Ercros

ANNUAL REPORT

2023

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Audit report, consolidated annual accounts and management report for the year ended 31 December 2023.

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

Ercros

Contents

The audit report of the financial statements is available on the Ercros website: https://www.ercros.es/en/shareholders-and-investors/financial-information/annual-reports

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

1 / Letter from the Chairman

Ladies and Gentlemen shareholders:

Globally, the weakness in chemicals demand that started in mid-2022 has continued through 2023 with highly volatile and fiercely competitive markets. The dramatic increase in energy and raw material costs caused by the war in Ukraine in 2022 continues to distort the functioning of the chemical sector of European economies, despite its moderation in 2023.

In the case of Ercros, this situation has translated into lower sales volumes and prices, which have not been able to be offset by relatively lower energy and raw material prices compared to the highs of 2022. Sales of finished products amounted to 707.2 million euros compared to the 998.5 million reached in 2022: a decrease of 291.3 million euros, equivalent to a fall of 29%.

On the expenditure side, supplies, at 348.3 million euros, decreased by 26%, due to lower raw material prices, which, although significant, was less than in the previous year the drop in sales (29%). Energy costs, on the other hand, fell by 40% compared to 2022, mainly due to lower electricity costs, while transport costs decreased by 17% due to the fall in the cost of electricity the reduction in freight rates and lower volumes transported.

Staff costs increased by 2.3% compared to 2022 due to: the wage increase set in the collective agreement of 2%; the improvements to the collective agreement agreed in June 2022 for the period 2021-2023; and the increase in social security contributions.

In this context, the efforts of Ercros' businesses have continued to focus on adapting the pace of production to demand, while at the same time defending margins as far as possible in a situation of highly volatile and fiercely competitive markets.

The profit for the year is due, in a very significant part, to the effect of the Constitutional Court ruling on Royal Decree Law 3/2016, which adds 26.1 million euros to the initial result of 1.5 million euros.

In addition to its commitment to its shareholders, Ercros is firmly committed to ESG factors (environmental, social and governance). This commitment has been reflected in the excellent ratings obtained in various international ratings and questionnaires. In particular, we revalidated the Platinum seal, the highest grade, in the EcoVadis rating; we obtained a B rating in the Carbon Disclosure Project ("CDP") questionnaire, which evaluates the transparency and the performance of organisations in climate change in and 80 points out of a possible 100 in the rating promoted by the Spanish Institute of Financial Analysts ("IEAF").

Similarly, in 2023 the Ercros Group certified compliance with its Good Corporate Governance Index with the highest rating, G++.

The 3D Plan contains 20 projects which, over the period 2021-2029, will represent a cumulative investment of 92 million euros and an additional cumulative ebitda of 194 million euros. The Plan's investments are proceeding according to schedule.

In the diversification dimension, during 2021 and 2022, the projects to expand the manufacturing capacity of polyols at the Tortosa plant; moulding compounds at the Cerdanyola plant; and fosfomycin trometamol at the Aranjuez plant came into operation; as well as the project to produce sterile micronised fusidic acid, also in Aranjuez. In 2023, the projects to expand the sodium chlorite plant and the TCCA plant at the Sabiñánigo factory came into operation; and work was carried out on the industrial scale-up of the fermentation and extraction processes for two new antibiotics (gentamycin and vancomycin) at the Aranjuez extraction plant, which was built in 2022.

As regards the digitalisation dimension, the Business Intelligence projects for the purchasing, logistics, production and maintenance areas, tracking and monitoring of containers shipped by road, among others, have been completed as well as mobility solutions in an industrial environment (work permits and readings and meters). Big Data and IoT, mobility and logistics, and infrastructure improvement projects, cybersecurity, optimisation of the working environment and automation continue to progress, as well as sensorisation and updating of control systems in the production area.

In the decarbonisation dimension, projects have been completed for: (i) improving energy efficiency in Tortosa and optimisation of energy consumption in Cerdanyola; (ii) replacement of luminaires with LEDs in the the intermediate chemicals division factories and in the Tarragona industrial complex; (iii) optimisation of consumption of chemical products and raw materials in Aranjuez; and (iv) improvement in the use of hydrogen in Sabiñánigo, Vila-seca I and Vila-seca II. In 2024, the following projects are expected to come into operation of (i) salt recrystallisation in Sabiñánigo; (ii) recycling of moulding compounds in Cerdanyola; and (iii) construction of a photovoltaic park in Flix. The projects for energy recovery, electrification and steam production using biomass at the Tarragona industrial complex have also made progress.

For the chemical sector, the general consensus of specialised publications delays the start of the recovery in demand, initially forecast for the first quarter of 2024, until the second half of 2024. In this environment of high uncertainty, weak demand and strong competition, the company's margins and volumes will continue to be negatively impacted in the first half of 2024 to recover, gradually throughout the rest of the year. We will have to wait until later in the year to be able to give more precise forecasts.

In any case, Ercros maintains a solid financial position, with 149 million euro of liquidity; it will continue to implement the 3D Plan in order to advance in the digitalisation and decarbonisation of its processes and operations; it will maintain its presence in the markets in which it operates; and it will take advantage of opportunities to defend its margins.

Antonio Zabalza Martí
Chairman and CEO of Ercros

Barcelona, 19 February 2024

2 / Group position

2.1. Organisational structure

The governing bodies of the company Ercros, S.A. ("the Company" or "Ercros") are the general meeting of shareholders and the board of directors, including the audit committee, the appointments, remuneration, sustainability and corporate social responsibility committee and the strategy and and investments committee. The operational management bodies are the executive committee and the steering committee.

a) The general meeting of shareholders

On 16 June 2023, the Company held its ordinary general meeting of shareholders in mixed form: in person and online.

At this meeting, all proposed resolutions submitted by the board of directors were approved. In addition to the mandatory or customary proposals, the agenda also included —approval of the annual accounts, directors' report and the statement of non-financial information of the Company and its consolidated Group; re-election of the external auditor; consultative vote on the report on directors' remuneration and delegation to the managing director and the secretary for the execution of the resolutions— the following proposals:

- The proposed payment of a dividend of 13,715 thousand euros, equivalent to 0.15 euros gross per share, representing a payout of 21.1% of the Company's profit in 2022 [see section 11.1 b) (i) of this report].

- A capital decrease amounting to 1,548,897.00, through the cancellation of 5,162,990 treasury shares held by the Company, representing 5.34% of the share capital, which were acquired under the seventh treasury share repurchase programme, at an acquisition cost of 18,770 thousand euros, representing a payment equivalent to 28.9% of the share capital of the consolidated profit obtained in 2022.

The meeting was attended by 5,435 shareholders owning 72,300 thousand shares, representing 74.845% of the subscribed voting capital, of which 17.586% was present and 57.259% was represented.

Ercros paid a gross premium of EUR 0.005 gross/share to the shareholders attending this meeting.

b) The board of directors

The composition of the Ercros board of directors has not changed during 2023 and its configuration is as follows:

- Chairman and executive director: Mr. Zabalza Martí.

- Independent directors: Mrs. Moragues Josa (coordinator) and Mrs. Vega Fernández (deputy coordinator).

- Directors classified as "other external directors": Messrs Roldán Aguilar and Sánchez Morrondo.

- Proprietary director: Mr. Casas Galofré.

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

In 2023, the board held nine meetings attended by all directors. Seven of the meetings were held by videoconference and two in person.

At the meeting held on 15 December 2023, the board of directors presented the risk maps for each of the businesses and the financial impacts arising from risks and opportunities associated with climate change. At this meeting, the board decided, given the breadth of the issues raised, to postpone the annual assessment of the quality and efficiency of the functioning and composition of the board and committees, as well as the performance of the chief executive. of the Company and of each director, in accordance with the provisions of article 529 nonies of the Spanish Companies Act ("LSC"), to the board meeting of 23 February 2024 to discuss these aspects in detail.

(i) Audit committee

The composition of the audit committee, which has remained unchanged throughout 2023, is as follows:

- Chair: Mrs. Moragues Josa, independent director.

- Members: Mrs. Vega Fernández, independent director; and Mr. Roldán Aguilar, director classified as "other external directors".

Mr. Ripley Soria, secretary of the board of directors of Ercros, acts as secretary of this committee.

In 2023, the audit committee held seven meetings attended by all its members. Six of the meetings were held by videoconference and one in person.

Reporting to the audit committee are the internal audit service, which is headed by Mr. Álvarez García, and the compliance committee, which is composed of Mr. Álvarez García and Ms. Loste Madoz, head of the legal department.

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

In 2023, there were no changes to the composition of the ARS&CSRC, which consists of:

- Chair: Mrs. Vega Fernández, independent director.
- Members: Mrs. Moragues Josa, independent director, and Mr. Sánchez Morrondo, director classified as "other external directors".

Mr. Ripley Soria, secretary of the board of directors of Ercros, acts as secretary of this committee.

In 2023, the committee held four meetings attended by all its members. Three of the meetings were held by videoconference and one in person.

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

(iii) Strategy and investment committee

In 2023 there has been no change in the composition of the strategy and investment committee, which is composed of:

- Chairman: Mr. Zabalza Martí, executive director.
- Members: Mrs. Vega Fernández, independent director, and Mr. Casas Galofré, proprietary director.

Mr. Ripley Soria, secretary of the board of directors of Ercros, also acts as secretary of this committee.

During 2023, this committee held seven meetings attended by all its members and held by videoconference.

c) Executive committee

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

It is made up of the executive director, the chief business officer and the chief financial officer, who meet at least once a week.

Composition of the board of directors at 12/31/23

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

d) Management committee

The management committee is responsible for the monthly monitoring of the Group's operational management.

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

The management committee met 11 times in 2023.

2.2. Industrial structure

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

At 31 December 2023, the Group had nine production centres, all of them located in Spain. In December, the Group agreed to close the Flix production centre, which was intended to be used as a production centre for to the production of dicalcium phosphate in view of the impossibility of renewing supply and machining contracts. The Group plans to support industrial initiatives by third parties, which could be set up on the Flix site, for which it will undertake the appropriate dismantling to make the land available for potential new industries.

Centres, products, and applications

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

2.3. Operation

a) Mission and principles

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

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

b) Corporate strategy

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

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

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

c) Diversification, Digitalisation and Decarbonisation Plan: 3D Plan

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

In the diversification dimension, during 2021 and 2022, the projects for the expansion of the capacity of manufacture of polyols at the Tortosa plant; of moulding compounds at the Cerdanyola plant; and of fosfomycin trometamol at the Aranjuez factory; as well as the sterile micronised fusidic acid production project in Aranjuez. In 2023, the expansion projects for the sodium chlorite plant and the TCCA plant at the Sabiñánigo factory have come into operation; and work has been carried out to industrial scale up the fermentation and extraction processes of two new antibiotics (gentamycin and vancomycin) in the Aranjuez extraction plant, built in 2022.

Regarding the digitalisation dimension, Business Intelligence projects for the purchasing, logistics, production, and maintenance areas, as well as tracking and monitoring of containers shipped by sea and shipments, have been completed. Mobility solutions in the industrial environment (work permits and meter readings) have also been implemented. Progress continues to be made on Big Data and IoT projects, mobility and logistics, infrastructure improvement, cybersecurity, optimisation of the work environment and automation, as well as sensorisation and updating of control systems in the production area.

On the topic of decarbonisation, the following projects have been completed: (i) energy efficiency improvement in Tortosa and optimisation of energy consumption in Cerdanyola; (ii) replacement of lighting with LEDs in the factories of the intermediate chemicals division and the Tarragona industrial complex; (iii) optimisation of consumption of chemical products and raw materials in Aranjuez; and (iv) improvement in the use of hydrogen in Sabiñánigo, Vila-seca I and Vila-seca II. In 2024, is planned the commissioning of the (i) salt recrystallization projects in Sabiñánigo ; (ii) recycling of molding compounds in Cerdanyola; and (iii) construction of a photovoltaic park in Flix. Likewise, energy recovery, electrification and steam production projects through biomass in the Tarragona industrial complex have advanced.

d) Business model and challenges

Chlorine is the common link in the chlorine derivatives division. Chlorine and caustic soda are produced simultaneously in the same production process from sodium chloride dissolved in water (brine) and electricity, in a proportion of 1 tonne of chlorine to 1,12 tonne of caustic soda. This is known as the electrolytic unit ("ECU").

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

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

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

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

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

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

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

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

The main challenges for this business are: to increase sales volumes in line with the recent capacity expansions of solid products; to develop the new resin ranges (ErcrosGreen+ and ErcrosTech); to continue with the process of digitalisation of the entire value chain; to mantain the commitment to gradual process of decarbonisation; to continue increasing the quality and standard of service of the products and to diversify the current portfolio.

The pharmaceuticals division focuses on the production of pharmaceutical raw materials and API (Active Pharmaceutical Ingredient) for generic and branded medicines, mainly in the antibiotic family. The division also specialises in the production of active ingredients and intermediates for third parties, tailor-made for customers.

The main strengths of this business are its mastery of fermentation processes, its capacity to obtain sterile products for injectable use, its high degree of internationalisation (it exports more than 90% of sales) and its good positioning as a reliable and quality supplier to the world's leading laboratories.

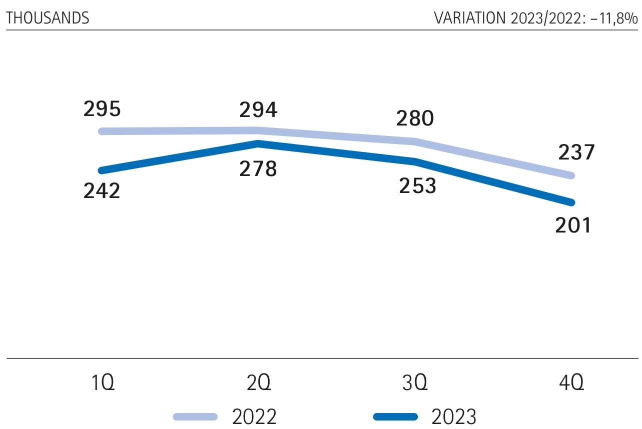
The main challenges of this business are: to make the increased capacity for the manufacture of sterile medicines profitable, with the incorporation of new products and the opening of new markets; to optimise the installed fermentation capacity, increasing the sales volume of existing products and starting the manufacture of some new ones (the project of construction of a new extraction plant for the manufacture of the antibiotics vancomycin and gentamycin, envisaged in the 3D Plan, is an example of this broadening of the product portfolio); continuous adaptation to the new requirements of quality of customers and regulators and face competition from emerging markets.

3 / Business evolution and results

3.1. Analysis of the evolution of the main indicators

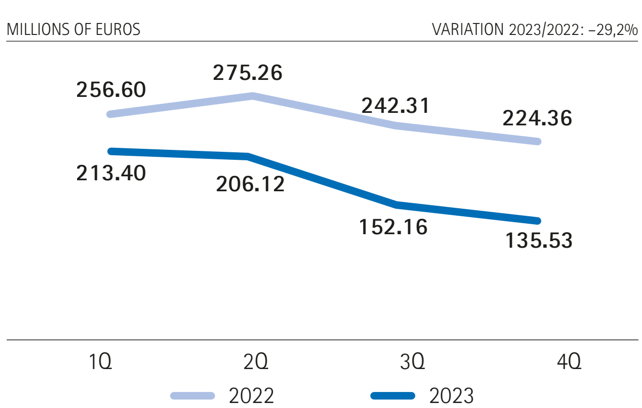
1. The 2023 data confirm the downward adjustment in the volume of products sold that had already been observed since mid-2022. In 2023, Ercros sold 974,000 tonnes of products compared to 1,105,000 tonnes in 2022: a fall of 11.8%.

Tonnes sold per quarter



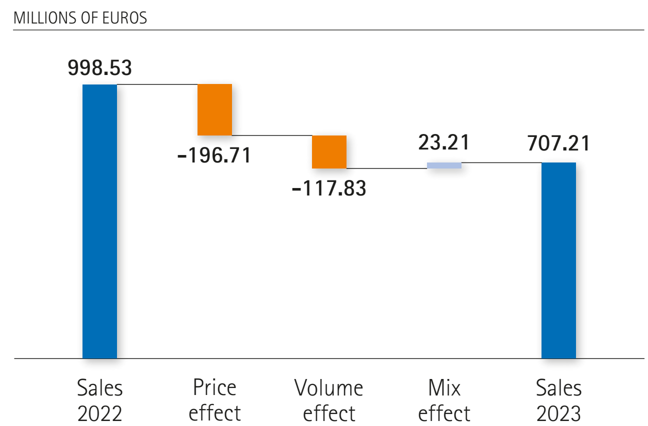
2. The amount of product sales amounted to 707.21 million euros, in 2023 compared to 998.53 million in 2022: a decrease of 291.32 million euros, equivalent to a fall of 29.2%. On a percentage basis, the amount of sales falls more than the volume sold, which anticipates a significant negative price effect.

Product sales per quarter



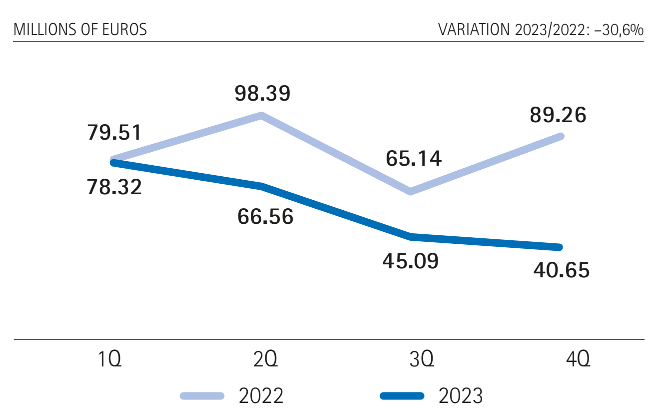
3. Indeed, of the 291.32 million euro decrease in sales, the fall in the average price per tonne sold accounts for 196.71 million euro (67.5%) and the lower volume of tonnes sold accounts for 117.83 million euro (40.4%). The weakness in demand observed in 2023 has reduced sales revenues through both lower average product prices and volume sold.

Price and volume effects on sales reduction



4. The contribution generated by product sales and service provision amounted to 230.62 million euros in 2023, compared to 332.30 million in 2022; a decrease of 101.68 million euros, equivalent to -30.6%. This reduction occurs because the negative effect of the fall in sales (and service provision) outweighs the positive effect of the fall in variable costs.

Contribution [1]

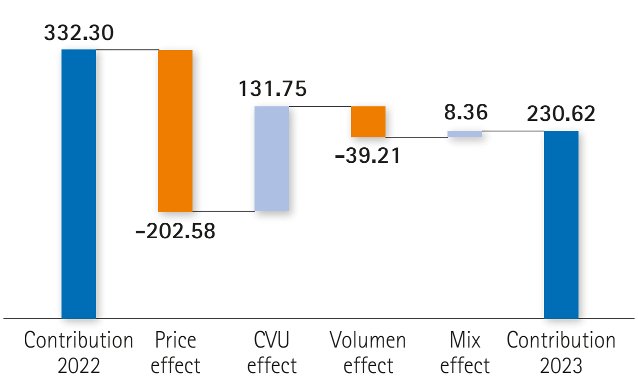


[1] Contribution: (sales of products + provision of services – procurement – supplies + change in stocks).

5. As far as the contribution is concerned, the net price and cost effect can best be identified by contrasting the effect of the average price of products sold with the unit variable cost ("UVC") incurred in the production of these products. In 2023, the negative price effect of -202.58 million exceeded, in absolute terms, the positive UVC effect of 131.75 million. The net effect of price and UVC amounts to -70.83 million and accounts for 69.6% of the -101.68 million change in contribution. The remaining 30.4% is explained by the volume effect of -39.21 million (38.6%) and the mix effect of 8.36 million (-8.2%).

Price, volume and UVC effects on contribution reduction

MILLIONS OF EUROS



6. The contribution margin (contribution divided by the sum of product sales plus service provision) decreased from 32.4% in 2022 to 31.8% in 2023. A variation of -0.6 percentage points, because over 2023 the variation in the sum of sales and service provision (-29.2%) exceeded, in absolute terms, the change in variable costs (-28.6%).

Contribution margin per quarter [1]

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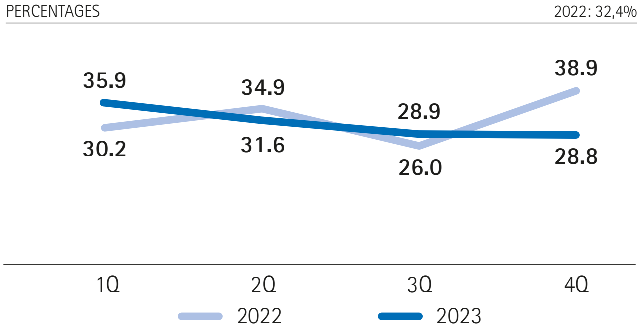
2023: 31,8%
2022: 32,4%



[1] Contribution margin: contribution / (sales of products + services)

7. Adjusted ebitda in 2023 was 48.11 million euros compared to 142.87 million in 2022; a reduction of 94.76 million, equivalent to -66.3%. The 94.76 million drop in adjusted ebitda largely reflects the decrease of 101.68 million of the contribution. The 6.92 million lower fall reflects, among other things, the lower transport cost of the products sold.

Adjusted quarterly ebitda [1]

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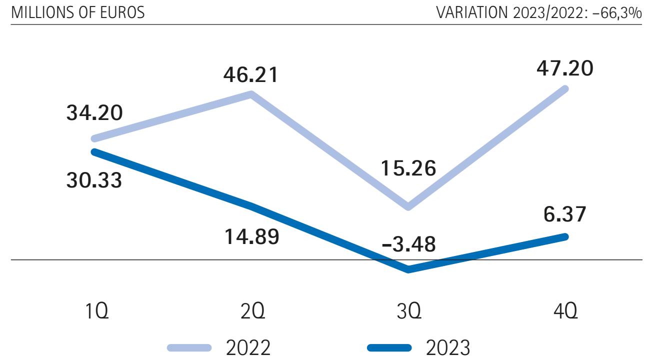
VARIATION 2023/2022: -66,3%

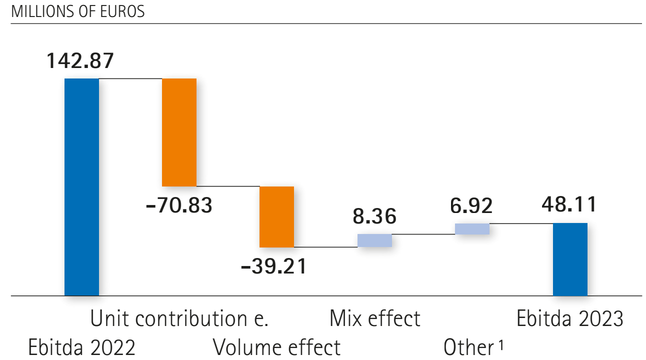


[1] Adjusted ebitda: ebitda excluding atypical items.

8. With respect to 2022, the variation in adjusted ebitda in 2023 of -94.76 million euro is due to: (i) the effect of the unit contribution of -70.83 million, as the average sales price falls more than the UVC, which explains 74.7%; (ii) the volume effect, due to lower tonnage sold, of -39.21 million euros, which explains 41.4%; and (iii) the mix effect of 8.36 million euros, which explains -8.8%. The remaining 6.92 million, which explains -7.3% of the fall in ebitda, reflects the net effect of the variation in other expenses and income.

Effects of unit contribution, and volume on the reduction of adjusted ebitda

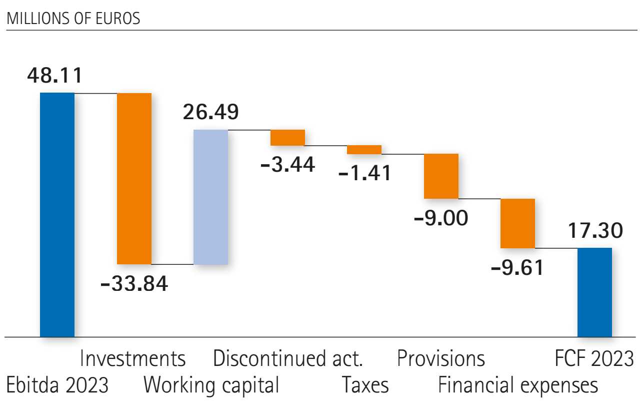
MILLIONS OF EUROS



[1] Other: variation in the provision of services, other income, fixed and atypical costs.

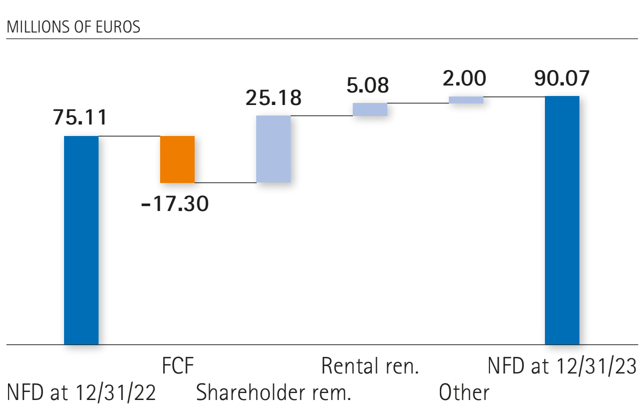
9. The free cash flow ("FCF") generated in 2023 was positive: 17.30 million euros. The FCF in 2023 is the result of, on the one hand, adding to the 48.11 million euros, of ebitda 26.49 million of working capital; and, on the other hand, subtract 33.84 million of investments; 3.44 million of discontinued activities (closure of the dicalcium phosphate plant in Flix); 1.41 million; 9.00 million of provisions; and 9.61 million of net financial results.

From ebitda to free cash flow ("FCF")



10. The Group started 2023 with 75.11 million euros of net financial debt ("NFD"). During the year, the debt increased by 25.18 million for shareholder remuneration; by 5.08 million for the renewal of rents; and by 2.00 million for other minor causes. And it decreased by 17.30 million euros thanks to the positive FCF achieved. In net terms, therefore, the NFD increased by 14.96 million euros to 90.07 million euros as of 31 December 2023.

Evolution of net financial debt ("NFC")



11. At 31 December 2023, Ercros had liquidity of 148.63 million euros, of which 39.15 million was cash and 109.48 million was undrawn credit lines.

3.2. Results

With regard to profit for the 2023 financial year, the following is worth noting:

The rendering of services section decreased by 31.4% due to lower customer demand for these services and lower prices due to lower energy costs passed on. Other income increased by 9.7%, mainly due to higher compensation for indirect CO_2 emissions and the higher subsidy for being a gas-intensive company.

The combined amount of provisions plus the reduction in stocks of finished goods and work in progress decreased by 24.1%. The main cause of this decline was the fall in the cost of commodities, which, although significant, was lower than the fall in the experienced in sales of finished products (-29.2%).

Supplies, on the other hand, fell by 39.7% compared to 2022, mainly due to the drop in the cost of electricity.

Transport costs decreased by 17.3% due to lower freight rates and lower volumes transported.

Personnel expenses increased by 2.3% compared to 2022 due to: the wage increase set in the collective agreement of 2%; the improvements to the collective agreement agreed in June 2022 for the period 2021-2023; and the increase in social security contributions.

Other operating expenses increased by 3.6% compared to 2022.

Charge of provisions and other non-recurring expenses decreased by 75.8% compared to 2022, mainly as a result, of the allocations made in 2022 in the framework of the cessation of activity at the Flix factory, to cover the costs of the agreed redundancies and for the dismantling of the facilities that ceased production.

Amortization increased by 7.7% compared to 2022 due to higher depreciation of rights of use of leased assets and tangible fixed assets from investments made.

The financial result, at -8.0 million euros, worsened by 3.81 million euros due to lower exchange rate differences, from 1.50 million euros in 2022 to -0.81 million euros in 2023, and to the increase in the financial cost of debt due to higher interest rates.

The income tax benefit in 2023 is mainly due to the 18 January 2024 ruling of the Constitutional Court, which unanimously declared the unconstitutionality of Royal Decree-Law 3/2016, in relation to Article 3. First, paragraphs One and Two, which stated, with effect from 1 January 2016, the following measures:

— Limitation on the offsetting of tax losses.

— Reversal of impairment losses on investments deducted in years prior to 2013, at the rate of fifths from 2016 onwards.

— Limitation to 50% of the full amount of the deduction for double taxation.

The impact of said ruling is limited, in general, to those settlements that had been challenged prior to the ruling

As a result of this ruling, Ercros has recorded an asset corresponding to the income from the tax application of negative taxable bases, amounting to 18.63 million euros; a financial income corresponding to late payment interest, amounting to 0.71 million euros; and another income from the activation of unused tax deductions due to the recalculation of the new settlements, amounting to 5.95 million euros, and the activation of negative taxable bases amounting to 0.82 million euros.

3.3. Other comprehensive income

The heading other comprehensive income did not have any movements in 2023. In 2022, the amount, net of taxes, of the transfer to the income statement from the settlement of cash flow hedges for the purchase of electricity contracted for that year was recorded, as well as the changes in value experienced by the hedge during the period.

3.4. Profit and loss account

THOUSANDS OF EUROS

	Year 2023	Year 2022	%
Continuing operations			
Income	**757,626**	**1,059,685**	**-28.5**
Sales of finished products	707,214	998,532	-29.2
Rendering of services	18,080	26,370	-31.4
Other income	31,143	28,394	9.7
Reversal of provisions and other non-recurring income	1,189	399	198.0
Increase in stocks of finished goods and work in progress	–	5,990	–
Expenses	**-713,320**	**-937,024**	**-23.9**
Provisions	-348,324	-470,572	-26.0
Reduction in stocks of finished goods and work in progress	-8,880	–	–
Supplies	-137,469	-228,015	-39.7
Transports	-42,965	-51,938	-17.3
Personnel expenses costs	-91,627	-89,582	2.3
Other operating expenses	-79,065	-76,305	3.6
Charge of provisions and other extraordinary expenses	-4,990	-20,612	-75.8
Ebitda	**44,306**	**122,661**	**-63.9**
Amortizations	-32,273	-29,966	7.7
Impairment of assets	1,006	-539	–
Ebit	**13,039**	**92,156**	**-85.9**
Finance result	-8,005	-4,198	90.1
Profit before tax	**5,034**	**87,958**	**-94.3**
Income taxes	23,764	-17,314	–
Profit of continuing operations	**28,798**	**70,644**	**-59.2**
Net loss for the year of discontinued activities	-1,213	-7,655	-84.2
Profit for the year	**27,585**	**62,989**	**-56.2**

Reconciliation of adjusted ebitda

THOUSANDS OF EUROS

	Year 2023	Year 2022	%
Ebitda	**44,306**	**122,661**	**-63.9**
Atypical income items	-1,189	-399	198.0
Atypical expense items	4,990	20,612	-75.8
Adjusted ebitda	**48,107**	**142,874**	**-66.3**

Other total comprehensive income

THOUSANDS OF EUROS

	Year 2023	Year 2022	%
Profit for the year	**27,585**	**62,989**	**-56.2**
Other comprehensive income-items that will be subsequently reclassified to profit or loss of the year	-	-10,957	–
Total comprehensive income	**27,585**	**52,032**	**-47.0**

3.5. Results by business

Globally, the weakness in demand in the chemical sector that started in mid-2022 has continued through 2023. In the case of Ercros, this situation has translated into lower volumes and sales prices, which have not been offset by the relative decline in energy and raw materials compared to the highs of 2022.

In this context, the efforts of Ercros' businesses have continued to focus on adapting the pace of production to demand, while defending margins as far as possible in a situation of highly volatile markets subject to strong competition.

In 2023, the volume traded by the chlorine derivatives division decreased by 13.0% compared to 2022. It should be recalled that the chlorine supply contract with an external customer ended in 2022, which has contributed to the reduction of the 2023 sales volume, as the chlorine is now used for the production of own EDC (intermediate product in PVC production). Compared to 2022, the sales amount of the division fell by 34.2%, as the drop in volume was compounded by a 24.1% fall in the average selling price, which affected the main products. As a result, the division's ebitda fell by 72.9% and the ebitda/sales ratio stood at 7.7%, 10.8 points below the 18.5% in 2022.

After a strong performance in the first half of 2023, the intermediate chemicals division continued to be affected by lower consumption of durable goods, which became evident from May 2022 onwards, and by stiffer competition. Compared to 2022, sales fell by 24.2% and the average price of the division's products by 17.3%, effects that were partially offset by lower raw material prices and moderating energy prices. As a result, the ebitda/sales ratio stood at 6.8%, compared to 5.7% in 2022, still far from the average values of this division in recent years.

The pharmaceuticals division is the only one to increase its sales compared to 2022, by 3.4%, thanks to a 2.6% increase in the volume of products sold and a 0.7% rise in selling prices. However, continued pressure from raw material costs has pushed 2023 ebitda to just 0.81 million euros. The division's margins are expected to recover in the coming quarters thanks to the progressive reduction in the price of raw materials and the increase in selling prices.

During 2023, the pharmaceuticals division obtained the approval for the manufacture of new sterile products (micronised fusidic acid and sodium fusidate), and registrations for the sale of famotidine in China and erythromycin base dihydrate in Australia and the US. Additionally, this división has launched a new presentation of fosfomycin trometamol compact and has completed validation work on the new extraction plant for the erythromycin salts: ethylsuccinate, stolate and stearate.

By 2024, it expects to have the required manufacturing and marketing approvals for vancomycin and gentamycin, which will contribute to the recovery of results.

Results by division

THOUSANDS OF EUROS

	Chlorine derivatives			Intermediate chemicals			Pharmaceuticals		
	Year 2023	Year 2022	%	Year 2023	Year 2022	%	Year 2023	Year 2022	%
Income	**480,193**	**716,478**	**-32.98**	**208,436**	**277,910**	**-25.00**	**67,808**	**65,315**	**3.82**
Sales of products	442,729	673,099	39.3	197,392	260,518	9.2	67,093	64,915	28.0
Rendering of services	18,055	26,334	-5.0	25	36	16.1	–	–	–
Other income	19,409	17,045	15.4	11,019	10,949	32.8	715	400	23.5
Change in inventory	–	–	–	–	6,407	–	–	–	–
Expenses	**-446,320**	**-591,662**	**-24.6**	**-195,013**	**-263,091**	**-25.9**	**-66,997**	**-62,076**	**7.9**
Provisions	-212,207	-273,309	-22.4	-105,495	-169,935	-37.9	-30,622	-27,328	12.1
Change in inventory	-1,715	-183	–	-9,032	–	–	1,867	-234	–
Supplies	-113,726	-190,335	-40.2	-15,831	-29,813	-46.9	-7,912	-7,867	0.6
Transport	-52,540	-29,905	75.7	-23,369	-20,617	13.3	-1,418	-1,416	0.1
Personnel expenses	-26,834	-51,517	-47.9	-14,713	-23,112	-36.3	-15,718	-14,953	5.1
Other expenses	-39,298	-46,413	-15.3	-26,573	-19,614	35.5	-13,194	-10,278	28.4
Ordinary ebitda	**33,873**	**124,816**	**-72.86**	**13,423**	**14,819**	**-9.42**	**811**	**3,239**	**-74.96**
Depreciation and amortization expense	-21,435	-19,414	10.4	-6,553	-6,563	-0.2	-4,285	-3,989	7.4
Operating profit	**12,438**	**105,402**	**-88.20**	**6,870**	**8,256**	**-16.79**	**-3,474**	**-750**	**363.20**
Assets	302,620	355,986	8.4	152,213	173,778	-0.4	86,370	83,001	22.4
Liabilities	69,043	108,463	-14.1	24,339	39,900	-14.2	11,980	16,541	12.2
Investments in non-current assets	17,785	26,095	45.0	4,307	4,361	29.4	3,770	16,834	38.3

3.6. Geographic markets

In contrast to the previous year, the foreign market performed better than the domestic market in 2023.

The domestic market accounted for 47.9% of sales, with an amount of 338,959 thousand euros (532,662 thousand euros in 2022). The remaining 52.1% of sales corresponded to the foreign market, with an amount of 368,225 thousand euros (464,370 thousand euros in 2022).

The chlorine derivatives division sold 60.3% of its turnover in Spain. In this business, sales to the Spanish market decreased by 38.5% and exports by 25%.

In the intermediate chemicals division, the reduction in turnover was 24.2%. The reduction in turnover has affected the domestic market to a greater extent, with an increase of 28.5% and to a lesser extent to the foreign market with an increase of 21.8%. This business exports 65.8% of its turnover.

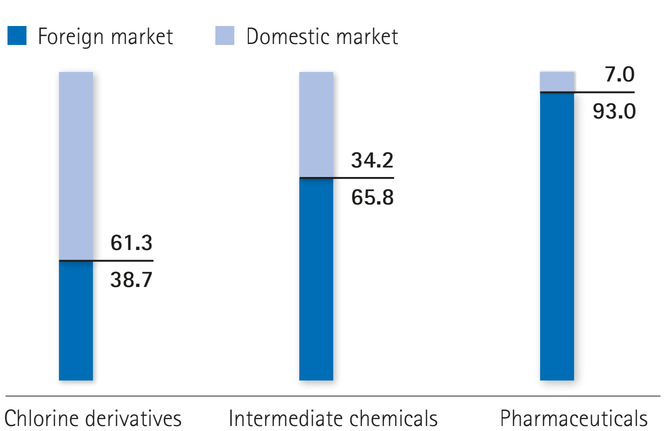
The pharmaceuticals division sells 93% of its sales outside Spain, in 2023 sales increased by 3.4% compared to the previous year. The performance of sales in our country has experienced an increase of 4% while in the foreign market it has been 3.3%.

The European Union ("EU") is the main destination of the Company's exports, accounting for 29.5% of its sales. Turnover in this area decreased by 24.8% compared to 2022. Sales to OECD countries decreased by 13.7% and represent 13.3% of total sales. The rest of the world, which absorbs 9.2% of turnover, experienced a reduction of 17.2% between 2022 and 2023.

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

Business markets

% OF SALES OF EACH BUSINESS IN 2023



3.7. Exchange rate

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

The dollar is by far the main currency to which the Group is exposed, and although the Group's general policy is not to contract exchange rate hedges to cover this risk, due to the low efficiency and high cost of these instruments, at 31 December 2023 there is a forward exchange rate hedge to insure USD 13,200 thousand for a term of six months.

In 2023, the average exchange rate of the euro was USD 1.08 per euro, compared to an average exchange rate of USD 1.06 per euro in 2022. This appreciation of the dollar against the euro had a negative effect of 1,650 thousand euros on the Group's ebitda in 2023 compared to 2022.

An average exchange rate of USD 1.10 per euro has been estimated for 2024, although so far this year the exchange rate has been below this level. If the dollar were to appreciate against the euro in 2024, this would improve the Group's competitive position and profitability.

In 2024, the Group expects to reduce its net exposure to the US dollar by reducing planned USD sales compared to purchases.

In 2023, sales in USD amounted to 134,538 thousand, slightly below the 154,900 thousand in 2022. Sales in this currency accounted for 19% of total consolidated sales (14.7% in the previous year).

Purchases in dollars between 2022 and 2023 fell from 65,231 thousand to 31,201 thousand due to the combined effect of the reduction in purchases of raw materials and the fall in price. In 2023, purchases in dollars accounted for 9% of the Group's total procurement and supplies, the same percentage as the previous year.

3.8. Financial, operational and stock market indicators

Indicators[1]	Year 2023	Year 2022
Financial		
Leverage ratio (<0,5)[2]	0.25	0.21
Solvency ratio (<2)[2]	1.87	0.53
Liquidity	1.28	1.35
Funding of assets	1.10	1.17
ROCE (%)	2.70	19.59
Average collection period (days)	65.18	60.09
Average payment period (days)	46.64	48.78
Operational		
Production (thousands of tons)	1,110	1,183
Added value (thousands of euros)	135,933	212,243
Productivity (EUR/person)	101,899	157,450
Gross margin/revenue (%)	54.02	55.59
Ordinary ebitda/sales margin (%)	6.63	13.94
Stock market		
Quoted market value (EUR/share)	2.64	3.24
Capital value (thousands of euros)	241,392	312,981
BEPS (EUR)[2]	0.29	0.64
CFS (EUR)	0.60	0.84
PER	8.75	4.97
P/BV	0.66	0.87

[2] Conditions for the payment of dividends.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4 / Liquidity and capital resources

4.1. Economic analysis of the balance sheet

Non-current assets increased by 26.11 million euros, for the recording of assets and reversed tax deductions as a consequence of the above-mentioned Constitutional Court ruling. Working capital decreased by 13.13 million euros, as a consequence of the decrease in current assets, inventories and receivables71.59 million, compared to a reduction in liabilities of 58.46 million.

Net equity increased by 2.41 million euros, the net result of, on the one hand, the profit for the period, amounting to 27.59 million euros, and, on the other, with a negative sign, the repurchase of own shares, for an amount of 11.13 million euros; the meeting attendance bonus, in the amount of 0.33 million euros; and the dividend, in the amount of 13.72 million euros.

Net financial debt increased by 14.96 million euros. Ercros and a pool of financial institutions signed, on 22 December 2023, a syndicated financing agreement for the next six years (2024-2029), formalised in two financing lines for a total amount of 217 million euros. The agreement is structured through the following financial instruments:

- A syndicated factoring contract that advances receivables from customers and enables financing of working capital up to a maximum amount of 102 million euros. This contract replaces the existing factoring contract maturing in May 2024.

- A syndicated credit facility for a maximum amount of 115 million euros with two tranches: a revolving tranche of 50 million euros, which replaces the existing credit facility of 30 million euros maturing in May 2024; and a loan tranche to finance investments up to a maximum of 65 million euros.

This financing covers all the needs foreseen by the company in the coming years and will allow Ercros to undertake the necessary investments to complete the 3D Plan: Diversification, Digitalisation and Decarbonisation.

Provisions and other payables decreased by 4.38 million euros, mainly due to the change in payments associated with the closure of the Flix plant and payments for the decommissioning of facilities and various environmental remediations.

Economic analysis of the balance sheet

THOUSANDS OF EUROS

	12/31/23	12/31/22	%
Non-current assets	**419,152**	**393,040**	**6.60**
Working capital	**64,218**	**77,349**	**-17.0**
Current assets	169,527	241,119	-29.7
Current liabilities	-105,309	-163,770	-35.7
Applied funds	**483,370**	**470,389**	**2.8**
Equity	**363,115**	**360,710**	**0.7**
Net financial debt [1]	**90,070**	**75,110**	**19.9**
Provisions and other borrowings	**30,185**	**34,569**	**-12.7**
Origin of funds	**483,370**	**470,389**	**2.8**

[1] Included in net financial debt are all financial debts with non-banks as well as lease payables (in 2023: 9,260 thousand euros, and in 2022: 12,324 thousand euros). Furthermore, in addition to cash and cash equivalents, deposits securing debt commitments have been considered as lower financial debt (in 2023: 2,034 thousand euros, and in 2022: 2,034 thousand euros).

4.2. Liquidity

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

In 2023 there has been an increase in net financial debt due to a weaker economic environment, which has reduced the cash flow generated by ordinary activities, although the increase in net financial debt is due to a weaker economic environment, which has reduced the cash flow generated by ordinary activities, although this increase has occurred to levels acceptable to the company, which do not compromise its financial position.

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

In 2023 the company has obtained a waiver in relation to the maximum investment volume, which has been authorised up to 35 million euros, which is higher than the initial authorisation.

In relation to the financing lines available, the Group has renewed and extended the syndicated financing agreements and currently has until May 2029 a syndicated factoring line for an amount of 102,000 thousand euro and a syndicated credit line with an overall limit of 115,000 thousand euro with two tranches: a revolving tranche for an amount of 50,000 thousand euros and a loan tranche to finance investments up to a maximum of 65,000 thousand euros.

The Group has arranged several loans with financial institutions and public institutions for a total amount of 114,435 thousand euros.

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

In addition, on 23 December 2021, the Ercros Group signed an agreement with the European Investment Bank ("EIB") to finance 40 million euros to Ercros' investments in research, development and innovation ("R&D&I"), digitalisation, decarbonisation and modernisation of its main facilities in the following areas in the stategic plan, 3D Plan, which Ercros has launched for the period 2021-2029. The Group has all this financing in place by the end of 2023.

a) Main sources of financing

In 2023, the Group has used the following sources of funding:

(i) External

– The factoring line in euros, which allows financing of working capital up to a limit of 102,000 thousand euro. At 31 December 2023, the balance drawn down on this line was 48,219 thousand euros (76,048 thousand euros in the previous year).

– The revolving credit agreement, for an overall limit of 50,000 thousand euros. At 31 December 2023, the amount drawn down was 0 thousand euros (previous year: 20,000 thousand euros).

– The capex tranche of the syndicated revolving credit line in loan format had an outstanding amount of 5,625 thousand euros at 31 December 2023 (previous year: 9,375 thousand euros).

– The loan agreement with the ICO, which at 31 December 2023 had a balance of 10,793 thousand euros (14,352 thousand euros in the previous year).

– The loan contracts with the ICF that as of December had a balance of 4,028 thousand in 2023 (4,985 thousand euros in the previous year).

– Various loans with public entities such as the Ministry of Industry, Tourism and Trade, the Centre for Technological Development and Innovation ("CDTI") and other financial entities for a total amount of 11,060 thousand euros.

– Several bank loans with maturities of five to seven years with a drawn down balance at 31 December 2023 of 42,443 thousand euros (previous year: 32,432 thousand euros).

– Several bank working capital financing lines with a total limit of 29,000 thousand euros. At 31 December 2023, a balance of 5,000 thousand euros (previous year: 0 thousand euros) had been drawn down on these bank working capital financing lines.

– The loan agreement with the European Investment Bank ("EIB") signed on 23 December 2022 for an overall amount of 40,000 thousand euros, with a drawn down balance of 40,000 thousand euros at 31 December 2023 (previous year: 19,971 thousand euros).

(ii) Internal

In 2023, despite weak demand, the economic downturn and the significant investment effort, the Group's activity generated 17,305 thousand euros of free cash (27,933 thousand euros in 2022).

– At 31 December 2023, the Group also had cash of 39,145 thousand euros (year-end 2022: EUR 58,283 thousand) and additional financing of 148,632 thousand euros (year-end 2022: 99,863 thousand euros).

– In 2023, the amount related to the refund of corporate income tax settlements for the year 2022 has been received for a total amount of 1,926 thousand euros. On the other hand, as a result of the profit before tax, the payment of interim corporate income tax in 2023 amounted to 3,344 thousand euros (17,983 thousand euros in the previous year).

– It is worth noting the overall amount received during the 2023 financial year for subsidies (for indirect CO_2 emissions , intensive electricity consumption and others), which amounted to11,648 thousand euros (8,460 thousand euros in 2022).

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

b) Government grants and subsidies

In 2023, Ercros received the following grants from public entities:

Entity	Item	Factories	Amount (thousands of euros)
Ministry of Industry, Trade and Tourism	Offsetting the cost of indirect emissions CO_2 from 2022	Vila-seca I and Sabiñánigo	7,214
Ministry of Industry, Trade and Tourism	Compensation to electro-intensive consumers 2023	Vila-seca I, Sabiñánigo, Vila-seca II, Tortosa, Almussafes, Aranjuez and Cerdanyola	660
Ministry of Industry, Trade and Tourism	Compensation to gas-intensive consumers 2023	Vila-seca I, Sabiñánigo, Vila-seca II, Tortosa, Almussafes and Cerdanyola	2,594
IDAE [1]	TCCA extension	Sabiñánigo	633
IDAE [1]	Improved chlorine potash technology (gap 0)	Sabiñánigo	547
Government of Aragon	Monitoring of chlorine electrolysers	Sabiñánigo	45
Total			**11,693**

[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.

The Group has also been granted aid from the Instituto para la Diversificación y Ahorro de la Energía ("IDAE") the Institut Català d'Energia ("ICAEN"), for an amount of 4,478 thousand euros which are pending receipt while the investments that generated them are justified and reviewed.

Additionally, in 2023, the Group benefited from the following public aid:

- The Ministry of Industry and Tourism granted the Group free allocations of greenhouse gas emission allowances for an equivalent value of 16,458 thousand euros (16,833 thousand euros in financial year 2022).
- The Fundación Estatal para la Formación en el Empleo ("Fundae") reimbursed a portion of training expenses incurred, amounting to 206 thousand euros, which is deducted from the social security contributions paid by the Group (202 thousand euro in 2022).

c) Restrictions on dividend distributions

There are no restrictions on the distribution of dividends as long as the ratios provided for in the syndicated financing are met, which are less restrictive than the three conditions established in the shareholder remuneration policy in force for the period 2021-2029, as cited below:

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

Some financing agreements contain restrictions limiting shareholder remuneration to 40% of consolidated net profit for the year and conditional upon compliance with certain financial ratios. At year-end 2023, one of the required ratios is not met, but a corresponding waiver has been obtained.

d) Level of indebtedness

The NFD has increased by 14,960 thousand euros. At 31 December, 2023, the NFD amounted to 90,070 thousand euros in comparison with 75,110 thousand euros at 2022 year-end.

Breakdown of net financial debt

THOUSANDS OF EUROS

	12/31/23	12/31/22	Change	%
Loans	108,831	85,007	23,824	28.0
Finance lease payables	9,260	12,324	-3,064	-24.9
Working capital financing	13,158	38,096	-24,938	-65.5
Gross financial debt	**131,249**	**135,427**	**-4,178**	**-3.1**
Cash	-39,145	-58,283	19,138	-32.8
Deposits	-2,034	-2,034	0	0.0
Net financial debt	**90,070**	**75,110**	**14,960**	**19.9**

e) Supplier payment period and customer collection period

The average supplier payment period at 2023 year-end was 46.64 days (48.78 days at 2022 year-end), meaning a reduction of 2.64 days between the two years, in line with the trend of recent years.

At 31 December 2023, payments exceeding 60 days accounted for 32.47% of all payments made (32.47% in 2022). The Group expects that it will continue reducing the percentage of payments exceeding 60 days.

In the previous year, the average collection period was 65.18 days (60.09 days in 2022).

4.3. Capital resources

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

The Group's objectives in capital management are:

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

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

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

a) Firm commitments for raising capital resources

There are no firm commitments to raise new capital resources.

b) Committed or obligatory investments

The meeting of the board of directors held on 21 January 2021 approved a new investment plan called the 3D Plan, which is described sections 2.3 c) above.

4.4. Contractual or off-balance sheet obligations

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

5 / Key risks and uncertainties

5.1. Identification of risks

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

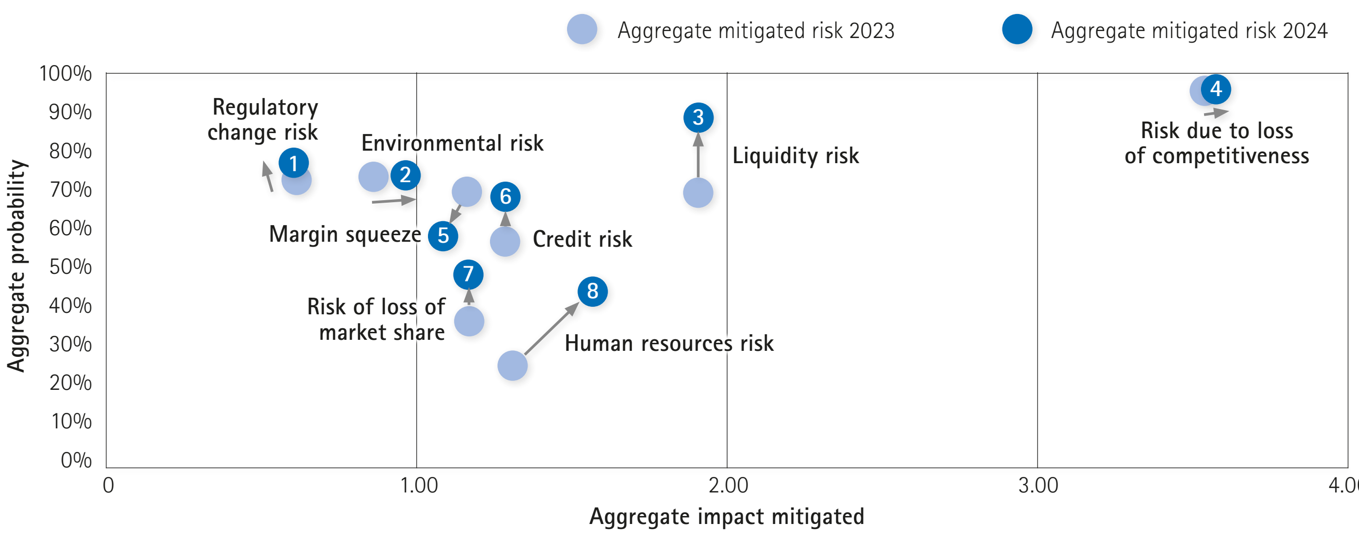
The Ercros Group's activity is associated with the existence of different types of risks, which are classified into different types according to the criteria the Group considers most appropriate for their efficient management. In this respect, not all the businesses have the same risks, though they may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

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

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

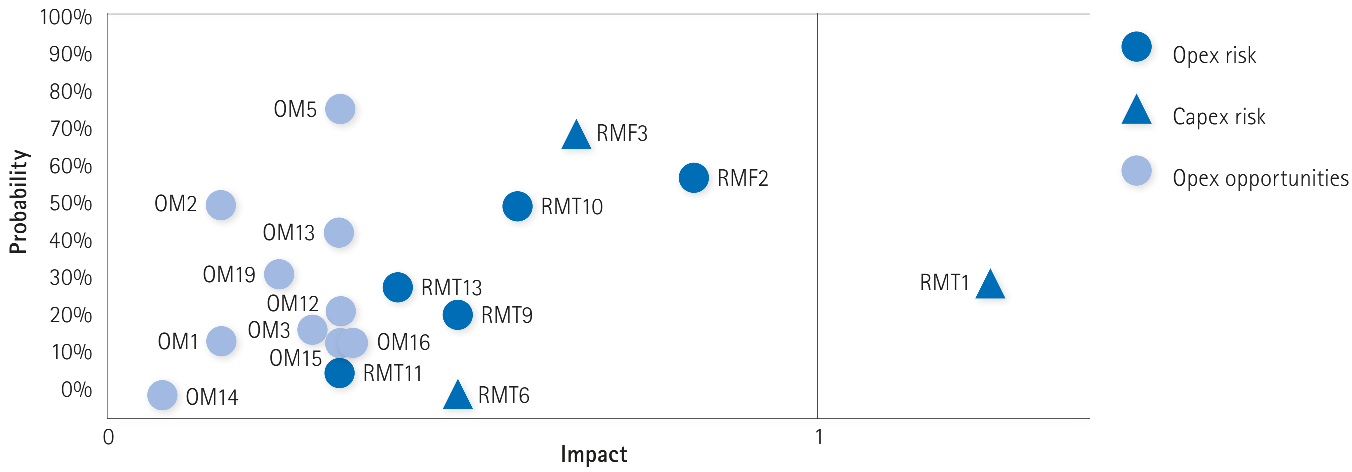
On 15 December 2023, the business managers and general managers presented to the board of directors the risk maps of the different businesses and an aggregated risk map for the Group identifying the relevant risks foreseen for 2024 based on the probability of occurrence (on a scale of 0% to 100%) and the impact their eventuality could have on the Group (on a scale of 0 to 6). Based on these maps, the Group implemented controls aimed at mitigating the risks detected.

The following graph shows the most relevant aggregate risks of the Group's businesses foreseen for 2024 after the implementation of mitigating measures:



1. **Regulatory change risk:** increased environmental requirements. 2. **Environmental risk:** restriction of CO_2 emissions. 3. **Liquidity risk:** non-compliance with covenants. 4. **Risk due to loss of competitiveness:** increase in energy costs. 5. **Margin squeeze:** falling demand. 6. **Credit risk:** insolvency of customers. 7. **Risk of loss of market share:** increase in capacity of existing competitors. 8. **Human resources risk:** loss of key employees.

The following graph shows the most relevant risks foreseen for 2024 after the implementation of mitigating measures:



RISKS: RMT1: Increase in the price of greenhouse gas ("GHG") emission rights. **RMF3:** Increase in average temperature. **RMF2:** Changes in precipitation and extreme variability of weather patterns. **RMT10:** Rising raw material costs. **RMT13:** Increased concerns and/or negative comments from stakeholders. **RMT9:** Uncertainty in market behaviour towards unsustainable products. **RMT11:** Changes in end-consumer preferences that may affect the company's products. **RMT6:** Unsuccessful investments in new technologies.

OPPORTUNITIES: OM5: Reduce water use and consumption. **OM2:** Use more efficient distribution and production processes. **OM13:** Development of new products through R&D&i. **OM19:** Substitutes/diversification of resources used in the production of marketed products. **OM12:** Implementation of strategies for adaptation to climate change and assurance of the associated risks. **OM3:** Use of recycling. **OM15:** New products adapted to consumer preferences. **OM16:** Access to new markets and use of public sector incentives. **OM1:** Use more efficient methods of transport. **OM14:** Ability to diversify business activities.

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

a) Operational risks

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

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

(i) Industrial risk

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

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

The Group carries out scheduled shutdowns of its production plants for maintenance, repair or modernisation, although there are also occasional unplanned shutdowns that affect the fulfilment of production and sales plans. The Group has insurance policies in place to cover the loss of profit resulting from these unforeseen contingencies.

In some cases, plants have to slow down their production rate to keep pace with the rate of supply of key suppliers of raw materials or key customers' consumption of the final product. In other cases, the Group also has to face the industrial risk generated by the possible interruption of some production processes as a result of possible failures in the supply chain of some raw materials and intermediate products due to various logistical or operational restrictions of suppliers. The strategy applied by the Group during the year to mitigate this risk was: (i) the signing of long-term supply and coverage contracts with greater guarantees; (ii) the temporary increase in storage capacity; (iii) the search for alternative suppliers; and (iv) the implementation of long-term production and consumption schedules with forecasts of restrictions and planning of alternatives.

In 2024, the withdrawal of diesel subsidies in Spain and the fall in the profitability of road transport companies may cause temporary disruptions in the dispatch and transport of some of our products and in the supply of raw materials. The Group will minimise this potential adverse situation by efficiently managing the storage capacity of products and raw materials to enable the operation of our production processes to continue during the days when we are in operation. The timeframe in which such potential disruptions are reasonably expected to last.

Finally, the growing lack of drivers in specialised types of transport could be a risk in the coming years if this situation is not corrected, leading to increased costs and a lack of means of transport.

(ii) Margin loss risk (relevant)

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

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

This lower demand for durable goods has been aggravated throughout 2023 by the loss of competitiveness of European producers compared to producers located in other regions, mainly the US and Asia, as a result of continued higher energy costs and regulatory measures aimed at achieving climate neutrality.

Although the Ercros Group always tries to pass on increases in its variable manufacturing costs to the price of its products, sometimes, depending on the supply-demand situation, it cannot achieve this in full, or when it does, it does so with a certain delay, which can lead to a temporary loss of profitability of the specific product. This situation has clearly continued during 2023: low demand for construction and consumer goods; continuing high prices for energy and raw materials, especially those based on oil; and competitive pressure from lower-priced imported products have put downward pressure on sales volumes and margins for most of Ercros' products.

In this context, the Group has sought to maintain its margins (i) adapting its production rates to existing demand as efficiently as possible at all times; (ii) adapting its contracts and commercial objectives to the new and changing market conditions (implementation of periodic reviews of saleds prices linked to variations in energy and raw material costs); and (iii) promoting the search for new markets and customers.

At the Ercros Group, PVC and caustic soda are the products with the greatest weight in consolidated turnover and which suffer the most from demand cycles and margin tensions. The markets for PVC, which is closely linked to the construction sector, and for caustic soda, which is more general purpose and linked to GDP, have experienced very significant drops in demand throughout 2023 compared to 2022. This correction of demand and the increased pressure of non-EU product on both markets has forced European producers to adjust their production ratios and sales prices to the new market situation.

Looking ahead to 2024, a gradual recovery of caustic soda and PVC volumes and margins is expected, mainly in the second half of the year, due to the expected easing of energy costs in Europe and of interest rates, should boost the construction market.

During the year, sodium hypochlorite, a product made from the chlorine resulting from the same process as the manufacture of caustic soda, has seen some improvement in margins in 2023 compared to 2022 as a result of the relative decline in electricity costs.

TCCA, one of the products with the highest added value in the Group's portfolio, was negatively affected in 2023 by (i) lower demand from the swimming pool water treatment sector due to climatic factors (delayed start of the season in spring in the EU and the US); (ii) the excess quantity of product from the previous year in the hands of customers; and (iii) increased imports of product from China, with much lower prices due to their lower energy costs.

During the 2023 financial year, the pentaerythritol market, the second product in terms of turnover in the intermediate chemicals division, was marked by low demand, which, together with high energy costs and increased import pressure, led to a narrowing of margins and forced production volumes to be adapted. On the other hand, moulding compounds, the third product of this division in terms of turnover, has seen its margins squeezed as a result of falling demand and the gradual increase in the price of raw materials such as pulp.

Additionally, among the risks of margin compression, it is necessary to note the potential increase in the costs of some raw materials associated with the transition to a low-emission economy. To mitigate this risk, the Group will continue to invest in improving its competitiveness by using more efficient technologies and adapting its production processes to minimize resource consumption, while also attempting to pass on these possible cost increases to customers.

(iii) Commodity dependence risk

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

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

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

The Group's four main inputs are electricity, gas, methanol and ethylene, which account for about 40% of the total amount of consolidated procurement and supply in 2023.

During the year, the Group has tried to minimise the effects of the continuing high price of raw materials and energy in Europe by: (i) signing commercial agreements for the sale of products including price review clauses that take into account the variations in the prices of raw materials and energy referenced in official and/or industry publications of recognised prestige; (ii) focusing on customers with better profitability and (iii) signing agreements for the supply of raw materials based on the sales prices of the finished product for which it is an input.

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

On 7 December 2018, the government enacted Royal Decree-Law 20/2018, concerning urgent measures to promote economic competitiveness in the industrial and commercial sectors in Spain, including measures to promote the fair transition of energy-intensive industries, including the approval of the Energy-Intensive Consumer Statute. On 15 December 2020, the government approved Royal Decree 1106/2020, which regulates this Statute. The aim of this is to reduce the cost of electricity for electro-intensive industries through the following measures: (i) compensation of up to a maximum of 85%, for charges related to the specific remuneration for renewables and high-efficiency cogeneration, as well as for additional financing in non-peninsular territories; and (ii) coverage of risks derived from medium —and long— term acquisition of electricity. On 14 June 2023, the Government amended Royal Decree 1106/2020 by Royal Decree 444/2023, transposing the State Aid Guidelines on Climate, Environmental Protection and Energy 2022, s/Communication EC 2022/C 80/01, adapting the list of eligible sectors, and differentiating between the sectors at significant risk of relocation of sectors at risk of relocation, with the possibility of aid being granted in the case of budget availability and, as the case may be, 100% of the eligible costs.

On 28 December 2022, the Government published Royal Decree-Law 20/2022, which adopts measures in response to the economic and social consequences of the war in Ukraine, including among others the following measures: i) extension of the 80% reduction in the cost of the tolls for access to electricity transmission and distribution networks to electro-intensive consumers until 30 June 2023; (ii) extension of the 0.5% electricity tax rate until 31 December 2023; (iii) extension of the 0% electricity generation tax rate until 31 December 2023; and (iv) 450 million euros support line for gas-intensive consumers.

On 29 March 2023, the government published Royal Decree-Law 3/2023 extending the application of the production cost adjustment mechanism to reduce electricity prices in the wholesale market until 31 December 2023.

On 29 June 2023, the government published Royal Decree-Law 5/2023, adopting and extending measures in response to the economic and social consequences of the war in Ukraine, including, among others, the extension until 31 December 2023 of the 80% reduction in the cost of access tolls to electricity transmission and distribution networks for electricity-intensive consumers. On 28 December 2023 the Government published Royal Decree-Law 8/2023, totally or partially extending some temporary measures against the energy crisis (tax reductions, reduction of tolls for the electro-intensive industry, etc.).

In 2023 the price of the electricity pool, although it experienced a significant reduction in Spain with respect to the historical maximum established in 2022, in line with the reduction in the price of natural gas, was still well above the historical average values of the market and was only partially offset by the aid received to compensate for the increases in electricity costs derived from indirect CO_2 emissions, by the compensation of charges derived from the Statute of the electro-intensive consumer and by the reductions in tolls, charges and electricity tax by application of the provisions of the aforementioned Royal Decree-Laws. The Group expects to reduce the differential of the final price of MWh with respect to its european competitors with additional mechanisms that may be introduced by amendments to the current Royal Decree on the Statute of electro-intensive consumers or by new legislation that may be approved in the future aimed at maintaining the competitiveness of the very high energy-consuming industry located in Spain.

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

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

Methanol is the main raw material for the intermediate chemicals division. The Group has supply agreements with several international suppliers from different geographical areas. The agreements are renewed on a staggered basis, in order to avoid the risk of concentration of suppliers and the coincidence in the timing of the renewal of these contracts. In 2023, the EU has maintained the suspension of the tariff on methanol imports. To do otherwise would have harmed the Group by making imports of this raw material more expensive.

In 2023, the Group operated for the first time without its main chlorine customer, following the termination of their chlorine supply contract in December 2022. During the year, this higher volume of available chlorine has allowed the Group to increase the production of: (i) own EDCs —intermediate product that initiates the PVC chain—, reducing the purchase of external EDC and its dependence on this raw material, and (ii) other chlorine products (sodium hypochlorite, hydrochloric acid, TCCA, etc.).

(iv) Loss of competitiveness risk (relevant)

The Ercros Group engages in its business in a global environment in which new competitors continually enter the market. These competitors benefit from looser regulations in their countries of origin, more lax environmental requirements compared to the European market, lower wages and energy costs, and have measures supporting development. During the year 2023, the maintenance of high local energy costs of the european producers compared to those in other parts of the world, coupled with increased subsidies to electro-intensive and gas-intensive industries by some EU member states (mainly Germany, France and Portugal), has harmed the Group's competitiveness both globally (Europe versus Asia and the US) and regionally (within Europe). The cost differential becomes a decisive factor in setting the final price of commodity products, such as the Group's main products.

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

The technological upgrading of production processes undertaken by the Group has led to greater energy efficiency and a higher utilisation ratio, which has improved the profitability of its products. In the same line of improvement competitiveness, the Ercros Group is implementing a strategic plan, Plan 3D (2021-2029), which is based on three dimensions: diversification, digitalisation and decarbonisation. The objective of the digitalisation strategy is precisely to improve Ercros' competitiveness by (i) reducing operating costs; (ii) increasing the volume of production and sales through improvements in the reliability of the processes of its production facilities; and (iii) strengthening customer loyalty emissions by improvements in the service provided by Ercros. For its part, the objective of decarbonisation aims, among other things, to reduce manufacturing costs through efficiency improvements in the consumption of energy and raw materials, as well as the replacement of fossil fuels with others of renewable origin and less volatile in price.

(v) Loss of market share risk (relevant)

Another relevant risk related to the Group's competitiveness is the risk of loss of market share due to the emergence of new competitors or due to the increase in the production capacity of the Group current competitors in some of the products manufactured by the company.

The Group addresses these risks by: (i) the continuous search for new markets and customers; (ii) improving our competitive position by making investments to modernise our facilities; (iii) operational improvements resulting in lower manufacturing and transport costs; (iv) improving customer services aimed at strengthening commercial ties; and (iv) developing new specialities.

Another traditional factor affecting the Group's competitiveness is the exchange rate of the euro against the dollar. During 2023, the average exchange rate of the euro was USD 1.08 per euro, higher than the average exchange rate in 2022, which was 1.06. This revaluation of the euro (devaluation of the dollar) has led to a certain loss in the euro exchange rate.

Another traditional factor affecting the Group's competitiveness is the exchange rate of the euro against the dollar. During 2023, the average exchange rate of the euro was 1.08 dollars per euro, which is higher than the average rate of 2022, which was 1.06. This revaluation of the euro (devaluation of the dollar) has resulted in a certain loss of competitiveness for the Group's products. If the dollar continues to devalue in 2024, it would have a negative effect on the Group by worsening the competitive position of the products it markets and reducing their profitability. Conversely, if the dollar were to revalue, it would improve the competitive position and profitability of the Group [see section c) (i) Exchange rate risk].

(vi) Product concentration risk

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

The most significant product manufactured from chlorine is PVC, the evolution of which is closely tied to the construction industry. This fact lends an element of volatility to the price of both PVC and soda caustic soda (a chlorine co-product) that must be taken into account in the Group's projected results. Sales of PVC and caustic soda (liquid plus solid) accounted for almost 40% of the Group's turnover in 2023.

In order to minimise this risk of product concentration, the Group is carrying out, within the framework of the 3D Plan (2021-2029), various projects to expand the capacity of other products already in the Ercros portfolio, such as polyols, technical resins or sodium chlorite; or to incorporate other active ingredients such as gentamycin or vancomycin, among others.

(vii) Product cyclicality risk

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

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

As explained in point (ii) above, the chemical industry in which the Group conducts its activity is characterised by its cyclical nature. Therefore, the Group is not immune to the market uncertainties generated by changes in supply and demand, whose repercussions on the margins of the products it sells can affect their profitability and, on occasion, earlier than expected and with greater intensity than in other sectors, given that its products are commodities.

The aim of the diversification strategy is precisely to control and, if possible, Ercros' strong cyclical dependence on the caustic soda business. The four investment projects included in this dimension of the 3D Plan are aimed at strengthening the intermediate chemical and pharmaceutical divisions, and the water purification segment which, although it belongs to the chlorine derivatives division, is not subject to the caustic soda cycle. At 31 December 2023, the projects to expand dipentaerythritol production in Tortosa and sodium chlorite in Sabiñánigo are already fully operational; the start-up and validation of the manufacturing processes for two new antibiotics (gentamycin and vancomycin) in Aranjuez is expected during the first half of 2024, and the start-up of the project to expand ErcrosTech resins in Almussafes at the end of 2024.

(viii) Market risk due to geopolitical tensions

In 2023, the Group exported more than 52% of its sales to over 90 countries. Given its exposure to the foreign market, in The Group can sometimes be influenced by political or geostrategic conflicts, which create tensions in the markets in which it purchases or markets its products.

During the year, the restrictions imposed by the European Commission on trade transactions with Russia and allied countries increased, but due to the low volume of purchases and sales with these countries, the impact on the Group was minimal. In December the Group also decided not to do business with Iran as it is a country included on the FATF blacklist.

During 2023, anticipating the drop in raw material and freight prices that eventually occurred, the Group mitigated the risks and took advantage of this situation by: (i) signing quarterly freight price agreements instead of annual agreements, in order to adjust to the decreases as they occurred; (ii) strict control of purchasing volumes to maintain stocks at levels close to the operational minimum and thus avoid stock depreciation; and (iii) redistribution of purchases between EU and non-EU producers to take advantage of the best opportunities at any given time.

In the latter part of the year, the downward trend in freight costs has been interrupted by the Israeli-Gaza conflict and tension in the Red Sea. Attacks by Yemeni Houthis on ships crossing the Gulf of Aden have prompted most shipping lines to reroute their vessels via the Cape of Good Hope, circumnavigating Africa instead of passing through the Red Sea. This scenario has resulted in prolonged transit times and a swift escalation in transport costs from Asia to Europe, alongside diminished availability of transportation options.

In addition to the previous restriction, the problems caused by the drought in the Panama Canal, which is also conditioning the passage of ships, will very possibly cause this increase in freight rates to be extended to all routes in the coming months.

It should be noted, however, that these foreseeable new increases in maritime transport costs (detrimental to the acquisition costs of raw materials purchased by Ercros in Asia and to product exports to that destination) may also be beneficial for other Ercros markets, as they represent a certain barrier to the arrival of imported products, which may strengthen our competitive position among european customers and other areas of influence.

Another factor that will make maritime transport more expensive from 1 January 2024 is the inclusion of maritime transport in the emissions trading scheme ("ETS"), whereby ships which emissions generated in a european port will have to pay for the CO_2 emissions generated. The implementation of this tax is gradual, being 40% of the total in 2024, 70% in 2025 and 100% in 2026, when nitrous oxide and methane emissions will also be included.

(ix) Technology and cybersecurity risk

The Group is exposed to cybersecurity risks that could lead to an interruption of its business processes, which would temporarily compromise normal operations.

To minimise the risk of operational disruption —arising from failures or incidents in the information systems— the Group has in place a specific protection plan for its technological infrastructures, which is part of the operational security plan.

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

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

In the event of an incident that partially or totally disrupts the normal course of business, the Group has a disaster recovery plan that allows critical processes to be resumed within a reasonable period of time.

b) Non-financial risks

(i) Environmental risk (relevant)

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

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

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

All Ercros Group centres have an environmental risk analysis study.

(ii) Soil remediation claims risk (relevant)

The Ercros Group has a long history of industrial activity and, although it has always complied with the prevailing legislation, the legal requirements of recent years and their application, some, retroactively, have raised the risk of liability claims for the cost of cleaning up or remediating affected soils and environments.

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

In relation to the former site located in El Hondón (Cartagena), on 17 October 2019, Ercros was notified of the resolution of the director general for the Environment of 16 October 2019, which declared the El Hondón sector in Cartagena to be contaminated land.

On 30 June 2020, Ercros filed a contentious-administrative appeal challenging the decision by which it was agreed to declare El Hondón de Cartagena contaminated land. Despite the legal challenge, and given the enforceability of the resolution declaring the land contaminated, on 1 July 2020 Ercros presented the Technical project for the clean-up and recovery of El Hondón for the purposes of complying with the obligation established in the Resolution declaring the land to be contaminated. The Directorate General for the Environment requested that the technical project be rectified by means of a summons dated 30 November 2020 and 12 February 2021.

On 5 and 23 February 2021, Ercros filed appeals against the aforementioned requirements to remedy the Project, requesting that they be rescinded and that the Remediation Project submitted by Ercros in July 2020 be approved. Regardless of the appeals, on 20 October 2021 Ercros presented a new updated version of the El Hondón remediation technical project, which incorporates the findings of the different experts and academic centres that have assessed the project.

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

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

a) Appeal filed on 30 June 2020 against the decision to declare the land contaminated (P.O. 206/2020): On 2 September 2021, Ercros filed a statement of claim and on 14 February 2022, the reply from the Regional Ministry of Water, Agriculture, Livestock and Fisheries of the Autonomous Community of the Region of Murcia was issued opposing the claim. Likewise, ADIF, summoned to the proceedings and appearing as a co-defendant, also opposed Ercros' claim in a letter dated 30 June 2020. On 26 July 2022, an order was issued to admit the appeal as evidence. On 29th November 2023, the hearing for the ratification of expert opinions took place before the TSJMU. On 19th December 2023, the written conclusions were submitted. By a Decree of the TSJMU of 21st December 2023, the proceedings were suspended for 60 days, as requested on 30th November 2023 by Ercros Group and supported by, among others, the neighborhood associations of the Estación sector and the Torreciega sector.

b) Action brought on 21 January 2022 against the decision rejecting the appeals lodged against the requirements to remedy the updated remediation project submitted by Ercros: On 23 September 2022, Ercros filed a statement of claim, which was admitted for processing by a writ of summons dated 29 September 2022. On 1 December 2022, the administration's reply was served, and on 5 December 2022 and 16 January 2023 the replies of the City Council of Cartagena and Reyal Urbis were served. Likewise, on 28 September a writ of summons was served accepting the appearance of the Asociación de Vecinos Sector Estación as a co-defendant. On 20 January 2023, this association filed a defence to the claim. On 17 October 2023, Ercros filed its statement of conclusions. By a Decree of the TSJMU of 16 January 2024, it was agreed to suspend the proceedings for 60 days, as requested on 30 November 2023 by Ercros, which was joined, among others, by the residents' associations of the Estación and Torreciega sectors.

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

On 30 January 2023, Ercros transferred the 30 m³ of El Hondón waste with the highest concentration of radionuclides, extracted from a specific area, to the El Cabril waste disposal facility. The work was carried out under the supervision of Empresa Nacional de Residuos Radiactivos ("Enresa"), the owner of the landfill site.

This action, agreed with the administrations, is the first of the ten planned in the remediation project proposed by Ercros for the El Hondón site, which is still pending approval by the competent administration.

With regard to the restoration of the Terrera Vella, in Cardona, which the Group was operating when the Cardona factory ceased operations in 2017, Ercros submitted an updated restoration plan to the Direcció General de Qualitat Ambiental i Canvi Climàtic de la Generalitat de Catalunya ("DGQA"), in the same year, which proposes a surface water management system for the Terrera Vella plant compatible with the environment and consistent with the comprehensive restoration project of the Salt Valley, and whose objective is to leave the Terrera Vella ready for potential future use of the salt resource it contains. The Group is currently awaiting a decision on the approval of the plan.

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

Ercros has appealed against this resolution in administrative appeal in November 2022, and as of the date of publication of this report, the administration has not yet resolved the matter.

The Group re-estimates the value of the remediation obligations each year and makes corresponding allocations to the remediation provisions.

(iii) Regulatory change risk

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

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

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

During 2024, the gradual implementation in certain EU countries of a CO_2 tax emissions generated by trucks based on kilometres travelled may increase the cost of road transport.

(iv) Climate change risk (relevant)

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

Two RCP (Representative Concentration Pathways) scenarios have been evaluated:

– RCP 4.5, representing a medium emission pathway, where warming is stabilised at 2.0-2.5 °C in 2100. The emissions peak in 2040 and gradually decline.

– RCP 8.5, which indicates a high emissions trajectory, without mitigation measures, associated with a temperature increase of 3.0-4.5 °C in 2100. It leads to a continued increase in emissions over the century.

In the first scenario, RCP 4.5, transition risks have the greatest impact. In the second scenario, RCP 8.5, the greatest impact comes from the physical risks associated with climate change.

With regard to the risks concerning the transition to a low-carbon economy, the Group is implementing the 3D Strategic Plan (2021-2029), presented on 28 January 2021, one of the dimensions of which is ecarbonisation. The Group's objective is to intensify the efforts Ercros makes to mitigate climate change and adapt to the new regulatory framework for industrial activity. This dimension includes projects in the areas of energy efficiency; adaptation to climate change; maximising the use of hydrogen; circular economy; and sustainable mobility. The Plan's investments are being implemented according to schedule. Several projects have already been completed to improve energy efficiency, make better use of the hydrogen produced in the ectrolytic processes of chlor-alkali production, and optimise consumption of chemical products and raw materials; progress has been made in the execution of the energy improvement and circular economy Project for salt recrystallization in Sabiñánigo, as well as in the engineering of the projects to improve energy efficiency, change fuels, electrification and steam production from biomass in Vila-seca I and Vila-seca II.

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

In an effort to mitigate the adverse effects of these abnormal weather incidents, the Ercros Group's factories have procedures and action plans that contemplate the different levels of alert, responsibilities, and protocols for action in the event of potential meteorological phenomena, such as heavy flooding, frost, snowfall, strong winds, heat waves In addition, the Group invests in adapting its facilities to minimise the consumption of resources and their reuse.

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

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

(v) Labour claims risk

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

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

(vi) Human resources risk (relevant)

The Group is subject to the risk of low productivity arising from the staff absenteeism rate (in 2023 it stood at 4.9%), which in some workplaces can lead to occasional difficulties in covering all production shifts. To mitigate the impact of this risk, initiatives have been taken such as the implementation of relief contracts or the creation of an absenteeism committee in those centres where higher risks are detected.

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

The nature of the work carried out in the Ercros Group's factories entails with it an associated risk of occupational accidents among its personnel; to mitigate this risk, the Group has had a safety management system in place and certified since 2007 in accordance with the ISO 45001:2018 standard (formerly OHSAS 18001), has safety equipment and material, trains its staff in occupational risk prevention, controls and updates all its equipment so that it complies with the strictest safety standards and analyses all accidents and incidents that occur at its facilities to prevent their repetition in the future. In addition, triennial accident reduction plans are established, with actions in all the fields described above.

c) Financial risks

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

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

The Group has in place a derivative contract to hedge the exchange rate risk for a current account remunerated in US dollars and does not have any hedging contract for interest rate risk.

For 2023 and subsequent years, the Group has signed long-term contracts for the supply of electricity and natural gas for consumption in the Group's industrial processes.

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

The Group notes that the financial risk remains within acceptable parameters for a cyclical company. The solvency ratio (consolidated net financial debt/consolidated ordinary ebitda) was 1.87 in 2023, below the target of 2.

The 3D Plan respects the principles of financial prudence, so that total annual investments will not exceed 35 million euros on average and the financial solvency of the company and shareholder remuneration will be preserved at all times. The total investments made in the financial year 2023 amount to 27.66 million euros, the Group has received the corresponding waivers from the financial institutions.

Furthermore, at the end of 2023, the financial solvency conditions for shareholder remuneration, as set out in the shareholder remuneration policy charged to the profits for the years 2021 to 2024, were met.

(i) Exchange rate risk

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

In 2023, the average exchange rate of the euro was USD 1.08 per euro, compared to an average exchange rate of USD 1.06 per euro in 2022. This devaluation of the dollar against the euro had a negative effect of €1,650 thousand on the Group's ebitda in 2023 compared to 2022.

An average exchange rate of USD 1.10 per euro has been estimated for 2024, although so far this year the exchange rate has been below this level. If the dollar were to appreciate against the euro in 2024, this would improve the Group's competitive position and profitability.

In 2024, the Group expects to reduce its net exposure to the US dollar by reducing planned US dollar sales compared to purchases.

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

	Year 2023	Year 2022
Sales in USD (thousands)	**134,538**	**154,900**
Dollar/euro exchange rate	*1.083*	*1.052*
Equivalent in euros (thousands)	124,201	147,237
Purchases in USD (thousands)	**31,201**	**65,231**
Dollar/euro exchange rate	*1.085*	*1.036*
Equivalent in euros (thousands)	24,750	62,979
Net dollar exposure (thousands)	**103,336**	**89,669**
Equivalent in euros (thousands)	95,451	84,258

Based on the above transactions, the following table shows a sensitivity analysis to reasonable variations in the average dollar exchange rate of the Ercros Group's sales and purchases with respect to the average exchange rate in 2023 which was 1.08, all other variables being held constant:

Dollars for euro ($/EUR)	Effect on profit from operations (thousands of euros)
1.20	-9,338
1.15	-5,594
1.10	-1,509
1.08	–
1.05	2,964
1.00	7,885
0.95	13,324

(ii) Credit risk (relevant)

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

There is no high concentration in the Group's customer portfolio. Since January 2020, the Group has had a credit insurance policy with Compañía Española de Seguros de Crédito. Export Credit Insurance ("Cesce") which covers 95% of the balance of the clients insured by the policy. The insured amount represents approximately half of the outstanding balance of the portfolio. This policy ensures the collection of invoices that are assigned without recourse to syndicated factoring.

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

(iii) Interest rate risk

External financing is based on syndicated factoring, syndicated credit agreement including a revolving tranche and a loan tranche to finance investments, bank working capital financing facilities and long-term loans from public bodies and banks. Part of the financing is contracted at fixed interest rates and part at variable interest rates normally referenced to the Euribor at different maturities of the consolidated financial statements. In this sense, as we are in an environment of higher interest rates than in other years, these levels of the Euribor reference interest rate have implied a higher financial cost for the Group.

On 23 December 2021, the Ercros Group signed a loan with the European Investment Bank ("EIB") with a ceiling of 40,000 thousand euros, with a drawdown period of 24 months and a duration for each of the drawdowns of seven years of amortisation with a two-year grace period. In February 2022 the first drawdown of this loan was made in the amount of euros 20,000 thousand at a variable interest rate and in January 2023 the second drawdown was made in the amount of Euros 20,000 thousand at a variable interest rate.

In the first half of 2023 Ercros took out several bank loans for a total amount of 39,946 thousand euros with a fixed interest rates for a five and seven years terms, which were mainly used to repay loans from the Ministry of Industry at a higher financial cost. Some of these loans include an ESG ("environmental, social and governance") component.

On 22 December 2023, a syndicated financing agreement was signed with a pool of financial institutions for the next six years structured in two financing lines (a syndicated factoring contract that anticipates customer receivables and a syndicated credit in two tranches, revolving and loan to finance investments) for a total amount of 217 million euros.

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

Increase/Decrease in basis points of debt cost	Effect on profit from operations (thousands of euros)
2023:	
200	-2,384
100	-1,192
-100	1,192
-200	2,384
2022:	
200	-2,903
100	-1,452
-100	1,452
-200	2,903

(iv) Liquidity risk (relevant)

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

In 2023 there has been an increase in net financial debt due to a weaker economic context, which has reduced the cash flow generated by ordinary activities, although the increase in net financial debt is due to a weaker economic environment, which has reduced the cash flow generated by ordinary activities has been brought to levels that the company can afford and that do not compromise its financial position.

On the other hand, much of the Group's financing includes compliance with covenants in relation to its level of indebtedness, financial expenses and maximum capex. There is a risk that some of these covenants could be breached on a timely basis. Historically, in all cases in which there has been a breach of covenant, the company has obtained the corresponding waiver from the financial institutions and expects to obtain such a waiver in the event of a breach of covenant in the future.

In 2023 the company has obtained a waiver in relation to the maximum investment volume, which has been authorised up to 35 million euros, which is higher than the initial authorisation.

With regard to the financing facilities available, the Group has renewed and extended the syndicated financing agreements and currently has until May 2029 a line of credit of 102,000 thousand euros and a syndicated credit facility with an overall limit of 115,000 thousand euros with two tranches: a revolving tranche of 50,000 thousand euros and a loan tranche to finance investments up to a maximum of 65,000 thousand euros.

The Group has arranged several loans with financial institutions and public institutions for a total amount of 114,435 thousand euros.

In addition, if necessary, the Group considers that it could resort to other complementary mechanisms to obtain liquidity, such as partial and selective disposal of non-operating assets, issuance of bonds, etc., in order to obtain liquidity on a one-off basis short or medium-term on organised markets or issuance of a line of promissory notes on the Mercado Alternativo de Renta Fija ("MARF").

(v) Tax risk

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

Practically all the Group's operations are carried out at the parent company, Ercros, S.A., which is based in Spain and fully taxed in Spain.

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

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

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

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

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

5.2. Risks materialised during the financial year

Risks arising in the year	Circumstances which gave rise to the risks	Operation of the control systems
Loss of competitiveness risk	Loss of competitiveness due to continued high energy costs (in Europe) and differing energy intensity aid to the electro-intensive and gas-intensive industry by the members of the European Union.	Signature of contracts covering the supplies. Inclusion of price review clauses in customer contracts, considering fluctuations in energy costs.
Margin loss risk	Falling demand. Increased costs associated with the transition to low-emission technology.	Search for new markets and customers. Enhance customer loyalty through improved service, multi-year contracts and offering products tailored to specific requirements. Improved competitiveness through lower costs. Investments in more efficient technologies.
Loss of market share risk	Appearance of new competitors and capacity increases on the part of current competitors.	Improving competitiveness through investments in the modernisation of facilities, operational improvements and the development of specialities. Increased market share by seeking new markets and customers and better price or service customers current.
Changes in the regulation risk	Increased legal requirements (environment, product safety, safety of people and facilities, etc.).	Monitoring of the sector and of the calls for support through their participation in sectoral groups and associations. Participation, together with sectoral associations, in the definition of new regulations.
Climate change risk	Transition to a low-carbon economy. Increase in average temperature and severe extreme weather events. Reduced precipitation and extreme variability of weather patterns.	Implementing investments to adapt facilities and minimize resource consumption; submitting requests to the competent authorities for improvements to external infrastructure (water drainage network, access to main roads, etc.); implementation of procedures and action plans for emergency situations caused by adverse weather episodes, as well as training workers on their execution.
Human resources risk	Loss of key employees.	Implementation of social measures to promote work-life balance and flexible working hours. Strengthening of training plans and internal promotion. Implementation of the talent management model and the performance system. Encouraging loyalty through loyalty rewards, defined contribution pension plans and life and health insurance.

Risks arising in the year	Circumstances which gave rise to the risks	Operation of the control systems
Liquidity risk	Non-compliance with covenants.	Obtaining waivers from financial institutions. Signing of financing agreements for the short and medium term.
Credit risk	Customer insolvency.	Credit worthiness assessments are carried out for customers with a credit limit above a certain amount and a letter of credit or a bank guarantee is required from the customer for certain sales.

6 / Subsequent events

On 18 January 2024, the Constitutional Court issued a ruling in which it unanimously declared the unconstitutionality of Royal Decree-law 3/2016 in relation to article 3. First, sections One and Two, which established the following measures with effect from 1 January 2016:

- Limitation on the offsetting of tax losses.
- Reversal of impairment losses on investments deducted in years prior to 2013 at the rate of one-fifth as from 2016.
- Limitation of the double taxation deduction to 50% of the gross tax liability.

The impact of this ruling would be limited, in general, without prejudice to possible situations in which the limitation period has been interrupted by verification procedures, to those settlements or self-assessments that have been challenged by pre-sentence form.

The Group has appealed the corporate income tax returns for 2016 to 2022. As a result of this ruling, management and its tax advisors have assessed the impact of the ruling and the Group has recognised an asset corresponding to tax income from the application of tax losses of 18,630 thousand euros plus financial income corresponding to late-payment interest of 707 thousand euros, totalling 19,337 thousand euros receivable from the tax authorities, and other tax income of 5,947 thousand euros for the activation of tax assessments that could not be applied in the recalculation of the new tax assessments.

7 / Risks and opportunities associated with climate change

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

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

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

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

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

d) Impact area financial strategy:
—Operational costs (opex)
—Investment in assets (capex)
—Assets and liabilities
—Capital and financing

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

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

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

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

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

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

Climate opportunity	Associated financial impact	Probability	Time horizon	Impact in financial strategy
Related to resource efficiency and cost savings:				
Reduce water use and consumption	Small operating costs	Probable	Short term	Opex
Derived from the adoption of low carbon energy sources:				
Use of political incentives of support	Reduced exposure to cost increases due to the use of fossil fuels	Certain	Short term	Opex
Use of new technologies	Small operating costs and GEI emissions. Lower exposure to changes in the price of CO_2	Probable	Short term	Opex
Use of energy sources low emisión	Reducción de costes de operación	Probable	Short term	Opex
Switch towards decentralized sustainable energy generation	Greater available funding, reputational improved reputation, major revenues	Probable	Short term	Opex
Related to the increase in climate resilience throughout the production chain:				
Participation in renewable energy programmes and implementation of energy efficiency measures	Increased company resilience, higher 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

8 / Foreseeable evolution

The consensus among trade publications is that the European chemical sector is postponing the anticipated recovery in demand from the first quarter of 2024 to the second half of the same year.

In this context of high uncertainty, weak demand, and strong international competition, the company's margins and volumes are expected to remain negatively affected in the first half of 2024, with gradual recovery anticipated over the remainder of the year.

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

9 / R&D&i activities

9.1. Activities

The Group has four of its own R&D&I centres in Aranjuez, Monzón, Sabiñánigo and Tortosa, which serve the pharmaceutical, chlorine derivatives and intermediate chemical divisions, and collaborates with several universities and technology centres. In 2023, it has incurred expenses and investments in innovation amounting to 6,552 thousand euros (6,658 thousand euros in 2022).

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

The Group's research and development activity in 2023 focused mainly on nine projects. Seven of them have been carried out in collaboration with the CDTI: (i) the development of sustainable solutions in the manufacture of biopolymers; (ii) the development and scale-up of a bioprocess for the production of biopolymers; (iii) the research into eco-sustainable alternatives to the use of intentionally added microplastics in detergent and cosmetic applications; (iv) the development of PVC profiles including thermal insulation made from recycled material; (v) new technology related to the evaporation stage in the antibiotic extraction plant, which was completed this year;(vi) the study of a new system for the polymerisation of moulding compounds; and (vii) the investigation of a process for the synthesis of dipentaerythritol. The development of bio-based and biodegradable antifouling paints for marine applications has been carried out within the public-private collaboration program of the Agencia Estatal de Investigación; and the latest project involves the synthesis of new antibiotic salts.

9.2. Product development

The most important projects in 2023 in relation to the development of new products and the expansion of applications and performance of existing products are described below.

a) In the chlorine derivatives division

- Improvement of TCCA's own tablet formulations and development of customer-specific formulations.
- Anode activations specifically developed for oxygen discharge, applicable to customer electrolytic processes.
- Formulation of 3D printable PVC compounds for both rigid and flexible applications.
- Expansion of the range of PVC composite products for the manufacture of rigid parts by injection and rotational moulding.
- The development of PVC compounds incorporating post-consumer recycled material.
- New grades of the ErcrosBio product range customised to meet the requirements of our customers.
- The development of biopolymer suspensions for surface treatment applications.
- Formulation of biopolymer composites suitable for use in powder bed fusion 3D printing techniques.
- Formulation of biopolymer composites with improved biodegradability (home compostability).

b) In the intermediate chemicals division

- New resins from the ErcrosGreen+ and ErcrosTech families to extend their field of application to more value-added sectors.
- New grades of moulding compounds with extracted properties, specifically designed for the sanitary ware sector.
- Study for the manufacture of more sustainable moulding compounds with a lower carbon footprint.

c) In the pharmaceuticals division

- Laboratory development of processes for new antibiotic active ingredients obtained by fermentation and for other existing products.
- Development for the industrial synthesis of new antibiotic salts.

9.3. Process improvement

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

- Implementation in the electrolysers of the Vila-seca I caustic soda plant of elements with activated anodes using proprietary technology.
- Start-up of sodium chlorite plant IV with proprietary technology.

- Modification of the brine purification process in the caustic soda production process to use salt of different purities.

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

- Reducing the production costs of the PVC polymerisation process by modifying the additives.

- Plan for the decarbonisation of the centres of Vila-seca I and Vila-seca II by means of electrification, recovery and use of low-thermal energy and the substitution of fossil fuels by renewable fuels.

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

- Definition of standard conditions for the different extractive processes in pharmacy.

9.4. In the field of research

In 2023, the Group has developed several lines of research in collaboration with various leading research centres, in which the following stand out:

- Collaboration programmes with the CDTI for the development of sustainable solutions in the manufacture of biopolymers and PVC profiles with recycled insulating materials; research into eco-sustainable alternatives to the use of intentionally added microplastics in detergents and cosmetics applications; the development of a new technology related to the evaporation stage in the antibiotic extraction plant; the development and scale-up of a bioprocess for the production of biopolymers; the study of a new system for the polymerisation of moulding compounds; and the investigation of a process for the synthesis of dipentaerythritol.

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

- The Nuclis R+D collaboration programme with the Generalitat de Catalunya to obtain more sustainable moulding compounds.

- The contract with Polymat, a technology centre of the University of the Basque Country, for the characterisation and development of biopolymers.

- The contracts with the Technological Center of Catalonia ("Eurecat") and the Universitat Rovira i Virgili, for a development project and characterisation of new resins, related to the new range of ErcrosTech resins, as well as in the search for eco-sustainable alternatives for packaging in detergency and cosmetics applications.

- Contracts with the Chemical Institute of Sarria ("IQS"), for the performance of several studies on the development of industrial processes for active pharmaceutical ingredients; as well as for the characterisation of different properties of biopolymer suspensions.

- Contracts with Leitat for a study on new high added-value applications for moulding compounds and for the development of compounds for the production of an insulating foam made from post-consumer recycled PVC.

- The contract with the AINIA technology centre to study the inhibition of the growth of unwanted microorganisms in polymers.

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

- The contract with the National Renewable Energy Center ("Cener"), for the development and scale-up of a bioprocess for the production of biopolymers

- Collaboration with the board of trustees of the Foundation for the Development of New Hydrogen Technologies in Aragón.

10 / Acquisition and disposal of treasury shares

10.1. Acquisition of treasury shares

The board of directors on June 16, 2023, approved the eighth program for the repurchase of own shares for amortization. The repurchase program has a maximum monetary amount of 25,000 thousand euros and is valid until December 31, 2024. However, the number of own shares to be acquired could not exceed 8% of the company's current capital, composed of 91,436 thousand shares.

Considering the limitations of financing contracts, the maximum payout amount for 2023 (40%), and the proposed dividend amount of 6,401 thousand euros, the amount allocated for the repurchase of own shares, using the 2023 payout, amounted to 2,318 thousand euros.

As of December 31, 2023, the Company does not have any treasury shares own.

10.2. Treasury share repurchase programme

The repurchase of treasury shares is based on the authorisation granted to the board of directors by the general assembly ordinary meeting of shareholders on 10 June 2022, for a term of office of for a maximum of five years and up to the maximum permitted by law, for a maximum price or consideration equivalent to the price of the Company's shares on the continuous market at the time of the derivative acquisition of the shares and a minimum equivalent to 75% of the maximum price described above.

The current share repurchase is covered by the shareholder remuneration programme for the period 2021-2024.

The repurchase programmes implemented from 2016 to 2023 are as follows:

Year	Payout	Program	Limit (thousands of euros)	Start date	End date	Shares acquired (thousands)	Inverted amount (thousands of euros)
2016	20%	First	9,000	01/20/17	03/27/17	3,107	9,000
2017	23%	Second	6,000	10/04/17	03/09/18	2,117	6,030
2017	23%	Third	6,000	03/12/18	05/08/18	987	3,995
2018	26%	Third	6,000	05/21/18	07/09/18	453	1,975
2018	26%	Fourth	12,000	07/09/18	12/21/18	1,139	4,957
2018	26%	Fourth	12,000	01/07/19	04/27/19	1,369	4,545
2019	28%	Fifth	18,000	02/12/20	06/30/21	3,945	8,735
2021	32%	Fifth	18,000	03/01/21	06/30/21	1,284	3,511
2021	32%	Sixth	15,000	07/01/21	06/22/22	3,088	9,756
2022	30%	Seventh	25,000	06/23/22	06/23/23	5,163	18,770
2023	28%	Eighth	25,000	06/23/23	12/31/24	–	–
						22,652	**71,274**

11 / Other relevant information

11.1. Shareholder remuneration

a) Shareholder remuneration policy

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

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

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

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

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

In 2023, these conditions were met as the result for the year was 27,585 thousand euros; the solvency ratio was 1.87 (0.53 in 2022); and the gearing ratio was 0.25 (0.21 in 2022).

Ercros' dividend policy is defined in this shareholder remuneration policy. Certain financing agreements contain restrictions limiting shareholder remuneration to 40% of consolidated net profit for the year and conditional upon compliance with certain financial ratios. At year-end 2023, one of the required ratios is not met, but a waiver has been obtained.

b) Shareholder remuneration paid and proposed in 2023

(i) Proposed dividends

According to the shareholder remuneration policy, the board of directors has agreed to propose allocating 23.9% of the year's profit to dividends, proposing a payment of 0.07 euros per share with dividend entitlement, and allocating the remaining amount up to 32.5% of the company's profit to share repurchase for amortization. At the end of the fiscal year, the number of shares entitled to receive dividends is 91,436,199 shares, which are currently in circulation.

THOUSANDS OF EUROS

	Year 2023	Year 2022
Fact dividends on approved ordinary shares and paid	**13,715**	**8,211**
With charge to the benefit of 2021 (0.085 euro/share)	–	8,211
With charge to the benefit of 2022 (0.15 euro/share)	13,715	–
Cash dividends proposed on ordinary shares	**6,401**	**13,751**
With charge to the benefit of 2022 (0,15 euro/share)	–	13,751
With charge to the benefit of 2023 (0,07 euro/share)	6,401	–

11.2. Stock market information

a) Share capital

On 24 July 2023, the Barcelona Mercantile Registry registered a reduction in the share capital of Ercros of 1,548,897 euros, corresponding to the nominal amount of the 5,163 thousand treasury shares that the Company had acquired between 26 June 2022 and 13 April 2023, in order to redeem them within the framework of the shareholder remuneration policy. The redemption of these shares reduced the number of shares in the share capital by 5.34% and entailed a disbursement of 18,769 thousand euros for the Company.

Following this operation and up to the time of approval of the current annual report —on 23 February 2024— the share capital of Ercros amounts to 27,431 thousand euros and is represented by 91,436 thousand ordinary shares with a par value of 0.30 euros each of them.

The table below shows the evolution of Ercros' share capital between 2022 and 2023:

	Share capital (euros)	Number of shares
At 12/31/22	28,979,756.70	96,599,189
Capital reduction	-1,548,897.00	-5,162,990
At 12/31/23	27,430,859.70	91,436,199

b) Evolution of the action

Ercros shares fell 19% in 2023 (+9% in 2022). This decline is significant when compared to the rise experienced between 2022 and 2023 by the main indices —Ibex-35 (23%), Madrid Stock Exchange General Index ("IGBM") (22%), and Industrial Basic Materials and Construction Index ("ICNS")— (26%).

Thus, Ercros closed 2023 with a market capitalisation of 241,392 thousand euros (312,981 thousand euros at the end of 2022). At 31 December, the Company's share price reached 2.64 euros (3.24 euros at the end of 2022).

The 18th of April marked the day of the year when the share price reached its highest level: 4.81 euros. The average share price in 2023 stood at 3.47 euros (€3.21 in 2022)

In the course of the year, the volume of cash traded reached 118,754 thousand euros (144,495 thousand euros in 2022), while the number of shares exchanged was 34,243 thousand (44,958 thousand in 2022).

The 8th of November 2023 was the day with the highest trading volume: 1,156 thousand shares. The average daily turnover for the year stood at 134,286 shares.

c) Key stock market ratios

In 2022 and 2023, the CFA —calculated by the operating cash flow divided by the number of shares— has decreased from 0.84 to 0.60. The CFA is a ratio that measures the cash flow generated corresponding to each share.

The evolution of the result has had a direct impact on the improvement of the EPS, which rose from 0.640 euros/share in 2022 to 0.295 euros/share in 2023. This ratio is the quotient of the profit for the year by the weighted average number of shares outstanding and is used to measure the profit corresponding to each share.

In 2023, the P/E ratio —market capitalization divided by income— has increased from 4.97 times in 2022 to 8.75 times in 2023.

Main parameters related to the share

	12/31/23	12/31/22	12/31/21	12/31/20	12/31/19
Shares on the stock market	**91,436,199** [1]	**96,599,1892** [2]	**100,971,237** [3]	**100,971,237** [4]	**104,915,821** [5]
Capitalisation (EUR)	**241,391,565**	**312,981,372**	**299,884,573**	**217,593,015**	**268,584,501**
Traded shares:					
In the course of the year	34,243,015	44,958,441	59,865,606	64,917,707	88,224,937
Highest in one day	1,156,304	750,362	2,443,430	1,856,361	2,413,214
Lowest in one day	21,003	42,483	40,160	21,994	84,469
Daily average	134,286	174,935	233,850	252,598	345,980
Volume traded (euros):					
In the course of the year	118,753,832	144,495,425	187,836,695	143,021,336	220,569,600
Daily average	465,701	562,239	733,737	556,503	864,979
Share price (euros):					
Maximum	4.81	3.91	3.98	2.89	3.95
Lowest	2.40	2.60	2.08	1.41	1.56
Average	3.47	3.21	3.14	2.20	2.50
Last	2.64	3.24	2.97	2.16	2.56
Frequency rate (%)	**100**	**100**	**100**	**100**	**100**
Liquidity ratio (%)	**37.45**	**46.54**	**59.29**	**64.29**	**84.09**

[1] Yearly average 2023 = 93,587,445 shares.

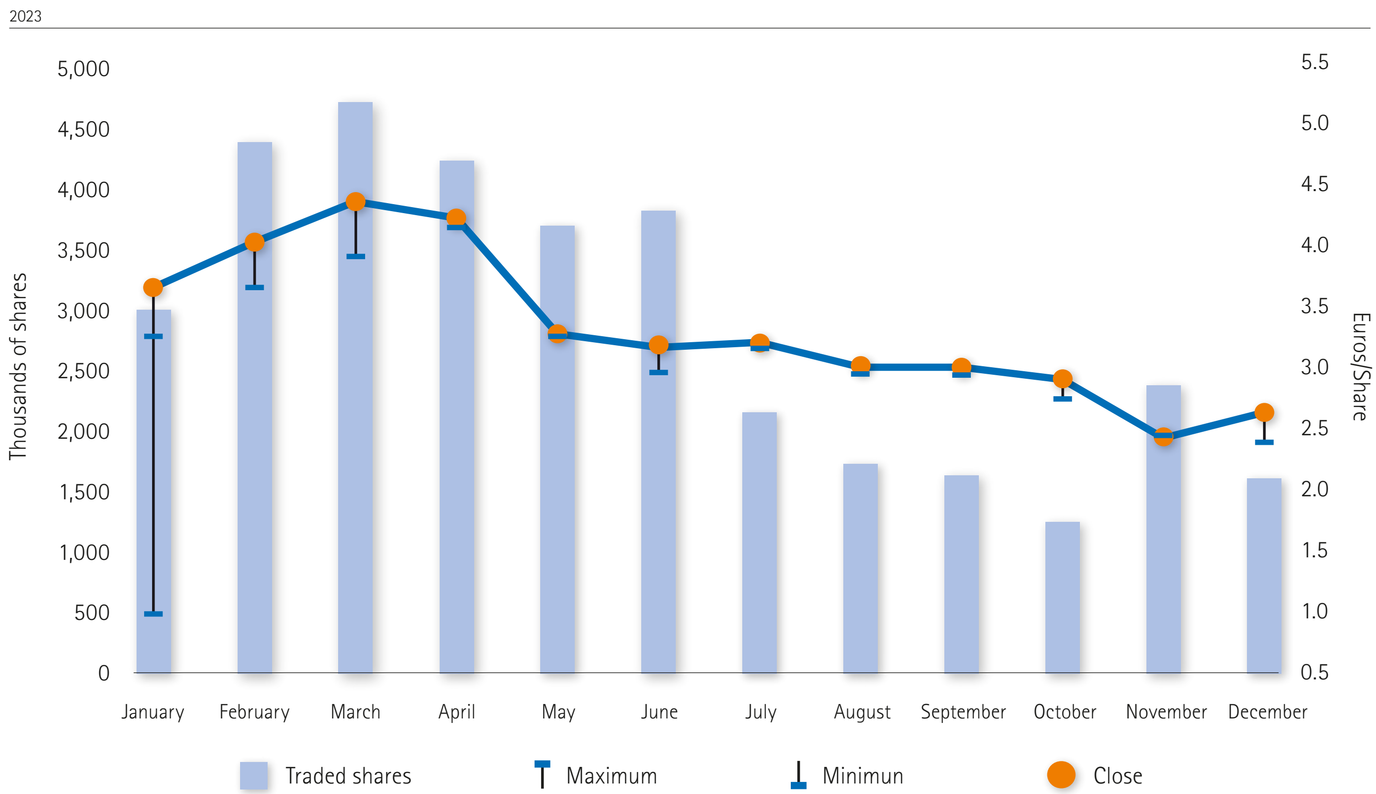
[2] Yearly average 2022 = 98,420,876 shares.

[3] Yearly average 2021 = 100,971,237 shares.

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

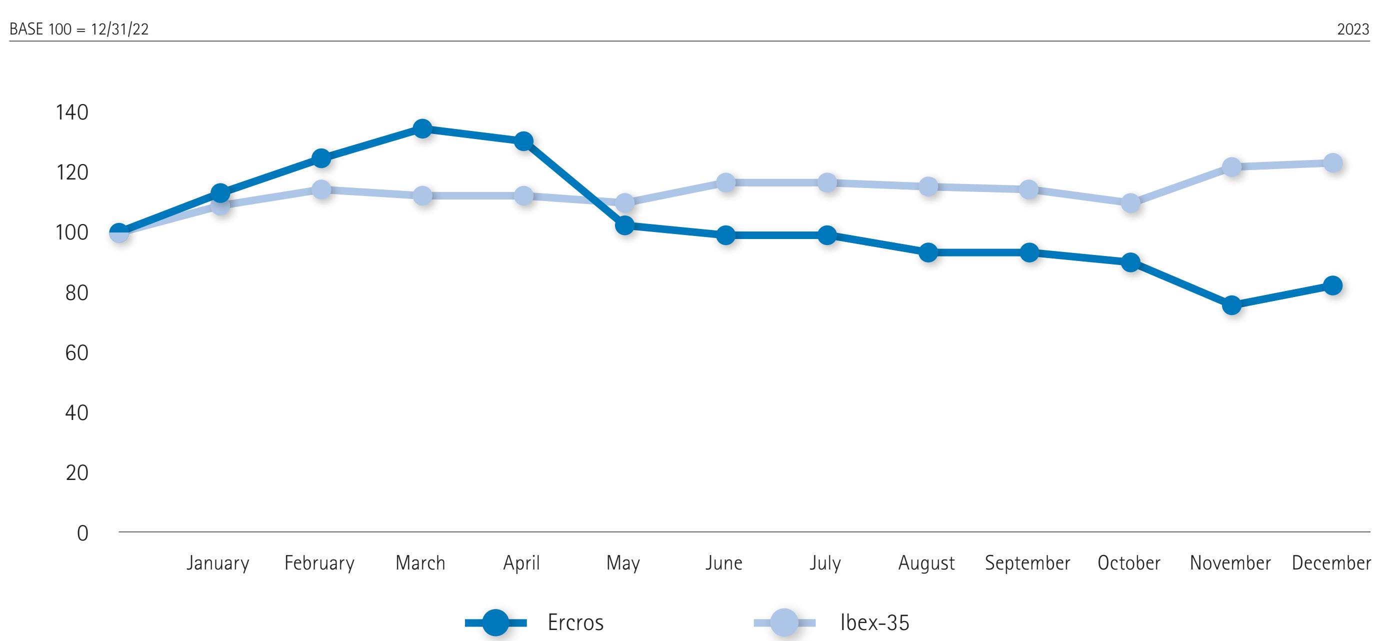
[5] Yearly average 2019 = 106,149,488 shares.

Evolution of share and traded volume



Source: Bolsas y Mercados Españoles ("BME").

Comparison between Ercros and Ibex 35



Source: Bolsas y Mercados Españoles ("BME").

In the reference period, the P/BV —market capitalisation divided by the total equity value, relating the value of Ercros shares on the stock market to their underlying book value— went from 0.87 in 2022 to 0.66 in 2023.

d) Significant shareholders

As a result of the capital reduction carried out by the company on 24 July 2023, on 31 July 2023, the shareholder Joan Casas Galofré notified the Spanish Securities and Exchange Commission ("CNMV") of an increase in his direct shareholding to 6.02% and on 10 August 2023, the shareholder Montserrat Garcia Pruns notified the CNMV of an increase in her direct shareholding to 3.61%.

The shareholder Dimensional Fund Advisors LP announced on 25 September 2023, an increase in its shareholding to 4.99%.

The shareholder Victor Manuel Rodríguez Martín has maintained his number of shares, although his stake has increased to 5.52% as a result of the aforementioned reduction.

According to the communications made by the shareholders to the CNMV, at 31 December 2023, the shareholders with significant holdings own, directly and indirectly, 18,415 thousand shares in the share capital of Ercros, representing 20.14% thereof, as follows of the consolidated financial statements).

Performance of the main stock market indicators

Name or corporate name of shareholder	No. of direct shares (thousand)	No. of indirect shares (thousand)	Interest in share capital (%) [1]
Joan Casas Galofré [2]	5,500	–	6.02
Víctor M. Rodríguez Martín	5,051	–	5.52
Dimensional Fund Advisors LP	–	4,563 [3]	4.99
Montserrat García Pruns	3,300	–	3.61

[1] Percentages are calculated based on the number of shares outstanding at 31 December 2023.

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

[3] Includes the direct participation of its subsidiary, DFA International Small Cap Value Portfolio. On 25 September 2023, this shareholder reported a decrease in its shareholding to to 4.991%.

12 / Annual directors' remuneration report

The Ercros Group publishes an annual directors' remuneration report ("ADRR") in compliance with the provisions of article 541 of the Spanish Companies Act ("LSC"). The IARC is part of this Annual report, but is presented in a separate document as permitted by the regulations.

This report is drawn up in accordance with article 541 of the LSC and follows the model established in Circular 3/2021, of 28 September of the CNMV which amends circular 5/2013 of 12 June.

The ADRR provides information on the directors' remuneration policy applicable to the current financial year, including an overall summary of the application of the remuneration policy during the year ended, as well as details of the individual remuneration accrued for all items by each of the directors in that year.

The ADRR of the Ercros Group for the year ended 31 December 2023 is available on the websites of Ercros (www.ercros.es) and the CNMV (www.cnmv.es).

13 / Annual corporate governance report

The Ercros Group publishes an annual corporate governance report ("ACGR") in compliance with article 540 of the LSC. The ACGR forms part of this Annual report but is presented in a separate document as permitted by law.

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

The ACGR provides information on the corporate governance practices applied, including a description of the main features of the risk management and internal control systems in place related to the financial reporting process.

The Ercros Group's ACGR for the year ended 31 December 2023 is available on the websites of Ercros (www.ercros.es) and the CNMV (www.cnmv.es).

14 / Non-financial information statement

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

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

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

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

The NFI of the Ercros Group for the year ended 31 December 2023 is available on the websites of Ercros (www.ercros.es) and the CNMV (www.cnmv.es).

15

CONSOLIDATED FINANCIAL STATEMENTS OF THE ERCROS GROUP

Consolidated financial statements for the year ended at 31 December 2023.

15.1 / Consolidated statement of financial position

THOUSANDS OF EUROS

Assets	12/31/23	12/31/22
Non-current assets	**473,866**	**446,372**
Property, plant and equipment	345,106	341,495
Investment properties	26,838	26,046
Intangible assets	19,964	19,034
Rights of use of leased assets	9,194	12,265
Investments accounted for using the equity method	7,553	6,691
Financial assets	24,571	6,465
Deferred tax assets	40,640	34,376
Current assets	**209,449**	**300,179**
Inventories	104,278	134,773
Trade and other accounts receivable	55,108	98,507
Exchange rate hedging financial derivative	118	–
Other current assets	7,860	6,759
Current income tax assets	2,940	1,857
Cash and cash equivalents	39,145	58,283
Total assets	**683,315**	**746,551**

THOUSANDS OF EUROS

Equity and liabilities	12/31/23	12/31/22
Equity attributable to owners of the controlling entity	**363,115**	**360,710**
Total liabilities	**320,200**	**385,841**
Non-current liabilities	**156,202**	**163,283**
Loans	94,642	97,151
Lease payables	4,875	7,331
Deferred tax liabilities	23,665	22,919
Provisions for environmental remediation	15,253	18,215
Other provisions	2,091	2,464
Obligations to active staff	2,342	2,401
Accrued income and grants	13,334	12,802
Current liabilities	**163,998**	**222,558**
Loans	7,803	9,277
Current portion of non-current loans	19,544	16,675
Lease payables	4,385	4,993
Trade payables	90,909	139,027
Provisions for environmental remediation	6,259	5,969
Other provisions	20,698	21,874
Other liabilities	14,400	24,743
Total equity and liabilities	**683,315**	**746,551**

15.2 / Consolidated income statement

THOUSANDS OF EUROS

Continuing operations	Year 2023	Year 2022
Income	**757,626**	**1,059,685**
Sales of finished products	707,214	998,532
Rendering of services	18,080	26,370
Other income	31,143	28,394
Reversal of provisions and other non-recurring income	1,189	399
Increase in inventory of finished products and work in progress	–	5,990
Expenses	**-713,320**	**-937,024**
Consumption of raw and secondary materials	-348,324	-470,572
Reduction in finished goods and work-in-process inventories	-8,880	–
Supplies	-137,469	-228,015
Transport	-42,965	-51,938
Staff costs	-91,627	-89,582
Other expenses	-79,065	-76,305
Charge of provisions and other extraordinary expenses	-4,990	-20,612
Gross operating profit ("ebitda")	**44,306**	**122,661**
Depreciation and amortisation expense	-32,273	-29,966
Impairment of non-current assets	1,006	-539
Operating profit ("ebit")	**13,039**	**92,156**
Financial income	1,035	84
Financial costs	-9,793	-6,531
Loss on/(reversal of) impairment of financial assets (accounts receivable)	-13	-124
Exchange rate differences	-805	1,496
Share in profits of associates	1,571	877
Financial result	**-8,005**	**-4,198**
Profit before tax	**5,034**	**87,958**
Income tax expense	23,764	-17,314
Profit from continuing operations	**28,798**	**70,644**
Net loss from discontinued operations after taxes	**-1,213**	**-7,655**
Profit for the year	**27,585**	**62,989**
Basic and diluted earnings per share (euros)	**0.2948**	**0.6400**

15.3 / Consolidated statement of total comprehensive income

THOUSANDS OF EUROS

	Year 2023	Year 2022
Profit for the year	**27,585**	**62,989**
Other comprehensive income (net of tax)	**–**	**-10,957**
Items that will subsequently be reclassified to profit for the year	–	-10,957
Total comprehensive income attributable to owners of the controlling entity	**27,585**	**52,032**

15.4 / Consolidated statement of changes in total equity

THOUSANDS OF EUROS

	Share capital	Other reserves	Treasury shares acquired	Profit for the year	Valuation adjustments	Equity
Balance at 12/31/21	**30,292**	**253,589**	**-6,522**	**43,297**	**10,957**	**331,613**
Transfer of 2021 retained earnings	–	35,086	–	-35,086	–	–
Dividend	–	–	–	-8,211	–	-8,211
2022 comprehensive income	–	–	–	62,989	-10,957	52,032
Transactions with partners and owners:						
Meeting attendance bonus	–	-344	–	–	–	-344
Purchase of treasury shares	–	–	-14,380	–	–	-14,380
Amortisation of treasury shares	-1,312	-11,954	13,266	–	–	–
Balance at 12/31/22	**28,980**	**276,377**	**-7,636**	**62,989**	**–**	**360,710**
Transfer of 2022 retained earnings	–	49,274	–	-49,274	–	–
Dividend	–	–	–	-13,715	–	-13,715
2023 comprehensive income	–	–	–	27,585	–	27,585
Transactions with partners and owners:						
Meeting attendance bonus	–	-331	–	–	–	-331
Purchase of treasury shares	–	–	-11,134	–	–	-11,134
Amortisation of treasury shares	-1,549	-17,221	18,770	–	–	–
Balance at 12/31/23	**27,431**	**308,099**	**–**	**27,585**	**–**	**363,115**

15.5 / Consolidated cash flow statement

THOUSANDS OF EUROS

	Year 2023	Year 2022
A) Cash flows from operating activities	**54,578**	**80,778**
Customer collections	871,048	1,126,832
Proceeds from the net change in the non-recourse tranche of factoring	-21,256	6,705
Proceeds from cash flow hedges	—	12,665
Payments to suppliers	-692,976	-958,532
Proceeds from VAT returns	8,797	4,809
Payments to and on account of ordinary employees	-92,940	-87,917
Payments to and on account of retired employees on the payroll and collective dismissal	-2,334	-118
Payments against provisions for environmental remediation	-6,186	-4,382
Payments of other provisions	-473	-741
Other operating proceeds/payments	-5,877	-7,245
Grants received related to indirect CO_2 emissions	7,214	4,603
Other grants received	4,879	3,453
Interest and fees and commissions payable	-9,647	-4,995
Interest received	288	54
Payments on / proceeds from net exchange gains (losses)	-1,413	2,356
Dividends received	720	600
Proceeds from prior years' income tax refund	1,926	4,338
Payment on account of income tax for the year	-3,344	-17,983
Payments for local taxes and other taxes	-3,848	-3,724
B) Cash flows from investing activities	**-33,835**	**-45,569**
Purchase of property, plant and equipment:		
Investments in capacity extension	-5,277	-15,109
Energy efficiency investments	-8,917	-9,844
Other investments	-19,641	-20,616
C) Cash flows from discontinued operations	**-3,438**	**-7,276**
Free cash flow (A+B+C)	**17,305**	**27,933**
D) Shareholder remuneration	**-25,180**	**-22,935**
Purchase of treasury shares	-11,134	-14,380
Payment of meeting attendance bonus	-331	-344
Dividends paid	-13,715	-8,211
E) Cash flows from financing activities	**-10,731**	**1,480**
Amounts drawn down on non-current loans	46,266	71,729
Repayment and redemption of non-current loans	-45,352	-63,646
Net variation of current revolving lines	-3,505	469
Finance lease payables	-8,140	-7,626
Cancellations of deposits and placements	—	554
F) Net increase/decrease in cash and cash equivalents (A+B+C+D+E)	**-18,606**	**6,478**
Cash and cash equivalents at beginning of the period	58,283	51,573
Effect of foreign exchange rate	-532	232
Cash and cash equivalents at the end of the period	39,145	58,283

16

ERCROS GROUP HISTORICAL DATA SERIES

16.1 / Consolidated statement of financial position

THOUSANDS OF EUROS

Assets	12/31/23	12/31/22	12/31/21	12/31/20	12/31/19	12/31/18 [1]
Non-current assets	**473,866**	**446,372**	**408,176**	**399,202**	**405,035**	**387,735**
Property, plant and equipment	345,106	341,495	324,517	311,291	296,937	281,689
Other non-current assets	128,760	104,877	83,659	87,911	108,098	106,046
Current assets	**209,449**	**300,179**	**301,780**	**191,017**	**251,380**	**237,657**
Inventories	104,278	134,773	122,696	82,278	82,244	97,675
Trade accounts receivable	55,108	98,507	99,232	56,070	86,595	98,656
Other current assets and cash	50,063	66,899	79,852	52,669	82,541	41,326
Total assets	**683,315**	**746,551**	**709,956**	**590,219**	**656,415**	**625,392**

Equity and liabilities						
Equity	**363,115**	**360,710**	**331,613**	**284,215**	**292,083**	**272,256**
Non-current liabilities	**156,202**	**163,283**	**146,057**	**142,189**	**120,937**	**112,191**
Long-term loans	94,642	97,151	92,793	93,553	65,984	48,393
Long-term provisions	19,686	23,080	12,893	11,788	13,261	17,150
Deferred tax liabilities and other non-current liabilities	41,874	43,052	40,371	36,848	41,692	46,648
Current liabilities	**163,998**	**222,558**	**232,286**	**163,815**	**243,395**	**240,945**
Short-term loans	27,347	25,952	20,983	28,712	103,173	83,837
Trade accounts payable and other accounts payable	90,909	139,027	169,905	102,447	101,226	107,655
Provisions and other current liabilities	45,742	57,579	41,398	32,656	38,996	49,453
Equity and total liabilities	**683,315**	**746,551**	**709,956**	**590,219**	**656,415**	**625,392**

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

16.2 / Consolidated statement of comprehensive income

THOUSANDS OF EUROS

Assets	Year 2023	Year 2022	Year 2021	Year 2020	Year 2019	Year 2018 [1]
Income	**757,626**	**1,059,685**	**829,964**	**585,320**	**689,073**	**684,802**
Turnover	725,294	1,024,902	800,055	568,797	669,782	671,940
Other operating income and changes in inventories	32,332	34,783	29,909	16,523	19,291	12,862
Expenses	**-713,320**	**-937,024**	**-744,284**	**-535,719**	**-628,169**	**-613,690**
Supplies	-348,324	-470,572	-400,012	-267,946	-343,573	-341,780
Staff	-91,627	-89,582	-86,965	-84,296	-83,127	-79,870
Other operating expenses	-273,369	-376,870	-257,307	-183,477	-201,469	-192,040
Ebitda	**44,306**	**122,661**	**85,680**	**49,601**	**60,904**	**71,112**
Amortization	-32,273	-29,966	-28,549	-30,329	-26,576	-26,365
Profit/loss due to impairment of assets	1,006	-539	-3,450	-4,335	-5,615	—
Mercury technology abandonment costs	—	—	—	—	—	—
Ebit	**13,039**	**92,156**	**53,681**	**14,937**	**28,713**	**44,747**
Financial result	-8,005	-4,198	-2,525	-7,952	-6,088	-7,029
Earnings before taxes	**5,034**	**87,958**	**51,156**	**6,985**	**22,625**	**37,718**
Income taxes and non-controlling interests	23,764	-17,314	-7,859	-728	8,418	6,876
Discontinuing operations results	-1,213	-7,655	—	—	—	—
Profit of the year	**27,585**	**62,989**	**43,297**	**6,257**	**31,043**	**44,594**

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

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