Ercros

ERCROS, S.A.
AND
SUBSIDIARIES

(Translation of consolidated financial statements and consolidated management report originally issued in Spanish.
In the event of discrepancy, the Spanish-language version prevails)

Audit report, Consolidated Financial Statements and consolidated management report for the year ended December 31, 2022

(Information prepared in accordance with International Financial Reporting Standards adopted by the European Union)

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B. CONSOLIDATED FINANCIAL STATEMENTS OF THE ERCROS GROUP

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B 1. Consolidated statement of financial position

Assets	Note	Thousands of euros 12/31/22	12/31/21
Non-current assets		**446,372**	**408,176**
Property, plant and equipment	6 a)	341,495	324,517
Investment property	6 b)	26,046	19,400
Intangible assets	6 c)	19,034	11,598
Right-of-use assets	6 c)	12,265	6,117
Investments accounted for using the equity method	3 g)	6,691	6,410
Financial assets	6 d)	6,465	4,476
Deferred tax assets	6 o)	34,376	35,658
Current assets		**300,179**	**301,780**
Inventories	6 e)	134,773	122,696
Trade and other receivables	6 f)	98,507	99,232
Cash flow hedging derivative at fair value through other comprehensive income	6 g)	-	14,610
Other current assets	6 m)	6,759	9,339
Current income tax assets	6 o)	1,857	4,330
Cash and cash equivalents	6 h)	58,283	51,573
Total assets		**746,551**	**709,956**

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Equity and liabilities	Note	Thousands of euros 12/31/22	12/31/21
Equity attributable to owners of the controlling entity	6 i)	**360,710**	**331,613**
Total liabilities		**385,841**	**378,343**
Non-current liabilities		**163,283**	**146,057**
Loans	6 d)	97,151	92,793
Lease payables	6 d)	7,331	2,608
Deferred tax liabilities	6 o)	22,919	26,766
Provisions for environmental remediation	6 j)	18,215	10,041
Other provisions	6 j)	2,464	662
Commitments to active staff	6 k)	2,401	2,190
Accrued income and grants	6 l)	12,802	10,997
Current liabilities		**222,558**	**232,286**
Loans	6 d)	9,277	5,739
Current portion of non-current loans	6 d)	16,675	15,244
Lease payables	6 d)	4,993	3,618
Trade payables	6 n)	139,027	169,905
Provisions for environmental remediation	6 j)	5,969	4,357
Other provisions	6 j)	21,874	12,556
Other liabilities	6 n)	24,743	20,867
Total equity and liabilities		**746,551**	**709,956**

B 2. Consolidated income statement

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

B 3. Consolidated statement of comprehensive income

Thousands of euros	Notes	2022	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	6 g)	-10,957	10,957
Total comprehensive income attributable to owners of the controlling entity		**52,032**	**54,254**

B 4. Consolidated statement of changes in 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 [Notes 4 b), 3 d) and 6 i)]	-	-	-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 [Notes 4 b), 3 d) and 6 i)]	-	-	-14,380	-	-	-14,380
Redemption of treasury shares [Notes 4 a) and 6 i)]	-1,312	-11,954	13,266	-	-	-
Balance at 12/31/22	**28,980**	**276,377**	**-7,636**	**62,989**	**-**	**360,710**

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B 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 [Note 6 d)]	6,705	14,689
Proceeds from cash flow hedges [Note 6 g)]	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 [Note 6 j)]	-118	-508
Payments against provisions for environmental remediation [Note 6 j)]	-4,382	-3,820
Payments against other provisions [Note 6 j)]	-741	-75
Other operating proceeds/payments	-	848
Grants received related to indirect CO_2 emissions [Note 6 l)]	4,603	7,140
Other grants received [Note 6 l)]	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 [Note 3 g)]	600	600
Proceeds from prior years' income tax refund	4,338	-
Payment on account of the income tax for the year [Note 6 o)]	-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 discontinued operations [Note 4 f)]	**-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 [Note 3 d)]	-14,380	-6,522
Payment of meeting attendance bonus	-344	-334
Dividends paid [Note 3 d)]	-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

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Sección 1: Corporate and Group information

Nota 1 a) Corporate information

The consolidated financial statements of Ercros, S.A. (hereinafter ‘Ercros’ or ‘the Company’) and its subsidiary companies, whether direct or indirect, as listed below, which comprise the Ercros Group (hereinafter ‘the Group’) at December 31, 2022 and December 31, 2021, were authorized for issue by the board of directors on February 17, 2023.

Ercros, S.A. is a listed public limited company that was incorporated in Spain, where it is domiciled. The Company’s registered office is located at Avenida Diagonal, 595 in Barcelona. The Company’s head offices are located also at Avenida Diagonal, 595 in Barcelona.

The Company’s corporate name has not changed in the current year.

The Group's main activities focus on the production and marketing of chemical products and generic active pharmaceutical ingredients. The Group’s structure is shown in Note 1 b) to the accompanying consolidated financial statements and the information on other related-party transactions is shown in Note 4 d).

Ercros subsidiaries only account for 3.58% of consolidated income (2.38% in 2021) and 0.40% of consolidated assets (1.16% in 2021).

The Group’s activity is carried out through three business segments [see chapter C 1.3 d) of the consolidated management report (‘CMR’) and Note 3 e) to the consolidated financial statements]:

- The Chlorine Derivatives Division (chlorine, caustic soda, sodium hypochlorite, hydrochloric acid, TCCA, PVC, oxidants and other products).

- The Intermediate chemicals Division (formaldehyde and derivatives).

- The Pharmaceuticals Division produces generic active pharmaceutical ingredients (mainly erythromycin, fusidic acid and fosfomycin).

At 2022 year end the Group has decided to discontinue the dicalcium phosphate activity in Flix due to the impossibility of renewing the supply and toll-manufacturing agreements. Profit/(loss) after tax is presented with discontinued operations in the consolidated income statement for the years 2022 and 2021. The assets have been reclassified to investment property [see Note 6 b)].

The Group carries out its main activity at its factories in Vila-seca.

Nota 1 b) Group information

Subsidiaries and associated companies

The details of the companies composing the Group as at December 31, 2022 and 2021 are shown below, classified into the following categories:

- Subsidiaries: These are the companies over which Ercros has the power to control, whether directly or indirectly, the majority of the voting rights and may dictate financial and operating policies for the purpose of obtaining profit from the entity.

- Associated companies: These are the companies which are excluded from the foregoing classification, but over which Ercros exercises a significant influence and may, therefore, intervene in decisions of financial or operational policies, without reaching the level of exercising full or joint control.

Subsidiaries and associated companies included in the 2022 and 2021 consolidated financial statements

Company name	Town of registered office	Ownership interest (%) 2022	Ownership interest (%) 2021	Holding company	Consolidation method
Relevant companies:					
Ercros France, S.A. *(under liquidation)*	Paris (France)	100	100	Ercros S.A.	Full
Salinas de Navarra, S.A.[3]	Beriain (Navarra)	24	24	Ercros S.A.	Equity
Aguas Industriales de Tarragona, S.A.[3]	Tarragona (Tarragona)	21.14	21.14	Ercros S.A.	Equity
Non-relevant companies:					
Ercekol, A.I.E.[2]	Tarragona (Tarragona)	45.31	45.31	Ercros S.A.	Full
Asociación Flix-Coquisa, S.L.[1]	Barcelona (Barcelona)	50	50	Ercros S.A.	Equity
Cloratita, S.A.[1]	Barcelona (Barcelona)	100	100	Ercros S.A.	Full
Gades, Ltd.[1]	Jersey (UK)	100	100	Ercros S.A.	Full

1. Dormant.

2. Full consolidation method due to control position. The high dilution of shareholding results in Ercros holding control over the company.

3. See Note 3 g).

Ercros, S.A. is the ultimate parent company of all subsidiaries and associated companies listed above and, therefore, it does not belong to any other group.

No company has a significant influence on the Group. The material ownership interests in Ercros's share capital communicated by the shareholders to the Spanish National Securities Market Commission are detailed in Note 4 d) (vi).

At the general meeting held on October 31, 2022, the shareholders of Ercros France, S.A. (a subsidiary engaged in the marketing in France of chemical products manufactured by the group), resolved to start the procedure for winding up the company as from November 1. The parent company, Ercros S.A., will directly market its products in France.

Sección 2: Basis of presentation and other significant accounting policies

Nota 2 a) Basis of presentation

The accompanying consolidated financial statements of the Ercros Group have been prepared by the Directors of the Parent Company in accordance with the International Financial Reporting Standards (hereinafter 'IFRS') adopted by the European Union ('EU') and with the interpretations published by the International Accounting Standards Board ('IASB'), whose adoption is mandatory for all periods beginning on or after January 1, 2022.

The amendments to the standards that come into force on or after January 1, 2022 have had no significant impact on the accompanying consolidated financial statements.

The accounting policies used in the preparation of these consolidated financial statements are the same as those used in the preparation of the consolidated financial statements for the year ended December 31, 2021.

The 2021 financial statements were approved by the shareholders without any modification at the general meeting held on June 10, 2022.

The consolidated financial statements have been prepared on a historical cost basis, except for those property, plant and equipment assets and investment property corresponding to land and buildings from business combinations that were recorded at fair value on the date of the business combination [see Note 3 f)]. Additionally, investment properties are recorded at fair value when fair value is lower than carrying amount.

In 2021 Ercros arranged a financial derivative for hedging cash flows from the purchase of a portion of the electricity that the Group consumed in 2022. The derivative was recorded at each monthly closing at fair value through other comprehensive income. The derivative was already settled at 2022 year end.

The consolidated financial statements are presented in euros and all figures are rounded up to thousands of euros, unless otherwise indicated.

The information included in the accompanying financial statements and the explanatory notes to these financial statements for the year 2022 is presented for comparative purposes together with the information on the year 2021. In order to understand the Group’s business performance appropriately, as well as the cash flows generated, new captions have been included in both the statement of comprehensive income and the cash flow statement. Additionally, some reclassifications have been made in the 2021 financial statements solely for providing better comparability between both years’ information. None of these reclassifications was material.

Significant accounting judgments, estimates and assumptions

The main judgments and estimates made by Management in the preparation of the consolidated financial statements at December 31, 2022 refer to:

1. Assessment of the degree of probability of occurrence of the risks associated with litigation proceedings, environmental remediation commitments, and other contingencies, and the quantification, where appropriate, of the necessary provisions, as well as the probable date of cash outflow to settle such obligations [see Note 6 j)].

2. The estimate of the obligation that Ercros will have to settle in connection with the environmental remediation of El Hondon land. Although the remediation obligation is assumed by the owners of the land, as specified in the subdivision project approved in 2013 by Cartagena City Council, which is currently responsible for 75% of the remediation of the land, whereas Ercros will settle the owner’s obligation regarding the remaining 25%, the Government of the Region of Murcia declared the land contaminated in 2019 and Ercros the first responsible party for its remediation. Said remediation covers work done until the land is fit for industrial use. In 2020 Ercros submitted a remediation project that has been rejected by the General Directorate for Environment. Ercros has appealed against both the contaminated land declaration and the rejection of its project, resulting in the inadmissibility of these appeals. On January 21, 2022 Ercros filed an administrative appeal to the High Court of Justice of Murcia against the resolution of inadmissibility of the appeals [see Note 7 c) (i)].

3. The estimate of the expectations with regard to the recovery of tax credits and the determination of the amounts to be presented as deferred tax assets. Management has opted to present as deferred tax assets (i) the right to reduce the taxable income for next years derived from all temporary differences arisen either in the current or prior years, (ii) the amount of unused tax loss carryforwards that the Company expects to utilize in the next ten years, and (iii) all accredited tax deductions [see Note 6 o)]. The estimates of profit for the 2023-2032 period have been approved by the board of directors although they have not been reviewed by an independent expert.

The judgments, estimates and assumptions are periodically reviewed by Management based on the best information available. Thus, in 2022 the Group has recorded additional amounts to meet its obligations, as indicated in Note 6 j).

Nota 2 b) Summary of other significant accounting policies

The 2022 financial statements have been prepared under the going concern principle.

Classification of non-current and current items

The Group presents assets and liabilities in the consolidated statement of financial position based on a current/non-current classification. The Group classifies an asset as current when:

1. It is expected that the asset will be realized or is intended to be sold or consumed within its normal operating cycle.

2. The asset is held mainly for trading purposes.

3. It is expected that the asset will be realized within the 12 months after the reporting period.

4. The asset is cash or cash equivalent, unless it is restricted and cannot be exchanged or used to settle a liability for a minimum period of 12 months after the reporting period.

The Group classifies all other assets as non-current.

The Group classifies liability as current when:

1. It is expected that the liability will be settle within its normal operating cycle.

2. The liability is held mainly for trading purposes.

3. It is expected that the liability will be settled within the 12 months after the reporting period.

4. The Group has no right at the end of the reporting period to defer the settlement of the liability for, at least, 12 months after the reporting date.

The Group classifies all other liabilities as non-current.

Part of the Group's financing classified as non-current is subject to covenants. The Group has obtained a waiver for one of the covenants and all other covenants have been met at 2022 year end [see Note 6.d)].

Deferred tax assets and liabilities are classified as non-current.

Translation of foreign currency balances

The consolidated financial statements are presented in euros, which is the Group's functional currency. The functional currency of all Ercros subsidiaries is the euro.

Transactions in foreign currency are posted at the exchange rate applicable on the date of the transaction. Monetary assets and liabilities denominated in foreign currency are valued at the rate of exchange applicable at the reporting date and all gains or losses produced are recorded in the consolidated statement of comprehensive income. The main foreign currency in which the group carries out its transactions is the US dollar.

Nota 2 c) Changes in accounting policies and required disclosures

Standards and interpretations approved by the EU and applied for the first time in 2018

The accounting policies used to prepare the accompanying consolidated financial statements are the same as those used to prepare the consolidated financial statements for the year ended December 31, 2021, as none of the standards, interpretations or amendments to the standards that are applicable for the first time this year has had any impact on the Group's accounting policies.

Nota 2 d) Fair value measurement and impairment

Almost all the Group's assets and liabilities presented in the financial statements for the years ended December 31, 2022 and 2021 are measured at historical cost, or amortized cost. The use of fair value measurement is an exception given the nature of the industrial activity carried out by the Group and of the assets and liabilities presented in the consolidated financial statements.

In 2021 the Group arranged a financial derivative for hedging the cash flows from the purchase of a portion of the electricity that it planned to be consumed in 2022. This derivative was part of a long-term electricity agreement at a fixed amount that, for operational reasons, could not be supplied in 2022 but that will be supplied as from 2023. At December 31, 2022 the financial asset had been fully settled. At the interim closings of 2022 this asset was measured at fair value through other comprehensive income.

The Group also recognizes potential impairment losses on assets, as well as the reversal of such impairment. In 2022 the Group has recognized impairment losses on (i) property, plant and equipment, based on market values [see Note 6 a)]; and (ii) inventory, due to the adjustment to the net realizable value [see Note 6 e)].

No significant differences exist between book value and fair value of the various financial instruments under control of the Group given that the majority mature at less than one year or is referenced to a variable market interest rate which is reviewed periodically.

The Group has not arranged any interest rate or foreign currency hedging instrument.

Nota 2 e) Standards and interpretations issued by the IASB but not applicable in the current year

The Group intends to adopt the standards, interpretation and amendments issued by the IASB, whose application is not mandatory in the European Union, when they are effective, to the extent that they are applicable to it.

The Group is currently analyzing their impact and, based on the analysis conducted to date, it believes that their first-time application will not have a material impact on the consolidated financial statements.

Sección 3: Group businesses, operation and management

Nota 3 a) Revenue from contracts with customers

The Group's activity focuses on the production and marketing of chemical products and generic active pharmaceutical ingredients. Revenue from the sale of finished product is recognized when the significant risks and benefits from ownership of the items have been transferred to the purchaser and the amount of the income may be reliably quantified, a condition which in general terms occurs at the moment of the effective delivery of the goods.

Geographical segment reporting

Thousands of euros	2022 Domestic	Rest of EU	Other OECD countries	Rest of the world	Total
Sales of goods	**532,697**	**277,944**	**109,021**	**78,870**	**998,532**
Total assets	745,585	966	-	-	746,551
Investments in non-current assets	49,493	-	-	-	49,493

Thousands of euros	2021 Domestic	Rest of EU	Other OECD countries	Rest of the world	Total
Sales of goods	**390,344**	**215,252**	**88,770**	**77,951**	**772,317**
Total assets	707,125	2,831	-	-	709,956
Investments in non-current assets	34,676	-	-	-	34,676

The explanation on the geographical segment reporting is shown in chapter C 2.1 e) of the CMR.

Nota 3 b) Objectives and policies in financial instrument risk management

The main financial liabilities of the Group consist of loans, credits, factoring, finance leases and trade payables. The main purpose of these financial liabilities is to finance the Group’s transactions.

The Group’s main financial assets are accounts receivable, deposits and security deposits and cash and cash equivalents, which basically arise as a result of its transactions.

In 2021 the Group entered into a financial derivative for hedging the cash flows from the purchase of energy within the framework of a long-term supply agreement. The derivative was arranged for a period of one year, during which electricity could not be physically delivered. The derivative has been fully settled at 2022 year end. Therefore, the Group does not intend to arrange additional financial derivatives to hedge cash flows from the purchase of energy, but chooses to enter into long-term bilateral electricity agreements at a fixed price with physical delivery of energy for consumption in industrial processes.

The Group has not arranged any derivatives to hedge interest rate or foreign currency risks.

Financial assets and liabilities are exposed to credit risk, market risk (which in turn includes interest rate and foreign currency risks, as well as other price risks such as raw materials) and liquidity risk.

Financial risks are periodically supervised by the executive team. The team is working on minimizing these risks based on: (i) the cyclical nature of the Group's business; (ii) the significant improvement in profitability since 2015; (iii) its investment plan; (iv) the impact of the Covid-19 crisis and the conflict between and Ukraine on the economy of the different countries; and (iv) the shareholder remuneration policy.

The improvement in the Group's profitability and solvency facilitates access to new financing facilities at competitive prices and terms.

Part of the Group's long-term financing is arranged at fixed rates. The rest has been arranged at floating rates. Consequently, the current scenario of rising interest rates will cause finance costs to increase; however, the Group's level of indebtedness is low, and therefore the rise in interest rates does not pose any significant risk for the Group.

3 b) (i) Credit risk

The Group has established a customer credit management policy that is managed in the normal course of business. Solvency assessments are conducted in respect of relevant customers. Additionally, in certain sales the Group requires the customer to deliver a letter of credit or a bank guarantee that ensure collection.

Furthermore, since January 2020 the Group has had a credit insurance policy that was taken out with the company CESCE and covers approximately half of the outstanding balance of the portfolio. This policy covers invoices that are transferred without recourse to the syndicated factoring.

The maximum exposure to credit risk of trade receivables is detailed in Note 6 f).

The Group's customer portfolio is highly diversified and has historically shown low default rates.

Maximum exposure to credit risk for the remaining financial assets of the Group, such as cash and cash equivalents, credits, and financial assets available for sale, is equivalent to the book value of these assets at year end.

3 b) (ii) Market risk

Interest rate risk

External financing is obtained through the syndicated factoring, the revolving factoring agreement, working capital financing lines and loans granted by public institutions. Most financing has been arranged at floating interest rates usually linked to Euribor [see Note 6 d)]. In this regard, due to the current context of rising interest rates, increases in Euribor will mean higher finance costs for the Group, even though the impact thereof does not entail any financial risk for the Group.

During the first half of the year 2022 Ercros took out several bank loans for an overall amount of 31,000 thousand euros at a fixed interest rate for a period of between 5 and 7 years, which have mainly been used to repay loans granted by the Ministry of Industry at a higher finance cost. Some of these loans incorporate an ESG-linked component.

In December 2022 another bank loan was taken out for an amount of 10,000 thousand euros at a fixed interest rate that will be drawn down during 2023 over a period of 5 years.

On December 23, 2021 the Ercros Group signed an agreement with the European Investment Bank ('EIB') to finance with 40 million euros Ercros's investments in research, development and innovation (R&D&I), digitalization, decarbonization and modernization of its main facilities within the 3D Strategic Plan that Ercros has launched for the period 2021-2025. The EIB loan is backed by the European Fund for Strategic Investments ('EFSI'), the main pillar of the Investment Plan for Europe. The EIB financing will support Ercros in achieving the target of reducing its greenhouse gas emissions by 39% by 2025 and will also contribute to consolidate the company's leadership with the implementation of operational improvements and the development of new products.

The table below shows an analysis of sensibility to possible reasonable changes in the interest rate. The remaining variables have remained stable:

	Increase/Decrease in basis points of debt cost	Effect on finance profit/(loss) (thousands of euros)
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

Foreign currency risk

The assets and liabilities balances in US dollars at 2022 and 2021 year end, and the net exposure in the consolidated statement of financial position, are as follows: The Group has no significant exposures in other currencies:

Thousands of dollars	12/31/22	12/31/21
Accounts receivable	31,227	32,409
Cash	4,254	3,469
Trade payables	-11,288	-14,423
Net balance in dollars	**24,193**	**21,455**

The US dollar is –by far– the main foreign currency that the Group is exposed to, as indicated above. No derivative instrument to hedge this risk is arranged.

In 2022, the US dollar appreciated against the euro and at year end it stood at 1.06 US dollars per euro. This appreciation has had a positive impact of 8,806 thousand euros on the Group’s ebitda in 2022. Net exposure amounted to 89,669 thousand US dollars.

In 2023 an average exchange rate of 1.02 US dollars per euro has been estimated. This potential US dollar depreciation will have a negative impact for 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 purchases of some raw materials that are acquired in US dollars.

The table below summarizes the purchase and sale transactions in US dollars made by the Group:

	2022	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 table below shows a sensitivity analysis to possible reasonable changes in the average US dollar exchange rate for the Ercros Group's sales against the average exchange rate in 2022, which was 1.06. The other variables remain stable:

US dollar/euro relationship	Effect on operating profit/loss (thousands of euros)
1.20	-9,533.25
1.15	-6,284.36
1.10	-2,740.11
1.06	-
1.02	3,653.45
1.00	5,411.67
0.95	10,131.12

Exposure to fluctuation of raw material prices

The Group acquires raw materials that are relevant to its cost structure such as methanol, ethylene and EDC, as well as the supply of electricity and gas, whose prices fluctuate and affect profitability.

To hedge the electricity and gas price risk, the Group has entered into long-term supply agreements for a portion of its consumption.

3 b) (iii) Liquidity risk

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

It should be noted that the significant increase in the resources generated by the Group's businesses in 2022 has provided the necessary liquidity to meet its obligations in a timely manner (payment on investments and shareholder remuneration) with a slight increase in net financial debt as a result of the renewal of finance lease arrangements. The Group's forecast for 2023 is that this situation will continue and therefore it is not expected that the Group will be exposed to liquidity risk in its transactions.

The table below shows the current financial liabilities at December 31, 2022 and 2021, in accordance with their contractual terms:

Thousands of euros	12/31/22	12/31/21
Bank borrowings [Note 6 d)]	25,952	20,983
Trade payables [Note 6) n]	139,027	169,905
Lease payables]Note 6 d)]	4,993	3,618

To meet current financial liabilities, the Group has current assets amounting to 300,179 thousand euros at December 31, 2022.

As indicated in Note 6 d), at December 31, 2022 the Group has available cash and financing facilities for a total amount of 158,146 thousand euros. Additionally, in 2022 the Group has generated free cash flows amounting to 27,933 thousand euros [see chapter B5 of the consolidated cash flow statement].

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

Nota 3 c) Capital management

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

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

The Group's activity is subject to regulatory changes, mainly of an environmental nature that require recurring investments to adapt to the new requirements.

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

The Group's objectives in capital management are:

- Follow a prudent financial policy, based on the stage and duration of the economic cycles and its industry.

- Maintain the capacity to perform transactions with a high level of solvency, in order to provide satisfactory returns to the shareholder and profit to other stakeholders, such as employees, customers, providers, etc.

- Comply with the shareholder remuneration policy [see Note 3 d) (i)].

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

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

The balance of net financial debt ('NFD') at December 31, 2022 and 2021, according to the calculations made by the Group, is as follows:

Thousands of euros	12/31/22	12/31/21
Bank borrowings:		
Non-current	97,151	92,793
Current	9,277	5,739
Current portion of non-current borrowings	16,675	15,244
Lease payables	12,324	6,226
Short-term deposits pledged [Note 6 m]	-777	-1,331
Other non-current assets, pledged deposits [Note 6 d)]	-1,257	-1,257
Cash and cash equivalents	-58,283	-51,573
NFD balance	**75,110**	**65,841**

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

Thousands of euros	12/31/22	12/31/21
NFD	75,110	65,841
Equity	360,710	331,613
Leverage ratio (NFD/total equity)	**0.21**	**0.20**

As shown in the table above, the leverage ratio (NFD/total equity) has slightly increased in 2022 compared to 2021, and it remains below 0.50 times, which is one of the shareholder remuneration policy requirements.

The minor deterioration of the ratio is mainly due to the renewal of finance lease arrangements that has resulted in a rise in net financial debt at 2022 year end compared to 2021, since total equity has continued to increase compared to the prior year, even though not as much as NFD.

Thousands of euros	12/31/22	12/31/21
NFD balance at January 1	**65,841**	**84,832**
Free cash flow	-27,933	-29,978
Dividends paid	8,211	-
Repurchase of shares	14,380	6,522
Payment of meeting attendance bonus	344	334
Accrual of finance costs that do not generate cash outflows	775	474
Renewal of finance lease arrangements	13,724	3,892
Effect of changes in exchange rates:		
In cash and cash equivalents	-232	-235
NFD balance at December 31	**75,110**	**65,841**

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

Thousands of euros	12/31/22	12/31/21
NFD	75,110	65,841
Ebitda from ordinary activities	142,874	93,799
Solvency ratio (NFD/ordinary ebitda)	**0.53**	**0.70**

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

Thousands of euros	12/31/22	12/31/21
Gross operating profit ('EBITDA')	122,661	93,413
Reversal of provisions and other non-recurring income	-399	-6,569
Charge of provisions and other non-recurring income	20,612	6,955
Ebitda from ordinary activities	**142,874**	**93,799**

The solvency ratio (NFD over ordinary ebitda) has improved significantly in 2022 compared to 2021 due to the increase in ordinary ebitda despite a slight increase in net finance debt, and remains well below 2. Therefore, another of the shareholder remuneration policy requirements, which are detailed in Note 3 d) below, is met.

Nota 3 d) Appropriation of profit (proposed and effectively made)

3 d) (i) Shareholder remuneration policy:

At the general meeting held on June 11, 2021 the shareholders ratified the new shareholder remuneration policy proposed by the Board of Directors for the 2021-2024 period.

The maximum payout will be 50% of profit for each of the four years, provided that: i) a minimum profit of 10 million euros is obtained; and ii) at each year end the solvency ratio (net financial debt/ordinary ebitda) is equal to or below 2.0 and debt-to-income ratio (net financial debt/equity) is equal to or below 0.5.

These three requirements have been met at December 31, 2022 [see Note 3d) to these consolidated financial statements and chapter 10.1 a) of the CMR].

Shareholder remuneration will be carried out through the repurchase of treasury shares, which will subsequently be redeemed, and the payment of dividends. The repurchase of treasury shares will be executed provided that a payment of a dividend is established of at least: 18% of 2021 profit; 20% of 2022 profit; 22% of 2023 profit; and 24% of 2024 profit.

Shareholder remuneration will be carried out through the repurchase of treasury shares, which will subsequently be redeemed, and the payment of dividends, as shown:

	2021	**2022**	**2023**	**2024**
Minimum dividend	18%	20%	22%	24%
Maximum repurchase of shares	32%	30%	28%	26%
Maximum payout	**50%**	**50%**	**50%**	**50%**

The sixth treasury share repurchase program ended on June 22, with an invested amount of 9,756 thousand euros over the period it was in force. The shares corresponding to the 2021 payout were repurchased under the fifth and sixth programs

Additionally, the Board of Directors of the Company, at the meeting held on June 10, 2022, approved the seventh treasury share repurchase program, following the authorization granted by the shareholders at the general meeting held on June 23, 2017. This program will be in force until June 23, 2023 and establishes a repurchase of up to 25 million euros or 8% of existing share capital at the time of approval.

3 d) (ii) Consolidated profit for the year

The breakdown of profit for the year is as follows:

Thousands of euros	2022	2021
Profit for the Parent Company	64,967	42,975
Share in profit/(loss) of companies accounted for using the equity method	877	607
Impact of the application of IFRS 16	49	134
Profit of companies accounted for using the full consolidation method	346	181
Elimination of the dividends from the subsidiary Ercros France	-2,650	-
Elimination of dividends from companies accounted for using the equity method	-600	-600
Consolidated profit for the year	**62,989**	**43,297**

3 d) (iii) Proposed appropriation of 2022 profit

The appropriation of 2022 profit of the Parent Company proposed by the directors to be approved by the shareholders in general meeting is as follows:

Thousands of euros	2022
Proposed appropriation	
Profit for the Parent Company	64,967
Appropriation to:	
Dividend payment (0.15 euros per share with dividend rights)[1]	13,751
Capitalization reserve [Note 6 o)]	2,009
Voluntary reserves	49,207

[1] The amount allocated to dividend payment is an estimated amount at the date these financial statements are authorized for issue. At the time the general meeting of shareholders is called, the total final dividend amount will be established based on a dividend payment of 0.15 euros per share with dividend rights at that time.

Pursuant to the shareholder remuneration policy, the board of directors resolved to propose allocating at least 20% of profit for the year to dividends, proposing the payment of 0.15 euros per share with dividends rights, and allocating the rest of the amount up to 50% of the Company's profit to the repurchase of shares for redemption. At year end, the number of shares with dividend rights is 94,229,251 shares, which are the ones currently outstanding, 96,599,189 shares, less 2,369,938 treasury shares held by the Company at that date that had been acquired for redemption.

Considering that, as indicated in Note 4 f), the Company has acquired treasury shares between January 1, 2023 and the date these consolidated financial statements were authorized for issue, and plans to continue to purchase treasury shares until completing 50% of the payout, the final proposal for the distribution of dividends will be put forward at the general meeting of shareholders based on the number of shares that bear dividend rights at the time the agreement is adopted by the shareholders in general meeting, based on the payment of 0.15 euros per share.

The 2022 payout (50% of the Company's profit) not allocated to dividends (minimum of 20% of profit for the year 2022) will be used to repurchase shares for redemption.

3 d) (iv) Dividends paid and dividends proposed

The summary of dividends paid and proposed in 2022 and 2021 is as follows:

Thousands of euros	2022	2021
Dividends in cash approved and paid on ordinary shares	**8,211**	**-**
Against 2021 profit (0.085 euro/share)	8,211	-
Proposed dividends in cash on ordinary shares	**-**	**8,215**
Against 2021 profit (0.085 euro/share)	-	8,215
Against 2022 profit (0.15 euro/share)	13,751	

3 d) (v) Treasury shares purchased

In 2022 and 2021, the Company has repurchased treasury shares for their redemption within the shareholder remuneration policy, for the following amounts [see Note 4 b)]:

Thousands of euros	2022	2021
Amount for the repurchase of treasury shares	**14,380**	**6,522**
Against 2021 profit	6,744	6,522
Against 2022 profit	7,636	-

Under the sixth treasury share repurchase program, during the first quarter of 2022 the company repurchased 2,181,901 shares with an acquisition cost of 6,744 thousand euros with a charge to the 2021 payout.

The board of directors, at the meeting held on June 10, 2022, approved the seventh treasury share repurchase program which started on June 23 and will end on June 23, 2023, or a prior date in the event that the maximum number of shares expected in the said program, 7,727,935, equal to 8% of share capital is reached, or 25 million euros, the maximum amount allocated to the program, have been invested. At December 31, 2022 2,369,938 shares have been repurchased with an acquisition cost of 7,636 thousand euros.

Nota 3 e) Segment information

For management purposes, the Group organizes its business activities into three business units based on the nature of the products manufactured and their marketing process: Chlorine Derivatives division, Intermediate Chemicals division and Pharmaceuticals division.

A business segment has been considered to be an identifiable unit of the Group responsible for supplying a unique product or service, or alternatively a set of these which are inter-related, and which is characterized by being subject to risks and yields of a different nature from those which correspond to other business segments within the Group.

The principal factors taken into account when identifying the business segments have been the nature of the products and services, the nature of the production process and the type of customers.

Assets, liabilities, income and expenses by segment include those directly attributable, together with those which may be reasonably attributed.

The main types of products that generate ordinary income in each segment are as follows [see chapter C 1.3 of the CMR]:

- The Chlorine Derivatives Division: chlorine, caustic soda, PVC, TCCA, sodium chlorite and sodium chlorate, sodium hypochlorite, hydrogen peroxide and potash.

- The Intermediate Chemicals Division: formaldehyde, paraformaldehyde, polyol, molding compound, glues and urea resin, formaldehyde and melamine-formaldehyde.

- The Pharmaceuticals Division: erythromycin, fosfomycin, and fusidic acid.

The accounting policies for each segment are standard and consistent with those applied by the Group. The segments are managed applying a reasonable level of independence according to its characteristics and strategies, and the transactions between them are performed based on market conditions.

Consolidated earnings by segment

	2022				
Thousands of euros	**Chlorine derivatives**	**Intermediate Chemicals**	**Pharma-ceuticals**	**Unallocated**	**Total**
Income	**716,534**	**278,055**	**65,096**	**-**	**1,059,685**
Sales of goods	673,099	260,518	64,915	-	998,532
Rendering of services	26,334	36	-	-	26,370
Other income	17,045	10,949	400	-	28,394
Change in inventory of finished goods	-183	6,407	-234	-	5,990
Reversal of provisions and other non-recurring income	239	145	15	-	399
Expenses	**-611,356**	**-263,711**	**-61,957**	**-**	**-937,024**
Supplies	-273,309	-169,935	-27,328	-	-470,572
Utilities	-190,335	-29,813	-7,867	-	-228,015
Transportation services	-29,905	-20,617	-1,416		-51,938
Employee benefits expense	-51,517	-23,112	-14,953	-	-89,582
Other expenses	-46,413	-19,614	-10,278	-	-76,305
Charge of provisions and other non-recurring income	-19,877	-620	-115	-	-20,612
Gross operating profit/(loss)	**105,178**	**14,344**	**3,139**	**-**	**122,661**
Depreciation and amortization expense	-19,414	-6,563	-3,989	-	-29,966
Impairment of non-current assets	-539	-	-	-	-539
Operating profit	**85,225**	**7,781**	**-850**	**-**	**92,156**
Assets	355,986	173,778	83,001	133,786	746,551
Liabilities	108,463	39,900	16,541	220,937	385,841
Investments in non-current assets	26,095	4,361	16,834	2,203	49,493

The explanation on the consolidated profit or loss by segment is shown in chapter C 2.1 of the CMR.

Thousands of euros	2021 Chlorine derivatives	Intermediate Chemicals	Pharma-ceuticals	Unallocated	Total
Income	**537,813**	**251,241**	**52,001**	**-**	**841,055**
Sales of goods	483,047	238,567	50,703	-	772,317
Rendering of services	16,697	31	-	-	16,728
Other income	14,712	8,245	324	-	23,281
Increase in inventory of finished goods	16,845	4,355	960	-	22,160
Reversal of provisions and other non-recurring income	6,512	43	14	-	6,569
Expenses	**-476,534**	**-221,104**	**-50,004**	**-**	**-747,642**
Supplies	-230,479	-144,358	-19,975	-	-394,812
Utilities	-128,499	-18,512	-5,856	-	-152,867
Transportation services	-24,696	-17,625	-1,084		-43,405
Employee benefits expense	-47,332	-22,566	-13,705	-	-83,603
Other expenses	-39,045	-17,652	-9,303	-	-66,000
Charge of provisions and other non-recurring income	-6,483	-391	-81	-	-6,955
Gross operating profit/(loss)	**61,279**	**30,137**	**1,997**	**-**	**93,413**
Depreciation and amortization expense	-17,926	-6,595	-3,609	-	-28,130
Impairment of non-current assets	-3,450	-	-		-3,450
Operating profit	**39,903**	**23,542**	**-1,612**	**-**	**61,833**
Assets	328,277	174,456	67,837	139,386	709,956
Liabilities	126,260	46,506	14,741	190,836	378,343
Investments in non-current assets	17,997	3,369	12,170	1,140	34,676

The total amount of investments in assets allocated to business segments corresponds to the sum of (i) the additions in advances and PP&E under construction under the caption 'Property, plant and equipment' (47,680 thousand euros in 2022 and 34,676 thousand euros in 2020) [see Note 6 a)] and (ii) the additions in intangible assets under construction under the caption 'Intangible assets' (1,813 thousand euros in 2022) [see Note 6 c)].

In 2022 and 2021, no ordinary income has been generated from transactions with a sole external client that represents over 10% of ordinary income. However, for the chlorine derivatives division, it has accounted for 37.7% of the total consumption of the chlorine division in 2022 [see section E.3 a) (vii) of the corporate management report included in the CMR]. The chlorine supply agreement with this customer ended on December 31, 2022.

The general expenses are allocated to the operating segments based on the income from ordinary activities.

The table below shows the assets and liabilities allocated to business segments and their reconciliation with total assets and liabilities in the statement of financial position at December 31, 2022 and 2021:

Thousands of euros	**12/31/22**	**12/31/21**
Allocated assets	**612,765**	**570,570**
Property, plant and equipment	341,495	324,517
Intangible assets	19,034	11,598
Right-of-use assets	12,265	6,117
Investments accounted for using the equity method	6,691	6,410
Inventories	134,773	122,696
Trade and other receivables	98,507	99,232
Unallocated assets	**133,786**	**139,386**
Total assets	**746,551**	**709,956**
Allocated liabilities	**164,904**	**187,507**
Non-current lease payables	7,331	2,608
Current lease payables	4,993	3,618
Trade payables	139,027	169,905
Asset suppliers (Note 6 n)]	13,553	11,376
Unallocated liabilities	**220,937**	**190,836**
Total liabilities	**385,841**	**378,343**

Nota 3 f) Basis of consolidation and financial information on significant investees

The consolidated financial statements include the financial statements of Ercros, S.A. and its subsidiaries at December 31, 2022 detailed in Note 1 b).

The 2022 financial statements of each of the companies comprising the Group, which are presented in accordance with the regulations applicable in the country in which they operate and which have been the basis for the preparation of these consolidated financial statements, are pending approval by the shareholders at their respective general meetings. Nevertheless, the directors understand that they will be approved without significant modifications.

The methods applied in the preparation of the consolidated financial statements were as follows:

- Full consolidation method for subsidiaries.

- Equity method for associated companies.

The consolidation of subsidiaries starts when the Group gains control over the subsidiary and ends when control over it is lost.

3 f) (i) Changes in the consolidation perimeter

In 2022 there have been no changes in control over subsidiaries and associated companies.

3 f) (ii) Harmonization

The separate financial statements of all the companies included in the consolidation perimeter have been prepared for the same reporting period, suing consistent accounting policies and structure. All the companies in the Group close their financial year at December 31.

3 f) (iii) Elimination of internal transactions

All intra-group balances and transactions arising from operations involving loans, leases, dividends, financial assets and liabilities, purchase of stock, and provision of services have been eliminated.

No purchase and sale transactions on fixed assets have been carried out between group companies.

3 f) (iv) Differences on first consolidation

The differences on first consolidation arising in businesses combinations, from eliminating investment against net equity, have been allocated to assets, liabilities and contingent liabilities the fair value of which at the date of combination differs from that reflected in the consolidated statement of financial position of the company acquired. The remaining non-allocated amounts are recognized as ‘Goodwill’, under ‘Intangible Assets’ when positive, and to ‘Negative difference on consolidation’ within ‘Other operating income’ the consolidated statement of comprehensive income, when negative.

In the latter case, the identification and valuation of the assets, liabilities and contingent liabilities of the acquired company is reassessed, together with the cost of the combination, and if any excess after carrying out this review continues to exist, it is immediately recognized as an income of the year.

The first adoption of IFRS was applied at transition date (January 1, 2004). The Company opted not to reconstruct the recognition for business combinations prior to that date, under the terms of the option available in this respect provided in IFRS 1.

Since the adoption of IFRSs, the Group has recorded two business combinations, one in 2005 and 2006, and both of them gave rise to negative goodwill. Thus, the Group has not allocated any value to any goodwill recorded in the consolidated statement of financial position at December 31, 2022. All companies involved in the business combinations were subsequently acquired by Ercros, S.A.

Additionally, as a result of the aforementioned business combinations, and the adjustment to fair value of the assets acquired, in the accompanying financial statements at December 31, 2022, the captions 'Property, plant and equipment' and 'Investment properties' include gains on the acquisition cost amounting to 49,468 thousand euros and 10,521 thousand euros, respectively (49,896 thousand euros and 10,975 thousand euros, respectively, at December 31, 2021).

As a result of recording these gains, the Group has recorded a deferred tax liability amounting to 12,283 thousand euros corresponding to Property, plant and equipment and 2,629 corresponding to Investment property at December 31, 2022 (12,367 thousand euros and 2,743 thousand euros, respectively, at December 31, 2021) [see Note 6 o)].

Thousands of euros	**Gains**	**Deferred tax liabilities**
Investment property	**10,521**	**2,629**
Land	10,521	2,629
Property, plant and equipment	**49,468**	**12,283**
Land	46,562	11,640
Buildings and constructions	2,906	643
Total at 12-31-2022	**59,989**	**14,912**

In addition to these gains, other plots of land of the Group belonging to the companies acquired had previously increased in value by 27,548 thousand euros, for which a deferred tax liability has also been recorded at December 31, 2022 amounting to 6,887 thousand euros, the same amount as at December 31, 2021 [Note 6 o)].

The contribution to consolidated profit/(loss) by the companies in which Ercros holds an ownership interest is as follows:

Subsidiaries accounted for using the full consolidation method

The profit or loss contributed by the companies accounted for using the full consolidation method is as follows:

Thousands of euros	2022	2021
Ercros France, S.A.	346	181
Profit/Loss for the year	**346**	**181**

Ercros France, S.A.

The only material subsidiary in which Ercros, S.A. holds an ownership interest is Ercros France, S.A., which is wholly owned by Ercros, S.A. and is engaged in the marketing in France of chemical products manufactured by Ercros, S.A.

At the general meeting held on October 31, the shareholders of Ercros France resolved to start the procedure for winding up the company as from November 1.

The financial information regarding Ercros France, S.A. is as follows:

Aggregate statement of comprehensive income.

Thousands of euros	2022	2021
Sales of goods	24,994	11,366
Cost of sales	-23,340	-10,304
Administrative costs	-1,237	-879
Finance costs	43	70
Profit before tax	**460**	**253**
Income tax	-114	-72
Profit for the year, fully attributable to the parent company	**346**	**181**

Aggregate statement of financial position

Thousands of euros	2022	2021
Inventory, cash, and other current assets	842	4,917
Property, plant and equipment, and other non-current assets	156	156
Suppliers and other current payables	-690	-1,383
Current loans	277	-805
Equity, fully attributable to the parent company	**585**	**2,885**

Cash flow statement

Thousands of euros	2022	2021
Cash flows from operating activities	1,717	-445
Cash flows from investing activities	-	-
Cash flows from financing activities	-1,732	370
Changes in cash and cash equivalents	**-15**	**-75**

Nota 3 g) Investments in associated companies

The material investments accounted for using the equity method correspond to Salinas de Navarra, S.A. and Aguas Industriales de Tarragona, S.A. (‘Aitasa’).

The movements in 2022 and 2021 in Investments in associated companies are as follows:

Thousands of euros	Salinas de Navarra, S.A.	Aguas Industriales de Tarragona, S.A.	Total
Balance at 12/31/20	**4,796**	**1,607**	**6,403**
Share in 2021 profit	480	127	607
Dividends received	-600	-	-600
Balance at 12/31/21	**4,676**	**1,734**	**6,410**
Share in 2022 profit	864	17	881
Dividends received	-600	-	-600
Balance at 12/31/22	**4,940**	**1,751**	**6,691**

During 2022 the Group has received dividends from the associated company Salinas de Navarra, S.A. amounting to 600 thousand euros (2021: 600 thousand euros). This amount has been recorded as a decrease in the value of the ownership interest, as shown in the table above.

The relevant information regarding these associated companies is as follows:

<u>Salinas de Navarra, S.A.</u>

Aggregate statement of comprehensive income

Thousands of euros	**2022**	**2021**
Profit before tax	**4,372**	**2,523**
Sales of products and other income	24,700	20,040
Cost of sales	-6,700	-5,582
Personnel expenses	-4,159	-3,831
Other operating expenses	-8,258	-6,535
Depreciation and amortization	-1,196	-1,565
Interest cost	-15	-4
Income tax	-832	-631
Total comprehensive income	**3,540**	**1,892**
Group’s share in profit for the year (24%)	850	454
Deferred tax in investments in associated companies	-4	2
Differences due to adjustments in final reported profit/(loss)	14	26
Group’s share recorded in comprehensive income	**860**	**482**

Aggregate statement of financial position

Thousands of euros	2022	2021
Equity	**20,582**	**19,485**
Inventory, cash, and other current assets	12,141	9,702
Property, plant and equipment, and other non-current assets	13,040	12,893
Suppliers and other current payables	-4,599	-3,109
Non-current liabilities	-	-1
Group's share in shareholders' equity (24%)	4,940	4,676
Book value of the Group's investment	**4,940**	**4,676**

<u>Aguas Industriales de Tarragona, S.A.</u>

Aggregate statement of comprehensive income

Thousands of euros	2022	2021
Profit before tax	**230**	**804**
Sales of products and other income	13,128	10,296
Cost of sales	-3,807	-1,997
Personnel expenses	-1,178	-1,194
Other expenses	-4,541	-3,828
Depreciation and amortization	-2,954	-2,037
Finance costs	-418	-436
Income tax	-50	-201
Total comprehensive income	**180**	**603**
Group's share in profit for the year (21.14%)	38	127
Deferred tax in investments in associated companies	-	-2
Difference due to adjustment in final reported profit/(loss)	-21	-
Group's share in comprehensive income	**17**	**125**

Aggregate statement of financial position

Thousands of euros	2022	2021
Equity	**8,282**	**8,201**
Inventory, cash, and other current assets	8,793	6,083
Property, plant and equipment, and other non-current assets	50,007	51,416
Suppliers and other current payables	-7,461	-6,092
Non-current liabilities	-43,057	-43,206
Group's share in shareholders' equity (21.14%)	1,751	1,734
Book value of the Group's investment	**1,751**	**1,734**

Purchases from the associated companies Salinas de Navarra, S.A. and Aguas Industriales de Tarragona, S.A, which are consolidated using the equity method, total 2,049 thousand euros in 2022 (2,164 thousand euros in the prior year). These transactions were carried out on an arm's length basis [see Note 4 d) (ii)].

Sección 4: Significant transactions and events

Nota 4 a) Capital reduction

Unlike in 2021, there have been capital decreases in 2022 associated with the repurchase and redemption of treasury shares set forth in the shareholder remuneration policy [see Notes 3 d) and 6 h) to the accompanying consolidated financial statements and chapter C 10.2 a) of the CMR]:

Evolution of the number of outstanding shares

	2022	2021
At January 1	**100,971,237**	**100,971,237**
Redemption of shares	-4,372,048	-
At December 31	**96,599,189**	**100,971,237**

Capital decrease and other reserves

Thousands of euros	2022
Capital decrease (0.30 euro/share)	-1,312
Decrease in freely distributable reserves	-11,954
Total investment in the purchase of redeemed treasury shares	**-13,266**

Nota 4 b) Treasury share repurchase program

The repurchase of treasury shares is based on the authorization granted to the board of directors by the ordinary general meeting of shareholders held on June 10, 2022 for a period of five years up to the legal limit permitted by law for a maximum price or equivalent amount to the price of the Company shares in the continuous market at the date of the derivative acquisition of the shares and a minimum amount equal to 75% of the maximum price described.

The current repurchase of shares falls within the shareholder remuneration program for the 2021-2024 period [see Note 3 d) to the consolidated financial statements and chapter C 8 of the CMR].

The repurchase programs completed from 2016 to 2022 are as follows:

Year	*Payout*	Program	Limit (thousands of euros)	Start date	End date	Shares acquired (thousands)	Invested amount (thousands of euros)
2016	20%	First	9,000	1/20/2017	3/27/2017	3,107	9,000
2017	23%	Second	6,000	10/4/2017	3/9/2018	2,117	6,030
2017	23%	Third	6,000	3/12/2018	5/8/2018	987	3,995
2018	26%	Third	6,000	5/21/2018	7/9/2018	453	1,975
2018	26%	Fourth	12,000	7/9/2018	12/21/2018	1,139	4,957
2018	26%	Fourth	12,000	1/7/2019	4/27/2019	1,369	4,545
2019	28%	Fifth	18,000	2/12/2020	6/30/2021	3,945	8,735
2021	32%	Fifth	18,000	3/1/2021	6/30/2021	1,284	3,511
2021	32%	Sixth	15,000	7/1/2021	6/22/2022	3,088	9,756
2022	30%	Seventh:	25,000	6/23/2022	6/23/2023	2,370	7,636
						19,859	**60,140**

In the meeting held on June 10, 2022 the board of directors approved the seventh program for the repurchase of treasury shares for redemption. The repurchase program consisted of a maximum monetary amount of 25,000 thousand euros and will be in force until June 23, 2023. In no case, however, the number of treasury shares to be purchased could exceed 8% of the Company's current share capital, which consisted of 96,599 thousand euros.

Considering the maximum 2022 payout (50%) and the proposed dividend (13,751 thousand euros) [see Note 3 d)], the amount to be allocated to the repurchase of treasury shares with a charge to the 2022 payout totaled 18,733 thousand euros.

The Company holds 2,369,938 treasury shares at December 31, 2022.

Nota 4 c) 3D Investment 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 investments are being carried out on schedule.

As for the diversification objective, projects for increasing the manufacture 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 started to operate. The projects for expanding the sodium chlorite plant at the Sabiñánigo factory and for building a new extraction plant for the production of two new antibiotics (vancomycin and gentamycin) at the Aranjuez factory were completed in the fourth quarter of 2022. At the date of this note, 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) in the extraction plant of Aranjuez has already started.

As for the digitalization objective, in addition to already-completed projects (among others, update of production monitoring systems and business intelligence for the purchasing and logistics areas, tracking and monitoring of containers shipped by sea), work continues on projects for mobility and logistics, big data and IoT, infrastructure improvement, cybersecurity, optimization of work environment, and automation, sensorization and update of control systems in the production area.

As for the decarbonization objective, 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 machines); (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 to 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 in 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 in Vila-seca II.

Note 7 details the investment commitments at year end.

Nota 4 d) Related-party transaction disclosures

4 d) (i) Ercros balances and transactions with its subsidiaries

Transactions and balances between Ercros and its subsidiaries are part of the normal trading activity of the Group in respect of nature and conditions, and have been eliminated in the process of consolidation [see Notes 1 b) and 3 f)].

The transactions entered into by Ercros during 2022 and 2021 with its subsidiaries are as follows:

Thousands of euros	Ercros France, S.A.	Ercekol, S.A.	Total
2022:			
Supplies used and other expenses	-100	-4,190	-4,290
Finance costs	-50	-	-50
Sales	23,282	-	23,282
Other income	-	59	59
2021:			
Supplies used and other expenses	-84	-2,532	-2,616
Finance costs	-70	-	-70
Sales	10,119	-	10,119
Other income	-	55	55

The balances with subsidiaries are as follows:

Thousands of euros	Ercros France, S.A.	Ercekol, S.A.	Total
2022:			
Accounts receivable	689	51	740
Accounts payable	-126	-	-126
2021:			
Accounts receivable	939	56	995
Accounts payable	-150	-354	-504
Loan	-2,000	-	-2,000

4 d) (ii) Ercros balances and transactions with its associated companies

The transactions entered into by Ercros during 2022 and 2021 with its associated companies are as follows:

Thousands of euros	Salinas de Navarra, S.A.	Aguas Industriales de Tarragona, S.A.	Total
2022:			
Supplies	346	1,703	2,049
2021:			
Supplies	1,021	1,143	2,164

The associated companies have not carried out any transactions between them.

The balances with associated companies are as follows:

Thousands of euros	Salinas de Navarra, S.A.	Aguas Industriales de Tarragona, S.A.	Total
2022:			
Accounts payable	-22	-535	-557
2021:			
Accounts payable	-172	-427	-599

4 d) (iii) Remuneration of the Board of Directors

The remuneration accrued by the members of the Board of Directors of Ercros in 2022 meets the directors remuneration policy for the 2022-2025 period, approved by the shareholders at the general meeting held on June 10, 2022. This policy includes all remuneration concepts for which the Company’s directors can earn remuneration and the maximum annual amount of the overall directors’ remuneration is set at 900 thousand euros.

In 2022 the remuneration earned by the directors amounted to 835 thousand euros for fixed remuneration, payments in kind and life insurance premiums (773 thousand euros in 2021).

The remuneration earned by each director in 2022 and 2021 is as follows:

Thousands of euros				2022		
Remuneration item	**Antonio Zabalza Martí**	**Laureano Roldán Aguilar**	**Eduardo Sánchez Morrondo**	**Lourdes Vega Fernández**	**Carme Moragues Josa**	**Joan Casas Galofré**
Fixed compensation	541.74	48.74	48.74	57.12	57.12	48.74
Variable compensation	-	-	-	-	-	-
Remuneration in kind	19.81	-	-	-	-	-
Contributions to funds and pension plans	-[1]	-	-	-	-	-
Life insurance premiums	13.14	-	-	-	-	-
Total	**574.69**	**48.74**	**48.74**	**57.12**	**57.12**	**48.74**

1. Since 2012 the Group has not made any contribution to pension plans for the executive director since he reached the age of 65.

Thousands of euros				2021		
Remuneration item	**Antonio Zabalza Martí**	**Laureano Roldán Aguilar**	**Eduardo Sánchez Morrondo**	**Lourdes Vega Fernández**	**Carme Moragues Josa**	**Joan Casas Galofré**
Fixed compensation	508.68	44.26	44.26	44.26	44.26	44.26
Variable compensation	-	-	-	-	-	-
Remuneration in kind	19.02	-	-	-	-	-
Contributions to funds and pension plans	-[1]	-	-	-	-	-
Life insurance premiums	24.19	-	-	-	-	-
Total	**551.89**	**44.26**	**44.26**	**44.26**	**44.26**	**44.26**

1. Since 2012 the Group has not made any contribution to pension plans for the executive director since he reached the age of 65.

Ercros's Directors have not received any remunerations from the Company nor from Group companies other than those shown in the table above, such as: compensations for services rendered, stock options or other financial instruments, advances, credit lines granted, obligations relating to pension plans and funds, or guarantees in their favor.

Ercros has arranged a director and executive liability insurance that covers the potential claims for errors in their management. This insurance accrued a net premium of 263,000 euros in 2022 (179,000 euros in 2021) and is annually renewed.

4 d) (iv) Remuneration of Senior Executives

The overall remuneration earned by the Group's senior executives in 2022 amounted to 907.42 thousand euros (2021: 843.56 thousand euros).

The Company does not have any stock option plan (stock options) for its directors, senior executives or employees.

4 d) (v) Conflicts of interest

None of the Company's directors has notified that they are in a situation representing a conflict of interest for the Group, as stated in article 229 of the Spanish Corporate Enterprises Act.

4 d) (vi) Main shareholders

According to the shareholder communications to the CNMV, at December 31, 2022 the shareholders holding significant ownership interest directly or indirectly own 18,905 thousand shares in Ercros's share capital, which accounts for 19.57% therein. The breakdown is as follows:

Shareholder	No. of direct shares (thousands)	No. of indirect shares (thousands)	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 García Pruns	3,300	-	3.42

1. The percentages are calculated over the number of outstanding shares at 12/31/22.

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

3. It includes the direct ownership interest held by its subsidiary, DFA International Small Cap Value Portfolio. On February 1, 2023 the said shareholder informed of a decrease in their ownership interest to 4.997%.

The Company's estimated free float at December 31, 2022 is 77.98% after discounting significant ownership interest (19.57%) and treasury shares (2.45%).

The movements in the significant shares in Ercros's share capital during 2022 and 2021 can be checked in the CNMV's registry (wwww.cnmv.es).

4 d) (vii) Shareholder Directors

The table below shows the ownership interest held at 2022 and 2021 year end in Ercros's share capital by the members of the board of directors:

	Voting rights at 12/31/22[1]		Voting rights at 12/31/21[2]	
Board members	**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. The percentages are calculated over the number of outstanding shares at 12/31/22.
2. The percentages are calculated over the number of outstanding shares at 12/31/21.
3. As a result of the capital reduction carried out by the Company on July 11, 2022, (i) on July 21, 2022 the proprietary director Joan Casas Galofré informed of an increase in his direct ownership interest up to 5.69%, and (ii) on the same date the chief executive officer Antonio Zabalza Martí voluntarily communicated the change in his ownership interest from 0.099% to 0.104% in the number of shares he held (100,000), which has not changed.

Nota 4 e) Impacts of the Covid-19 pandemic

A brighter outlook for the pandemic and the removal of almost all restrictions are helping economic activity to perform in a very similar way to pre-pandemic years. Throughout the pandemic, all Ercros facilities remained operational, thus being able to meet its customers' needs.

Nota 4 f) Closure of the Flix factory

The Group has discontinued the dicalcium phosphate activity in Flix due to the impossibility of renewing the supply and toll-manufacturing agreements. Consequently, the company has negotiated the dismissal of most of this center's employees with trade union representatives, keeping a small group engaged in dismantling and remediation work to facilitate that other businesses can occupy the industrial facilities. As a result, the company has recorded provisions for facing the said dismissals and the dismantling of facilities, which are disclosed in Note 6 j).

Due to the discontinuation of the activity, profit/(loss) for the years 2021 and 2022 from the Flix factory is presented as a discontinued operation in the statement of comprehensive income, while land and buildings have been reclassified as investment property in the statement of financial position at December 31, 2022.

The breakdown of profit/(loss) from discontinued operations is as follows:

Thousands of euros	2022	2021
Income	10,571	11,069
Expenses	-20,535	-18,802
Gross operating profit/(loss)	**-9,964**	**-7,733**
Depreciation and amortization expense	-243	-419
Operating profit/(loss)	**-10,207**	**-8,152**
Income tax income[1]	2,552	2,038
Loss after tax attributable to discontinued operations	**-7,655**	**-6,114**

[1] *As the group has obtained profit at a consolidated level, it has been estimated that losses from discontinued operations generate an income tax income that is offset against continuing operations at the prevailing tax rate of 25%.*

Cash flows from this discontinued operation are as follows:

Thousands of euros	2022	2021
Operations	-7,276	-6,137
Net cash flows	**-7,276**	**-6,137**

Nota 4 g) Impacts of the Russian invasion of Ukraine

Group sales to countries affected by the conflict and sanctions, Ukraine, Russia and Belarus, accounted for just 0.21% of sales in 2022 (0.44% in 2021). Consequently, the sanctions imposed by the European Union have had no relevant impact for the Group. The Group does not have any property, plant, and equipment in the said countries, either, and has recovered almost all receivable balances related to customers in those countries, the amount of which was not material, either.

The other relevant effects of the conflict have been the huge increase in gas and electricity prices in Europe, which has in turn resulted in high inflation rates and has led the central banks of the main economies to apply abrupt rises in interest rates to curb inflation.

During most of 2022, as a result of the strong demand, the Group has been able to pass the increases in energy costs on to its products. In the last part of 2022 the high energy prices have caused a big reduction in production of chlorine derivatives in Europe, resulting in an unprecedented increase in the price of products such as soda. The Group has been able to take advantage of these profitability windows thanks to the high availability of its plants, which have remained operational throughout 2022.

Additionally, the rises in interest rates applied by the European Central Bank have had a moderate impact on the Group in 2022, as part of its long-term borrowings have been refinanced at fixed interest rates that are below the rates in force in 2021. However, the rises in interest rates will have an impact on borrowings at floating rates. Nevertheless, given the Company's low level of indebtedness, this impact will not pose any significant risks in 2023.

Nota 4 h) Subsequent events

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

Within the share repurchase program, in 2023 until February 16, 2023 the Group has purchased 3,395,789 shares for an amount of 11,382 thousand euros [see Notes 3 d) and 4 b)].

Sección 5: Detailed information on certain headings of the consolidated statement of comprehensive income

Nota 5 a) Income from the rendering of services

Thousands of euros	2022	2021
Rendering of services	26,370	16,728

In this caption the Group records income from supplying energy and vapor and providing maintenance services to third parties, the cost of which has increased in 2022 due to higher energy prices.

Income from toll-manufacturing services for the production of dicalcium phosphate in the Flix factory after the discontinuation of the activity has been reclassified to profit/(loss) after tax from discontinued operations.

Nota 5 b) Finance cost

Interest costs are recognized as expenses of the year in which they are incurred. The Group does not allocate any finance costs in the acquisition of new property, plant and equipment.

The breakdown of this caption in the consolidated statement of comprehensive income is as follows:

Thousands of euros	2022	2021
Factoring in euros and US dollars	1,640	1,068
Interest on other loans (Department of Industry, ICF, IDAE, ICO and other institutions)	1,676	2,010
Lease payables [Note 6 d) vi)]	471	334
Bank fees	1,152	718
Others	1,592	1,421
Finance cost	**6,531**	**5,551**

Nota 5 c) Other income

The breakdown of 'Other income' is as follows:

Thousands of euros	2022	2021
Free allocation of CO_2 emission allowances [note 6 l)]	16,833	10,443
Non-repayable grants recognized in profit or loss [nota 6 l)]	1,080	873
Compensation for indirect CO_2 emission allowances granted	4,603	7,140
Compensation for electro-intensive bylaws	1,194	1,502
Grant for gas-intensive nature	400	-
Grants for training expenses	202	185
Other current operating income	3,317	2,637
Internal work for fixed assets	765	501
Other income	**28,394**	**23,281**

Income from the free allocation of CO_2 emission allowances has a balancing entry for the same amount recorded in 'Other expenses' [see Note 5 g)], so the net impact on the Group is nil.

Nota 5 d) Depreciation, amortization, impairment of assets, change in inventory and consumption of raw materials included in the statement of comprehensive income and gains/(losses) on disposals of investment properties.

5 d) (i) Depreciation and amortization expense

Depreciation of property, plant and equipment is calculated on their cost or fair value using the straight-line method over the years of expected useful life, according to the following average depreciation rates:

	2022 and 2021
Buildings and constructions	2–3%
Machinery and installations	7-11%
Other non-current assets	8-12%

Intangible assets are amortized on a straight-line basis over a five years.

The breakdown of the ‘Depreciation and amortization expense’ caption in the consolidated statement of comprehensive income is as follows:

Thousands of euros	**2022**	**2021**
Depreciation of property, plant and equipment [Note 6 a)]	22,544	21,769
Amortization of intangible assets [Note 6 c)]	559	435
Depreciation of right-of-use assets [Note 6 c) iii)]	7,106	6,345
Depreciation and amortization reclassified to discontinued operations [Note 6 b)]	-243	-419
Depreciation and amortization expense	**29,966**	**28,130**

5 d) (ii) Impairment of non-current assets

The breakdown of the ‘Impairment of non-current assets’ caption in the consolidated statement of comprehensive income is as follows:

Thousands of euros	**2022**	**2021**
Impairment of investment properties [Note 6 b)]	-	601
Impairment of property, plant and equipment [Note 6 a)]	539	2,849
Impairment of non-current assets	**539**	**3,450**

5 d) (iii) Changes in inventory of finished products and consumption of raw materials and secondary materials

The reconciliation between ‘Change in inventory of finished products and work in progress’ and ‘Consumption of raw materials and secondary materials’ of the consolidated statement of comprehensive income and the expense for charge for the year and the income from the reversal of the impairment of inventories shown in the following tables:

Thousands of euros	**2022**	**2021**
Income:		
Net carrying amount of inventories at January 1 [Note 6 e)]	-61,196	-38,831
Net carrying amount of inventories at December 31 [Note 6 e)]	69,681	61,196
Charge to the provision for impairment	-2,495	-213
Reversal of the provision for impairment	-	8
Utilization of the provision for impairment	-	-
Changes in inventory of finished products and work in progress	**5,990**	**22,160**
Expenses:		
Purchases	476,659	413,070
Net carrying amount of inventories at January 1 [Note 6 e)]	66,821	46,163
Net carrying amount of inventories at December 31 [Note 6 e)]	-79,650	-66,821
Charge to the provision for impairment	6,743	2,401
Reversal of the provision for impairment	-1	-1
Utilization of the provision for impairment	-	-
Consumption of raw material and secondary materials	**470,572**	**394,812**

The utilization of the provision for impairment of finished products and work in progress and raw materials and secondary materials has no impact on profit/(loss) for the period.

Nota 5 e) Charge to and reversal of provisions for other liabilities

The breakdown of the charges and reversals of provisions for other liabilities made by the Group in 2022 and 2021 is as follows [Note 6 j)]:

Thousands of euros	2022	2021
Charges and other non-recurring expenses	**-20,612**	**-6,955**
Provisions for environmental remediation [Note 6 j)]	-14,168	-5,977
Other dismantling expenses	-93	-443
Provision for collective dismissal [Note 6 j)]	-4,571	-
Labor claims [Note 6 j)]	-809	-333
Other provisions [Note 6 j)]	-688	-
Others	-283	-202
Reversals and other non-recurring income	**399**	**6,569**
Additions of non-current assets [Note 6 a) and Note 6 b)]	-	3,381
Sale of scrap	104	1,609
Compensation for accidents	140	217
Others	155	1,362

Nota 5 f) Employee benefits expense and employee structure

The breakdown of this caption in the consolidated statement of comprehensive income is as follows:

Thousands of euros	2022	2021
Employee benefits expense	**89,700**	**84,111**
Accrued wages and salaries	65,548	61,492
Social Security paid by the Group	19,096	18,440
Cost of defined contributions to the active staff's pension scheme	2,169	2,141
Accrual of long-service bonuses [Note 6 k)]	347	180
Other welfare expenses	2,540	1,858
Decrease in the provisions for restructuring utilized [Note 6 j) (ii)]	**-118**	**-508**
Net amount	**89,582**	**83,603**

Headcount structure

The average headcount, by professional category and gender in 2022 and 2021, is detailed below:

	Average headcount					
	2022			2021		
Number of employees	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Executives	29	23	6	29	23	6
Senior technicians	64	47	17	61	46	15
Technicians	242	160	82	232	152	80
6 CGIQ Group	91	77	14	98	81	17
5 CGIQ Group	172	159	13	173	159	14
4 CGIQ Group	571	482	89	564	479	85
3 CGIQ Group	158	147	11	152	145	7
2 CGIQ Group	21	14	7	19	15	4
1 CGIQ Group	0	0	0	1	1	0
Total	**1,348**	**1,109**	**239**	**1,329**	**1,101**	**228**

Employees have been classified according to the categories of the General Collective Agreement of the Chemical Industry.

At year end the number of employees broken down by category and gender is as follows:

	Headcount at year end					
	12/31/22			12/31/21		
Number of employees	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Executives	30	24	6	29	23	6
Senior technicians	64	47	17	63	47	16
Technicians	247	164	83	231	152	79
6 CGIQ Group	89	77	12	97	81	16
5 CGIQ Group	170	157	13	166	152	14
4 CGIQ Group	565	479	86	560	477	83
3 CGIQ Group	157	144	13	152	143	9
2 CGIQ Group	14	5	9	22	18	4
1 CGIQ Group	0	0	0	1	1	0
Total	**1,336**	**1,097**	**239**	**1,321**	**1,094**	**227**

The average number of people employed with a disability greater than or equal to 33%, by categories, is as follows:

Number of employees	Average headcount 2022	2021
Technicians	1	1
Group 6	1	1
Group 5	1	-
Group 4	11	11
Group 3	1	1
Total	**15**	**14**

Nota 5 g) Other expenses

The breakdown of this caption in the consolidated statement of comprehensive income is as follows:

Thousands of euros	2022	2021
Research and development costs	271	305
Leases outside the scope of IFRS 16 [Note 6 d) (vi)]	2,770	3,066
Royalties	2,328	2,323
Repairs and maintenance	21,929	21,349
Professional services	6,931	6,397
Insurance premiums	4,688	3,019
Publicity and advertising	488	414
Other services	16,724	15,254
Taxes	3,343	3,430
Expenses for CO_2 emission allowances [note 5 c)]	16,833	10,443
Other expenses	**76,305**	**66,000**

Audit fees

The fees relating to the audit of the financial statements for 2022 amounted to 244 thousand euros (2021: 235 thousand euros).

In addition, the fees paid in 2021 for other services provided by the auditor of the financial statements amounted to 39 thousand euros (2021: 30 thousand euros).

Nota 5 h) Environmental costs

Business activities with an effect upon the environment

The costs incurred in the acquisition of systems, equipment and premises, with the objective of the elimination, limitation, or control of potential impacts upon the environment which could be caused by the normal activity of the Group's business are considered as investments in non-current assets.

The remaining costs related to the environment, different from those incurred in the acquisition of elements of non-current assets, are considered to be expenses for the year.

As required under Spanish legislation, the elements of property, plant and equipment used in activities for the protection and improvement of the environment are as follows:

Thousands of euros	12/31/22 Historical cost	12/31/22 Depreci-ation	12/31/21 Historical cost	12/31/21 Depreci-ation
Almussafes factory:				
Purification plant	1,031	1,026	1,031	1,017
Other investments	142	47	125	37
Aranjuez factory:				
Biological treatment plant	1,635	1,353	1,635	1,328
Closed circuit river water collection	1,013	366	1,013	293
Pea salt plant	460	67	460	35
Extraction plant	14,886	-	6,443	-
Other investments	6,913	1,349	5,622	955
Cerdanyola factory:				
Formaldehyde emission treatment system	1,983	755	1,983	614
Other investments	191	52	186	38
Flix factory:				
Thermal treatment plant	346	346	346	346
Biological treatment plant	3,012	3,012	3,012	3,012
Photovoltaic power station	252	-	54	-
Other investments	559	559	559	559
Sabiñánigo factory:				
Technology update in 2009	18,306	17,324	18,306	16,015
Chlorine-soda plant using membrane-based technology	15,194	5,336	15,194	4,251
Sodium chlorate crystallization	3,896	3,643	3,896	3,592
Brine plant	1,394	274	1,394	174
Other investments	530	-	138	-
Tarragona factory:				
Biological treatment plant	2,499	2,499	2,499	2,499
Other investments	353	77	263	33
Tortosa factory:				
Polyol production plant	220	42	220	26
Mechanical vapor recompression	1,014	66	826	-
Other investments	892	256	782	199
Vila-seca I factory:				
Chlorine-soda plant using membrane-based technology	33,894	10,288	33,894	7,838
Soda concentration plant	4,236	1,491	4,162	1,191
Reconditioning of the salt park	628	228	628	183
Water collection pipes	529	148	529	110
Load of chlorine	236	51	236	34
Other investments	412	35	228	26
Vila-seca II factory:				
New reactor in PVC plant	3,782	1,429	3,782	1,158
Gas treatment plant	7,234	-	6,090	-
Other investments	1,172	26	500	11
Total	**128,844**	**52,145**	**116,036**	**45,574**

Expenses incurred in 2022 and 2021 for protecting and improving the environment, which are recognized in the consolidated statement of comprehensive income, are as follows:

Thousands of euros	2022	2021
Maintenance	2,729	2,483
Consumption of chemical products and energy	4,363	3,150
Environmental services	8,502	6,837
Receivable from employees	2,854	2,969
Internal cost	770	665
External action	2,144	2,185
Total	**21,362**	**18,289**

Nota 5 i) Earnings per share

The calculation of earnings per share for the year is as follows:

Thousands of euros	2022	2021
a. Consolidated profit (thousands of euros)	62,989	43,297
b. Average number of shares outstanding (thousands)	98,421	100,971
Basic and diluted earnings per share (euros) [a/b]	**0.6400**	**0.4288**

In order to calculate the average number of shares outstanding the capital decreases carried out in each year have been considered [Note 4 a)].

There have been no potential ordinary shares at 2022 and 2021 year end. Thus, diluted earnings per share do not differ from the basic earnings per share.

Sección 6: Detailed information on certain headings of the consolidated statement of financial position

Nota 6 a) Property, plant and equipment

The movements during financial years 2022 and 2021, both in terms of cost and accumulated depreciation, are as follows:

Thousands of euros	Balance at 12/31/21	Additions	Disposals	Transfers	Balance at 12/31/22
Cost	**970,078**	**47,680**	**-32,801**	**-**	**984,957**
Land and buildings	178,082	-	-16,597	2,141	163,626
Technical installations and machinery	752,132	-	-16,180	15,681	751,633
Other non-current assets	2,850	-	-24	-	2,826
Advances and non-current assets in progress	37,014	47,680	-	-17,822	66,872
Accumulated depreciation	**-600,350**	**-22,544**	**12,518**	**-**	**-610,376**
Buildings	-50,650	-1,456	1,248	-	-50,858
Technical installations and machinery	-545,100	-21,041	11,246	-	-554,895
Other non-current assets	-4,600	-47	24	-	-4,623
Impairment losses and provisions	**-45,211**	**-539**	**12,664**	**-**	**-33,086**
Buildings	-6,324	-	6,295	-	-29
Technical installations and machinery	-38,887	-539	6,369	-	-33,057
Net carrying amount	**324,517**	**24,597**	**-7,619**	**-**	**341,495**

Thousands of euros	Balance at 12/31/20	Additions	Disposals	Transfers	Balance at 12/31/21
Cost	**939,599**	**37,933**	**-7,454**	**-**	**970,078**
Land and buildings	174,813	3,257	-282	294	178,082
Technical installations and machinery	734,962	-	-5,981	23,151	752,132
Other non-current assets	4,041	-	-1,191	-	2,850
Advances and non-current assets in progress	25,783	34,676	-	-23,445	37,014
Accumulated depreciation	**-583,712**	**-21,769**	**5,131**	**-**	**-600,350**
Buildings	-49,811	-1,043	204	-	-50,650
Technical installations and machinery	-528,193	-20,675	3,768	-	-545,100
Other non-current assets	-5,708	-51	1,159	-	-4,600
Impairment losses and provisions	**-44,596**	**-2,849**	**2,234**	**-**	**-45,211**
Buildings	-3,475	-2,849	-	-	-6,324
Technical installations and machinery	-41,121	-	2,234	-	-38,887
Net carrying amount	**311,291**	**13,315**	**-89**	**-**	**324,517**

The additions in 2022 property, plant and equipment basically correspond to the investments in the 3D Plan, capacity extensions and improvements in processes carried out in the Group’s factories, mainly Sabiñánigo, Vila-seca I and Aranjuez.

Net disposals include the transfer of 7,850 thousand euros to investment property, corresponding to the assets of the Flix factory as a result of its closure [see Notes 4 f) and 6 b)].

The Group takes out all the insurance policies it considers necessary to cover the potential damage that its property, plant and equipment may suffer.

At 2022 year end land and buildings with a net carrying amount of 29,845 thousand euros (2021: 29,893 thousand euros) have been pledged as guarantee for loans and other commitments, for an amount of 19,337 thousand euros (2021: 23,951 thousand euros) corresponding to the funding received from Institut Català de Finances (‘ICF’) and Instituto de Crédito Oficial (‘ICO’).

At December 31, 2022 the net carrying amount of property, plant and equipment acquired under finance leases amounts to 919 thousand euros (2021: 1,150 thousand euros).

Fully depreciated items still in use at December 31, 2022 amount to 299,564 thousand euros (2021: 295,982 thousand euros).

The investment commitments are detailed in notes 7 a) and 7 d).

Impairment and reversal of impairment of property, plant and equipment

The Group considers each factory it operates to be a cash-generating unit (CGU), but it does not consider the corporation to be one.

The expenses corresponding to the corporation –as well as its assets– are distributed among all CGUs considered for the purposes of determining the free cash flows generated by each one of them and the value of the assets allocated to them.

The assets of the corporation mainly correspond to the corporate data processing center, other computer equipment (servers, laptops, etc.), documentation archiving premises and furniture and installations of the headquarters and the common functional areas of all business segments (logistics, customer service, etc.).

Every month the Group prepares the income statement of all its CGUs. This income statement includes a charge for the costs from the corporation that are allocated to the CGU.

In order to detect any indication of impairment of a CGU, every month the Group monitors the evolution of:

1. The gross margin obtained by each CGU in absolute terms and in relation to the sales and their potential deviation from the cycle's average. Gross margin is calculated as the difference between net sales less all variable costs of the products sold. Negative deviations of more than 5% in the ratio (in percentage terms) of gross margin/sales in relation to the cycle's average are considered to be an indication of impairment.

2. The profitability generated by the CGU in relation to the property, plant and equipment allocated to said CGU, measured as the earnings before interest and taxes of the CGU divided by the balance of the assets allocated to said CGU. When this ratio is below the weighted average cost of capital (WACC), it is considered to be an indication of impairment of the CGU.

In the event that the Group detects any indication of impairment of a CGU, it performs the corresponding impairment test, in which case, based on the interdependence of the several factories, the Company may consider several factories as belonging to the same CGU in order to determine their value in use from the estimated free cash flows.

None of the Group's CGUs contains a gain or intangible asset with indefinite useful life.

At 2022 year end, there are no property, plant and equipment items whose impairment can be reversed. Additionally, based on the aforementioned metrics, the Group estimates that no impairment losses need be recorded on any of the CGUs considered by the Group.

Nota 6 b) Investment property

The movements in 2022 and 2021 are as follows:

Thousands of euros	Balance at 12/31/21	Additions	Disposals	Sales	Balance at 12/31/22
Investment property	50,333	14,360	-342	-1,243	63,108
Accumulated depreciation	-4,074	-215	-	-	-4,289
Impairment	-26,859	-6,295	-	381	-32,773
Net carrying amount	**19,400**	**7,850**	**-342**	**-862**	**26,046**

Thousands of euros	Balance at 12/31/20	Additions	Disposals	Balance at 12/31/21
Investment property	50,198	159	-24	50,333
Accumulated depreciation	-4,074	-	-	-4,074
Impairment	-26,258	-601	-	-26,859
Net carrying amount	**19,866**	**-442**	**-24**	**19,400**

Net additions for the year amounting to 7,850 thousand euros correspond to the assets of the Flix factory that have been derecognized from property, plant and equipment due to the factory closure [see Notes 4 f) and 6 a)].

The carrying amount of investment property is fully allocated to land and buildings, which at December 31, 2022 includes gains allocated in the business combinations carried out by the Group in 2005 and 2006 and other previous increases in value for an overall amount of 10,521 thousand euros (2021: 10,975 thousand euros).

In 2022, the Group has obtained an new appraisals of the main investment properties. No impairment loss needed be recorded.

Investment properties correspond to land and industrial estates located in industrial plants that were operational at the date of acquisition by the Group, and which ceased activity subsequently due to full or partial closure of the production center, and other plots of land where no industrial activity has been carried out.

Ercros

Land and buildings on investment properties were measured at cost. No value has been assigned to buildings and facilities when the highest and best use of the land where they are located suggests their demolition. In this case, the independent experts who made the appraisal take into account the cost of such demolition.

The fair value of investment property amounts to 43,185 thousand euros (2021: 35,019 thousand euros).

The fair value of investment property has increased in 2022 compared to 2021 due to the updated appraisal of the Monzón factory land and the transfer of the Flix factory land and buildings. It should be considered that investment property mostly corresponds to plots of land that are suitable for heavy industry use, with high-voltage power supply, water supply, a large area and communications making it a hardly comparable location to its surroundings.

Appraisals do not consider whether land is environmentally affected because the Group conducts periodic evaluations on it to determine whether remediation is needed depending on expected use. The corresponding provision is then recorded (at December 31, 2022 said provision amounts to 2,354 thousand euros) [see Note 6 j)].

Appraisals do not include limitations or sensitivity analysis.

Direct operating expenses (including repairs and maintenance expenses) related to investment properties amount to 1,211 thousand euros (1,398 thousand euros in the prior year).

Investment properties have generated rental income in 2022 amounting to 169 thousand euros (2021: 248 thousand euros).

Nota 6 c) Intangible assets and Right-of-use assets

6 c) (i) Intangible assets

The movements in 2022 and 2021 in intangible assets, both in terms of cost and accumulated amortization, are as follows:

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Thousands of euros	Balance at 12/31/21	Additions	Disposals	Transfers	Balance at 12/31/22
Cost	**19,551**	**18,806**	**-10,811**	**-**	**27,546**
Concessions of patents and trademarks	2,371	-	-	790	3,161
Software	6,709	-	-	1,023	7,732
CO_2 emission allowances	10,471	16,993	-10,811	-	16,653
Property, plant and equipment under construction	-	1,813	-	-1,813	-
Accumulated amortization	**-7,953**	**-559**	**-**	**-**	**-8,512**
Concessions of patents and trademarks	-2,046	-266	-	-	-2,312
Software	-5,907	-293	-	-	-6,200
Net carrying amount	**11,598**	**18,247**	**-10,811**	**-**	**19,034**

Thousands of euros	Balance at 12/31/20	Additions	Disposals	Transfers	Balance at 12/31/21
Cost	**14,680**	**10,212**	**-5,341**	**-**	**19,551**
Concessions of patents and trademarks	2,371	-	-	-	2,371
Software	6,709	-	-	-	6,709
CO_2 emission allowances	5,600	10,212	-5,341	-	10,471
Intangible assets in progress	-	-	-	-	-
Accumulated amortization	**-7,518**	**-435**	**-**	**-**	**-7,953**
Concessions of patents and trademarks	-1,859	-187	-	-	-2,046
Software	-5,659	-248	-	-	-5,907
Net carrying amount	**7,162**	**9,777**	**-5,341**	**-**	**11,598**

Fully amortized intangible assets still in use amount to 7,674 thousand euros (2021: 6,568 thousand euros).

6 c) (ii) Disclosures concerning greenhouse gas emission allowances

Emission allowances allocated free of charge to the Group for the 2021-2025 period amount to 1,030,247 EUA (allocated emission allowances) and the breakdown thereof is as follows:

EUA

2021	2022	2023	2024	2025
198,363	207,971	207,971	207,971	207,971

This allocation means a 5% increase compared to 2021. In the event that the group's emissions are not covered, allowances will be purchased in the market.

The accounting balances of emission allowances in the consolidated statement of financial position and the consolidated statement of comprehensive income are as follows:

	Statement of financial position			Consolidated statement of other comprehensive income	
Thousands of euros	**Intangible assets**	**Current provision**	**Capital grant**	**Income**	**Expenses**
Balance at 12/31/21	**10,471**	**-10,443**	**-18**	**-**	**-**
Allocation of allowances	16,993	-	-16,993	-	-
Allowances canceled	-10,811	10,443	368	72	-72
Actual emissions	-	-16,354	16,354	16,833	-16,833
Purchase of allowances	-	-	-	-	-
Sale of allowances	-	-	-	-	-
Balance at 12/31/22	**16,653**	**-16,354**	**-289**	**16,905**	**-16,905**

	Statement of financial position			Consolidated statement of other comprehensive income	
Thousands of euros	**Intangible assets**	**Current provision**	**Capital grant**	**Income**	**Expenses**
Balance at 12/31/20	**5,600**	**-5,351**	**-238**	**-**	**-**
Allocation of allowances	10,212	-	-10,212	-	-
Allowances canceled	-5,341	5,351	-11	43	-43
Actual emissions	-	-10,443	10,443	10,443	-10,443
Purchase of allowances	-	-	-	-	-
Sale of allowances	-	-	-	-	-
Balance at 12/31/21	**10,471**	**-10,443**	**-18**	**10,486**	**-10,486**

The Group has not entered into future agreements related to GHG emission allowances.

6 c) (iii) Right-of-use assets

The movements in 2022 and 2021 in right-of-use assets, both in terms of cost and accumulated depreciation, are as follows:

Thousands of euros	**Balance at 12/31/21**	**Additions**	**Disposals**	**Balance at 12/31/22**
Cost	**19,917**	**13,254**	**-890**	**32,281**
Buildings	1,503	149	-	1,652
Warehouses	11,645	11,662	-58	23,249
Equipment	1,335	681	-256	1,760
Vehicles	4,447	482	-576	4,353
Others	987	280	-	1,267
Accumulated depreciation [Note 5 d) (i)]	**-13,800**	**-7,106**	**890**	**-20,016**
Buildings	-75	-308	-	-383
Warehouses	-9,726	-5,248	58	-14,916
Equipment	-727	-380	256	-851
Vehicles	-2,748	-939	576	-3,111
Others	-524	-231	-	-755
Net carrying amount	**6,117**	**6,148**	**-**	**12,265**

Thousands of euros	**Balance at 12/31/20**	**Additions**	**Disposals**	**Balance at 12/31/21**
Cost	**27,925**	**3,589**	**-11,597**	**19,917**
Buildings	-	1,503	-	1,503
Warehouses	21,777	531	-10,663	11,645
Equipment	1,534	227	-426	1,335
Vehicles	3,655	1,022	-230	4,447
Others	959	306	-278	987
Accumulated depreciation [Note 5 d) (i)]	**-19,022**	**-6,345**	**11,567**	**-13,800**
Buildings	-	-75	-	-75
Warehouses	-15,619	-4,742	10,635	-9,726
Equipment	-771	-382	426	-727
Vehicles	-2,087	-887	226	-2,748
Others	-545	-259	280	-524
Net carrying amount	**8,903**	**-2,756**	**-30**	**6,117**

Additions in 2022 mainly correspond to the renewal of agreements on port terminal warehouses. Of total additions in 2022 2,445 thousand euros correspond to the revision of lease payments due to changes in CPI.

Nota 6 d) Financial assets and liabilities

6 d) (i) Non-current financial assets

The breakdown of the financial assets recorded in the consolidated statement of financial position is as follows:

Thousands of euros	12/31/22	12/31/21
Escrow accounts [Note 3 c)]	1,257	1,257
Receivable grants	4,522	2,456
Other deposits and guarantees	446	523
Other loans	240	240
Non-current financial assets at amortized cost	**6,465**	**4,476**

6 d) (ii) Financial liabilities with explicit cost

The breakdown of financial liabilities with explicit cost recorded in the consolidated statement of financial position entirely correspond to loans recorded at amortized cost:

Thousands of euros	12/31/22	12/31/21
Non-current	97,151	92,793
Current	9,277	5,739
Current portion of non-current loans	16,675	15,244
Loans	**123,103**	**113,776**

The breakdown of this caption 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 (EIB)	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 (EIB)	61	61	-
Other payables	1,203	1,203	837

The breakdown of non-current loans by maturity at December 31, 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**

The main funding agreements are as follows:

Covenant agreements

Some of the Group's financial contracts are subject to the fulfilment of some clauses that, under certain conditions and if they are not solved, may result in the early maturity due to failure to comply with certain financial ratios. These ratios are calculated over minimum total equity, maximum level of investments, relation between consolidated NFD and consolidated ebtida, relation between consolidated ebtida, consolidated net financial costs and minimum operating cash flows. There is a risk that some of these covenants cannot occasionally be met. The aforementioned financial ratios shall be complied on a half-yearly basis. All ratios are met at December 31, 2022.

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

It is expected that the Group will meet these ratios in 2023. Otherwise, it would request the corresponding waiver.

a) Syndicated factoring and revolving agreement

On May 6, 2020 Ercros signed an agreement for renewing the syndicated financing with a pool of financial institutions. The agreement considers the following financial instruments:

1. A syndicated factoring, with an overall limit of 102,000 thousand euros. The term is four years, which can be extended to five, and it includes trade receivables in US dollars for the first time. It is articulated into two tranches: (i) a non-recourse tranche for trade receivables with guaranteed payment through a credit insurance policy; and (ii) a recourse tranche for trade receivables not included in the non-recourse tranche.

2. A non-current syndicated credit facility amounting to 30,000 thousand euros for a term of four years, which can be extended to five, which replaces the revolving credit facility in force in 2019. This credit facility includes an ESG component for the first time (ESG stands for environment, social and governance). Based on the annual assessment of the ESG ratings, the margin of this credit facility may fluctuate between +/- 2.5 basis points.

3. A new specific tranche in the capex line, amounting to 15,000 thousand euros, for a term of five years that includes the same ESG component that the syndicated credit facility.

As commented above, the agreement includes a factoring tranche for the non-recourse transfer of accounts receivable. The amount drawn from this agreement is not recorded as financial debt of the Group, and transferred accounts receivable are derecognized from the consolidated statement of financial position.

At December 31, 2022 the amount drawn from the non-recourse factoring agreement was 66,241 thousand euros (58,686 thousand euros at December 31, 2021).

b) Loan granted by the European Investment Bank (EIB)

On December 23, 2021 the Ercros Group took out a credit facility from the European Investment Bank (‘EIB’) amounting to 40 million euros to finance Ercros’s investments in research, development and innovation (R&D&I), digitalization, decarbonization and modernization of its main facilities within the 3D Strategic Plan that Ercros has launched for the period 2021-2025. The EIB loan is backed by the European Fund for Strategic Investments (‘EFSI’), the main pillar of the Investment Plan for Europe.

This funding takes the form of a loan and can be drawn down within 24 months. Each drawdown can be repaid within 7 years with a grace period of 2 years. The funding can bear interest at a fixed or floating rate. The amount drawn down at December 31, 2022 totals 19,971 thousand euros (no amount drawn down at December 31, 2021).

The agreement includes similar covenants to the syndicated agreement’s that, under certain conditions and if they are not solved, may result in the early maturity due to non-compliance with certain financial ratios. These ratios are calculated over minimum total equity, maximum level of investments, relation between consolidated NFD and consolidated ebtida, relation between consolidated ebtida and consolidated net financial costs and minimum operating cash flows. The aforementioned financial ratios shall be complied on a half-yearly basis. All ratios are met at December 31, 2022.

Non-covenant agreements

Loan granted by ICO

This financing facility that matured in September 2019 was novated on June 21, 2019, extending the amount up to 18,000 thousand euros and maturity until 2026, with a repayment period of 7 years and a two-year grace period on the principal. The novation entailed the cancellation of the inventory pledge. At December 31, 2022, the balance of this loan amounts to 14,352 thousand euros (18,011 thousand euros in the prior year).

Loans granted by ICF

These are two loans granted by Institut Català de Finances (‘ICF’) to finance investments that were taken out on July 28, 2017 for an overall amount of 8,000 thousand euros. The two loans were granted for a period of ten years with a two-year grace period. They were taken out to fund the extension of the chlorine production capacity using membrane-based technology in Vila-Seca I plant. One of the loans amounts to 6,000 thousand euros and is part of the ICF Industry line. The interest accrued is subsidized by 2% by the Directorate General of Industry of Generalitat de Catalunya. The other loan amounts to 2,000 thousand euros and is part of the ICF line for Industrial Recovery. At December 31, 2022 the balance of these loans amounts to 4,985 thousand euros (2021: 5,940 thousand euros).

Loans granted by the Ministry of Economy, Trade and Tourism

They correspond to loans granted by the Ministry of Industry, Trade and Tourism, in several calls, that mature within ten years and have a three-year grace period.

During the current year 24,565 thousand euros have been early repaid on these loans, which have been replaced with new bank loans at fixed interest rates.

At December 31, 2022 the balance of these loans amounts to 9,461 thousand euros (2021: 34,324 thousand euros). These loans are secured by bank guarantees amounting to 1,081 thousand euros at December 31, 2022 (5,005 thousand euros at December 31, 2021).

Security interests

The loans granted by ICO and ICF are secured by means of a mortgage on certain Group's property, plant and equipment items [see Note 6 a)].

6 d) (iii) Changes in financial assets and liabilities arising in financing activities

The table below shows the changes in the assets and liabilities arising from financing activities in 2022 and 2021:

Thousands of euros	Balance at 12/31/21	Cash flows	Effect of exchange rate	Transfers to current	Leases and other	Balance at 12/31/22
Financial liabilities	**120,002**	**926**	**-**	**-**	**14,499**	**135,427**
Non-current loans	92,793	20,258	-	-16,675	775	97,151
Current loans	5,739	3,538	-	-	-	9,277
Current portion of non-current loans	15,244	-15,244	-	16,675	-	16,675
Lease payables	6,226	-7,626	-	-	13,724	12,324
Financial assets	**-2,588**	**554**	**-**	**-**	**-**	**-2,034**
Pledged deposits:						
Non-current [caption (i) above]	-1,257	-	-	-	-	-1,257
Current [note 6 m]	-1,331	554	-	-	-	-777
Cash and cash equivalents [Note 6 h]	**-51,573**	**-6,478**	**-232**	**-**	**-**	**-58,283**
Net financial debt	**65,841**	**-4,998**	**-232**	**-**	**14,499**	**75,110**

Thousands of euros	Balance at 12/31/20	Cash flows	Effect of exchange rate	Transfers to current	Leases and other	Balance at 12/31/21
Financial liabilities	**131,410**	**-15,440**	**-**	**-**	**4,032**	**120,002**
Non-current loans	93,553	14,010	-	-15,244	474	92,793
Current loans	22,314	-16,575	-	-	-	5,739
Current portion of non-current loans	6,398	-6,398	-	15,244	-	15,244
Lease payables	9,145	-6,477	-	-	3,558	6,226
Financial assets	**-6,647**	**4,059**	**-**	**-**	**-**	**-2,588**
Pledged deposits:						
Non-current [caption (i) above]	-4,170	2,913	-	-	-	-1,257
Current [note 6 m]	-2,477	1,146	-	-	-	-1,331
Cash and cash equivalents [Note 6 h]	**-39,931**	**-11,407**	**-235**	**-**	**-**	**-51,573**
Net financial debt	**84,832**	**-22,788**	**-235**	**-**	**4,032**	**65,841**

6 d) (iv) Reconciliation of NFD and financing cash flows

The reconciliation of NFD and the financing cash flows in the consolidated statement of financial position in 2022 and 2021 is as follows:

Thousands of euros	12/31/22	12/31/21
NFD balance at January 1	**65,841**	**84,832**
Cash flows from financing activities	1,480	-11,715
New finance lease arrangements	13,724	3,892
Non-monetary accruals	775	474
Increase/decrease in cash and cash equivalents	-6,478	-11,407
Effect of changes in exchange rates:		
In cash and cash equivalents	-232	-235
NFD balance at December 31	**75,110**	**65,841**

6 d) (v) Funding available

The funding available to the Group at 2022 year end is as follows:

Thousands of euros	Available
Syndicated Factoring	25,952
Syndicated revolving credit facility	10,000
Financing facilities	37,000
Reverse factoring facilities	6,911
Cash and cash equivalents	58,283
Loan granted by EIB	20,000
Total funding available	**158,146**

The available syndicated factoring financing facility is limited at each date by the amount of eligible accounts receivable existing at the time of using such funding.

6 d) (vi) Finance lease payables

The impact that the application of IFRS 16 has had on the accompanying consolidated financial statements for the years 2022 and 2021 is as follows:

Thousands of euros	12/31/22	12/31/21
Total increase in assets	**12,265**	**6,117**
Right to use leased assets	12,265	6,117
Total increase in liabilities and total equity	**12,265**	**6,117**
Increase in liabilities:		
Lease payables	12,324	6,226
Decrease in total equity:		
Retained earnings	-108	-243
Comprehensive income for the period	49	134
Decrease in comprehensive income for the period	**49**	**134**
Increase in depreciation and amortization expense	-7,106	-6,344
Increase in finance costs	-471	-334
Decrease in other expenses	7,626	6,812
Increase in gross operating profit	**7,625**	**6,812**

The terms and conditions of the agreements signed by the Group have not been amended as a result of the pandemic.

The expense related to short-term leases, leases of low-value assets and variable leases is detailed in Note 5 g).

The Group has no rental income from right-of-use assets.

Cash outflows by lease are detailed in chapter B4 of the consolidated cash flow statement.

Additions of right-of-use assets are detailed in Note 6c) (iii).

Sale and leaseback transactions have generated no gain or loss.

The book value of right-of-use assets by type of underlying asset is detailed in Note 6 c) (iii).

The breakdown of all future minimum lease payments (including those subject and not subject to IFRS 16) is as follows:

	2022				
Thousands of euros	**Machinery**	**Computer equipment**	**Transport equipment**	**Warehouses**	**Buildings**
2023	194	388	758	3,590	373
Between one and five years	347	459	568	5,186	1,026
Total	**541**	**847**	**1,326**	**8,776**	**1,399**

	2021				
Thousands of euros	**Machinery**	**Computer equipment**	**Transport equipment**	**Warehouses**	**Buildings**
2022	207	322	845	2,102	332
Between one and five years	292	234	991	-	1,246
Total	**499**	**556**	**1,836**	**2,102**	**1,578**

Nota 6 e) Inventories

Inventories are valued at acquisition cost (raw materials) or production cost (intermediate and finished products), and impairment is charged to the consolidated statement of comprehensive income when their market value is lower than the acquisition, due to causes arising from the market, or physical impairment, or obsolescence, when appropriate provisions are registered.

The specific valuation criteria adopted are as follows:

- Supplies warehouse: at acquisition cost, following the weighted average cost method.

- Finished products and work-in-progress, and commodities held for sale: at production cost based on the same rule, including raw materials and general materials, direct and indirect labor, depreciation and other attributable direct and indirect costs, without exceeding realization value.

The breakdown of the inventory by categories, net of the provision for impairment, is as follows:

Thousands of euros	12/31/22	12/31/21
Supplies warehouse and other	53,995	50,171
Spare parts	16,373	14,110
Finished products and work in progress	64,405	58,415
Inventories	**134,773**	**122,696**

The movements in the provision for impairment already included in the figures above since they are presented net of impairment loss allowances, which mainly correspond to the valuation adjustment of inventories at their net realizable value, are as follows:

Thousands of euros	2022	2021
Balance at January 1	**-5,321**	**-2,716**
Charge for the year	-9,238	-2,614
Reversion	1	9
Utilized	-	-
Balance at December 31	**-14,558**	**-5,321**

The movements in the provision for impairment of inventories by type of product are as follows:

Thousands of euros	Supplies	Spare parts	Finished products and work in progress	Total
Balance at 12/31/20	**140**	**-**	**2,576**	**2,716**
Charge for the year	1,065	1,336	213	2,614
Reversion	-1	-	-8	-9
Utilized	-	-	-	-
Balance at 12/31/21	**1,204**	**1,336**	**2,781**	**5,321**
Charge for the year	5,878	865	2,495	9,238
Reversion	-1	-	-	-1
Utilized	-	-	-	-
Balance at 12/31/22	**7,081**	**2,201**	**5,276**	**14,558**

The breakdown of the inventories balance by type of product, differentiating between the production/acquisition cost and the provision for impairment, is as follows:

Thousands of euros	Supplies	Spare parts	Finished products and work in progress	Total
Balance at 12/31/21	**50,171**	**14,110**	**58,415**	**122,696**
Production/acquisition cost	51,375	15,446	61,196	128,017
Provision for impairment	-1,204	-1,336	-2,781	-5,321
Balance at 12/31/22	**53,995**	**16,373**	**64,405**	**134,773**
Production/acquisition cost	61,076	18,574	69,681	149,331
Provision for impairment	-7,081	-2,201	-5,276	-14,558

Nota 6 f) Trade and other receivables

The movement in this caption is as follows:

Thousands of euros	12/31/22	12/31/21
Trade receivables:	**100,409**	**101,230**
Trade receivables discounted with recourse	5,714	4,640
Not discounted balances	94,695	96,590
Provision for impairment of accounts receivable (expected loss)	-1,902	-1,998
Total	**98,507**	**99,232**
Accounts receivable transferred to non-recourse factoring and derecognized from the balance sheet [Note 6 d]	**66,241**	**58,686**

Bank borrowings from the syndicated factoring amount to 8,998 thousand euros (2021: 4,596 thousand euros). The difference with the factored balances mainly relates to the reserve of the amount to be advanced that is withheld by the banking syndicate, an amount that is paid once the transferred receivables corresponding to each factored remittance have been collected.

The analysis of accounts receivable by maturity is as follows:

Thousands of euros	Total	Balances not due	Unimpaired balances due <30 days	30-60 days	60-180 days	180-365 days	> 365 days
12/31/22	100,409	87,698	10,147	1,802	709	20	33
12/31/21	101,230	91,367	9,282	376	78	47	80

The movement in the provision for impairment (expected loss) of accounts receivable is as follows:

Thousands of euros	2022	2021
Provision at January 1	**1,998**	**3,038**
Charge for the year	124	130
Reversion	-	-1,142
Utilization	-220	-28
Provision at December 31	**1,902**	**1,998**

Nota 6 g) Cash flow hedge

The Group has signed several long-term electricity agreements at a fixed price for the supply of electric power in its production processes. IFRS 9 Financial instruments is not applicable to these agreements as energy is to be consumed by the company in accordance with its production plans. Besides, energy is from renewable sources.

In connection with these long-term electricity agreements, and for the specific case of one plant, it has not been possible to deliver the energy in 2022 since an electricity agreement with another supplier is in force and energy cannot be delivered to a point of supply by several suppliers at the same time.

Thus, in order to have a fixed price for energy in 2022 for the said plant, Ercros arranged a financial derivative that has been settled by differences. Therefore, Ercros has paid a fixed price for energy and has received a variable price based on the OMIE market for certain fixed amounts of energy for each one of the months of 2022.

Ercros designated this derivative as a hedging instrument at 2021 year end, where the hedged item are the cash flows derived from the purchase of electricity in 2022. The hedge was considered 100% effective since any change in OMIE's electricity price to be paid by the company was fully covered by the financial derivative.

Thus, at the interim closings of 2022 the company has recorded and measured the financial asset associated with the derivative at fair value through other comprehensive income.

Since the financial derivative arranged to hedge the cash flows from the purchase of electricity is a bilateral agreement not traded on organized markets, there is no available quoted price. Consequently, the measurement of the financial asset was determined at each interim closing based on the quoted prices of the electricity futures markets in the Iberian Peninsula, the OMIP market, where energy is traded for the coming weeks, months, quarters and years and which therefore allocate a value to the variable price to be received by Ercros against the fixed price to be paid by Ercros.

Thus, the carrying amount of the financial asset was set at 14,610 thousand euros at 2021 year end with balancing entries in other comprehensive income net of the tax effect amounting to 10,957 thousand euros and in deferred tax liabilities amounting to 3,653 thousand euros [see Note 6 o) (iv)].

The cash flow hedge reserve recorded in other comprehensive income was reclassified to profit for the year 2022 (as a decrease in the cost of power supply for an amount of 12,665 thousand euros) as the financial derivative was settled.

At 2022 year end the financial asset had been fully settled.

The movements in the cash flow hedge reserve in other comprehensive income in 2022 have been as follows:

Thousands of euros	Balance at 12/31/21	Change in effective tax rate	Transfer to profit/(loss) for the period	Changes in fair value	Balance at 12/31/22
Cash flow hedge reserve	14,610	-	-12,665	-1,945	-
Deferred tax [Note 6 o) (i)]	-3,653	475	2,755	423	-
Other comprehensive income net of tax effect	**10,957**	**475**	**-9,910**	**-1,522**	**-**

Nota 6 h) Cash and cash equivalents

The breakdown of this caption is as follows:

Thousands of euros	12/31/22	12/31/21
Available balances in bank accounts	55,480	50,305
Balance in syndicated factoring account (pledged)	2,803	1,268
Cash and cash equivalents	**58,283**	**51,573**

The balance in the pledged syndicated factoring account becomes available to the Group on a weekly basis [note 6 d)].

Bank accounts are set to market interest.

Nota 6 i) Total equity

The breakdown of equity is as follows:

Thousands of euros	12/31/22	12/31/21
Capital of the parent company	28,980	30,292
Profits and other retained earnings of the Group:		
Legal reserve of the parent company	15,451	15,451
Capitalization reserve	8,851	6,565
Reserve for difference in conversion of capital to euros	93	93
Voluntary reserves	251,982	231,480
Profit for the year	62,989	43,297
Valuation adjustments for cash flow hedges, net of tax	-	10,957
Decrease in treasury shares acquired for redemption	-7,636	-6,522
Equity	**360,710**	**331,613**

6 i) (i) Capital of the parent company

Paid-in issued share capital	12/31/22	12/31/21
Number of ordinary shares (thousands)	96,599	100,971
Nominal value per share (euros)	0.30	0.30
Share capital (thousands of euros)	**28,980**	**30,292**

As indicated in Note 4 a), in 2022 share capital decreased by 1,312 thousand euros through the redemption of 4,372 thousand shares that had been purchased for redemption within the shareholder remuneration program corresponding to the 2021 pay-out.

All shares are ordinary shares with a nominal value of 0.30 each. They are of the same class and were fully subscribed and are represented by book entries [see chapter 10.2 a) of the CMR].

6 i) (ii) Treasury shares acquired for redemption

At 2022 year end, the Company held treasury shares acquired with a charge to the 2022 pay-out, within the repurchase program for the redemption of treasury shares:

Treasury shares[1]	12/31/22	12/31/21
Number of treasury shares owned (thousands)	2,370	2,190
Pay-out (thousands of euros)	7,636	6,522
Average unit cost (euro/share)	3.22	2.98
Percentage of share capital (%)	2.45	2.17

[1]See notes 3 d) and 4 b)

6 i) (iii) Retained earnings and other reserves of the Group

Retained earnings and other reserves in the companies are subject to certain legal constraints which limit free Group distribution, which are listed below:

Legal reserve

In compliance with the Spanish Corporate Enterprises Act, it is required to devote an amount equal to 10% of the profit for the year to the legal reserve, until this reserve reaches a value of at least 20% of the share capital. The legal reserve are not freely distributable, and may only be used to compensate for losses in the event that there are no reserves available for this purpose, or to increase the share capital up to a limit of 10% of the share capital after increase. This reserve would only become distributable in the event of the liquidation of the companies in the Group. At December 31, 2022 and 2021 the legal reserve of the Company is funded by an amount exceeding the legally established one.

Capitalization reserve

Since 2016 this reserve has been annually charged against freely distributable profit. It is allocated to increase the Company's shareholders' equity, pursuant to article 25 of Law 27/2014 of November 27 on the income tax. Every year the Company reduces the previous taxable base by an amount equal to the capitalization reserve up to a limit of 10% of said previous taxable base. This reserve is not freely distributable for a period of 5 years [see Note 6 o)].

Voluntary reserves

Voluntary reserves are freely distributable according to the restrictions established by the Spanish Corporate Enterprises Act.

Reserve for difference in conversion of capital to euros

The non-distributable reserve arises from an adjustment to the nearest cent of the nominal value of the shares in accordance with the provisions of Article 28 of Law 46/1998 of December 17, upon the introduction of the Euro.

Meeting attendance bonus

The bonus paid has been recorded directly as a decrease in the Group's voluntary reserves.

Limitations on the distribution of dividends

There are no limitations on the payment of dividends, provided that the ratios required for it are met [see Note 3 d)].

Nota 6 j) Environmental provisions and other current and non-current provisions

Provisions are recognized when:

1. The Group has a present obligation (whether legal or implicitly assumed) as a result of a past event.

2. It is probable that the Group will have to dispose outflows of resources embodying economic benefits in order to settle such obligation.

3. A reliable estimate of the value of the obligation can be made.

In order to measure these doubtful items, and recognize the corresponding provision if applicable, the Group, along with legal consultants and experts, analyses the concurrent factors, to set the probability assigned to said factor. If it exceeds 50 %, the corresponding liability is recognized.

The expenses incurred as a consequence of the processes of restructuring, principally consisting of indemnities payable to staff, are recognized at the moment at which a formal detailed plan exists for carrying out the restructuring, identifying the principal parameters of the process (such as the activities to which it refers, the principal locations, the functions and the approximate number of employees involved, estimated disbursements, and the calendar for implementation), and a real expectation has been created among the parties to be affected that the restructuring will be carried out. In 2022 the Group resolved to submit a labor force adjustment plan to reduce most of its workforce in the Flix factory. Therefore, it recorded the corresponding provision to meet the payments related to the termination of the employment contracts.

The Group does not discount non-current provisions at present value because of the difficulty in determining the probable date of cash outflows and the little relevance that this discount would have.

The Group considers that the provisions recorded and detailed in this Note are appropriate and sufficient to cover the cash outflows that are necessary to meet the obligations assumed, in accordance with available information.

The movements in current and non-current provisions in 2022 and 2021 are as follows:

6 j) (i) Provisions for environmental remediation

Thousands of euros	Balance at 12/31/21	Charge for the year	Utilization	Reversion	Transfers	Balance at 12/31/22
Non-current	**10,041**	**9,874**	**-**	**-**	**-1,700**	**18,215**
Land remediation	8,948	3,942	-	-	-607	12,283
Dismantling	1,093	5,932	-	-	-1,093	5,932
Current	**4,357**	**4,294**	**-4,382**	**-**	**1,700**	**5,969**
Land remediation	2,767	1,443	-1,598	-	607	3,219
Dismantling	1,590	2,851	-2,784	-	1,093	2,750
Provisions for environmental remediation	**14,398**	**14,168**	**-4,382**	**-**	**-**	**24,184**

Thousands of euros	Balance at 12/31/20	Charge for the year	Utilization	Reversion	Transfers	Balance at 12/31/21
Non-current	**9,180**	**3,048**	**-**	**-**	**-2,187**	**10,041**
Land remediation	8,737	2,198	-	-	-1,987	8,948
Dismantling	443	850	-	-	-200	1,093
Current	**3,061**	**2,929**	**-3,820**	**-**	**2,187**	**4,357**
Land remediation	1,381	1,020	-1,621	-	1,987	2,767
Dismantling	1,680	1,909	-2,199	-	200	1,590
Provisions for environmental remediation	**12,241**	**5,977**	**-3,820**	**-**	**-**	**14,398**

Remediation of land in El Hondón

Regarding the former location in El Hondón (Cartagena), the Group has an obligation to Reyal Urbis to decontaminate the land that it was allocated to the said company in the subdivision project, equal to 25% of the remediation cost, until it reaches residential use status. Cartagena City Council assumes the remaining 75% of the remediation cost [see Note 7 c)].

Remediation of the other plots of land and dismantling of the plants

The amounts recorded in the provisions also cover land remediation and dismantling of mercury-based technology plants and plants affected by the closure of the Flix factory [see Note 4 f)], which continue as planned in both the payment calendar and the expected payable amounts. The main movements in the amounts charged correspond to land remediation and dismantling of the Flix plants and facilities to restore the land to conditions that favor the establishment of new third-party or own industrial facilities and utilizations for the dismantling of mercury-based technology plants and land remediation.

6 j) (ii) Other current and non-current provisions

Thousands of euros	Balance at 12/31/21	Charge for the year	Utilization	Reversion	Transfers	Balance at 12/31/22
Non-current	**662**	**2,543**	**-741**	**-**	**-**	**2,464**
Collective dismissal	-	1,046	-	-	-	1,046
Labor claims	598	809	-256	-	-	1,151
Other provisions	64	688	-485	-	-	267
Current	**12,556**	**19,879**	**-10,489**	**-72**	**-**	**21,874**
Collective dismissal	2,113	3,525	-118	-	-	5,520
Free CO_2 emission allowances [Note 6 c) (ii)]	10,443	16,354	-10,371	-72	-	16,354
Other provisions	**13,218**	**22,422**	**-11,230**	**-72**	**-**	**24,338**

Thousands of euros	Balance at 12/31/20	Charge for the year	Utilization	Reversion	Transfers	Balance at 12/31/21
Non-current	**520**	**333**	**-75**	**-**	**-116**	**662**
Collective dismissal	116	-	-	-	-116	-
Labor claims	340	333	-75	-	-	598
Other provisions	64	-	-	-	-	64
Current	**7,856**	**10,443**	**-5,849**	**-10**	**116**	**12,556**
Collective dismissal	2,505	-	-508	-	116	2,113
Free CO_2 emission allowances [Note 6 c) (ii)]	5,351	10,443	-5,341	-10	-	10,443
Other provisions	**8,376**	**10,776**	**-5,924**	**-10**	**-**	**13,218**

Additions mainly correspond to the labor force adjustment plan passed last December 16 as a result of the closure of the Flix factory [see note 4 f)], which meant a provision charge of 3,525 thousand euros as current and 1,046 thousand euros as non-current.

Nota 6 k) Long-term provisions for active employee benefits

These obligations correspond to long-service bonuses for prevailing active staff in accordance with the agreements signed between the Group and its trade union representatives, according to the following detailed:

Thousands of euros	Balance at 12/31/21	Charge for the year	Utilization	Reversion	Transfers	Balance at 12/31/22
Non-current	**2,190**	**397**	**-186**	**-**	**-**	**2,401**
Long-service bonuses	2,190	397	-186	-	-	2,401

Thousands of euros	Balance at 12/31/20	Charge for the year	Utilization	Reversion	Transfers	Balance at 12/31/21
Non-current	**2,088**	**221**	**-119**	**-**	**-**	**2,190**
Long-service bonuses	2,088	221	-119	-	-	2,190

The actuarial calculation carried out to obtain the present value of the obligation for long-service bonuses has taken into account the Pasem 2010 mortality tables published by resolution of the General Directorate of Insurance and Pension Plans of July 6, 2012, and an annual interest rate of 0.46%, which is the maximum annual interest rate established by the resolution of January 7, 2022, of the General Directorate.

Nota 6 l) Deferred income. Government grants

Official subsidies are recorded at fair value when it is certain that the conditions established for obtaining them are met, and there are realistic expectations that such subsidies will be received.

In the case of a subsidy related to a flow of expenses, this flow is taken to the consolidated statement of income over the number of periods necessary to make the subsidy equal to the expenses which the subsidy is intended to cover, on a straight-line basis. This is the case of subsidies for indirect CO_2 emissions and for electro- and gas-intensive consumer, which have been recorded directly as income for the year.

When the subsidy is related to an asset, the fair value is recognized as deferred income and is taken to the consolidated statement of income over the expected useful life of the asset.

Zero interest loans from public institutions are initially recognized at discounted value, assuming a market interest rate. Following initial recognition, the interest cost is recognized and the implicit grant amortized.

The movements in this caption in 2022 and 2021 are as follows:

Thousands of euros	2022	2021
Grants for free allocation of emission allowances:		
Balance at January 1	**18**	**238**
Allowances allocated in the year	16,993	10,212
Transfers to comprehensive income for the period for consumed allowances [note 5 c)]	-16,833	-10,443
Adjustment for previous year recognition	111	11
Balance at December 31	**289**	**18**
Non-repayable grants for investments in property, plant and equipment items:		
Balance at January 1	**10,979**	**9,683**
Grants awarded in the year	2,614	1,909
Grants for implicit interest	-	450
Grants released to income for the period [Note 5 c)]	-1,080	-873
Adjustments to prior-year grants	-	-190
Balance at December 31	**12,513**	**10,979**
Balance of total grants at December 31	**12,802**	**10,997**

The grants awarded by Institute for Diversification and Saving of Energy (‘IDAE’) are linked to investments that entail a significant saving in consumed energy.

The amount receivable for grants awarded is as follows:

Thousands of euros	12/31/22	12/31/21
Non-current financial assets [Note 6 d) (i)]	4,522	2,456
Other current assets [Note 6 m)]	1,572	2,883
Grants	**6,094**	**5,339**

The movements in the receivable balance for grants is as follows:

Thousands of euros	2022	2021
Balance at January 1	**5,339**	**5,632**
Awarding of:		
Non-repayable grants	2,614	1,909
Compensation for indirect CO_2 emission allowances	4,603	7,140
Compensation for electro-intensive consumption	1,194	1,502
Compensation for gas-intensive consumption	400	-
Proceeds from:		
Grants for indirect CO_2 emissions	-4,603	-7,140
Grants for electro-intensive consumption	-1,194	-1,502
Other grants	-2,259	-2,012
Adjustments to prior-year grants	-	-190
Balance at December 31	**6,094**	**5,339**

Nota 6 m) Other current assets

The breakdown of this caption in 2022 and 2021 is as follows:

Thousands of euros	12/31/22	12/31/21
Deposits pledged as security of guarantees received [Notes 3 c) and 6 d)]	777	1,331
Receivable balances from Public Administrations:		
VAT	3,236	4,087
Withholdings on account	339	346
Grants awarded [Note 6 l)]	1,572	2,883
Others	835	692
Other current assets at amortized cost	**6,759**	**9,339**

Short-term deposits are pledged as security of the guarantees issued by the financial entities, which in turn guarantee the Group's commitments with third parties.

As indicated in Note 6 d) (i), the Group has other deposits pledged as security of commitments to third parties –recorded in the caption 'Non-current financial assets'–, for an amount of 1,257 thousand (1,257 thousand euros in 2021). The overall deposits pledged as security of guarantees and other debts amount to 2,034 thousand euros (2,588 thousand euros in 2021). The Group records these pledged balances as a decrease in gross financial debt for the purpose of calculating the Group's net financial debt [see Notes 3 c) and 6 d)].

Nota 6 n) Other current liabilities and trade payables

The breakdown of the 'Other current liabilities' caption is as follows:

Thousands of euros	12/31/22	12/31/21
Asset suppliers	13,553	11,376
Customer advances	1,456	1,574
Public administrations	4,346	4,369
Employee benefits payable	5,388	3,548
Other current liabilities	**24,743**	**20,867**

6 n) (i) Information on late payments to trade creditors

With respect to Law 15/2010, of July 5, amending Law 3/2004 of December 29, establishing measures to be taken in combating arrears in commercial transactions, the average payment period to suppliers at December 31, 2022 is 48.78 days (54.45 days at 2021 year end).

At December 31, 2022, the payments that exceeded 60 days amounted to 321,005 thousand euros (from a total of 50,719 invoices) and accounted for 32.47% of all payments made (38.57% in 2021).

The table below shows the breakdown of the average payment period to suppliers, the ratio of transactions paid and the transactions pending payment, as well as total payments made and outstanding in 2022 and 2021:

	2022	2021
Average payment period to suppliers (days)	48.78	54.45
Ratio of transactions paid (days)	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.

Nota 6 o) Income tax

Assets and liabilities for deferred tax are recorded for all taxable temporary differences existing at the consolidated statement of financial position date, between the carrying amount of the assets and liabilities and the tax value of such assets,

Deferred tax liabilities are recognized for all types of taxable temporary differences, except in taxable temporary differences which arise from purchased goodwill for which the depreciation is not tax-deductible and differences which arise from the initial recognition of an asset or a liability in a transaction which is not a business combination and, at the time of the transaction, did not affect either the accounting profit or the taxable profit or loss.

The Group has assessed the impact that the amendment to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction effective for annual periods beginning on or after January 1, 2023, derived from lease agreements registered in accordance with IFRS 16. The impact thereof has been immaterial.

The Group has elected not to implement the early application of this amendment to IAS 12.

The deferred tax liabilities recognized by the Group correspond to (i) the gain allocated to the property, plant and equipment items as a result of the business combination, and (ii) deferred tax liabilities already recognized in the financial statements of the companies acquired arisen as a result of the recognition of increases in the value of property, plant and equipment items: (iii) non-deductible portion of dividends or income from the sale of ownership interests held in associated companies (5%) and (iv) amount to be taxed for the cash flow hedge reserve.

The recovery of deferred tax assets is reviewed at each consolidated statement of financial position date, and the carrying amount of the deferred tax asset is reduced to the extent that it is believed probable that there will not be sufficient taxable profit to offset it, while are recorded on the balance sheet those unrecognized deferred income tax assets whose recovery becomes probable. For this purpose, the Group assesses their earnings forecast estimate in order to assess the probability to use the tax credits within a 10-year period.

The Group has reviewed its profit forecast for the next 10 years, which include the effects of the 3D Plan approved by the Board of Directors on January 22, 2021. These forecasts have not been reviewed by any expert.

In 2022, the Group has decided to record the deferred tax assets related to (i) deductible temporary differences arisen in the year; (ii) the deductions accredited in the year pending application; and (iii) unused tax loss carryforwards expected to be utilized in the next 10 years.

Deferred tax assets and liabilities are measured on the basis of their expected form of calculation tax laws and tax rates which have been enacted or substantially enacted at the consolidated statement of financial position date.

The impact of tax rates changes on deferred tax assets and liabilities is recorded in the consolidated statement of comprehensive income, except when it applies to entries recognized directly in net equity.

Ercros, S.A. pays taxes in accordance with the special tax consolidation regime under Chapter VI Title VII of the Income Tax Law, which came into effect on January 1, 2015. Specifically, this company is the parent of the Ercros tax group in Spain, which at December 31, 2022 also includes Cloratita, S.A. [see Note 3 f) (i)].

Consequently, the income tax expense and liability of the Group is calculated upon the aggregation of the taxable bases of the different companies listed above, adjusted for the tax effect deriving from the special regime applicable to the tax Group made up of the companies listed above.

The companies present individually the balance of the consolidated statement of comprehensive income, after considering the accrued amount corresponding to income tax recognized as expense, taking into account tax permanent differences, and regardless of the payable amount. Each company, as a result of the temporary differences between the profit (loss) for the year and the tax basis, assesses deferred tax assets and liabilities that will revert in subsequent financial years and tax payable amounts, with regards to their foreseeable realization or application.

The tax status of the different companies in the Group can be differentiated based on their separate effect on the tax Group. The assignation of the different Group companies is broken down as follows:

Tax group (tax consolidation)	**Outside of tax group (individual basis taxation)**
Ercros S.A.	Ercros France, S.A.
Cloratita, S.A.	Salinas de Navarra, S.A.
	Gades, Ltd.
	Ercekol, A.I.E.
	Asociación Flix-Coquisa, S.L.

The Tax Group includes the taxable income of all group companies, adjusted by the tax effects derived from the consolidation tax system. The aggregation can be reduced, when positive, through the compensation of tax loss carry forwards of the tax Group and current tax losses of the related companies. Consequently, the tax Group's income tax expense or income can be determined, which includes the income tax expense attributable to the remaining companies outside the tax Group.

It should be noted that the sections below of this Note refer to the Company, since it is the entity fully generating the permanent and temporary differences in the income tax return, and therefore, it is affected by the impact of the income tax expense/income.

Additionally, since the company presents net profit/(loss) from discontinued operations under a single caption, the breakdown of calculations associated with the income tax expense from continuing operations is shown in the table below. However, it should be taken into account that for tax return purposes this difference does not exist. Therefore, the final tax result will correspond to the sum of continuing and discontinued operations. Additionally, since discontinued operations show losses, an income tax income for 25% (prevailing tax rate) of pre-tax losses has been considered, and it has been considered that this amount has been paid by continued operations to discontinued operations, as pre-tax losses are integrated into profit before tax from continuing operations.

6 o) (i) Components of the income tax expense/income

Thousands of euros	2022	2021
Tax expense accrued during the year	**-16,362**	**-14,878**
Tax Group’s income tax expense	-16,248	-14,806
Current (see calculation below)	-16,126	-6,669
Deferred (see disclosure below)	-122	-8,137
Income tax expense of other group companies outside the tax consolidation group	-114	-72
Differences in the prior year final income tax return	**19**	**12**
Recognition of deferred tax assets	**-**	**4,969**
Unused tax loss carryforwards arisen in prior years	-	3,369
Accredited deductions arisen in the year and prior years	-	1,600
Cancelation of deferred tax assets	**-971**	**-**
Deductions arisen in prior years	-971	-
Income tax income/expense recorded in profit/(loss) for the year	**-17,314**	**-9,897**

The income tax expense for the year 2022 has been estimated by applying a 25% tax rate for the tax group companies resident in Spain as described in the table below. There is another group company, domiciled in France (Ercros France, S.A.) that files taxes at a 24.39% tax rate.

Profit for the year before tax is as follows:

Thousands of euros	Year 2022	Year 2021
Tax group’s profit	89,822	58,914
Profit/(loss) of companies accounted for using the equity method	877	607
Profit/(loss) of companies accounted for using the full consolidation method not included in the tax group	461	253
Elimination of dividends received from companies accounted for using the equity method	-3,250	-600
Impact of the application of IFRS 16	48	134
Profit for the year before tax	**87,958**	**59,308**

The estimate of the current expense accrued during the year by the tax group is as follows:

Thousands of euros	2022	2021
1. Consolidated profit/(loss) before tax	89,822	58,914
2. Permanent differences	110	3,536
Reversal of temporary differences arisen in prior years:		
3. For which deferred tax assets were recorded	-7,184	-9,849
4. For which no deferred tax assets were recorded	-148	-168
5. For which deferred tax liabilities were recorded	792	338
Temporary differences arisen in the year:		
6. For which deferred tax assets were recorded	21,699	9,026
7. Dividends received	-3,088	-570
8. Difference for consolidation of results	-	-
9. Previous taxable base (‘PTB’) (1+2+3+4+5+6+7+8)	**102,003**	**61,227**
10. Capitalization reserve [Note 3 d) (iii)]	-2,009	-2,219
11. Utilization of unused tax loss carryforwards arisen in prior years (25% limit on PTB)[1]	-22,949	-13,269
12. Taxable income (9+10+11)	77,045	45,739
13. Tax rate	25%	25%
14. Previous net tax payable (13×12)	**19,261**	**11,434**
15. Minimum tax rate	15%	-
16. **Minimum payable (15x12)**	**11,557**	-
Tax credits applied:		
17. Arisen in the year	54	67
18. Arisen in prior years and not capitalized	40	-
19. Arisen in prior years and capitalized	3,041	4,698
20. Net tax payable (14-17-18-19) – current expense	**16,126**	**6,669**
21. Payment on account and withholdings made during the year	15,431	8,094
22. Payment allocated to discontinued operations [Note 4f)]	2,552	2,038
23. Balance receivable from the Exchequer for the current income tax (20-21-22)	-1,857	-3,463

[1] *The amount of unused tax loss carryforwards does not match 25% of the previous taxable base from continuing operations since it corresponds to 25% of the sum of PTB from continuing and discontinued operations (discontinued operations show negative PTB amounting to -10,207 thousand euros).*

It should be noted that –as from 2016– unused tax loss carryforwards can only be utilized for a maximum amount of 25% of the previous taxable base, as explained below.

From 2022 onwards, tax regulations set a minimum payable of 15% of the taxable income. For the Group, the 2022 net tax payable exceeds the minimum tax payable. In any case, the minimum payable shown in the table above corresponds to continuing operations. For tax purposes, this minimum payable shall be calculated considering the losses from discontinued operations. Consequently, the final amount of the minimum payable shall be calculated by discounting the losses of 10,207 thousand euros from discontinued operations from the taxable income from continued operations. Consequently, the minimum payment will amount to 10,026 thousand euros.

As indicated above, the payment to discontinued operations of the income tax income obtained therefrom is considered as losses from discontinued operations are integrated into profit from continuing operations.

Of the total 2022 current income tax expense, which amounts to 16,126 thousand euros, 2,755 thousand euros have been reclassified to the cash flow hedge reserve (see Note 6 g)).

The balance with the Exchequer related to the resulting income tax is a debtor balance, as the minimum payments on account made during the year are calculated on the profit/(loss) in accordance with current prevailing regulations. Therefore, they are higher than the result of the estimated payment of the tax, which is calculated based on the taxable base.

6 o) (ii) Current income tax assets

At December 31, 2022 and 2021 this balance was composed of:

Thousands of euros	**2022**	**2021**
1. Receivable balance resulting from the estimate of the tax return for the year (according to the table above)	**1,857**	**3,463**
2. Final balance receivable from the prior year tax return filed	**-**	**867**
Initial estimate	-	770
Other adjustments to the final tax return filed	-	97
Current income tax assets (1+2)	**1,857**	**4,330**

The amount receivable from the 2020 and 2021 returns has been paid in the months of January and December 2022, respectively.

Limitation on the utilization of tax losses arisen in prior years.

In accordance with the Income Tax Law, which came into effect on January 1, 2015, unused tax loss carryforwards may be utilized against profit from the subsequent tax periods with a 60% limit (70% as from 2017) on the taxable base prior to the application of the capitalization reserve and its utilization. Such regulations foresee the possibility of utilizing up to 1,000 thousand euros in unused tax loss carryforwards for each tax period. Additionally, the said regulatory reform eliminated the time limit for the utilization of unused tax loss carryforwards, which was previously 18 years, and is currently a non-lapsable right for the unused tax loss carryforwards valid at January 1, 2015.

However, as a transitory scheme, during 2015 the companies whose volume of operations exceeded the amount of 6,010 thousand euros, and whose turnover in the prior year was at least 20,000 thousand euros but lower than 60,000 thousand euros, may only utilize 50% of the unused tax loss carryforwards prior to such utilization. This percentage was reduced to 25% in the cases of entities whose turnover was at least 60,000 thousand euros, as is Ercros's case.

However, on December 2, 2016 Royal Decree Law 3/2006 was approved adopting tax measures aimed at consolidating the public finance and other urgent social measures, which modified, effective from 2016 onwards, the utilization limits of tax loss carryforwards. To this effect, the limit is reduced for taxpayers whose turnover is greater than 60,000 thousand euros in the prior year to 25% of the taxable base previous to the application of the capitalization reserve and their utilization, the deductible amount being, in any case, 1,000 thousand euros.

Limit on the offset of deductions

Additionally, in connection with deductions, it should be noted that Royal Decree-Law 12/2012, of March 30, introducing several tax and administrative measures aimed at reducing public deficit, established that the period for utilization of deductions to stimulate the performance of certain activities was 15 years in general and 18 years for R&D activities and technological innovation.

Furthermore, a limit related to the deductions to encourage certain activities was established with a limit of 25% of the tax liability less deductions to avoid international double taxation and bonuses (the limit rises to 50% when the R&D deduction corresponding to expenses and investments made in the same period exceeds 10% of the tax liability, less deductions to avoid international double taxation and bonuses). This limit is also applied to deductions for reinvestment.

Additionally, the above-mentioned Royal Decree Law 3/2006 of December 2 has established, for the tax periods beginning on or after January 1, 2016, for taxpayers whose turnover is less than 20 million euros over the last 12 months prior to the start date of the tax period, that the amount of tax credits to avoid international double taxation, as well as of tax credits to avoid double taxation referred to in transitory provision 23 of the Income Tax Law may not overall exceed 50% of the tax payable.

6 o) (iii) Reconciliation of the tax expense accrued in the year and the amount resulting from applying the tax rate in force to profit/(loss) before tax

The table below shows the reconciliation between the tax expense accrued in the year and the amount resulting from applying the tax rate applicable to the Group (2022 and 2021: 25%) to the profit before tax:

Thousands of euros	2022	2021
Profit before tax (1)	**87,958**	**59,308**
Applicable tax rate (2)	**25%**	**25%**
Taxes according to applicable tax rate (1x2)	**21,990**	**14,827**
Adjustments:		
1. Decreased tax rate in Ercros France, S.A.	-1	9
2. Increased taxes due to losses in non-consolidated subsidiaries for tax purposes	-	-
3. Decreased income tax in subsidiaries accounted for using the equity method (taxes included)	-219	-152
4. Tax effect of the non-exemption of 5% of dividends received	40	8
5. Tax effect of the difference for consolidation of results	-	-
6. Tax effect of the application of IFRS 16	-12	-34
7. Tax effect of non-deductible expenses	27	884
8. Reduction in the taxable base due to charge to the capitalization reserve	-502	-555
9. Amount of tax profit not recognized in the prior years used to reduce tax expense for the current year:		
Temporary differences	-37	-42
Tax loss carryforwards	-4,830	-
Tax credits	-94	-67
Tax expense accrued during the year	**16,362**	**14,878**

6 o) (iv) Deferred tax assets and liabilities

The movements in the 'Deferred tax assets' caption are as follows:

Thousands of euros	Related to temporary differences	Related to unused tax loss carryforwards	Related to unused tax credits	Total deferred tax assets
Balance at 12/31/20	**9,381**	**22,424**	**7,105**	**38,910**
Additions recorded in the year	2,257	-	1,365	3,622
Utilizations in the tax return	-2,462	-3,318	-4,698	-10,478
Additions due to the recognition of unrecorded assets in prior years	-	3,369	235	3,604
Balance at 12/31/21	**9,176**	**22,475**	**4,007**	**35,658**
Additions recorded in the year	5,424	4,830	-	10,254
Utilizations in the tax return	-1,796	-5,737	-3,041	-10,574
Increased/(decreased) utilization in the 2021 final tax return	5	-1	5	9
Decreases due to derecognition of assets recorded in prior years	-	-	-971	-971
Balance at 12/31/22	**12,809**	**21,567**	**-**	**34,376**

The movements in 'Deferred tax liabilities' are as follows:

Thousands of euros	Deferred tax liabilities
Balance at 12/31/20	**23,197**
Utilizations in the tax return	-84
Tax effect of cash flow hedging instruments	3,653
Balance at 12/31/21	**26,766**
Utilizations in the tax return	-198
Tax effect of investments in associated companies	4
Tax effect of cash flow hedging instruments	-3,653
Balance at 12/31/22	**22,919**

The breakdown of deferred tax liabilities recorded in the consolidated statement of financial position at December 31, 2022 is as follows:

Thousands of euros	Deferred tax liabilities
Tax effect at a 25% tax rate of the gains allocated to:	
Property, plant and equipment in:	
Business combinations	12,283
Other prior increases in value	6,887
Investment properties, in business combinations	2,629
Tax effect of investments in associated companies	84
Tax effect of cash flow hedging instruments	-
Other items	1,036
Total	**22,919**

The deferred income tax expense/income accrued during the year results from the variation in deferred tax assets and liabilities shown in the table below:

Thousands of euros	2022	2021
Income from:		
Additions of deferred tax assets in the tax estimate for the year	5,424	2,257
Derecognition of deferred tax liabilities utilized in the tax return	198	84
Expenses from:		
Derecognition of deferred tax assets applied in the tax return related to:		
Temporary differences	-1,796	-2,462
Deductions	-3,041	-4,698
Tax loss carryforwards	-907	-3,318
Deferred tax income/expense during the year	**-122**	**-8,137**

At 2021 and 2020 year end, the Group has unrecognized deferred tax assets according to the table below, calculated at a 25% tax rate (for temporary differences and unused tax loss carryforwards):

Thousands of euros	Deferred tax assets not recognized by the Group in the consolidated financial statements			
	Related to temporary differences pending reversal	Related to unused tax loss carryforwards	Related to unused tax credits	Total unrecognized deferred tax assets
Balance at 12/31/20	**-**	**65,051**	**-**	**65,051**
Utilization in the estimated 2021 tax	-42	-	-67	-109
Certification of prior year deductions	-	-	235	235
Other adjustments	42	-22	67	87
Recognition of deferred tax assets	-	-3,369	-235	-3,604
Balance at 12/31/21	**-**	**61,660**	**-**	**61,660**
Utilization in the estimated 2022 tax	-37		-94	-131
Certification of prior year deductions	-	-	40	40
Other adjustments	37	-	54	91
Recognition of deferred tax assets	-	-4,830	-	-4,830
Balance at 12/31/22	**-**	**56,830**	**-**	**56,830**

Section 7. Commitments and other contingencies

Nota 7 a) Investment commitments

The table below shows the amount of investments at 2022 and 2021 year end that have been approved by the Group for the coming year (or subsequent years) based on the individual proposals made by the corresponding responsible people, differentiating those that had already been committed to third parties from those that had been not:

Investments approved pending execution

Thousands of euros	2022	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**

The evolution of investments pending execution in both years is as follows:

Thousands of euros	2022	2021
Balance at January 1	**30,510**	**32,975**
New investments authorized in the year	**40,398**	**32,215**
For capacity extension	1,995	6,442
Other investments	38,403	25,773
Investments executed during the year	**-49,493**	**-34,680**
For capacity extension	-14,894	-7,495
Other investments	-34,599	-27,185
Balance at December 31	**21,415**	**30,510**

Also, in addition to the aforementioned investments, the Company plans to make other investments to adapt to the new requirements derived from the renewal of the integrated environmental authorizations for its factories, as well as investments related to the 3D Plan.

In 2022 the company has obtained a waiver from financial institutions for the covenant agreements in connection with the maximum volume of investments, which was authorized up to 50 million euros, a higher amount than initially authorized [see note 6 d) (ii)].

Nota 7 b) Commitments for the repurchase of treasury shares

The Board of Directors of Ercros, at the meeting held on June 10, 2022, passed the seventh program for the repurchase of treasury shares for redemption as part of the shareholder remuneration against profit for 2022.

In accordance with the shareholder remuneration policy, the company plans to earmark around 18,733 thousand euros for the repurchase of treasury shares against the 2022 payout. Of this amount, 7,636 thousand euros have already been used at year end. The remaining 11,097 thousand euros will be used in 2023, predictably before the general meeting is called.

Nota 7 c) Contingencies for legal claims

7 c) (i) Environmental remediation of El Hondón land.

Regarding the former location in El Hondón (Cartagena), on June 30, 2020 the Group filed an administrative appeal contesting the resolution of October 16, 2019 by the director-general of Environment whereby it was agreed to declare the El Hondon sector in Cartagena contaminated soil. The administrative proceedings are still in progress at the chamber for administrative proceedings of the High Court of Justice of the Region of Murcia. On September 2, 2021 Ercros filed a lawsuit and through measure of organization dated November 3, 2021 the Administration sued was required to file a response to the lawsuit.

Despite the contestation, and given the enforceability of the contaminated soil declaration resolution, on July 1, 2020 Ercros submitted the technical cleaning and remediation project for El Hondón in order to meet the obligation established in the contaminated soil declaration resolution. Through injunctions dated November 30, 2020 and February 12, 2021 the Directorate-General of Environment requested the correction of the technical project.

On February 5, 2021 and February 23, 2021, the Group filed an appeal to a superior court against the aforementioned injunctions for correcting the Project, requesting that they should be rendered invalid and that the remediation project submitted by Ercros in July 2020 be approved.

On November 29, 2021 Ercros was notified of the resolution by the Minister of Water, Agriculture, Fishing and Environment of the Region of Murcia dated November 19, 2021 resolving that the aforementioned appeals had not been admitted. Lastly, on January 21, 2022 Ercros filed an administrative appeal against the resolution of inadmissibility of the appeals to the High Court of Justice of Murcia.

On September 23, 2022 Ercros filed a lawsuit that was accepted for processing through measure of organization on September 29, 2022, whereby the Administration sued was required to file a response to the lawsuit, which it has not done yet. Additionally, on September 28 we were notified of the measure of organization accepting Asociación de Vecinos Sector Estación as a co-defendant.

The obligation to decontaminate the land to adapt it to residential purposes has been accepted by the owners according to the partial plan and the subdivision project approved in 2013. The City Council of Cartagena is the currently the main owner of the land [see Note 6 j) (i)].

7 c) (ii) Inspection assessments regarding the special tax on alcohol

In the first half of 2022 the Spanish High Court issued a favorable resolution to Ercros annulling the inspection assessments claiming 5,300 thousand euros from Ercros in connection with the exemptions applied in the consumption of pure ethanol used in the production of medicines during 2011 and 2012. This resolution has become firm and cannot therefore be appealed against.

7 c) (iii) Inspection assessment regarding the personal income tax

In connection with the assessment signed in disagreement regarding the personal income tax for the years 2012 and 2013, proposing a tax payable of 312 thousand euros and late payment interest of 70 thousand euros, an amount that has been entirely paid, the date of vote and resolution by the Spanish High Court has not been set yet.

7 c) (iv) Inspection assessment regarding the corporate income tax

The assessment signed in disagreement regarding the corporate income tax for the years 2011, 2012 and 2013, which after several estimates proposes to reduce deductions for reinvestment by 921 thousand euros, is ready for sentencing by the Spanish High Court. Based on the principle of prudence, in 2022 the Company has derecognized deferred tax assets related to the right to offset the 921 thousand euros corresponding to the deduction for reinvestment.

7 c) (v) Years open to tax inspection

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. The Group is open to inspection for all taxes to which it is liable for the last four years, except for the corporate income tax, for which it is open to inspection for the last five years, since the company has appealed against the self-assessments filed in 2016-2021.

The Group's directors and tax advisors consider that, in the event of a tax inspection, no significant tax contingencies would arise as a result of varying interpretations of the tax legislation applicable to the Group's transactions.

It should be noted the Law on the Income Tax allows the tax authorities to adjust the amounts corresponding to those items included in the taxable base in the tax periods being verified, even though they arose in transactions made in statute-barred tax periods.

Additionally, the said regulations establish that the tax authorities have the power to verify and investigate within a period of 10 years the unused/non-capitalized tax credits (tax loss carryforwards, deductions to avoid double taxation, deductions to encourage certain activities) at the moment the law comes into force.

The Group is not aware of any other risks, claims or litigation proceedings that at December 31, 2022 require additional provisions other than the ones detailed in Note 6 j).

Nota 7 d) Contingent assets

7 d) (i) Deferred tax assets

At 2022 year end unrecorded deferred tax assets related to unused tax loss carryforwards arisen in prior years amount to 56,830 thousand euros [see Note 6 o)].

7 d) (ii) Claim against a supplier

The Group lodged a claim against a supplier for their failure to comply with the supply agreement it had entered into wit. This claim may result in compensation in favor of the Group; however, it cannot be determined at year end whether the compensation will materialize or how much the compensation amount will be.

B 7. Obtaining of signatures for the Group's financial statements

The purpose of obtaining the signatures of the persons noted below is to evidence that the Board of Directors of Ercros, S.A., at its meeting held on February 17, 2023, approved the consolidated financial statements of the Ercros Group, which comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the explanatory notes thereto for the year ended December 31, 2021, which have been prepared in the Extensible Hypertext Markup Language (XHTML) format, and in the case of the main financial statements contained therein, marked up using eXtensible Business Reporting Language (XBRL), in accordance with the European single electronic format (ESEF) established in Directive 2004/109/EC and Delegated Regulation (EU) 2019/815.

The contents of the consolidated financial statements have been prepared in accordance with title VII of the Spanish Corporate Enterprises Act, title III of the Commercial Code and prevailing regulations.

In accordance with Article 8 b) of Royal Decree Law 1362/2007, the Company's board members, whose names appear in the titles before the signatures, state their responsibility in respect of the contents of the consolidated financial statements, in the sense that, to their knowledge, the consolidated financial statements prepared in conformity with applicable accounting principles give a true and fair view of the equity, financial position and results of Ercros, S.A. and subsidiaries.

All appointments of Board members are current at the date of this obtaining of signatures.

Barcelona, February 17, 2023

Antonio Zabalza Martí
Chairman and CEO

Carme Moragues Josa
Board member

Lourdes Vega Fernández
Board member

Laureano Roldán Aguilar
Board member

Eduardo Sánchez Morrondo
Board member

Joan Casas Galofré [1]
Board member

Daniel Ripley Soria
Secretary, non-board member

[1] The Director Joan Casas Galofré considers that the amount of tax credits related to unused tax loss carryforwards recorded is scarce and therefore inappropriate (pages 68 of the separate financial statements and 100 of the consolidated financial statements), as he considers that the uncertainty over the future, which is inherent to industrial activity, should not have paralizing effects on the management of or accounting for the Company's assets.
Despite his not agreeing with this situation, and after informing the shareholders by means of this note, the Director Joan Casas Galofré has approved and signed both the separate and consolidated financial statements.

C. MANAGEMENT REPORT OF THE ERCROS GROUP

This consolidated management report ('CMR') is published in compliance with articles 44 of the Code of Commerce and 253 of the Spanish Corporate Enterprises Act ('CEA').

The objectives of this management report are as follows: (i) provide a fair explanation of the Ercros Group and its business performance; (ii) disclose the Group's risks, uncertainties and opportunities; (iii) supplement the information contained in the financial statements; and (iv) present information that is relevant, understandable, verifiable, timely and useful for the shareholders.

Its content, in addition to complying with the provisions set forth in chapter III of said CEA and article 49 of the Code of Commerce, follows the guide for the preparation of the management report in listed companies written by the working group promoted by the Spanish National Securities Market Commission ('CNMV'). The Ercros Group has voluntarily adopted this guide, in the interest of the corporate governance good practices.

The CMR also includes the non-financial information statement as required by article 49 of the Code of Commerce and 262 of the CEA, modified in turn by Law 11/2018 of December 28. The non-financial information statement is presented in a separate document as allowed by the abovementioned regulations and will be submitted for approval by the shareholders in general meeting as a separate item in the agenda.

Likewise, in accordance with article 540 of the CEA, the Ercros Group presents the annual corporate governance report on a separate document –which forms part of this CMR, however.

C. Management Report of the Ercros Group

C 1. Group position
C 2. Business evolution and results
C 3. Liquidity and capital resources
C 4. Main risks and uncertainties
C 5. Subsequent events
C 6. Climate-related risks and opportunities
C 7. Foreseeable evolution
C 8. R&D&I activities
C 9. Acquisition and disposal of treasury shares
C 10. Other relevant information
C 11. Corporate Governance Report
C 12. Non-financial information statement
C 13. Obtaining of signatures for the Group’s management report

C 1. Group position

1.1. Organizational structure

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

a) General Meeting of Shareholders

On June 10, 2022 the Company held its general meeting of shareholders in person, for the first time after the pandemic, and also online.

At that meeting all proposed agreements submitted by the Board of Directors were approved. The agenda included, in addition to the mandatory or usual proposals –approval of the financial statements, management report and non-financial statement of the Company and its consolidated Group; re-election of the external auditor; advisory vote on the report on the remuneration of the directors and delegation to the CEO and the secretary for executing the agreements–, the following proposals:

- A payment of dividends amounting to 8,211 thousand euros, equal to 0.085 euros gross per share, which means a payout of 19.1% of the Company’s 2021 profit [see section 10.1 b) (ii) of the CMR and Note 3 d) (iv) of the consolidated financial statements].

- A capital decrease amounting to 1,311,614.40 euros, through the redemption of the 4,372 thousand treasury shares that the Company held, which represent 4.33% of share capital, and which were acquired in the framework of the sixth treasury share repurchase program, with an acquisition cost of 13,266 thousand euros, which accounts for a payout equal to 31% of the consolidated profit obtained in 2021 [see chapter 9 and section 10.2 a) to the CMR and Note 4 a) to the consolidated financial statements].

- The approval of the directors remuneration policy.

- The authorization for the Company to acquire treasury, pursuant to article 146 of Spanish Corporate Enterprises Act for a period of 5 years.

In attendance at the Meeting were 6,056 shareholders of 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.

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

b) The Board of Directors

The composition of Ercros's Board of Directors has not changed over 2022 and it consists of the following members:

- Chairman and executive director: Mr. Zabalza Martí.

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

- Board members classified as 'other external board members': Mr. Roldán Aguilar and Mr. Sánchez Morrondo.

- Proprietary director: Mr. Casas Galofré.

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

In 2022 the board has held eight sessions that were attended by all the directors. Six of these meetings were held by videoconference and two meetings were held onsite.

At the meeting held on December 16, 2022 the board of directors: (i) assessed the quality and efficiency of the functioning and composition of the board and committees, as well as the performance of the first executive of the Company and of every director, (ii) the presentation of the risk map of every business and the financial impacts derived from the climate-related risks and opportunities.

The remuneration earned by each member of the board of directors is detailed in Note 4 d) (iii) to the consolidated financial statements.

(i) Audit committee

The composition of the Audit Committee, which has not changed over 2022, is as follows:

- Chairwoman: Ms. Moragues Josa, independent director.

- Board members: Ms. Vega Fernández, independent director, and Mr. Roldán Aguilar, a director belonging to the 'other external directors' category.

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

In 2022 the audit committee held five meetings, all of them by videoconference, that were attended by all its members.

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

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

There have been no changes in the composition of the ARS and CSR committee in 2022, which is composed of:

- Chairwoman: Ms. Vega Fernández, independent director.

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

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

In 2022 the committee held two meetings, all of them by videoconference, that were attended by all its members.

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

(iii) Strategy and Investments Committee

On February 18, 2022 the board of directors resolved to replace Ms. Carme Moragues with Ms. Lourdes Vega as a member of the strategy and investments committee.

As a result, the composition of the strategy and investments committee is as follows:

- Chairman: Mr. Zabalza Martí, executive director.

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

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

During 2022 this committee held six meetings, all of them by videoconference, that were attended by all its members.

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

Board member	Position	Category	Committees	Last appointment
Antonio Zabalza Martí	Chairman and CEO	Executive	- Strategy and Investments	6/5/2020
Carme Moragues Josa	Coordinating director	Independent	- Audit - Appointments and Remuneration	6/11/2021
Lourdes Vega Fernández	Proxy coordinating director	Independent	- Audit - Appointments and Remuneration - Strategy and Investments	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	- Appointments and Remuneration	6/5/2020
Joan Casas Galofré	Board member	Proprietary	- Strategy and Investments	6/5/2020
Daniel Ripley Soria	Secretary, non-board member			

c) Executive Committee

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

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

d) Management Committee

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

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

The management committee has met 11 times in 2022.

1.2. Industrial structure

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

At December 31, 2022, the Group had 10 production centers, all of them located in Spain. In December the Group resolved to close down the production center in Flix, where dicalcium phosphate was produced, due to the impossibility of renewing the supply and toll-manufacturing agreements. The Group plans to support third-party industrial initiatives that may move to its land in Flix. To that end, it will carry out the appropriate dismantling tasks to make the land available for potential new industries.

Centers and products

Divisions	Centers	Main products	Main applications
Chlorine derivatives	Flix, Monzón, Tarragona, Sabiñánigo, Vila-seca I and Vila-seca II	Hydrochloric acid	Industry in general
		TCCA	Swimming-pool water
		Sodium chlorate	Paper pulp bleaching
		Sodium chlorite	Water treatment
		Chlorine	Derivatives manufacturing
		EDC	VCM manufacturing
		Sodium hypochlorite	Water treatment
		Caustic potash	Chemical industry
		PVC	Construction
		Caustic soda	Industry in general
		VCM	PVC manufacturing
Intermediate Chemicals	Almussafes, Cerdanyola and Tortosa	Glues and resins	Wood industry
		Formaldehyde	Derivatives manufacturing
		Sodium formate	Tanning industry
		Paraformaldehyde	Resins
		Pentaerythritol	Paints
		Dipentaerythritol	Paints
		Molding compound	Sanitary equipment and electrical material
Pharmaceuticals	Aranjuez	Fusidic acid	Skin infections
		Erythromycin	Antibiotics
		Fosfomycin	Antibiotics

1.3. Operation

a) Mission and principles

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

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

b) Corporate strategy

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

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

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

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

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

c) Diversification, Digitalization and Decarbonization 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 investments are being carried out on schedule.

As for the diversification objective, projects for increasing the manufacture 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 started to operate. The projects for expanding the sodium chlorite plant at the Sabiñánigo factory and for building a new extraction plant for the production of two new antibiotics (vancomycin and gentamycin) at the Aranjuez factory were completed in the fourth quarter of 2022. At the date of this note, 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) in the extraction plant of Aranjuez has already started.

As for the digitalization objective, in addition to already-completed projects (among others, update of production monitoring systems and business intelligence for the purchasing and logistics areas, tracking and monitoring of containers shipped by sea), work continues on projects for mobility and logistics, big data and IoT, infrastructure improvement, cybersecurity, optimization of work environment, and automation, sensorization and update of control systems in the production area.

As for the decarbonization objective, 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 machines); (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 to 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 in 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 in Vila-seca II.

d) Business model and challenges

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

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

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

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

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 highest added value such as sodium chlorite, and diversify its portfolio by incorporating new products.

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

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

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

The main challenges of this business are to increase in sales volumes in line with recent extensions in the production capacity of solid products, develop new resin ranges (ErcrosGreen+ and ErcrosTech), continue with the digitalization process of the entire value chain, keep committed to gradual process decarbonization, keep increasing the quality and level of product services and diversify the current portfolio.

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

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

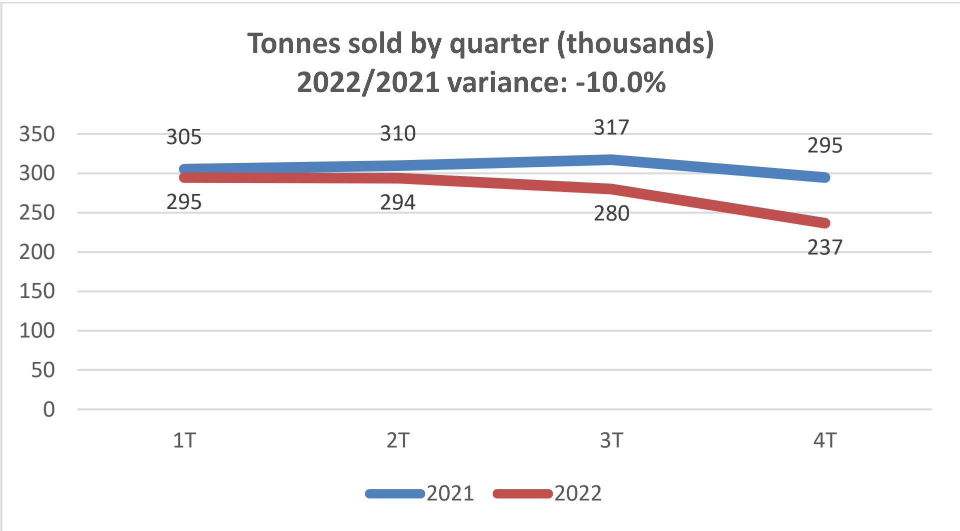
The key strengths of this business are its command of fermentation processes, capacity to obtain sterile injectable products, high degree of internationalization (it exports more than 90% of sales) and good position as a reliable quality supplier for the world's largest laboratories.

The main challenges of this business are to monetize the larger production capacity of sterile drugs, by incorporating new products and penetrating into new markets, optimize the fermentation capacity installed, by increasing the volume of sales of existing products and starting to produce new ones (the projects for building a new extraction plant for the production of two new antibiotics vancomycin and gentamycin included in 3D Plan is an example of the extension of the product portfolio), keep adapting to new customer and regulatory quality requirements, and beat off competition in emerging markets.

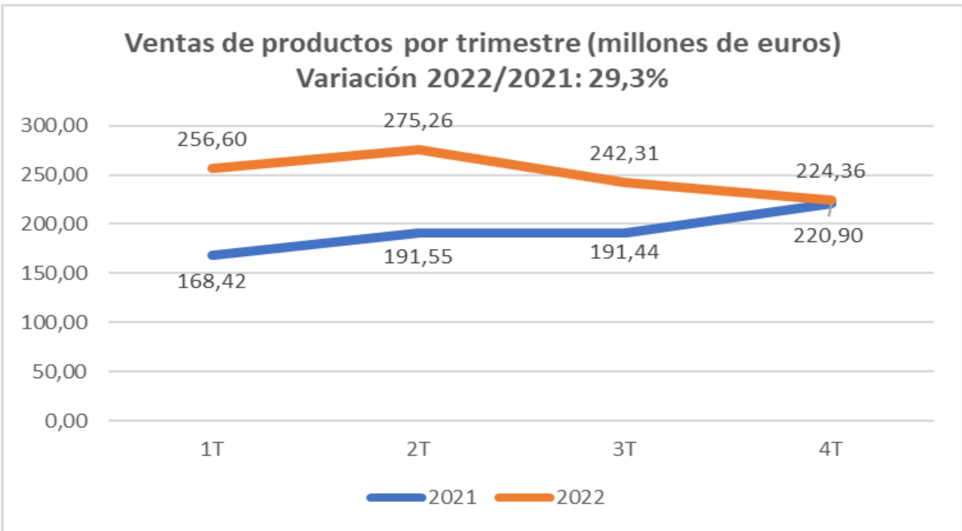
C 2. Business evolution and results

2.1 Analysis of the evolution of key indicators

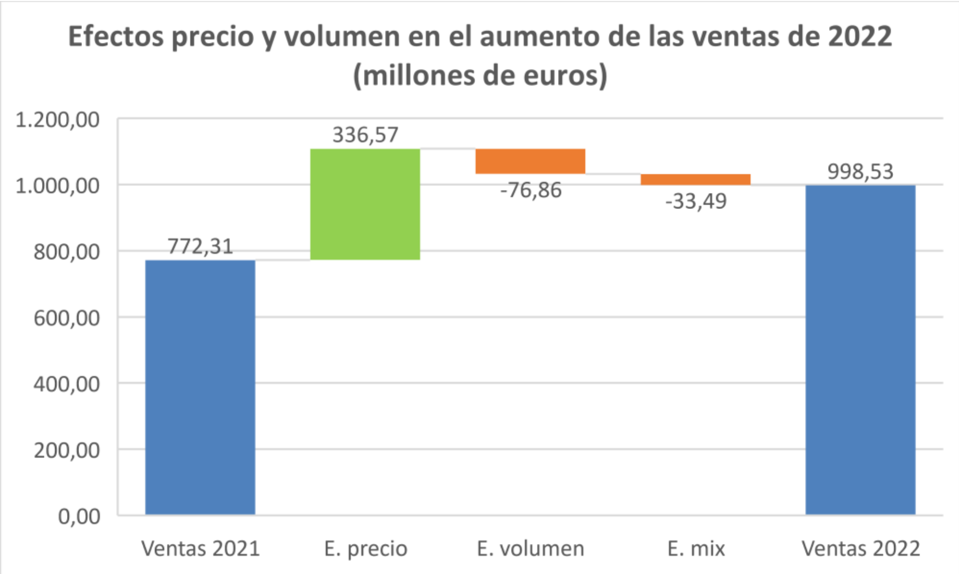
1. In 2022 Ercros sold 1,105 thousand tonnes of manufactured products compared to 1,227 thousand tonnes sold in 2021: a 10.0% drop. The volume in 2022 decreased slightly in the first half of the year (-4.4%) but strongly in the second half (-15.7%), when the effects of the big shock in supply caused by the rise in energy costs on capacity utilization became more obvious.



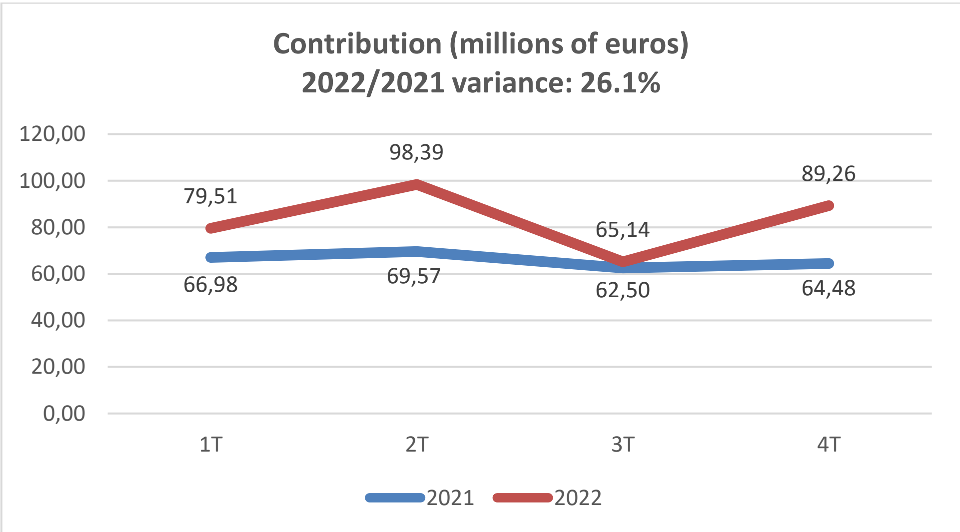
2. Total sales of products in 2022 amounted to 998.53 million euros compared to 772.31 million euros in 2021: 226.22 million euros more, that is, an increase of 29.3%. Sales in the first half of the year are 47.8% higher than in 2021, and 13.2% higher in the second half. As with tonnes sold, the second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



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

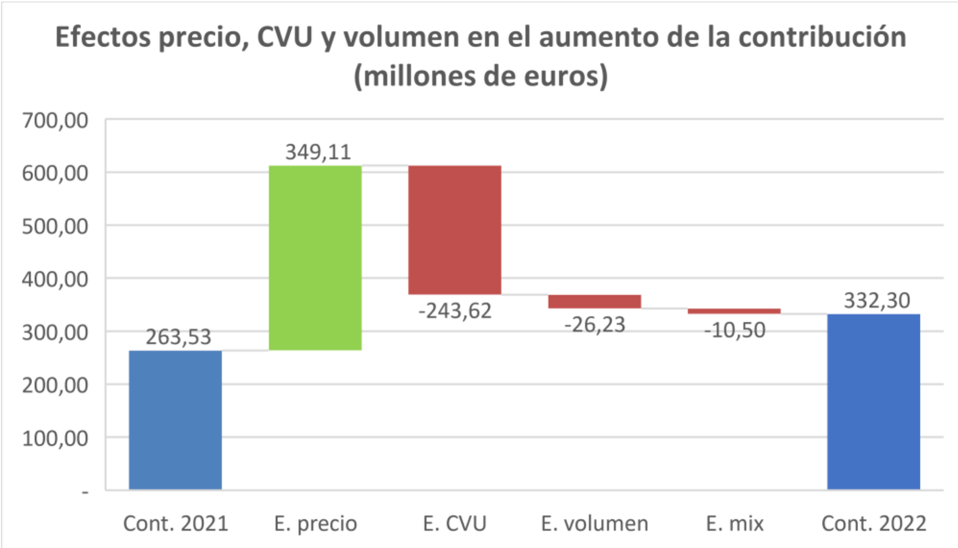


4. The contribution generated by the sales of products and the rendering of services amounted to 332.30 million euros in 2022 compared to 263.53 million euros in 2021; a 26.1% increase. Despite this good result in cumulative terms, the rise in variable costs, in particular energy costs, and the smaller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

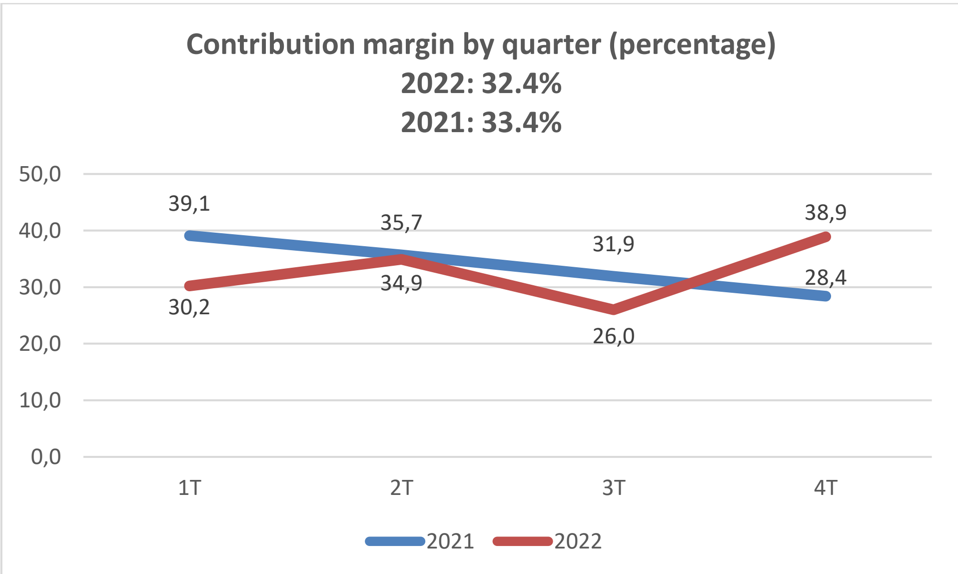


Contribution: (sales of products + rendering of services – supplies – utilities + change in inventory).

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

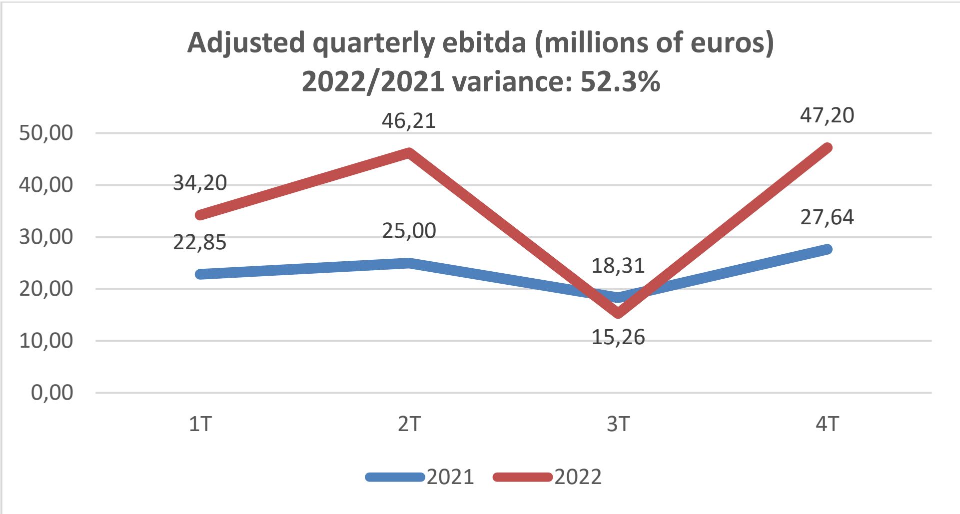


6. The contribution margin (contribution divided by the sum of sales of products plus rendering of services) decreased from 33.4% in 2021 to 32.4% in 2022: a -2.9% variation due to the fact that over 2022 the increase in the sum of sales and rendering of services (29.9%) was higher than the increase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



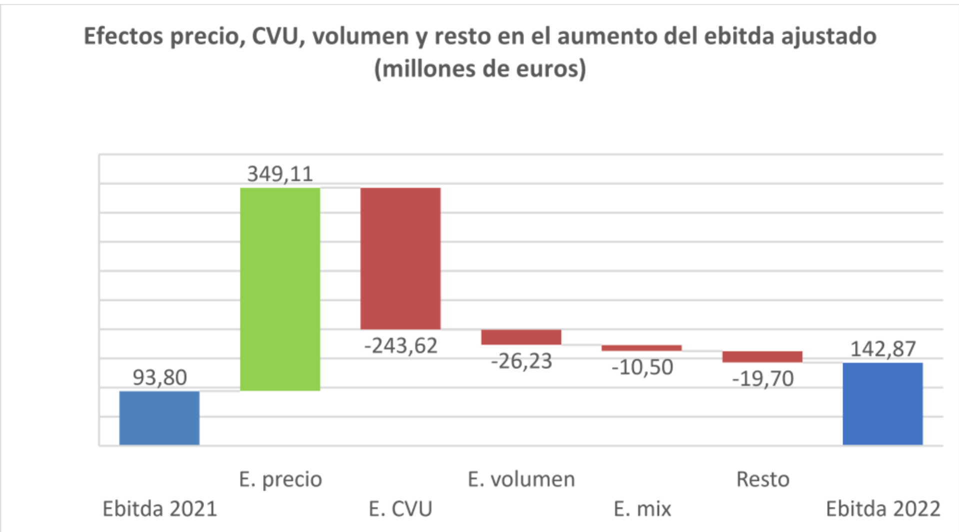
Contribution margin: contribution / (sales of products + rendering of services).

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 the fourth quarter compared to the third quarter is due to the sharp rise in the price of soda and significantly lower gas and electricity prices than in the prior quarter. Additionally, in December the Group recorded the compensation for indirect CO_2 (4.60 million), the reduction in electricity charges as the Group is recognized as an electro-intensive company (1.19 million), and the compensation for being a gas-intensive company (0.40 million).



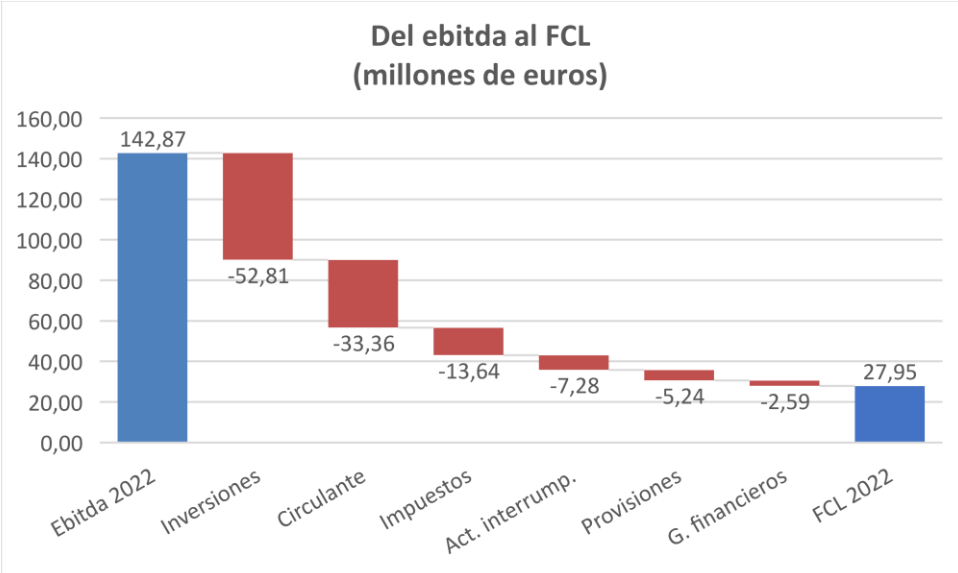
Adjusted ebitda: ebitda excluding non-recurring items. See table 'Reconciliation of ebitda' in Note 3 c) to the consolidated financial statements.

8. The increase in adjusted ebitda over 2022 is mainly due to the strong pull from the growth in contribution, which in the graph below is represented by the effect of prices, CVU, volume and mix, with a net contribution to ebitda of 68.76 million euros which far exceeds the detriment of 19.70 million euros caused by the increase in other income and in other operating expenses, including the rise in international freight charges (8.53 million) and fixed costs (3.92 million).

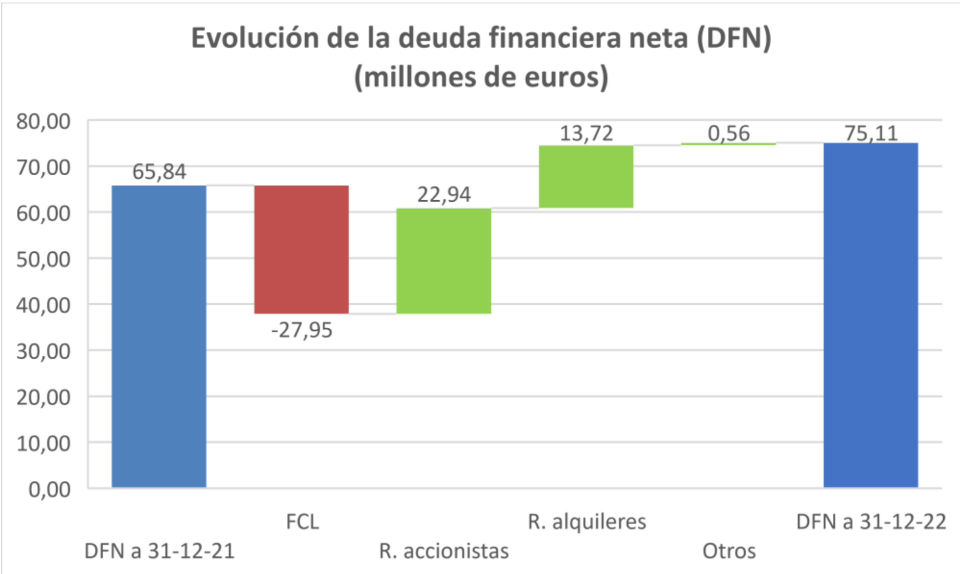


Other: change in rendering of services, other income, fixed and non-recurring costs.

9. Free cash flow (FCF) in 2022 amounted to 27.95 million euros, the result of subtracting from ebitda of 142.87 million euros, 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.



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 were the FCF generated in the period amounting to 27.95 million euros and the causes that led to an increase in debt were shareholder remuneration, amounting to 22.94 million, renewal of rentals, amounting to 13.72 million, and other minor factors for a net amount of 0.56 million. In total, Ercros increased its debt by 9.27 million euros. Consequently, its debt at December 31, 2022 amounts to 75.11 million euros.



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

2.2 Results

In addition to that stated in point 2.1 of this section, the following should be highlighted regarding the 2022 profit:

The 'Rendering of services' caption increased by 57.6% as a result of greater demand for these services from customers. 'Other income' increased by 22.0% mainly due to the rise in the 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 aggregate amount of 'Supplies' and 'Change in inventory of finished products and work in progress' increased by 24.7% due to the significant rise in the price of raw materials, especially in ethylene, EDC and methanol, and the purchase of third-party products for commercialization.

'Utilities' increased by 49.2% mainly due to the strong rise in the price of energy, especially electricity.

'Employee benefits expense' increased by 7.2% compared to 2021 due to 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 due to the increase in transportation expenses, mainly because of the higher price of international freight charges and, by symmetry with 'Other income', of CO_2 emission allowances, due to 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 provision charges made for the discontinuation of the dicalcium phosphate production activity in Flix to cover the costs for the agreed-upon dismissals and for the dismantling of the facilities closing down production. Provision charges have also been made for land remediation based on the latest information available on environmental remediation commitments and obligations.

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

Additionally, 'Finance profit/(loss)' increased by 66.3% due to the increase in the provision for impairment of accounts receivable compared to prior year's reduction, increase in finance costs due to the rise in interest rates and higher bank fees.

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

2.3 Other comprehensive income

The amount transferred to the income statement, net of tax, corresponding to the settlement of cash flow hedges in the purchase of electricity entered into for the year 2022, the changes in the value of the hedge during the year and the adjustment to the tax rate compared to the estimated tax rate at 2021 year end have been recorded in 'Other comprehensive income'.

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2.4 Income statement

Thousands of euros	**2022**	**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 inventory of finished goods and work in progress	5,990	22,160	-73.0
Expenses	**-937,024**	**-747,642**	**25.3**
Supplies	-470,572	-394,812	19.2
Decrease in inventory of finished goods and work in progress	-	-	-
Utilities	-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 income	-20,612	-6,955	x3,0*
Ebitda	**122,661**	**93,413**	**31.3**
Depreciation and amortization	-29,966	-28,130	6.5
Impairment of assets	-539	-3,450	-84.4
Ebit	**92,156**	**61,833**	**49.0**
Finance cost	-4,198	-2,525	66.3
Profit before tax	**87,958**	**59,308**	48.3
Income tax	-17,314	-9,897	74.9
Profit for the year from continuing operations	**70,644**	**49,411**	**43.0**
Net loss for the year from discontinued operations	-7,655	-6,114	25.2
Profit for the year	**62,989**	**43,297**	**45.5**

* Times in which the 2021 figure exceeds the 2020 figure (in absolute terms).

Reconciliation of adjusted ebitda

Thousands of euros	**2022**	**2021**	**%**
Ebitda	**122,661**	**93,413**	**31.3**

Non-recurring income items	-399	-6,569	-93.9
Non-recurring expense items	20,612	6,955	196.4
Adjusted ebitda	**142,874**	**93,799**	**52.3**

Other total comprehensive income

Thousands of euros	2022	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**

** Times in which the 2021 figure exceeds the 2020 figure (in absolute terms).*

2.5 Results by business

2022 has been marked by (i) the impact of the war in Ukraine and its effect on the European energy markets, and (ii) the removal of the covid-related restrictions.

As a result of these two effects, the third quarter of 2022 put an end to the recovery in the demand for durable consumer goods that had begun in the last quarter of 2020 and continued throughout 2021 and the first half of 2022. The decision by the central banks of the largest economies to raise interest rates to curb the surge in inflation, together 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 the third quarter of 2022), due to the war in Ukraine and the resulting reduction in Russian gas supply to Europe, and greater uncertainty about future supply alternatives that are sufficient 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 high volatile markets subject to growing competitiveness. In the fourth quarter of 2022, specifically, Ercros was able to take advantage of (i) the relaxation of energy costs (derived from the strong reduction in industrial gas consumption, a mild winter, higher production of renewable energy and improvement in LNG supply to Europe) and (ii) smaller supply from its European competitors to maximize its 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 shortage in supply in the European market in the fourth quarter.

All this, plus the government subsidies obtained to mitigate the high energy costs of electro- and gas-intensive companies, made the fourth quarter of 2022 to register the best quarterly ebitda in the year, even though sales volumes were lower than in prior months (15.5% reduction compared to the third quarter and 19.7% reduction compared to the fourth quarter of 2021), in line with the declining demand for chemical products seen as from the middle of 2022.

Throughout the year, the volumes sold by the **chlorine derivatives** division decreased by 7.9% compared to 2021 affecting almost all products, although to a different extent. Despite lower volumes, the sales of this division increased by 39.3% and ebitda grew by 103.8%, in a context marked by heightened tension in the markets (in the first quarter for most of the products of this division and in the fourth quarter 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 had responded very effectively to the increase in demand for durable consumer goods caused by the covid-19 pandemic and the then low interest rates. On the contrary, in 2022 it was affected by the lower demand for these goods due to the change in consumer habits mentioned above 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 costs of raw materials and, especially, energies (mainly Asia and North America). The consequence of all this (2022 vs 2021) was: (i) a 15.3% reduction in the volumes sold, even though turnover increased by 9.2% due to the rise in prices; and (ii) a drop in ebitda of 51.4%. The ebitda/sales ratio reached 5.7% compared to 12.8% in 2021.

In the case of the **pharmaceuticals** division, sales volume increased by 13.1%, continuing the recovery started by this division in the second half of 2021. This recovery was accompanied by a rise in selling prices, giving rise to a 28% increase in turnover. However, strict regulated pricing policies in many countries, which prevent from passing on all rises in energy and raw material costs, reduced by 1.2 million euros the increase in ebitda. The ebitda/sales ratio reached 5.0% compared to 4.1% in 2021, still very far from the usual margin of this division, which is expected to be recovered in coming quarters as raw material prices decreases and regulated pricing policies for pharmaceutical products in European countries become more flexible.

In the third quarter of 2022 Ercros started to sell three new products that increased this division's portfolio: erythromycin dehydrate, micronized fatomidine and sterile fosfomycin with citrus. In the fourth quarter commercial channel were opened in new markets. Additionally, as already mentioned in previous notes, it is expected that required approval for the manufacture and marketing of other new products of this division will be obtained: vancomycin, gentamycin and sterile fusidic acid, among others.

Results by division

Thousands of euros	Chlorine derivatives divisions			Intermediate chemicals division			Pharmaceuticals division		
	2022	2021	Variation %	2022	2021	Variation %	2022	2021	Variation %
Income	**716,478**	**531,301**	**34.85%**	**277,910**	**251,198**	**10.63%**	**65,315**	**51,987**	**25.64%**
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%	0	0	
Other income	17,045	14,712	15.9%	10,949	8,245	32.8%	400	324	23.5%
Change in inventory of finished goods		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%**
Supplies	-273,309	-230,479	18.6%	-169,935	-144,358	17.7%	-27,328	-19,975	36.8%
Change in inventory of finished goods	-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 operating expenses	-46,413	-37,961	22.3%	-19,614	-17,652	11.1%	-10,278	-10,387	-1.0%
Ordinary ebitda[1]	**124,816**	**61,250**	**103.78%**	**14,819**	**30,485**	**-51.39%**	**3,239**	**2,064**	**56.93%**
Depreciation and amortization	-19,414	-17,926	8.3%	-6,563	-6,595	-0.5%	-3,989	-3,609	10.5%
Operating profit	**105,402**	**43,324**	**143.29%**	**8,256**	**23,890**	**-65.44%**	**-750**	**-1,545**	**-51.46%**
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 assets	26,095	17,997	45.0%	4,361	3,369	29.4%	16,834	12,170	38.3%

1. The calculation of ordinary ebitda is detailed in Note 3 c) to the consolidated financial statements.

2.6 Geographical markets

As in the prior year, in 2022 domestic market performed better than foreign market.

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

63.7% of the chlorine derivatives division’s turnover was recorded in Spain. In this business, sales to the Spanish market increased by 39.9% and exports by 38.4%.

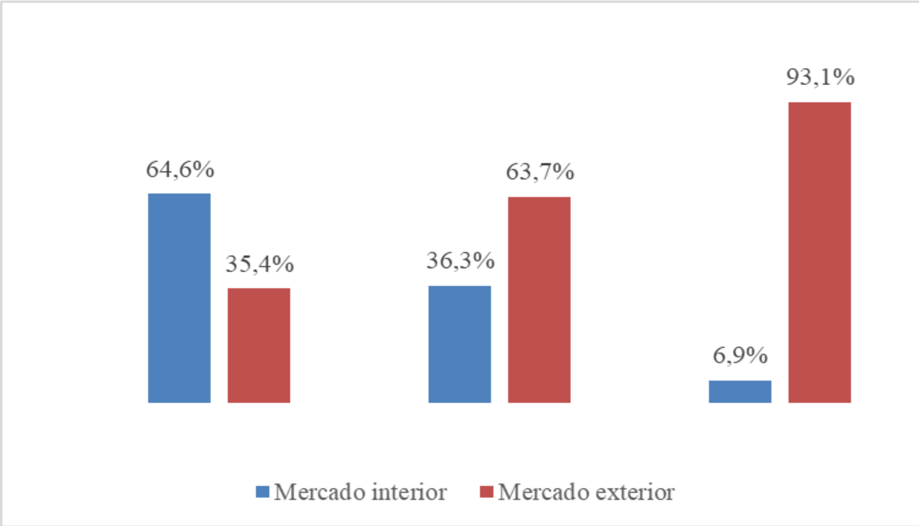
In the intermediate chemicals division turnover has increased by 9.2%. This rise in turnover comes mostly from the domestic market (21.7% increase) and to a lesser extent, from the foreign market (3.2%). This business exports 63.7% of its turnover.

The pharmaceuticals division carries out 93.1% of its sales outside of Spain, increasing by 28% in 2022 in comparison with the prior year. Sales in our country have grown by 64.2% and by 26% in the foreign market.

The European Union (‘EU’) is the main destination of the Company’s exports and accounts for 27.7% of sales. Turnover in this area increased by 29.1% in comparison with 2021. Sales to OECD countries increased significantly by 22.8% and account for 10.9% of total sales. The rest of the world area, 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 and Portugal, together with the US, Germany and Turkey, are the main destinations of the Company’s exports.

Business markets
(% over total sales of each business in 2022)



2.7 Exchange rate

The only assets and liabilities exposed to foreign currency risk are those arisen as a result of ordinary purchases and sales. No other assets in the Group's balance sheet are exposed to foreign currency risk [see Note 3 b) (ii) to the accompanying consolidated financial statements].

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

In 2022, the US dollar appreciated against the euro and at year end it stood at 1.07 US dollars per euro. This appreciation has 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 has been estimated. This potential US dollar depreciation will have a negative impact for 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 purchases of some raw materials that are acquired in US dollars.

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

The purchases in US dollars increased from 66,138 thousand in 2022 to 65,231 thousand in 2022. Even though the volume of purchases in tonnes has decreased, in 2022 the purchase price of raw materials has 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).

2.8 Financial, operating and stock market indicators

Indicators[1]	2022	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 (euros/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 (euros/share)	3.24	2.97
Capital value (thousands of euros)	312,981	299,885
EPS (euros)[2]	0.640	0.429
CFS (euros)	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: (Revenue – supplies) ÷ 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.
× = multiplied.
÷ = divided.

C3. Liquidity and capital resources

3.1. Economic analysis of the balance sheet

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

Equity increased by 29.10 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 paid 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 due to the free cash flows generated for an amount of 27.95 million euros and, with opposite effect, shareholder remuneration, amounting to -22.94 million euros, 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	12/31/22	12/31/21	Change (%)
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 have been recognized as a decrease in the financial debt (in 2022: 2,034 thousand euros, and in 2021: 2,588 thousand euros).

Breakdown of net financial debt

Thousands of euros	12/31/22	12/31/21	Change	%
Loans	85,007	65,250	-1,221	30.3
Finance lease payables	12,324	6,226	-2,919	97.9
Working capital financing	38,096	48,526	-7,268	-21.5
Gross financial debt	**135,427**	**120,002**	**-11,408**	**12.9**
Cash	-58,283	-51,573	-11,642	13.0
Deposits	-2,034	-2,588	4,059	-21.4
Net financial debt	**75,110**	**65,841**	**-18,991**	**14.1**

3.2. Liquidity

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

It should be noted that the significant increase in the resources generated by the Group's businesses during 2022 and 2021 has provided it with the necessary liquidity to meet its obligations in a timely manner (payment on investments) and to reduce the net financial debt. For 2023 it is expected that the net financial debt will increase due to a weaker economic environment, although up to levels acceptable by the company that do not compromise its financial position given the high 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 the risk that some of these covenants cannot occasionally be met. Historically, in all cases in which a covenant has not been met, the company has obtained the corresponding waiver from financial institutions. Consequently, it is expected that a waiver will be obtained in the event that a covenant is not met in the future.

In 2022 the company has obtained a waiver in connection with the maximum volume of investments, which was authorized up to 50 million euros, a higher amount 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 credit 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 at maturity.

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

Additionally, on December 23, 2021 the Ercros Group signed an agreement with the European Investment Bank (‘EIB’) to finance with 40 million euros Ercros’s investments in research, development and innovation (R&D&I), digitalization, decarbonization and modernization of its main facilities within the 3D Strategic Plan that Ercros has launched for the period 2021-2025. In 2022 the Group has drawn down 20 million euros from this financing facility and another 20 million in January 2023.

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

a) Major financing sources

In 2022 the Group has used the following financing sources:

(i) External [see Note 6 d) (ii) to the consolidated financial statements]

- The factoring facility in euros, which allows the Group to finance working capital up to a limit of 102,000 thousand euros. At December 31, 2022, the drawndown balance of this facility amounts 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 December 31, 2022 20,000 thousand euros have been drawn down (30,000 thousand euros in the prior year).

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

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

- The ICO credit facilities, which at December 31, 2022 had a balance of 4,985 thousand euros (5,940 thousand euros in the prior year).

- Several loans from public entities such as the Ministry of Industry, Tourism and Commerce, CDTI and other financial institutions for an overall amount of 12,888 thousand euros. During 2022 bank guarantees amounting to 2,493 thousand euros have been released that had been deposited as collateral of loans granted by the Ministry.

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

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

(ii) Internal [see table in the consolidated cash flow statement in chapter B5 to the consolidated financial statements]

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

- At December 31, 2022 the Group had 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) [see Note 6 d) (v) to the consolidated financial statements].

- During 2022 the amount received in relation to the refund of income tax settlement for the years 2020 and 2021 totaled 4,339 thousand euros. Additionally, due to the increase in profit before tax, during 2021 the income tax payment on account has 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) amounting to 8,460 thousand euros (10,654 thousand euros in 2021) should be highlighted.

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

b) Government grants and subsidies

In 2022 Ercros has 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
IDAE1	Improvement in equipment technology and chlorine-potash production process	Sabiñánigo	530
AGR	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.

Additionally, the Group has been granted aid by IDAE and ICAEN, for an amount of 5,710 thousand euros, which are pending receipt while the investments that have generated them are justified and reviewed [see Note 6 l) to the consolidated financial statements].

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

- The Ministry of Industry, Trade and Tourism granted the Group free allocation of emission allowances for an amount equal to 16,833 thousand euros (10,443 thousand euros in 2021) [see Notes 5 c) and 6 l) to the consolidated financial statements].

- The State Foundation for Training in Employment ('Fundae') reimbursed a portion of the training expenses incurred, 202 thousand euros, which is deducted from the contributions to the Social Security paid by the Group (185 thousand euros in 2021).

-

c) Limitations on the distribution of dividends

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

- Profit for the year exceeds 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 [see section 10.1].

In 2022 earnings per share amounted to 0.640 euros per share. Consequently, the dividend policy requirements have been met.

d) Level of indebtedness

As indicated in section 3.1 above, the NFD has increased by 9,269 thousand euros. At December 31, 2021, the NFD amounts to 75,110 thousand euros in comparison with 65,841 thousand euros at 2020 year end [see Note 3 c) to the consolidated financial statements].

The composition and maturities of the Group's financial debt and the liquidity risk management are explained in Notes 3 b) (iii) and 6 d) (ii) to the consolidated financial statements.

e) Supplier payment period and customer collection period

The average payment period to suppliers at 2022 year end was 48.78 days (55.62 days at 2021 year end), which means a reduction of 6.84 days between both years, in line with recent years' trend.

At December 31, 2022, the payments that exceeded 60 days accounted for 32.47% of all payments made (40.27% in 2021). The Group forecasts that it will continue reducing the percentage of payments exceeding 60 days [Note 6 n) (i) to the consolidated financial statements].

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

3.3. Capital resources

See Note 3 c) to the consolidated financial statements.

a) Firm commitments to obtain capital resources

There are no firm commitments to obtain new capital resources.

b) Investment commitments or obligations

The meeting of the board of directors held on January 22, 2021 approved a new investment plan called 3D Plan, which is described in Note 4 c) to the consolidated financial statements.

3.4. Contractual or out-of-balance obligations

The Group has not assumed any contractual or out-of-balance obligations that require significant financial resources other than those described in Note 7 of the consolidated financial statements.

C 4. Main risks and uncertainties

4.1. Identification of risks

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

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

On October 31, 2019 the board of directors approved, following a favorable report by the audit committee, the criminal risk prevention handbook and the criminal compliance policy. Additionally, the Group has (i) a Code of Ethics; (ii) an ethical channel procedure; (iii) an anti-corruption and crime prevention policy; a tax policy; a policy on zero tolerance with market manipulation and a personal data protection policy; and (iv) a conflict of interest procedure.

Between November 21 and December 7, 2022, the Compliance Committee has performed an internal audit prior to the certification audit of UNE 19601:2017 standard by Aenor to verify the appropriateness of the criminal compliance management system implemented by the Ercros Group in accordance with the requirements established by the said standard. In February 2013 Aenor will start the audit and it is expected that the certification will be obtained during the first half of 2023.

The Group tries to minimize the tax risks it is exposed to as a result of its activity and avoid aggressive interpretations of applicable tax regulations. To that end, the Group is assisted by qualified external advisors in the preparation of tax information and before making any decisions it analyzes the tax impacts that its actions may have.

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

Name of body	Description of duties
Board of Directors	It establishes and supervises risk control systems in general
Audit committee	It is responsible for internal control and risk management systems.
Appointments, remuneration, sustainability and corporate social responsibility committee	It oversees compliance with the Company's environmental, social and corporate governance (ESG) policies and rules, as well as internal codes of conduct.
Strategy and Investments Committee	It advises the board on the analysis and monitoring of the Group's strategic and investment policy.
Internal audit department	It supervises the operation of internal control systems
Compliance committee	It supervises the prevention of criminal risks
Executive Committee	It supervises operational management and risks in general. Authorizes investments, annual contracting of corporate services exceeding 250,000 euros; customer risk exceeding 5 million euros and other aspects such as communication, relationships with stock exchanges, etc.
Management Committee	It supervises operational management and risks in general
Business committees	They supervise the management and operational risks of their corresponding areas
Risk and collection Committee	It is responsible for controlling trade receivables risk
IFRS Committee[1]	It is responsible for the correct application of IAS[2] and IFRS[3] in the preparation of financial information and control of tax risks.
ICFR Committee[4]	It is responsible for the operation of ICFR.
Systems Committee	It manages cybersecurity risk
CSG[5]	It supervises non-financial risks
CESR[6]	It supervises reputational risks

1. International Financial Reporting Standards by its acronym in English.

2. International Accounting Standards.

3. International Financial Reporting Standards.

4. Internal Control over Financial Reporting.

5. Committee for Sustainable Growth.

6. Committee for Ethics and Social Responsibility.

4.2. Main risks for the Group

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

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

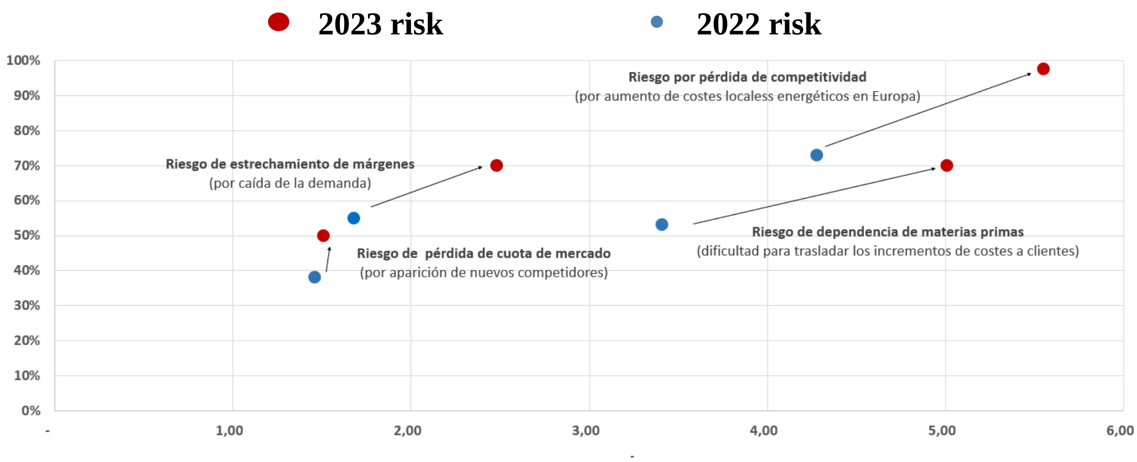
Relevant risks are those which may compromise the goals of the Group's business strategy, maintenance of financial flexibility and solvency.

On December 16, 2022 the managing directors presented to the board of directors the risk maps for the different businesses and an aggregate risk map for the Group identifying the most relevant risks for 2023 based on the probability of occurrence (on a scale of 0% to 100%) and the impact that their materialization would entail for the Group (on a scale of 0 to 6). Based on the said risk maps, the Group has implemented controls to mitigate the risks detected.

The graph below shows the most relevant risks to the Group for 2023 based on the probability of occurrence and impact, and their evolution in comparison with 2022 according to the risk map prepared:

Probability of occurrence

\+



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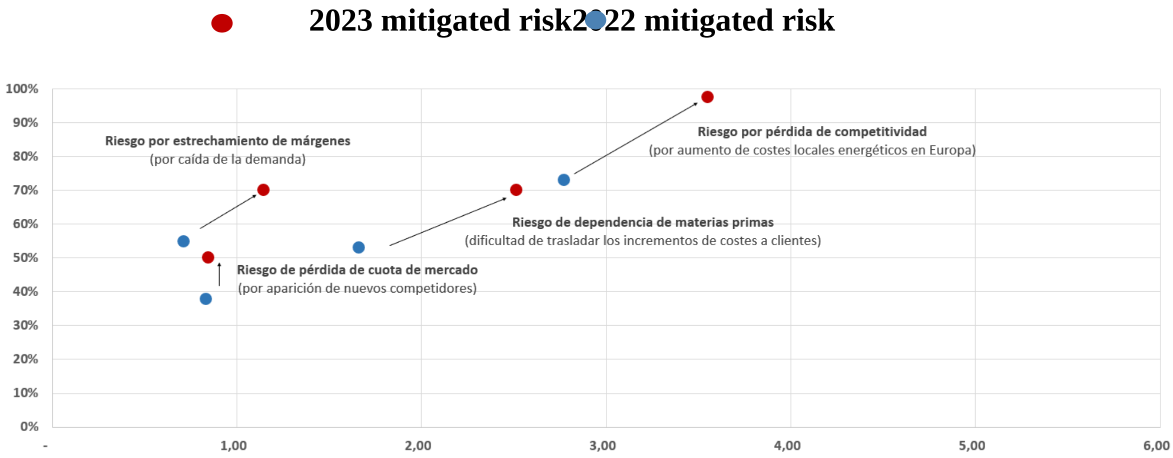
+Impact

The graph below shows the same most relevant risks expected for 2023 after applying mitigating measures:



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

Additionally, on December 16 2022 the managing directors also presented to the board of directors the map of financial impacts derived from climate-related risks and opportunities. These maps identify: (i) the probability of occurrence of these risks and opportunities (on a scale of 0% to 100%); the time horizon of their materialization (short term: 0-3 years, medium term: 3-10 years, or long term (more than 10 years); and (iii) the range of financial impact identified that their materialization would entail for the Group: low (less than 6 million), moderate (6-15 million), high (15-30 million) and serious (more than 30 million). Based on the said risk maps, the Group has implemented several measures and controls to mitigate the risks detected and the financial impact thereof.

In connection with the 2022 financial statements, the work plan of the external auditor, Ernst & Young, has focused on analyzing the following significant matters: (i) net sales and accounts receivable; (ii) provisions for environmental remediation, contingencies and litigation proceedings; (iii) tax credits and future tax recoverability; (iv) measurement of investment property and fixed assets; (v) tax inspections and special taxes; and (vi) review of electricity and gas supply agreements signed during 2022. No issue has been detected that may affect their opinion on the financial statements.

Section E.3 of the corporate governance report, which is a part of this CMR, provides a thorough description of the main risks that the Group is exposed to.

4.3. Risks materialized during the year

Risk presented in the year	Causes	Functioning of the control systems
Risk from loss of competitiveness	Loss of competitiveness due to the increase in local energy costs (in Europe).	Signing of utility hedge contracts. Inclusion of price revision clauses in contracts with customers that take into account variations in energy costs.
Risk from dependence on raw materials	Rise in raw material prices and difficulty in passing on these increases to the selling prices of finished products.	The Group signs supply agreements with several suppliers to ensure volumes and competitive prices of raw materials and also negotiates with its customers product sale contracts referenced to the prices of the most significant raw materials.
Risk of tighter margins	Drop in demand.	Search for new markets and customers. Greater customer loyalty through improved services, multi-year contracts and sale of products adapted to specific requirements. Improved competitiveness due to decrease in costs.
	Increase in costs associated with the transition to low-emission technologies	Investments in more efficient technologies.
	Rise in raw material costs.	Passing on to customers the rise in raw material costs.
Risk of losing market share	Emergence of new competitors and greater capacity by current competitors.	Improved competitiveness through investments in update of facilities, operating improvements and development of specialties. Increase in market share through search for new markets and customers and better price or service to current customers.

Climate change risk	Rise in average temperature and extreme climate events. Natural disasters caused by floods, snowfalls and frost affecting Ercros facilities.	Investments to adapt facilities and minimize the consumption of resources; request to the authorities for improvements in external infrastructures (drainage network, access to main roads, etc.); implementation of emergency procedures and action plans to respond to adverse climate events and corresponding training for employees.

C 5. Subsequent events

See Note 4 f) to the consolidated financial statements.

C 6. Climate-related risks and opportunities

In accordance with the recommendations by the Task Force on Climate related Financial Disclosure (TCFD), for the first time on December 16, 2022 the Group prepared and presented to the board of directors the financial impact maps derived from climate-related risks and opportunities in order to assess the financial consequences of climate change.

The analysis methodology has been carried out in accordance with the following criteria:

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

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

c) Range financial impact:
- Low < 6 million euros
- Moderate ≥ 6 < 15 million euros
- High ≥ 15 < 30 million euros
- Serious ≥ 30 million euros

d) Area of impact of the financial strategy:
- Operating expenditure (OPEX)
- Capital expenditure (CAPEX)
- Assets and liabilities
- Capital and financing

The baseline climate scenario considered is a trend in greenhouse gas emissions that is aligned with the Paris Agreement goal for 2015 in order to keep global warming below 2ºC compared to pre-industrial levels and pursue efforts to limit it to 1.5ºC by the end of the century.

The Group's Sustainable Development Management has coordinated the analysis of climate-related risks and opportunities. No risk has been identified that may cause the company's assets to be impaired or generate new liabilities that entail the need to record new provisions.

As a result of the analysis, no risk with a serious or high impact has been identified.

One risk with a moderate impact has been determined within the technological transition risks category and two with low impact in the physical risks category, which are detailed below:

Climate risks	Related financial impact	Probability	Time horizon	Impact on financial strategy
Technological transition risk				
Costs associated with the transition to low-emission technologies	New investments in more efficient assets	Probable	Short term	CAPEX
Chronic physical risks				
Environmental risk of changes in rainfall and extreme variability of climate patters	Lack of water supply, rise in operating costs in auxiliary services and loss of production	Probable	Short term	OPEX
Rise in average temperature	Higher investments to increase cooling capacity and heat recovery	Probable	Short term	CAPEX

Using the same methodology, five opportunities with a low impact have been identified, which are detailed below:

Climate opportunity	Related financial impact	Probability	Time horizon	Impact on financial strategy
Related to resource efficiency and cost saving				
Reduce water use and consumption	Lower operating costs	Probable	Short term	OPEX
From the adoption of low-emission energy sources				
Use of political support incentives	Lower exposure to rises in fossil fuel costs	Certain	Short term	OPEX
Use of new technologies	Lower operating costs and GHG emissions Lower exposure to changes in CO_2 price	Probable	Short term	OPEX
Use of low-emission energy sources	Reduction in operating costs	Probable	Short term	OPEX
Change towards the generation of decentralized sustainable energy	Greater available financing, improved reputation, higher revenues	Possible	Short term	OPEX
Related to the creation of climate resilience throughout the production chain				
Participation in renewable energy programs and adoption of energy efficiency measures	Greater company resilience, greater market valuation	Probable	Short term	OPEX
Related to the development of new products and services				
Development of new products through R&D&I	Competitive improvement, adaptation to customer demands and higher revenues	Possible	Short term	OPEX

C 7. Outlook

Specialized publications agree that, in general terms, the chemical industry's performance will be poorer in the first half of 2023 than in the first half of 2022. This situation would gradually improve over the second half of 2023.

2023 has started with almost the same risks identified in 2022. The cost of energy, raw materials and transport will continue to be high as long as the war in Ukraine drags on. The reduction in the chemical industry's activity in 2022 should gradually go back to normal during 2023. This increase in supply will be associated with a general drop in selling prices which will affect margins, unless raw material and energy prices moderate.

A new competitiveness risk has arisen in 2023 as a result of the announcement of industry relief plans in countries such as the United States (Inflation Reduction Act -IRA- investing $369,000 million) and Germany (€200 million relief plan to aid consumers and businesses). If these relief plans are not counteracted with similar relief measures in other EU countries, they may lose significant competitiveness.

For the chemical industry in general, and for energy-intensive consumers in particular, the outcome of the planned reform in the EU wholesale electricity market and Spanish regulatory developments of the relief plans to aid gas-intensive consumers.

Thus, we anticipate that the chemical industry's performance in the first half of 2023 will be poorer than in the first half of 2022. Relative improvement is expected in the second half of 2023. It is still too soon to give more accurate forecasts.

C 8. R&D&I activities

8.1. R&D&I activities

The Group has four R&D&I centers in Aranjuez, Monzón, Sabiñánigo and Tortosa that provide service to the Pharmaceuticals, Chlorine Derivatives and Intermediate Chemicals divisions, and cooperate with several universities and technological centers. In 2022 innovation costs and investments incurred amounted to 6,658 thousand euros (6,637 thousand euros in 2021).

Ercros has 5 patents on both products and manufacturing processes.

The Group's research and development activities in 2022 have mainly focused on six projects. Five of them have been carried out in cooperation with the Center for the Development of Industrial Technology ('CDTI'): (i) development of sustainable solutions in the production of biopolymers; (ii) development and scaling of a bioprocess for the production of biopolymers; (iii) research into eco-sustainable alternatives to the use of intentionally added microplastics in detergents and cosmetics; (iv) development of PVC profiles including thermal insulation manufactured with recycled materials; and (v) new technology related to evaporation phase in the antibiotic extraction plant. The six project is a public-private collaboration venture with the Spanish Agency for the development of biobased and biodegradable antifouling paint for marine applications.

8.2. Development of products

Below are described the most relevant projects in 2022 regarding the development of new products and the expansion of applications and features of already existing products.

a) In the chlorine derivatives division

- Improvement in own formulations of TCCA tablets and development of specific formulations for customers.

- Anode activation specifically developed for unloading oxygen, applicable to customer electrolytic processes.

- Formulation of PVC compounds suitable for 3D printing for both rigid and flexible applications.

- Expansion of the range of PVC compounds for manufacturing rigid parts through injection and rotational molding.

- The development of PVC compounds that incorporate post-consumer recycled content.

- New customized levels of ErcrosBio product range to meet the requirements of our customers.

b) In the Intermediate Chemicals Division

- New types of resin in the ErcrosGreen+ and Ercros Tech families to extend their field of application to sectors with higher added value.

- New qualities of molding compound with extra fluid properties specifically designed for the health equipment sector.

- Research into molding compound formulations for the laser marking of finished parts.

- Study for the manufacture of more sustainable molding compound that leaves a smaller carbon footprint.

c) In the pharmaceuticals division:

- Development in laboratory of processes for new antibiotic active ingredients by fermentation and for other already existing products.

- Change in the production processes of pharmaceutical products to offer particle sizes that meet each customer's specific needs.

- Development of processes to extend the catalog of sterile pharmaceutical products.

- Research into synthesis of new antibiotic salts.

8.3. Process improvement

These are the most relevant measures taken to improve processes:

- Development of a procedure for eliminating silicon and aluminum in brine in chlorine-alkali plants.

- Trial in pilot electrolyzer of anodes and cathodes from several origins and, specifically, of internally developed anode activations.

- Modifications to the brine treatment process and to the chlorine production process to use salt with different purity levels.

- Optimization of the working conditions of the soda concentration plant in Vila-seca, increasing its capacity.

- Optimization of the cracker operation conditions at the VCM plant through the analysis and purification of fed chlorine.

- Decrease in the production costs for the PVC polymerization process by simplifying suspension agents and changing auxiliary products.

- Set-up of the thermal oxidation plant for the treatment of gas effluents in the VCM and PVC plants.

- Viability study for replacing the direct chlorination unit in the VCM plant with a new more energy-efficient technology unit. This project is included in the company’s 3D Plan decarbonization projects.

- The new improvements in the process for obtaining polyols will increase energy efficiency and reduce CO_2 emissions, which are decarbonization goals set in the 3D Plan.

- The increase in the production capacity of molding compound, as well as the increase in the levels of quality, included in the diversification projects of the 3D Plan.

- Several activities aimed at improving the management of production processes in Ercros factories, as part of the digital transformation of the 3D Plan.

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

8.4. In the field of research

In 2022 the Group has developed several research lines in cooperation with several reference research centers, including:

- Collaboration programs with the Center for the Development of Industrial Technology (‘CDTI’) for the development of sustainable solutions in the manufacture of biopolymers and PVC profiles with insulating recycled materials; development of a new technology related to the evaporation phase in the antibiotic extraction plant; and development and scaling of a bioprocess for the production of biopolymers.

- Public-private collaboration venture with the Spanish Agency for the development of biobased and biodegradable antifouling paint for marine applications.

- Agreement with Polymat (Technological Center of the Basque Country University) for the characterization and development of biopolymers.

- Agreement with the Technological Center of Catalonia (‘Eurecat’) and Universitat Rovira i Virgili for a development and characterization project for new types of resin, related to the new ErcrosTech resin range, as well as the search for eco-sustainable alternatives in packaging of detergents and cosmetics.

- Agreement with Instituto Químico de Sarriá (‘IQS’) for doing several research studies on the development of industrial processes for active pharmaceutical ingredients.

- Agreement with Leitat for the preparation of compounds for the production of insulating foam manufactured with post-consumer recycled PVC.

- Agreement with the Technological Center AINIA for applying powder spray-drying techniques.

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

- Cooperation in the PhD dissertation ‘Desarrollo de nuevos materiales bioplásticos con efecto barrera’ by José Ignacio Valero, a chemical engineer who works at the Ercros Group’s R&D department. The dissertation is the result of the cooperation agreement signed between the Group and UPC within Generalitat de Catalunya's industrial PhD plan.

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

- Agreement with Consejo superior de investigaciones científicas (‘CSIC’) for the development of strains for the production of biopolymers.

- Agreement with CENER, Centro Nacional de Energías Renovables for the development and scaling of bioprocesses for the production of biopolymers.

Cooperation with the board of trustees of the Foundation for the development of new hydrogen technologies of Aragon.

- Agreement with the Center for the Design and Optimization of Processes and Materials (DIOPMA) of Universidad de Barcelona, for studying photo-oxidative degradation of the several levels of the ErcrosBio product range.

- Agreement with Technip Energies Iberia for studying the viability of the production of sulfur and chlorine derivatives.

C 9. Acquisition and disposal of treasury shares

See Note 3 d) and Note 4 b) to the consolidated financial statements.

C 10. Other relevant information

10.1. Shareholder remuneration

a) Shareholder remuneration policy

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

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

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

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

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

In 2022 these conditions were met since profit for the year amounts to 64,967 thousand euros; the solvency ratio was 0.53 (0.70 in 2021) and the leverage ratio was 0.21 (0.20 in 2021) [see section 10.2 c) below].

Ercros's dividend policy is defined within the shareholder remuneration policy. There are no restrictions on the payment of dividends other than meeting the aforementioned conditions [see Note 3 d) (i) to the consolidated financial statements].

b) Paid and proposed shareholder remuneration in 2022

See Note 3 d) to the consolidated financial statements.

10.2. Stock market information

a) Share capital

See Note 4 a) and Note 6 i) (i) to the consolidated financial statements.

On July 11, 2022 the Barcelona Mercantile Registry filed a capital decrease in Ercros amounting to 1,311,614.40 euros, corresponding to the nominal amount of the 4,372 thousand treasury shares that the Company had purchased between March 1, 2021 and April 26, 2022 for redeeming them within the framework of the shareholder remuneration policy. The redemption of these shares reduced the number of shares by 4.33% and meant a payout of 13,266 thousand euros for the Company.

After this transaction and until the moment this CMR was approved –February 17, 2023 –, Ercros's share capital amounts to 28,980 thousand euros and is represented by 96,599 thousand ordinary shares with a nominal value of 0.30 euros each.

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

	Share capital (euros)	**Number of shares**
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) Share evolution

Ercros share re-valued by 9% in 2022 (38% in 2021). This is a significant increase if compared with the drop seen between 2021 and 2022 in the main stock indices –Ibex-35 (-6%), Madrid Stock Exchange index ('IGBM') (-*5%), and Basic Industrial Materials and Construction Index ('ICNS') (-11%).

Thus, Ercros closed 2022 with a market capitalization of 312,981 thousand euros (299,885 thousand euros in 2021). At December 31, Ercros share's quoted price was 3.24 euros (2021: 2.97 euros).

Ercros share reached the highest quoted price on June 28: 3.91 euros. The average quoted price was 3.21 euros (2021: 3.14 euros).

The overall volume of traded cash amounted to 144,495 thousand euros (187,837 thousand euros in 2021) since the number of traded shares amounted to 44,958 thousand (59,866 thousand in 2021).

The day on which the highest number of securities was traded was March 7, 2022: 750 thousand. The daily average purchase for the year was 174,935 securities.

Main share-related parameters

	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 (euros)	**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 (euros):					
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 (euros):					
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.

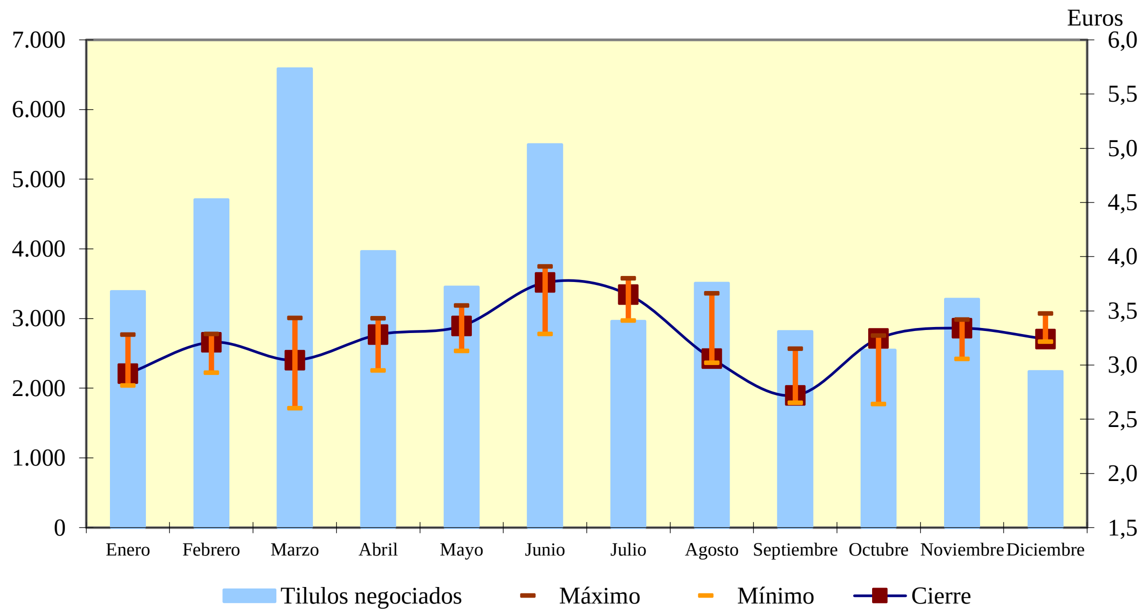
3. Yearly average 2019= 106,149,488 shares.

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

Indicators[1]	**2022**	**2021**
Stock market		
Quoted market value (euros/share)	3.24	2.97
Capital value (thousands of euros)	312,981	299,885
EPS (euros)[2]	0,640	0.429
CFS (euros)	0.91	0.60
PER	4.97	6.93
P/BV	0.87	0.90

Evolution of share and traded volume

Thousands of shares 2022

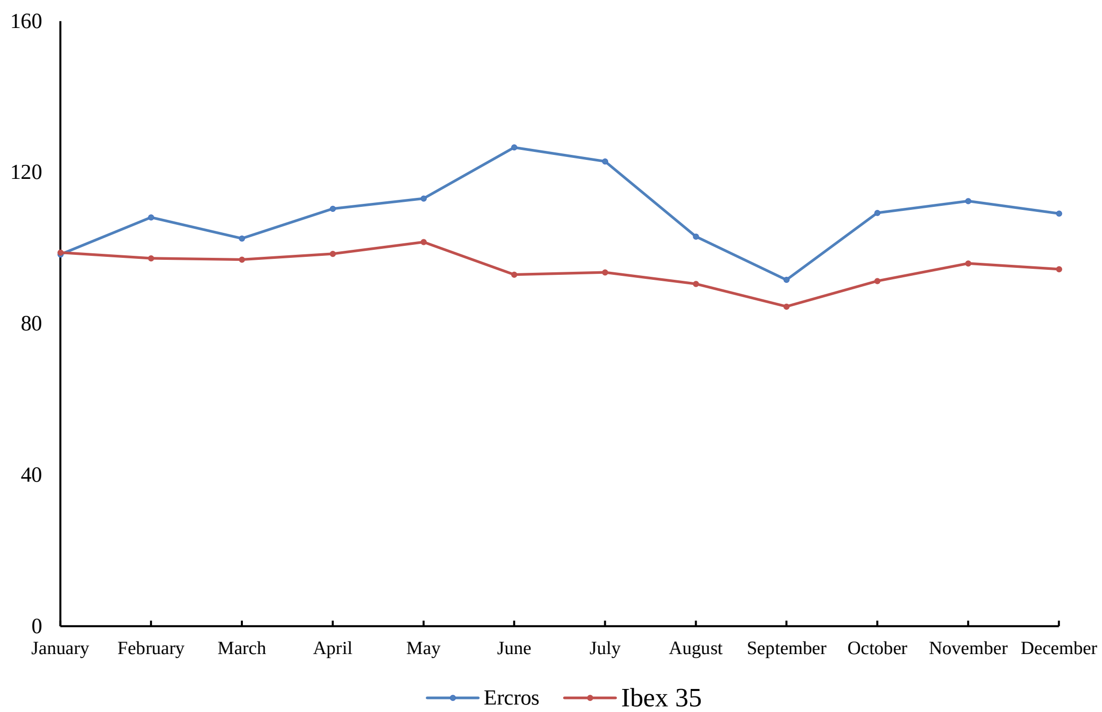


Source: Infobolsa.

Comparison between Ercros and Ibex 35

2022

Base 100= 12/31/21



Source: Infobolsa.

c) Key stock market ratios

Between 2021 and 2022 CFA –calculated as the operating cash flow divided by the number of shares– has increased from 0.70 to 0.90. CFA is a ratio that allows the Group to measure the generated cash flow corresponding to each share.

The evolution of the result has had a direct impact on the improvement in EPS, which has increased from 0.429 euros/share in 2021 to 0.640 euros/share in 2022. This ratio is the profit/(loss) for the year divided by the weighted average price of outstanding shares and is used to measure earnings per share.

In 2022 PER –calculated by the number of times that market capitalization is included in profit/(loss) for the year– has increased from 6.93 times in 2021 to 4.97 times in 2022.

In the reference period P/BV -market capitalization divided by total equity and relates the Company share's value in the stock exchange to its underlying net carrying amount- decreased from 0.90 in 2021 to 0.87 in 2022 [see section 2.2 of the CMR].

d) Significant shareholders

As a result of the capital decrease carried out by the company on July 11, 2022, on July 21, 2022 the shareholder Joan Casas Galofré informed the Spanish National Securities Market Commission - Comisión Nacional del Mercado de Valores (CNMV) that his direct ownership interest in the company had increased up to 5.69%, and on July 24, 2022 the shareholder Montserrat García Pruns informed the CNMV that her direct ownership interest in the company had increased up to 3.42%.

On July 26, 2022 the shareholder Dimensional Fund Advisors LP notified an increase in its ownership interest up to 5.23%.

The shareholder Víctor Manuel Rodríguez Martín has kept the number of shares he held, even though his interest in share capital has increased by 5.23% as a result of the said reduction.

According to the shareholder communications to the CNMV, at December 31, 2022 the shareholders that hold significant ownership interest own directly or indirectly 18,905 thousand shares in Ercros's share capital, which accounts for 19.57% therein, according to the following detail [see Note 4 d) (vi) to the consolidated financial statements].

e) Credit rating

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

10.3. Significant events in the current year

a) Purchase of treasury shares

See chapter 8 and section 10.1 b) above of this CMR and Notes 3 d) (v) and 4 b) to the consolidated financial statements.

b) Dividends paid

See section 10.1 b) above of this CMR and Note 3 d) (iii) and (iv) to the consolidated financial statements.

c) Ordinary shareholders' meeting

See section 1.1 a).

C 11. Corporate Governance Report

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

It is prepared in accordance with article 540 of the Spanish Corporate Enterprises Act and the model established in Circular 3/2021 of September 28 issued by the Spanish National Securities Market Commission amending Circular 5/2013 of June 12.

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

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

C 12. Non-financial statement

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

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

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

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

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

C 13. Obtaining of signatures for the Group's management report

The purpose of obtaining the signatures of the persons noted below is to evidence that the Board of Directors of Ercros, S.A., at its meeting held on February 17, 2023, approved the content of the consolidated management report of the Ercros Group for the year ended December 31, 2022, which has been prepared in the Extensible Hypertext Markup Language (XHTML) format, and in the case of the main financial statements contained therein, marked up using eXtensible Business Reporting Language (XBRL), in accordance with the European single electronic format (ESEF) established in Directive 2004/109/EC and Delegated Regulation (EU) 2019/815.

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This management report accompanies the consolidated financial statements of the Ercros Group for the year ended December 31, 2021 and its contents have been prepared in accordance with article 262 of the Corporate Enterprises Act and article 49 of the Commerce Code, and the model established in the guide to the preparation of the management report of listed companies prepared by a group of experts at the Spanish National Securities Market Commission's request.

The Company's board members, whose names appear in the titles before the signatures, state that this management report provides a true and fair analysis of the evolution of corporate results, the position of the issuer and the companies included in the consolidation perimeter taken as a whole, and the description of the main risks and uncertainties with which they will have to deal.

All appointments of Board members are current at the date of this obtaining of signatures.

Barcelona, February 17, 2023

Antonio Zabalza Martí
Chairman and CEO

Carme Moragues Josa
Board member

Lourdes Vega Fernández
Board member

Laureano Roldán Aguilar
Board member

Eduardo Sánchez Morrondo
Board member

Joan Casas Galofré[1]
Board member

Daniel Ripley Soria
Secretary, non-board member

[1] The Director Joan Casas Galofré considers that the amount of tax credits related to unused tax loss carryforwards recorded is scarce and therefore inappropriate (pages 68 of the separate financial statements and 100 of the consolidated financial statements), as he considers that the uncertainty over the future, which is inherent to industrial activity, should not have paralizing effects on the management of or accounting for the Company's assets.
Despite his not agreeing with this situation, and after informing the shareholders by means of this note, the Director Joan Casas Galofré has approved and signed both the separate and consolidated financial statements.