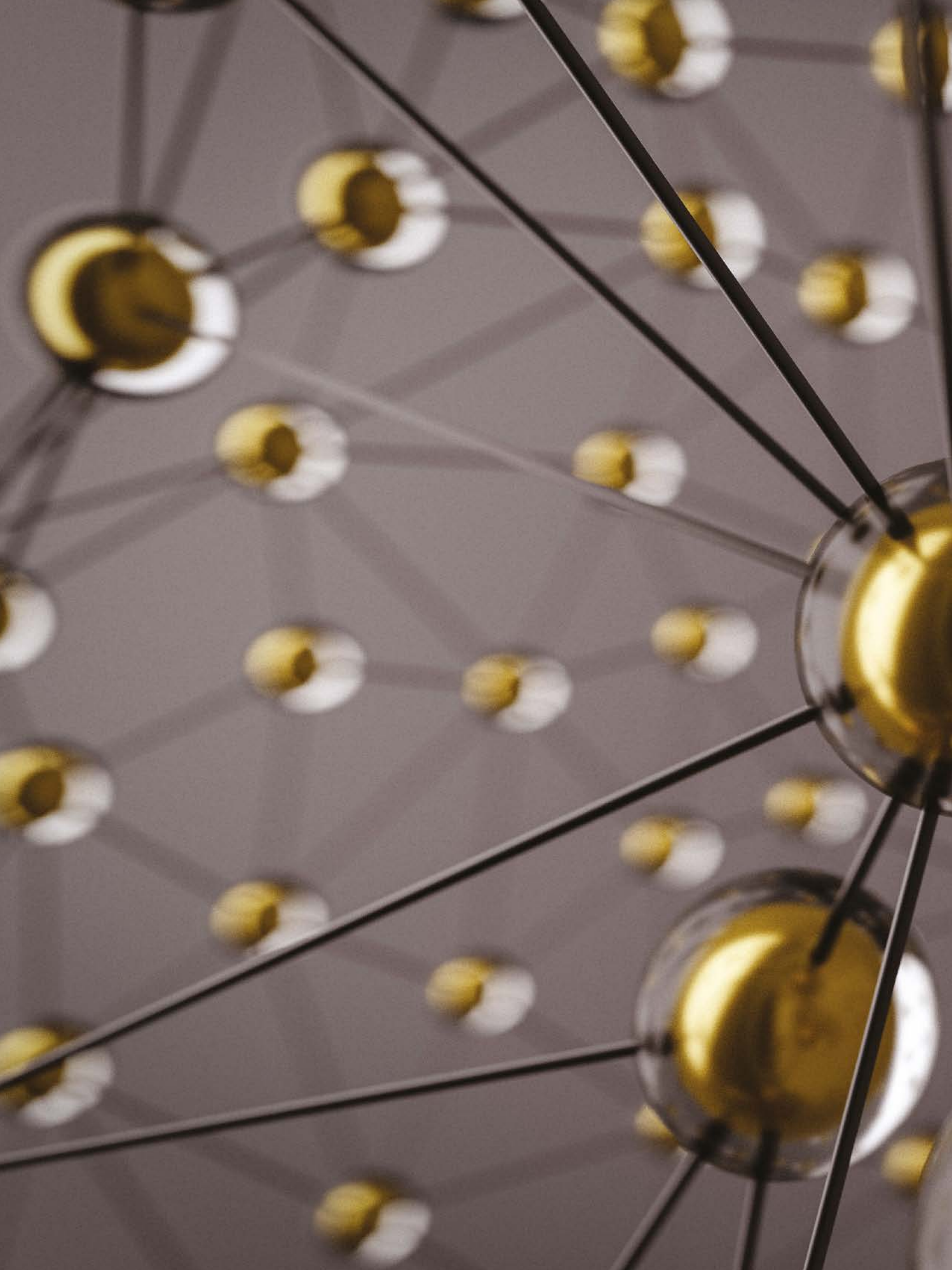
THOUSANDS OF EUROS

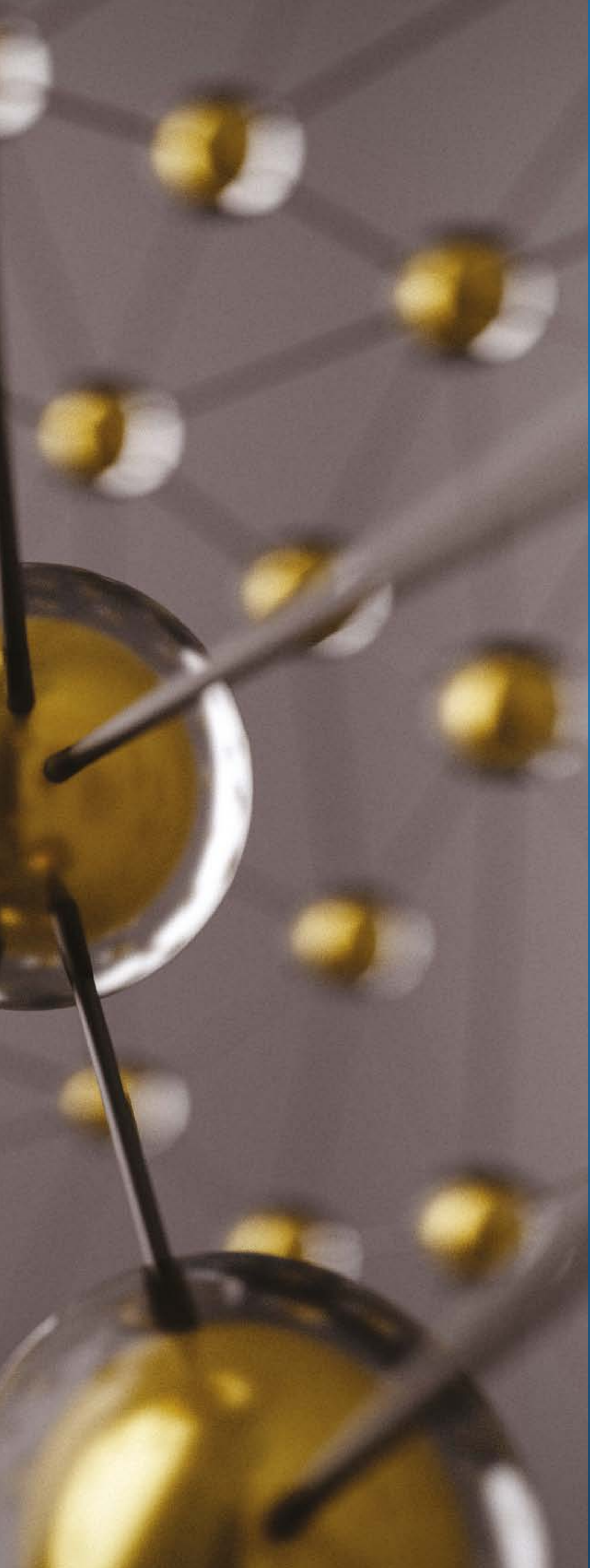
	Share capital	Other reserves	Treasury shares acquired	Profit for the year	Valuation adjustments	Equity
Balance at 12/31/20	**30,292**	**247,666**	**–**	**6,257**	**–**	**284,215**
Transfer of 2020 retained earnings	–	6,257	–	-6,257	–	–
2021 comprehensive income	–	–	–	43,297	10,957	54,254
Transactions with shareholders and owners:						
Meeting attendance bonus	–	-334	–	–	–	-334
Purchase of treasury shares	–	–	-6,522	–	–	-6,522
Balance at 12/31/21	**30,292**	**253,589**	**-6,522**	**43,297**	**10,957**	**331,613**
Transfer of 2021 retained earnings	–	35,086	–	-35,086	–	–
Dividends	–	–	–	-8,211	–	-8,211
2022 comprehensive income	–	–	–	62,989	-10,957	52,032
Transactions with shareholders and owners:						
Meeting attendance bonus	–	-344	–	–	–	-344
Purchase of treasury shares	–	–	-14,380	–	–	-14,380
Redemption of treasury shares	-1,312	-11,954	13,266	–	–	–
Balance at 12/31/22	**28,980**	**276,377**	**-7,636**	**62,989**	**–**	**360,710**

14.5 / Consolidated cash flow statement

THOUSANDS OF EUROS

	Year 2022	Year 2021
A) Cash flows from operating activities	**88,023**	**70,353**
Customer collections	1,126,832	822,730
Proceeds from the net variation in the non-recourse tranche of the factoring facility	6,705	14,689
Proceeds from cash flow hedges	12,665	–
Payments to suppliers	-958,532	-680,144
Proceeds from VAT returns	4,809	6,107
Payments to and on account of ordinary employees	-87,917	-83,282
Payments to and on account of retired employees on the payroll and collective dismissal	-118	-508
Payments against provisions for environmental remediation	-4,382	-3,820
Payments against other provisions	-741	-75
Other operating proceeds/payments	–	848
Grants received related to indirect CO_2 emissions	4,603	7,140
Other grants received	3,453	3,514
Interest and fees and commissions payable	-4,995	-4,509
Interest received	54	9
Payments on / proceeds from net exchange gains (losses)	2,356	840
Dividends received	600	600
Proceeds from prior years' income tax refund	4,338	–
Payment on account of the income tax for the year	-17,983	-10,067
Payments of local and other taxes	-3,724	-3,719
B) Cash flows from investing activities	**-52,814**	**-34,238**
Purchase of property, plant, and equipment:		
Investments in capacity extension	-27,184	-12,901
Other investments	-25,630	-21,337
C) Cash flows from interrupted operations	**-7.276**	**-6,137**
Free cash flows (A+B+C)	**27,933**	**29,978**
D) Shareholder remuneration	**-22,935**	**-6,856**
Purchase of treasury shares	-14,380	-6,522
Payment of meeting attendance bonus	-344	-334
Dividends paid	-8,211	–
E) Cash flows from financing activities	**1,480**	**-11,715**
Amounts drawn down on non-current loans	71,729	13,165
Repayment and redemption of non-current loans	-63,646	-7,528
Net variation of current revolving lines	469	-14,600
Finance lease payables	-7,626	-6,811
Cancellation of deposits	554	4,166
Constitution of deposits	–	-107
F) Net increase/decrease in cash and cash equivalents (A+B+C+D+E)	**6,478**	**11,407**
Cash and cash equivalents at the beginning of the period	51,573	39,931
Effect of foreign exchange rate	232	235
Cash and cash equivalents at the end of the period	58,283	51,573





15

ERCROS GROUP HISTORICAL DATA SERIES

15.1 / Consolidated statement of financial position

THOUSANDS OF EUROS

Assets	12/31/22	12/31/21	12/31/20	12/31/19	12/31/18 [1]	12/31/17 [1]
Non-current assets	**446,372**	**408,176**	**399,202**	**405,035**	**387,735**	**373,239**
Property, plant and equipment	341,495	324,517	311,291	296,937	281,689	269,388
Other non-current assets	104,877	83,659	87,911	108,098	106,046	103,851
Current assets	**300,179**	**301,780**	**191,017**	**251,380**	**237,657**	**248,727**
Inventories	134,773	122,696	82,278	82,244	97,675	79,739
Trade accounts receivable	98,507	99,232	56,070	86,595	98,656	123,040
Other current assets and cash	66,899	79,852	52,669	82,541	41,326	45,948
Total assets	**746,551**	**709,956**	**590,219**	**656,415**	**625,392**	**621,966**

Equity and liabilities						
Equity	**360,710**	**331,613**	**284,215**	**292,083**	**272,256**	**247,361**
Non-current liabilities	**163,283**	**146,057**	**142,189**	**120,937**	**112,191**	**124,149**
Long term loans	97,151	92,793	93,553	65,984	48,393	46,258
Long-term provisions	23,080	12,893	11,788	13,261	17,150	28,102
Deferred tax liabilities and other non-current liabilities	43,052	40,371	36,848	41,692	46,648	49,789
Current liabilities	**222,558**	**232,286**	**163,815**	**243,395**	**240,945**	**250,456**
Short term loans	25,952	20,983	28,712	103,173	83,837	79,620
Trade accounts payable and other accounts payable	139,027	169,905	102,447	101,226	107,655	118,654
Provisions and other current liabilities	57,579	41,398	32,656	38,996	49,453	52,182
Equity and total liabilities	**746,551**	**709,956**	**590,219**	**656,415**	**625,392**	**621,966**

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

15.2 / Consolidated statement of comprehensive income

THOUSANDS OF EUROS

Assets	Year 2022	Year 2021	Year 2020	Year 2019	Year 2018 [1]	Year 2017 [1]
Income	**1,059,685**	**829,964**	**585,320**	**689,073**	**684,802**	**694,037**
Turnover	1,024,902	800,055	568,797	669,782	671,940	681,470
Other operating income and changes in inventories	34,783	29,909	16,523	19,291	12,862	12,567
Expenses	**-937,024**	**-744,284**	**-535,719**	**-628,169**	**-613,690**	**-619,726**
Supplies	-470,572	-400,012	-267,946	-343,573	-341,780	-316,581
Staff	-89,582	-86,965	-84,296	-83,127	-79,870	-83,387
Other operating expenses	-376,870	-257,307	-183,477	-201,469	-192,040	-219,758
Ebitda	**122,661**	**85,680**	**49,601**	**60,904**	**71,112**	**74,311**
Amortization	-29,966	-28,549	-30,329	-26,576	-26,365	-18,252
Profit/loss due to impairment of assets	-539	-3,450	-4,335	-5,615	—	—
Mercury technology abandonment costs	—	—	—	—	—	-21,732
Ebit	**92,156**	**53,681**	**14,937**	**28,713**	**44,747**	**34,327**
Financial result	-4,198	-2,525	-7,952	-6,088	-7,029	-5,644
Earnings before taxes	**87,958**	**51,156**	**6,985**	**22,625**	**37,718**	**28,683**
Income taxes and non-controlling interests	-17,314	-7,859	-728	8,418	6,876	15,899
Discontinuing operations results	-7,655	—	—	—	—	—
Profit of the year	**62,989**	**43,297**	**6,257**	**31,043**	**44,594**	**44,582**

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

Corporation

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

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

Chlorine derivatives division

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

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

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

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

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

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

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

Production facilities

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

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

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

Tarragona Industrial Complex

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

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

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

Intermediate chemicals division

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

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

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

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

Production facilities

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

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

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

Pharmaceuticals division

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

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

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Ercros

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