Ercros

ERCROS, S.A.
AND
SUBSIDIARIES

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

Auditor's report, consolidated financial statements and consolidated management report, for the financial year ended 31 December 2023

(Information prepared in accordance with international financial reporting standards adopted by the European Union)

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B 1. Consolidated statement of financial position

Assets	Note	Thousand euros 31/12/2023	31/12/2022
Non-current assets		**473,866**	**446,372**
Property, plant and equipment	6 a)	345,106	341,495
Investment property	6 b)	26,838	26,046
Intangible assets	6 c)	19,964	19,034
Rights of use of leased assets	6 c)	9,194	12,265
Investments accounted for using the equity method	3 g)	7,553	6,691
Financial assets	6 d)	24,571	6,465
Deferred tax assets	6 o)	40,640	34,376
Current assets		**209,449**	**300,179**
Inventory	6 e)	104,278	134,773
Trade and other accounts receivable	6 f)	55,108	98,507
Exchange rate hedging financial derivative	6 g)	118	-
Total current assets	6 m)	7,860	6,759
Current tax assets	6 o)	2,940	1,857
Cash and cash equivalents	6 h)	39,145	58,283
Total assets		**683,315**	**746,551**

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Equity and liabilities	Note	Thousand euros 31/12/2023	31/12/2022
Profit/(loss) attributable to owners of the parent company	6 i)	**363,115**	**360,710**
Total liabilities		**320,200**	**385,841**
Non-current liabilities		**156,202**	**163,283**
Loans	6 d)	94,642	97,151
Lease creditors	6 d)	4,875	7,331
Deferred tax liabilities	6 o)	23,665	22,919
Provisions for environmental remediation	6 j)	15,253	18,215
Other provisions	6 j)	2,091	2,464
Obligations to active staff	6 k)	2,342	2,401
Deferred income and grants	6 l)	13,334	12,802
Current liabilities		**163,998**	**222,558**
Loans	6 d)	7,803	9,277
Current portion of non-current loans	6 d)	19,544	16,675
Lease creditors	6 d)	4,385	4,993
Trade payables	6 n)	90,909	139,027
Provisions for environmental remediation	6 j)	6,259	5,969
Other provisions	6 j)	20,698	21,874
Other liabilities	6 n)	14,400	24,743
Total equity and liabilities		**683,315**	**746,551**

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B 2. Consolidated income statement

Thousand euros	Notes	Financial Year 2023	Financial Year 2022
<u>Ongoing activities</u>			
Income		**757,626**	**1,059,685**
Sale of finished products	3 e)	707,214	998,532
Services rendered	5 a)	18,080	26,370
Other income	5 c)	31,143	28,394
Reversal of provisions and other extraordinary income	5 e)	1,189	399
Increase in finished goods and work in process inventories	5 d)	-	5,990
Expenses		**-713,320**	**-937,024**
Consumption of raw and secondary materials	5 d)	-348,324	-470,572
Reduction in finished goods and work in process inventories	5 d)	-8,880	-
Supplies		-137,469	-228,015
Transport		-42,965	-51,938
Personnel expenses	5 f)	-91,627	-89,582
Other expenses	5 g)	-79,065	-76,305
Reversal of provisions and other extraordinary expenses	5 e)	-4,990	-20,612
Gross operating profit (“EBITDA”)		**44,306**	**122,661**
Depreciation and amortisation expense	5 d)	-32,273	-29,966
Impairment of value of non-current assets	5 d)	1,006	-539
Operating proft/loss		**13,039**	**92,156**
Financial income	5 b)	1,035	84
Financial costs	5 b)	-9,793	-6,531
Impairment loss/(reversal of) impairment of financial assets (receivables)	6 f)	-13	-124
Exchange rate differences		-805	1,496
Share of profits in associates	3 g)	1,571	877
Financial result		**-8,005**	**-4,198**
Income before tax		**5,034**	**87,958**
Income tax expense	6 o)	23,764	-17,314
Results of the year from ongoing operations		**28,798**	**70,644**
Loss net of tax for the year from discontinued operations	4 e)	**-1,213**	**-7,655**
Income for the year		**27,585**	**62,989**
Basic and diluted earnings per share (euros)	5 i)	**0.2948**	**0.6400**

B 3. Statement of consolidated total comprehensive income

Thousand euros	Notes	Financial Year 2023	Financial Year 2022
Income for the year		**27,585**	**62,989**
Other comprehensive income (net of taxes)		**-**	**-10,957**
Items to be reclassified subsequently to profit or loss for the year	6 g)	-	-10,957
Total comprehensive profit/(loss) attributable to owners of the parent company		**27,585**	**52,032**

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B 4. Consolidated statement of changes in net equity

Thousand euros	Shareholder's equity	Other reserves	Treasury stock purchased	Income for the year	Adjustments for changes in value	Total assets
Balance at 31/12/2021	**30,292**	**253,589**	**-6,522**	**43,297**	**10,957**	**331,613**
Transfer of retained earnings from 2021	-	35,086	-	-35,086	-	-
Dividend	-	-	-	-8,211	-	-8,211
2022 comprehensive income	-	-	-	62,989	-10,957	52,032
Operations with shareholders or owners:						
Board attendance bonus	-	-344	-	-	-	-344
Purchase of own shares [notes 4 b), 3 d) and 6 i)]	-	-	-14,380	-	-	-14,380
Amortisation of treasury shares [notes 4 a) and 6 i)]	-1,312	-11,954	13,266	-	-	-
Balance at 31/12/2022	**28,980**	**276,377**	**-7,636**	**62,989**	**-**	**360,710**
Transfer of retained earnings from 2022	-	49,274	-	-49,274	-	-
Dividend	-	-	-	-13,715	-	-13,715
2023 comprehensive income	-	-	-	27,585	-	27,585
Operations with shareholders or owners:						
Board attendance bonus	-	-331	-	-	-	-331
Purchase of own shares [notes 4 b), 3 d) and 6 i)]	-	-	-11,134	-	-	-11,134
Amortisation of treasury shares [notes 4 a) and 6 i)]	-1,549	-17,221	18,770	-	-	-
Balance at 31/12/2023	**27,431**	**308,099**	**-**	**27,585**	**-**	**363,115**

B 5. Consolidated cash flow statement

Thousand euros	Financial Year 2023	Financial 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* [note 6 d)]	-21,256	6,705
Proceeds from cash flow hedges [note 6 g)]	-	12,665
Supplier payments	-692,976	-958,532
Recovery of VAT settlements	8,797	4,809
Regular payments to and for the account of staff	-92,940	-87,917
Payments to and on behalf of retired staff and for collective redundancies [note 6 j)]	-2,334	-118
Payments against environmental remediation provisions [note 6 j)]	-6,186	-4,382
Payments of other provisions [note 6 j)]	-473	-741
Other operating receipts/payments	-5,877	-7,245
Charging of indirect CO_2 emission subsidies [note 6 l)]	7,214	4,603
Receipt of other subsidies [note 6 l)]	4,879	3,453
Interest and commission payments	-9,647	-4,995
Interest received	288	54
Net foreign exchange payments/receivables	-1,413	2,356
Dividend receipts [note 3 g)]	720	600
Collection of income tax refund from previous years	1,926	4,338
Payment on account of income tax for the year [note 6 o)]	-3,344	-17,983
Payments for local taxes and other levies	-3,848	-3,724
B) Cash flow from investment activities	**-33,835**	**-45,569**
Acquisitions of property plant and equipment:		
Capacity expansion investments	-5,277	-15,109
Energy efficiency investments	-8,917	-9,844
Other investments	-19,641	-20,616
C) Cash flow from discontinued operations [note 4 f)]	**-3,438**	**-7,276**
Free cash flows (A+B+C)	**17,305**	**27,933**
D) Shareholder remuneration	**-25,180**	**-22,935**
Purchase of own shares [note 3 d)]	-11,134	-14,380
Payment of shareholder’s meeting attendance bonus	-331	-344
Dividend payment [note 3 d)]	-13,715	-8,211
E) Financing flows	**-10,731**	**1,480**
Long-term provision of loans	46,266	71,729
Repayment and amortisation of long-term loans	-45,352	-63,646
Net change in short-term revolving lines	-3,505	469
Payments to creditors from financial lease	-8,140	-7,626
Cancellation of taxes and deposits	-	554
F) Net increase/(decrease in cash and cash equivalents (A+B+C+D+E)	**-18,606**	**6,478**
Cash and cash equivalents at the beginning of the year	58,283	51,573
Exchange rate effect	-532	232
Cash and cash equivalents at the end of the period	39,145	58,283

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Sección 1: Corporate and Group information

Nota 1 a) Corporate information

The consolidated financial statements of Ercros, S.A. ("Ercros" or "the Company") and its direct and indirect subsidiaries listed below, which comprise the Ercros Group ("the Group") at 31 December 2023 and 2022, were authorised for issue by resolution of the board of directors on 23 February 2024.

Ercros, S.A. is a public limited company, incorporated and domiciled in Spain, whose shares are authorised for trading on the official stock exchange. Its place of business is at Avenida Diagonal, 595, Barcelona. The registered office coincides with its place of business at Avenida Diagonal, 595, Barcelona.

The company has not changed its name in the current financial year.

The Group's principal activities focus on the production and marketing of chemicals and generic active pharmaceutical ingredients. The structure of the Group is presented in note 1 b) to these consolidated financial statements ("CFS") and information on transactions with other related parties is presented in note 4 d).

Ercros' subsidiaries represent only 0.84% of consolidated revenues (3.58% in 2022) and 0.52% of consolidated assets (0.40% in 2022).

The Group operates through three business segments [see chapter C 1.3 d) of the consolidated management report ("CMR") and note 3 e) of the consolidated financial statements]:

- The division of chlorine derivatives (chlorine, caustic soda, sodium hypochlorite, hydrochloric acid, TCCA, PVC, oxidants and other products).

- The intermediate chemistry division (formaldehyde and derivatives).

- The pharmaceutical division producing generic active pharmaceutical ingredients (mainly erythromycins, fusidic acid and fosfomycins).

At year-end 2022, the Group decided to close the dicalcium phosphate production activity in Flix due to the impossibility of renewing the supply and tolling contracts. During the first two months it has maintained an activity aimed at the realisation of raw material inventories, the result net of tax is presented as a discontinued operation in the consolidated income statement for the years 2023 and 2022.

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

Nota 1 b) Group information

Subsidiaries and associates

Details of the companies comprising the Group at 31 December 2023 and 2022 are shown below, classified into the following categories:

- Subsidiaries: are those that Ercros controls, directly or indirectly, in such a way that it can direct financial and operating policies in order to obtain economic benefits.

- Associates: are those entities, excluded from the previous category, over which Ercros has significant influence and can therefore intervene in financial and operating policy decisions, without having absolute or overall control.

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Subsidiaries and associates included in the consolidated accounts for 2023 and 2022

Company name	Municipality of the registered address	Shareholding (%) 2023	Shareholding (%) 2022	Holding company	Consolidation method
Relevant companies:					
Salinas de Navarra, S.A.[3]	Beriain (Navarre)	24	24	Ercros, S.A.	Shareholding
Aguas Industriales de Tarragona, S.A.[3]	Tarragona (Tarragona)	21.14	21.14	Ercros, S.A.	Shareholding
Non-relevant companies:					
Ercros France, S.A. (in liquidation)	Paris (France)	100	100	Ercros, S.A.	Global
Ercekol, A.I.E.[2]	Tarragona (Tarragona)	45.31	45.31	Ercros, S.A.	Global
Asociación Flix-Coquisa, S.L.[1]	Barcelona (Barcelona)	50	50	Ercros, S.A.	Shareholding
Cloratita, S.A.[1]	Barcelona (Barcelona)	100	100	Ercros, S.A.	Global
Gades, Ltd.[1]	Jersey (United Kingdom)	100	100	Ercros, S.A.	Global

1. Inactive.

2. Full consolidation method by controlling interest. The high dilution of the shareholding means that Ercros has control of the company.

3. (See note 3 g).

Ercros, S.A. is the ultimate parent company of all the subsidiaries and associates listed above and therefore does not belong to any other Group.

There are no companies with significant influence in the Group. Significant shareholdings in the share capital of Ercros reported by shareholders to the Spanish Securities Market Commission (CNMV) are detailed in note 4 d) (vi).

On 31 October 2022, the General Shareholders' Meeting of Ercros France, S.A. (a subsidiary dedicated to the marketing in France of the chemical products produced by the Group) resolved to initiate the liquidation of the company as of 1 November 2022. The parent company, Ercros, S.A., will market its products directly in France.

Sección 2: Basis of presentation and other significant accounting policies

Nota 2 a) Basis of presentation

The accompanying consolidated financial statements of the Group have been prepared by the directors of the Parent Company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), as interpreted by the International Accounting Standards Board ("IASB"), which are mandatorily applicable for financial years beginning on or after 1 January 2023.

The amendments to the standards effective from 1 January 2023 have had no material impact on the accompanying consolidated financial statements.

The accounting policies used in the preparation of these consolidated financial statements are the same as those applied in the consolidated financial statements for the year ended 31 December 2022, except for the standards, interpretations and amendments that have been applied for the first time in this financial year, which are detailed in note 2 c) below.

The 2022 annual accounts were approved by the General Shareholders' Meeting held on 16 June 2023.

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

The consolidated annual accounts are presented in euros and all figures are rounded off to the nearest thousand euros, unless otherwise stated.

The information contained in the accompanying financial statements and in the notes to the financial statements for the financial year 2023 is presented for comparative purposes with the information for the financial year 2022. For the purpose of a proper understanding of the Group's business performance as well as the cash flows generated, new line items have been included in both the statement of comprehensive income and the cash flow statement.

Relevant accounting judgements, estimates and assumptions

The key management judgements and estimates made in the preparation of the consolidated financial statements as at 31 December 2023 relate to:

1. An assessment of the likelihood of the occurrence of risks associated with litigation, environmental remediation commitments and other contingencies, and quantification, where appropriate, of the provisions required and the probable date of cash outflows to settle such obligations [see note 6 j)].

2. The estimate of the obligation to be met by Ercros in relation to the environmental recovery of the land at El Hondón. While the obligation of remediation up to residential use is assumed by the owners of the land as stated in the reparcelling project approved in 2013 by the Cartagena City Council, currently responsible for 75% of the remediation of the site, with Ercros having assumed the obligation of the owner obliged to the remaining 25% of the remediation, in 2019 the Government of the Region of Murcia declared the land as being contaminated, declaring Ercros as the primary party responsible for their remediation until the land is suitable for industrial use. Ercros submitted a remediation project in 2020 that has been rejected by the Directorate General for the Environment. Ercros has appealed against both the declaration of contaminated land and the rejection of its project, with a decision rejecting these appeals. On 30 November 2023, Ercros filed a written request for the suspension of the proceedings in view of the desire of all the parties involved in these proceedings to reach an out-of-court agreement on the determinations and characteristics of the remediation project for the El Hondón site (Cartagena) in accordance with the reports issued by the Nuclear Safety Council on 31 March 2023 [see note 7 c) (i)].

3. The estimation of the expected recoverability of tax credits and the determination of the amounts to be recognised as deferred tax assets. The company has elected to reflect as a deferred tax asset (i) the right to reduce taxable income in future periods arising from all temporary differences either arising in the current or prior periods; (ii) the amount it expects to offset for tax losses from prior periods in the next ten years; and (iii) all tax credits credited [see note 6 o)]. The profit estimates for the period 2024-2033 have been reviewed by an independent expert and approved by the Board of Directors. The Group has not considered the effects of the ruling on the unconstitutionality of RDL 3/2016.

Judgements, estimates and assumptions are periodically reviewed by management based on the best information available. Accordingly, in 2023 the Group has provided additional amounts to meet its obligations, as described in note 6 j).

Nota 2 b) Summary of other significant accounting policies

The annual accounts for 2023 have been prepared in accordance with the principle of a going concern.

Classification of items as non-current and current

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

1. It expects to realise it or intends to sell or consume it in its normal operating cycle.

2. It holds the asset primarily for trading purposes.

3. It expects to realise the asset within 12 months of the reporting period.

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

The Group classifies all other assets as non-current.

The Group classifies a liability as current when:

1. It expects to settle the liability in its normal operating cycle.

2. It holds liabilities mainly for trading purposes.

3. It expects to realise the asset within 12 months of the reporting period.
4. It does not have a right at the end of the reporting period to defer settlement of the liability for at least 12 months after the date of the reporting period.

The Group classifies all other liabilities as non-current.

Part of the Group's financing classified as non-current is subject to *covenants*. The Group has obtained a waiver for one *covenant* and is in compliance with all other covenants at the end of 2023 [see note 6 d)]. In the event of non-compliance with future covenants, the Group would apply for a corresponding waiver [see note 3 c)].

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

Conversion of balances in foreign currency

The consolidated financial statements are presented in euros, which is the presentation currency used by the Group. There are no Ercros subsidiaries whose functional currency is not the euro.

Foreign currency transactions are recorded at the exchange rate current on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are measured at the exchange rates prevailing on the date of the consolidated of financial statement and all differences arising are recorded in the statement of consolidated total comprehensive income. The main foreign currency in which the Group conducts transactions is the US dollar.

Nota 2 c) Changes in accounting policies and required disclosures

Standards and interpretations approved by the European Union applied for the first time in this financial period

The accounting policies used in the preparation of these consolidated accounts are the same as those applied in the consolidated accounts for the year ended 31 December 2022, except for the early application of IAS 1 Presentation of financial statements: classification of financial liabilities as current or non-current.

In 2023 the Group has adopted the amendment to IAS 1 concerning the classification of financial liabilities as current or non-current, namely the right to defer settlement of a liability subject to future *covenants*, even if it does not meet those future *covenants* at the reporting date.

On 23 December 2021, the Ercros Group signed a EUR 40 million loan agreement with the European Investment Bank ("EIB"), which includes covenants for compliance with certain financial ratios. These ratios are calculated on the minimum total equity, maximum level of investments, the ratio of consolidated NFD to consolidated EBITDA, the ratio of consolidated EBITDA to consolidated net financial expenses and minimum operating cash. The above-mentioned financial ratios are to be met on a half-yearly basis. All ratios are met by 31 December 2023, but the Group is monitoring compliance with one of the *covenants* by 30 June 2024. In addition, if this ratio is not met, a waiver shall be requested.

The early adoption of this standard has enabled the Group to maintain the outstanding balance at 31 December 2023 with the EIB classified as long-term debt, amounting to EUR 36,927 thousand.

Nota 2 d) Fair value measurement and impairment

Substantially all of the Group's assets and liabilities presented in the financial statements at 31 December 2023 and 2022 are measured at historical cost, or amortised cost, an exception being the use of fair value measurement given the nature of the Group's industrial activity and the assets and liabilities presented in the consolidated financial statements.

The Group also recognises any impairment of assets and the reversal of such impairment. In 2023 the Group has recognised impairment on (i) property, plant and equipment, based on market values [see note 6 a)]; investment property [see note 6 b)] and (ii) inventories, by adjustment to net realisable value [see note 6 e)].

There are no significant differences between the carrying amount and fair value of the various financial assets and liabilities held by the Group as most of them have a maturity of less than one year or are linked to a floating market interest rate that can be reviewed periodically.

The Group has contracted a derivative in 2023 to hedge the exchange rate of a current account remunerated in US dollars. [See note 6 g)].

The Group has not contracted any interest rate hedging instruments.

Nota 2 e) Standards and interpretations issued by the IASB that are not applicable for this financial period

The Group intends to adopt the standards, interpretation and amendments to standards issued by the IASB, which are not mandatory in the European Union, when they become effective, if applicable to it.

The Group is currently analysing their impact and, based on the analyses carried out to date, estimates that their initial application will not have a significant impact on its consolidated financial statements.

Sección 3: Group businesses, operation and management

Nota 3 a) Revenue from contracts with customers

The Group's principal activities focus on the production and marketing of chemicals and active pharmaceutical ingredients. Revenue from the sale of finished goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer and the amount of revenue can be reliably measured, which is generally upon actual delivery of the goods.

Information by geographical area

	FY 2023				
Thousand euros	**Internal market**	**Rest of EU**	**Rest of OECD countries**	**Rest of the world**	**Total**
Sale of products	**338,959**	**208,878**	**94,103**	**65,274**	**707,214**
Total assets	682,192	1,123	-	-	683,315
Investments in fixed assets	27,659	-	-	-	27,659

Thousand euros	FY 2022				
	Internal market	Rest of EU	Rest of OECD countrie s	Rest of the world	Total
Sale of products	**532,697**	**277,944**	**109,021**	**78,870**	**998,532**
Total assets	745,585	966	-	-	746,551
Investments in fixed assets	49,493	-	-	-	49,493

The explanation of the information by geographical areas is presented in chapter C 2.1 e) of the CMR.

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

The Group's main financial liabilities comprise loans, credits, factoring, financial leases and trade payables. The main purpose of these financial liabilities is to finance the Group's operations.

The Group's main financial assets are trade receivables, deposits and guarantees, cash and cash equivalents, which mainly arise from its operations and the balance of receivables from the Tax Authorities due to the CC ruling [see note 6 o)].

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 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.

Financial assets and liabilities are exposed to credit risk, market risk (which includes interest rate risk, foreign exchange risk and other price risks such as raw material prices) and liquidity risk.

Financial risks are monitored on a regular basis by the management team. The team is putting emphasis on minimising these risks by virtue to: (i) the cyclical nature of its business; (ii) the significant improvement in profitability since 2015; (iii) its investment plan; (iv) the impact of the conflict between Russia and Ukraine on the economies of the various countries; and (v) its shareholder remuneration policy.

The Group's solvency facilitates access to new lines of financing at competitive rates and terms.

The Group has contracted part of its long-term financing at fixed rates. The rest is contracted at floating interest rates. Therefore, the current scenario of high interest rates will generate an increase in financial costs, although the Group's level of indebtedness is quite low, therefore interest rate increases do not represent a significant risk for the Group.

3 b) (i) Credit risk

The Group has a customer credit management policy in place which is managed in the normal course of business. Creditworthiness assessments are carried out for all relevant customers. In addition, for certain sales, the Group requires the customer to provide a letter of credit or a bank guarantee to secure collection.

In addition, since January 2020, the Group has taken out a credit insurance policy with CESCE, which covers approximately half of the outstanding balance of the portfolio. This policy insures invoices that are assigned without recourse to syndicated factoring.

The maximum exposure to credit risk on trade receivables is detailed in note 6 f).

The Group's customer portfolio is highly diversified and has a historically low NPL ratio.

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

3 b) (ii) Market risk

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 lines and long-term loans from public bodies and banks. Part of the financing is contracted at fixed interest rates and part at floating interest rates normally referenced to Euribor at different maturities [see note 6 d)]. In this regard, as we are in an environment of higher interest rates than in previous 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 limit of EUR 40,000 thousand, at a floating interest rate, with a drawdown period of 24 months and a 7-year repayment for each drawdown and a 2-year grace period. This loan is intended to finance investments in research, development and innovation ("R&D&I"), digitalisation, decarbonisation and modernisation of its main facilities as part of the 3D Strategic Plan that Ercros has launched for the 2021-2025 period. In February 2022 the first drawdown of this loan was made in the amount of EUR 20,000 thousand and in January 2023 the second drawdown of the same amount was made.

During 2023 Ercros has taken out a bank loan of EUR 5,000 thousand with a floating interest rate for a term of 6 years.

On 22 December 2023, the Ercros Group renewed and extended the syndicated financing agreements with a pool of financial institutions for the next six years, structured in two financing lines (a syndicated factoring contract that advances receivables from customers and a syndicated credit in two tranches, revolving and loan to finance investments) for a total amount of EUR 217 million.

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

	Increase/decrease in basis points of the cost of debt	**Effect on the financial result (thousand 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

Exchange rate risk

The asset and liability balances in US dollars at year-end 2023 and 2022 and the net exposure in the consolidated financial statement are detailed below. The Group has no significant exposures in other currencies:

Thousands of dollars	**31 December 2023**	**31/12/2022**
Receivables	22,738	31,227
Treasury	16,513	4,254
Trade accounts payable	-9,443	-11,288
Net balance in dollars	**29,808**	**24,193**

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 6 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 depreciation of the dollar against the euro had a negativeeffect of EUR 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, it 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:

	Financial Year 2023	**Financial Year 2022**
Sales in USD (thousands)	**134,538**	**154,900**
Dollar/euro exchange rate	*1.083*	*1.052*
Euro equivalent (thousands)	124,201	147,237
Purchases in USD (thousands)	**31,201**	**65,231**
Dollar/euro exchange rate	*1.085*	*1.036*
Euro equivalent (thousands)	28,750	62,979
Net dollar exposure (thousands)	**103,337**	**89,669**
Euro equivalent (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 Ercros Group's sales and purchases with respect to the average exchange rate in 2023 which was 1.08, all other variables being remained constant:

Dollar/euro ratio	**Effect on operating profit (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

Risk of fluctuation in raw material prices

The Group purchases raw materials with a significant weight in its cost structure, such as methanol and ethylene, as well as electricity and gas supplies, the prices of which fluctuate, affecting its profitability.

To hedge against electricity and gas price risk, the Group has entered long-term supply contracts for part of its consumption.

3 b) (iii) Liquidity risk

The Group manages its liquidity risk using financial planning techniques. These techniques consider cash inflows and outflows from ordinary activities, investing and financing activities, as well as shareholder remuneration. The Group's objective is to maintain a balance between the flexibility, term and conditions of the contracted sources of financing 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 environment, which has reduced the cash flow generated by ordinary activities, although this increase has been to levels that the company can afford, 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 where there has been a breach of covenant, the Group has obtained the corresponding waiver from the financial institutions and expects to obtain such a waiver in the event of a breach of a covenant in the future.

The Group has obtained a waiver for the year 2023 in relation to the maximum investment volume, which has been authorised up to EUR 35 million, which is higher than the initial authorisation.

In relation to the financing facilities available, the Group has renewed and extended the syndicated financing contracts and currently has available until May 2029 a syndicated factoring facility for an amount of EUR 102,000 thousand and a syndicated credit facility with a global limit of EUR 115,000 thousand with two tranches: a revolving tranche for an amount of EUR 50,000 thousand and a loan tranche to finance investments up to a maximum of EUR 65,000 thousand.

The table below details the short-term financial liabilities at 31 December 2023 and 2022 according to their contractual terms:

Thousand euros	**31/12/2023**	**31/12/2022**
Bank borrowings [Note 6 d)]	27,347	25,952
Trade payables [Note 6 n)]	90,909	139,027
Lease creditors [Note 6 d)]	4,385	4,993

To cover short-term financial liabilities, the Group has current assets of EUR 209,449 thousand at 31 December 2023.

As indicated in note 6 d), at 31 December 2023, the Group has available liquidity and funding of EUR 148,632 thousand. In addition, in 2023 the Group has generated free cash flows of EUR 17,305 thousand [see chapter B5 of the consolidated cash flow statement].

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 on the Alternative Fixed Income Market ("MARF").

Nota 3 c) Capital management

Ercros is the head of a chemical group with industrial presence in Spain and customers all over the world. Most of the Group's business is based on the chemistry of chlorine and its derivatives and, therefore, is subject to the typical cyclic nature of these industries, which alternate periods of tight demand and supply with high profitability with others of higher supply and/or lower demand and, consequently, lower profitability, which makes it necessary for efficiency reasons to operate the plants at the highest utilisation ratio.

On the other hand, the main raw materials (methanol and ethylene) and supplies (electricity, gas and steam) have a very significant weight in the Group's costs, hence the cyclical fluctuations in the prices of these raw materials and supplies also cause fluctuations in the Group's profitability insofar as the impact of increases is not always possible, or immediate, and there are no adequate financial instruments to cover these fluctuations.

The Group's activities are subject to regulatory changes, mainly of an environmental nature, which require recurring investments to adapt to new requirements.

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

The Group's objectives in capital management are:

- Pursue a policy of financial prudence, taking into consideration the phase and duration of economic cycles and of its sector.

- Preserve the ability to carry out its operations, maintaining a high level of solvency, so that it can provide adequate returns to its shareholders and benefits to other stakeholders, such as its employees, customers, suppliers, etc.

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

The Group measures and analyses the ratios governing the shareholder remuneration policy on a regular basis and makes forward-looking estimates of these ratios. It also analyses the generation of free cash flow, which is the key factor in determining its investment policy, divestments to reduce debt, dividend payments, capital repayments to shareholders or the issuance of new shares.

The amount of capital is set based on the risks involved, with appropriate adjustments being made to capital in line with changes in economic conditions and the risks associated with the business.

The balance of net financial debt ("NFD") at 31 December 2023 and 2022, as calculated by the Group, is as follows:

Thousand euros	**31/12/2023**	**31/12/2022**
Bank borrowings:		
Non-current	94,642	97,151
Current	7,803	9,277
Current portion of non-current debt	19,544	16,675
Lease creditors	9,260	12,324
Pledged current assets [note 6 m)]	-777	-777
Other non-current assets, pledged deposits [note 6 d)]	-1,257	-1,257
Cash and cash equivalents	-39,145	-58,283
NFD balance	**90,070**	**75,110**

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

Thousand euros	**31/12/2023**	**31/12/2022**
NFD	90,070	75,110
Total assets	363,115	360,710
Leverage ratio (NFD/total equity)	**0.25**	**0.21**

As can be seen in the table above, the leverage ratio (NFD to total assets) has increased slightly in 2023 compared to 2022, remaining below 0.50 times, which is one of the requirements of the shareholder remuneration policy.

The worsening of the ratio is mainly due to the economic situation in the second half of the year, which has resulted in a fall in profit and an increase in net financial debt at the end of 2023 compared to 2022.

Thousand euros	31/12/2023	31/12/2022
NFD opening balance	**75,110**	**65,841**
Free cash flow	-17,305	-27,933
Payment of dividends	13,715	8,211
Share buy-back	11,134	14,380
Payment of shareholder's meeting attendance bonus	331	344
Accrual of non-cash outflows of financial expenses	1,477	775
Renewal of financial lease agreements	5,076	13,724
Effect of changes in exchange rate:		
Cash and cash equivalents	532	-232
NFD year-end balance	**90,070**	**75,110**

The evolution of the NFD ratio divided by ordinary EBITDA was as follows:

Thousand euros	31/12/2023	31/12/2022
NFD	90,070	75,110
Ordinary EBITDA	48,107	142,874
Solvency ratio (NFD/ordinary EBITDA)	**1.87**	**0.53**

Below is the reconciliation between gross operating profit and ordinary EBITDA:

Thousand euros	31/12/2023	31/12/2022
Gross operating profit ("EBITDA")	44,306	122,661
Reversal of provisions and other extraordinary income	-1,189	-399
Reversal of provisions and other extraordinary expenses	4,990	20,612
Ordinary EBITDA	**48,107**	**142,874**

The solvency ratio (NFD over ordinary EBITDA) has increased significantly in 2023 compared to 2022 due to the fall in ordinary EBITDA and the increase in net financial debt, however, it remains below 2. A further requirement of the shareholder remuneration policy, as detailed in note 3 d) below, is therefore fulfilled.

Nota 3 d) Profit sharing made and proposed

3 d) (i) Shareholder remuneration policy:

The Ercros General Shareholders' Meeting held on 11 June 2021 ratified the new shareholder remuneration policy proposed by the Board of Directors for the 2021-2024 period.

The maximum payout will be 50% of the profit for each of the four financial years, subject to: i) obtaining a minimum profit of 10 million euros; and ii) that at the close of each financial year the solvency ratio (net financial debt/ordinary EBITDA) is less than or equal to 2.0 and the indebtedness ratio (net financial debt/equity) is less than or equal to 0.5.

These three conditions were met as of 31 December 2023 [see note 3 d) of these consolidated financial statements and chapter 10.1 a) of the CMR].

Shareholder remuneration will be carried out through the repurchase of own shares for redemption and the payment of a dividend. The buy-back of own shares will be executed provided that a dividend of at least: 18% of profit in 2021; 20% of profit in 2022; 22% of profit in 2023; and 24% of profit in 2024 is foreseen.

Shareholder remuneration will be carried out through the repurchase of own shares for redemption and the payment of a dividend according to the following table:

	2021	**2022**	**2023**	**2024**
Minimum dividend	18%	20%	22%	24%
Maximum share buy-back	32%	30%	28%	26%
Maximum payout	**50%**	**50%**	**50%**	**50%**

On 27 June, the seventh treasury share buy-back programme ended, with an amount invested during its term of EUR 18,770 thousand. On the basis of the seventh programme, the shares corresponding to the 2022 payout were repurchased

Furthermore, at its meeting held on 16 June 2023, the Board of Directors of the Company approved the eighth treasury share buy-back programme, under the authorisation granted to it by the Ordinary General Shareholders' Meeting held on 10 June 2022. This programme runs until 31 December 2024 and provides for a maximum repurchase of EUR 25 million or 8% of the share capital existing at the time of approval.

Ercros

3 d) (ii) Consolidated profit for the year

The profit for the year is broken down as follows:

Thousand euros	FY 2023	FY 2022
Profit of the parent company	26,826	64,967
Share in the profit or loss of companies accounted for using the equity method	1,571	877
Impact of IFRS 16 application	-7	49
Profit of fully consolidated companies	-85	346
Elimination of the dividend of the subsidiary Ercros France	-	-2,650
Elimination of the dividends of companies accounted for using the equity method	-720	-600
Consolidated profit for the year	**27,585**	**62,989**

3 d) (iii) Proposed profit distribution for 2023

The proposed distribution of profit for the 2023 financial year of the parent company, made by the Directors and to be approved at the forthcoming Annual General Shareholders' Meeting is as follows:

Thousand euros	FY 2023
Distribution basis:	
Profit of the parent company	26,826
Application:	
Dividend payment (0.07 euros per share with a dividend right)[1]	6,401
Voluntary reserves	20,425

[1] The amount for the payment of the dividend is an estimated amount at the date of preparation of these annual accounts. At the time of the convening of the General Shareholders' Meeting, the total amount of the dividend shall be established on the basis of the payment of a dividend of EUR 0.07 for each of the shares entitled to receive a dividend at that time.

In accordance with the shareholder remuneration policy, the board of directors has agreed to propose to allocate at least 23.9% of the profit for the year to dividends, proposing the payment of EUR 0.07 per share with dividend rights, and allocating the remaining amount up to 32.5% of the Company's profit to the buy-back of shares for their redemption. At year-end, the number of shares entitled to receive a dividend was 91,436,199 shares, i.e. the number of shares currently in circulation.

Considering that, as indicated in Note 4 f), the Company will have to acquire treasury shares as of the General Shareholders' Meeting until the 32.5% payout is reached.

The amount of the payout forecast for 2023 (32.5% of the company's profit) not earmarked for a dividend (23.9% of the profit for 2023) will be used to buy back shares for redemption.

3 d) (iv) Dividends paid and proposed

The summary of dividends paid and proposed in 2023 and 2022 is as follows:

Thousand euros	FY 2023	FY 2022
Cash dividends on ordinary shares, approved and paid	**13,715**	**8,211**
Charged to 2021 profit (0.085 euro/share)	-	8,211
Charged to 2022 profit (0.15 euro/share)	13,715	-
Proposed cash dividend on ordinary shares	**6,401**	**13,751**
Charged to 2022 profit (0.15 euro/share)	-	13,751
Charged to 2023 profit (0.07 euro/share)	6,401	-

3 d) (v) Treasury shares purchased

In 2023 and 2022, the Company repurchased treasury shares for redemption as part of its shareholder remuneration policy for the following amounts [see note 4 b)]:

Thousand euros	FY 2023	FY 2022
Amount earmarked for buy-back of own shares	**11,134**	**14,380**
Charged to 2021 profit	-	6,744
Charged to 2022 profit	11,134	7,636

Within the framework of the sixth share buy-back programme against the 2022 payout, the company bought back 2,767,852 shares in the first four months of 2023 at an acquisition cost of 11,134 thousand euros.

The board of directors, at its meeting held on 16 June 2023, approved the eighth share buyback programme, which began on 23 June and will end on 31 December 2024, or sooner if the maximum number of shares provided for in the programme, 7,314,896, equivalent to 8% of the share capital, is reached or if the maximum amount allocated to the programme, EUR 25 million, has been invested. As of 31 December 2023, the company has no treasury shares in its portfolio.

Nota 3 e) Segment reporting

For management purposes, the Group is organised into divisions according to the type of products it produces and their marketing process, giving rise to three operating segments: the Chlorine Derivatives Division, the Intermediate Chemicals Division and the Pharmaceuticals Division.

An operating segment is an identifiable component of the Group that provides a single product or service, or a group of related products or services, that is subject to risks and rewards that are different in nature from those of other business segments within the Group.

The main factors considered in identifying the business segments were the nature of the products and services, the nature of the production process and the type of customers.

Segment assets, liabilities, income and expenses include those that are directly assignable as well as those that can be reasonably assigned.

The main products that provide the revenue for each operating segment are detailed below [see CMR chapter C 1.3 d)]:

- In the chlorine derivatives division: chlorine, caustic soda, PVC, TCCA, sodium chlorite, sodium chlorate, sodium hypochlorite, hydrogen peroxide and potash.

- In the intermediate chemicals division: formaldehyde, paraformaldehyde, polyols, moulding powders, urea glues and resins, formaldehyde and melamine-formol.

- In the pharmacy division: erythromycins, fosfomycins and fusidic acid.

The accounting policies for each of the segments are uniform and consistent with those of the Group as a whole. The segments are managed with a reasonable degree of independence according to their characteristics and strategies, and transactions between them are conducted on an arm’s length basis.

Consolidated results by operating segment

	FY 2023				
Thousand euros	**Chlorine derivatives**	**Intermediate chemistry**	**Pharmacy**	**Not assigned**	**Total**
Income	**480,638**	**208,556**	**68,432**	**-**	**757,626**
Sale of products	442,729	197,392	67,093	-	707,214
Services rendered	18,055	25	0	-	18,080
Other income	19,409	11,019	715	-	31,143
Reversal of provisions and other extraordinary income	445	120	624	-	1,189
Expenses	**-450,915**	**-195,324**	**-67,081**	**-**	**-713,320**
Variation of inventories of finished products	-1,715	-9,032	1,867	-	-8,880
Supplies	-212,207	-105,495	-30,622	-	-348,324
Supplies	-113,726	-15,831	-7,912	-	-137,469
Transport	-26,834	-14,713	-1,418	-	-42,965
Personnel expenses	-52,540	-23,369	-15,718	-	-91,627
Other expenses	-39,298	-26,573	-13,194	-	-79,065
Reversal of provisions and other extraordinary expenses	-4,595	-311	-84	-	-4,990
Gross operating income	**29,723**	**13,232**	**1,351**	**-**	**44,306**
Depreciation and amortisation expense	-21,435	-6,553	-4,285	-	-32,273
Impairment of value of non-current assets	1,006	-	-	-	1,006
Operating profit/loss	**9,294**	**6,679**	**-2,934**	**-**	**13,039**
Assets	302,620	152,213	86,370	142,112	683,315
Liabilities	69,043	24,339	11,980	214,838	320,200
Investments in fixed assets	17,664	4,320	3,746	1,929	27,659

The explanation of the consolidated income by segments is presented in chapter C 2.1 of the CMR.

Thousand euros	Chlorine derivatives	Intermediate chemistry	Pharmacy	Not assigned	Total
	FY 2022				
Income	**716,534**	**278,055**	**65,096**	**-**	**1,059,685**
Sale of products	673,099	260,518	64,915	-	998,532
Services rendered	26,334	36	-	-	26,370
Other income	17,045	10,949	400	-	28,394
Increase in inventories of finished products	-183	6,407	-234	-	5,990
Reversal of provisions and other extraordinary income	239	145	15	-	399
Expenses	**-611,356**	**-263,711**	**-61,957**	**-**	**-937,024**
Supplies	-273,309	-169,935	-27,328	-	-470,572
Supplies	-190,335	-29,813	-7,867	-	-228,015
Transport	-29,905	-20,617	-1,416		-51,938
Personnel expenses	-51,517	-23,112	-14,953	-	-89,582
Other expenses	-46,413	-19,614	-10,278	-	-76,305
Reversal of provisions and other extraordinary expenses	-19,877	-620	-115	-	-20,612
Gross operating income	**105,178**	**14,344**	**3,139**	**-**	**122,661**
Depreciation and amortisation expense	-19,414	-6,563	-3,989	-	-29,966
Impairment of value of non-current assets	-539	-	-	-	-539
Operating profit/loss	**85,225**	**7,781**	**-850**	**-**	**92,156**
Assets	355,986	173,778	83,001	133,786	746,551
Liabilities	108,463	39,900	16,541	220,937	385,841
Investments in fixed assets	26,095	4,361	16,834	2,203	49,493

The total amount of fixed asset investments allocated to the business segments corresponds to the sum of (i) additions to advances and fixed assets under construction under “Property, plant and equipment” (EUR 27,448 thousand in 2023 and EUR 47,680 thousand in 2022) [see note 6 a)] and (ii) additions to fixed assets underway under “Intangible assets” (EUR 211 thousand in 2023 and EUR 1,813 thousand in 2022) [see note 6 c)].

In 2023 and 2022 there is no revenue from transactions with a single external customer that represents 10% or more of revenue.

Overheads are allocated to operating segments based on revenues from ordinary activities.

The assets and liabilities allocated to the business segments and their reconciliation to total assets and liabilities in the financial statement at 31 December 2023 and 2022 are set out below:

Thousand euros	31/12/2023	31/12/2022
Assigned assets	**541,203**	**612,765**
Property, plant and equipment	345,106	341,495
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
Inventory	104,278	134,773
Trade and other accounts receivable	55,108	98,507
Unallocated assets	**142,112**	**133,786**
Total assets	**683,315**	**746,551**
Allocated liabilities	**105,362**	**164,904**
Non-current lease payables	4,875	7,331
Current lease payables	4,385	4,993
Trade payables	90,909	139,027
Fixed asset suppliers [note 6 n)]	5,193	13,553
Unallocated liabilities	**214,838**	**220,937**
Total liabilities	**320,200**	**385,841**

Nota 3 f) Basis of consolidation and financial reporting of material investees

The consolidated financial statements include the financial statements of Ercros, S.A. and its subsidiaries at 31 December 2023 as detailed in note 1 b).

The financial statements of each of the Group companies for the year 2023, which are presented in accordance with the regulations applicable to them in the country in which they operate, and which have served as the basis for the preparation of these consolidated financial statements, are pending approval by their respective shareholders' meetings. However, the Directors consider that said annual accounts will be approved without any material changes.

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

- The full consolidation method for subsidiaries.

- The equity method for associates.

Consolidation of subsidiaries begins when the Group obtains control over the subsidiary and ends when control over the subsidiary ceases.

3 f) (i) Changes in the scope of consolidation

In 2023 there were no changes in the control of subsidiaries and associates.

3 f) (ii) Temporary and valuation consistency

The annual accounts of all the companies included in the scope of consolidation are consistent in terms of their structure, year-end date and accounting principles applied. All the Group companies close their financial year on 31 December.

3 f) (iii) Elimination of internal transactions

The various reciprocal balances from internal lending, leasing, dividends, financial assets and liabilities, purchase and sale of inventories and provision of services have been eliminated.

No real estate transactions have been carried out between Group companies.

3 f) (iv) Differences of first-time consolidation

First consolidation differences arising on business combinations, from the elimination between investment and equity, are allocated to assets, liabilities and contingent liabilities whose fair value at the date of the combination differs from that reflected in the consolidated financial statement of the acquired company. The remaining amounts that cannot be assigned are allocated to "Goodwill" under "Intangible assets" when they are positive and to "Negative consolidation difference" under "Other operating income" in the consolidated statement of comprehensive income when they are negative.

In the latter case, the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination are first reconsidered and any excess remaining after such reconsideration is recognised immediately in profit or loss.

The first-time adoption of IFRS was applied at the date of transition (1 January 2004) and an election was made not to reconstruct the accounting for business combinations prior to this date in accordance with the option foreseen in IFRS 1.

Since the adoption of IFRS, the Group has recorded two business combinations, one in 2005 and one in 2006, both of which resulted in a negative consolidation difference. Accordingly, the Group has no value assigned to goodwill in its consolidated of financial statement as at 31 December 2023. All the companies involved in the business combinations were subsequently absorbed by Ercros, S.A.

In addition, as a result of these business combinations and the fair value adjustment of the assets acquired, the headings "Property, plant and equipment" and "Investment property" in the accompanying financial statements at 31 December 2023 include capital gains with respect to the acquisition cost of EUR 48,793 thousand and EUR 13,798 thousand, respectively (EUR 49,468 thousand and EUR 10,521 thousand, respectively, at 31 December 2022).

As a result of the recognition of the aforementioned capital gains, the Group has recorded a deferred tax liability of EUR 12,198 thousand relating to "Property, plant and equipment" and EUR 3,449 thousand relating to "Investment property" at 31 December 2023 (EUR 12,283 thousand and EUR 2,629 thousand respectively at 31 December 2022) [see note 6 o)].

Thousand euros	**Capital gains**	**Deferred tax liabilities**
Investment property	**13,798**	**3,449**
Land	13,798	3,449
Property, plant and equipment	**48,793**	**12,198**
Land	46,562	11,640
Buildings and constructions	2,231	558
Total at 31/12/2023	**62,591**	**15,647**

In addition to these capital gains, other Group land belonging to the acquired companies had previously increased in value by EUR 27,548 thousand, for which a deferred tax liability of EUR 6,887 thousand is also recognised at 31 December 2023, the same amount as at 31 December 2022 [see note 6 o)].

The contribution to the consolidated result of Ercros' investees is detailed below:

Fully consolidated investees

The results contributed by the fully consolidated companies are as follows:

Thousand euros	**FY 2023**	**FY 2022**
Ercros France, S.A.	-85	346
Profit for the period	**-85**	**346**

<u>Ercros France, S.A.</u>

The only material subsidiary owned by Ercros, S.A. is Ercros France, S.A., of which it controls 100% of its share capital and which is engaged in the marketing in France of chemical products produced by Ercros, S.A.

On 31 October 2022, the General Shareholders' Meeting of Ercros France, resolved to initiate the liquidation of the company as of 1 November 2022.

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

Aggregate statement of total comprehensive income.

Thousand euros	**FY 2023**	**FY 2022**
Sale of products	-	24,994
Cost of sales	-	-23,340
Administrative costs	-85	-1,237
Financial results	-	43
Income before tax	**-85**	**460**
Income tax	-	-114
Profit for the year, fully attributable to the parent company	**-85**	**346**

Aggregate statement of financial position

Thousand euros	**FY 2023**	**FY 2022**
Inventory, cash and other current assets	999	842
Property, plant, and equipment and other non-current assets	156	156
Suppliers and other current payables	-845	-690
Current loans	94	277
Net equity, fully attributable to the parent company	**404**	**585**

Cash flow statement

Thousand euros	**FY 2023**	**FY 2022**
Operating flows	708	1,717
Financing flows	183	-1,732
Change in cash and cash equivalents	**891**	**-15**

Nota 3 g) Holdings in associates

Material holdings consolidated by the equity method correspond to Salinas de Navarra, S.A. and Aguas Industriales de Tarragona, S.A. (“Aitasa”).

The movements in investments in investees for the years 2023 and 2022 have been the following:

Thousand euros	Salinas de Navarra, S.A.	Aguas Industriales de Tarragona, S.A.	Total
Balance at 31/12/2021	**4,676**	**1,734**	**6,410**
Share of profits from 2022	864	17	881
Dividend collection	-600	-	-600
Balance at 31/12/2022	**4,940**	**1,751**	**6,691**
Share of profits from 2023	1,585	-3	1,582
Dividend collection	-720	-	-720
Balance at 31/12/2023	**5,805**	**1,748**	**7,553**

In 2023, the Group received a dividend of EUR 720 thousand from the investee Salinas de Navarra, S.A. (EUR 600 thousand in 2022). This amount has been recorded by reducing the value of the shareholding, as shown in the table above.

The relevant financial information of these investees is as follows:

Salinas de Navarra, S.A.

Aggregate statement of comprehensive income

Thousand euros	**FY 2023**	**FY 2022**
Income before tax	**8,807**	**4,372**
Product sales and other revenues	30,150	24,700
Cost of sales	-7,237	-6,700
Personnel costs	-4,398	-4,159
Other operating expenses	-8,328	-8,258
Amortisation	-1,375	-1,196
Financial costs	-5	-15
Income tax	-2,202	-832
Total comprehensive income	**6,605**	**3,540**
Group share of profit for the year (24%)	1,585	850
Deferred tax on investments in associates	-11	-4
Differences due to adjustments to the final reported results	-	14
Group share recorded in comprehensive income	**1,574**	**860**

Aggregate statement of financial position

Thousand euros	**FY 2023**	**FY 2022**
Net equity	**24,187**	**20,582**
Inventory, cash and other current assets	16,930	12,141
Property, plant, and equipment and other non-current assets	13,141	13,040
Suppliers and other current payables	-5,884	-4,599
Group’s share in shareholders’ equity (24%)	5,805	4,940
Book value of the Group's shareholding	**5,805**	**4,940**

Aguas Industriales de Tarragona, S.A.

Aggregate statement of comprehensive income

Thousand euros	FY 2023	FY 2022
Income before tax	**5**	**230**
Product sales and other revenues	17,044	13,128
Cost of sales	-5,666	-3,807
Personnel costs	-1,319	-1,178
Other expenses	-4,583	-4,541
Amortisation	-3,958	-2,954
Financial results	-1,513	-418
Income tax	-1	-50
Total comprehensive income	**4**	**180**
Group share in profit for the year (21.14%)	1	38
Differences due to adjustments to the final reported results	-4	-21
Group share in comprehensive income	**-3**	**17**

Aggregate statement of financial position

Thousand euros	FY 2023	FY 2022
Net equity	**8,267**	**8,282**
Inventory, cash and other current assets	7,723	8,793
Property, plant, and equipment and other non-current assets	46,881	50,007
Suppliers and other current payables	-4,124	-7,461
Non-current liabilities	-42,213	-43,057
Group's share in shareholders' equity (21.14%)	1,748	1,751
Book value of the Group's shareholding	**1,748**	**1,751**

Purchases from investees Salinas de Navarra, S.A. and Aguas Industriales de Tarragona, S.A., which are consolidated using the equity method, together amount to EUR 2,159 thousand in 2023 (EUR 2,049 thousand in the previous year). These transactions have been carried out at market prices [see note 4 d) (ii)].

Sección 4: Significant transactions and events

Nota 4 a) Capital reduction

In 2023, as in 2022, there have been reductions in share capital associated with the repurchase and redemption of own shares provided for in the shareholder remuneration policy [see notes 3 d) and 6 h] of these consolidated financial statements and chapter C 10.2 a) of the CMR]:

Evolution of the number of shares in circulation

	FY 2023	FY 2022
At the beginning of the year	**96,599,189**	**100,971,237**
Amortisation of shares	-5,162,990	-4,372,048
At the end of the year	**91,436,199**	**96,599,189**

Reduction of share capital and other reserves

Thousand euros	FY 2023	FY 2022
Reduction of the share capital (0.30 euro/share)	-1,549	-1,312
Reduction of unrestricted reserves	-17,221	-11,954
Total investment in the purchase of amortised own shares	**-18,770**	**-13,266**

Nota 4 b) Treasury shares buy-back programme

The repurchase of treasury shares is based on the authorisation granted to the board of directors by the ordinary general shareholders' meeting held on 10 June 2022, for a period of five years and up to the maximum permitted by law, for a maximum price or countervalue equivalent to the price of 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 buy-back is covered by the shareholder remuneration programme for the 2021-2024 period [see note 3 d) of these consolidated financial statements and chapter C 8 of the CMR].

The buy-back programmes implemented from 2016 to 2023 are as follows:

Year	*Payout*	Programme	Limit (thousand euros)	Start	End	Treasury stock purchased (thousands)	Amount invested (thousand euros)
2016	20%	First	9,000	20/01/2017	27/03/2017	3,107	9,000
2017	23%	Second	6,000	04/10/2017	09/03/2018	2,117	6,030
2017	23%	Third party	6,000	12/03/2018	08/05/2018	987	3,995
2018	26%	Third	6,000	21/05/2018	09/07/2018	453	1,975
2018	26%	Fourth	12,000	09/07/2018	21/12/2018	1,139	4,957
2018	26%	Fourth	12,000	07/01/2019	27/04/2019	1,369	4,545
2019	28%	Fifth	18,000	12/02/2020	30/06/2021	3,945	8,735
2021	32%	Fifth	18,000	01/03/2021	30/06/2021	1,284	3,511
2021	32%	Sixth	15,000	01/07/2021	22/06/2022	3,088	9,756
2022	30%	Seventh	25,000	23/06/2022	23/06/2023	5,163	18,770
2023	28%	Eighth	25,000	23/06/2023	31/12/2024	-	-
						22,652	**71,274**

On 16 June 2023, the Board of Directors approved the eighth share buy-back programme to redeem own shares. The buy-back programme has a maximum monetary amount of EUR 25,000 thousand and runs until 31 December 2024. In no case, however, could the number of treasury shares to be acquired exceed 8% of the Company's current share capital of 91,436 thousand shares.

Considering the limitation of the financing contracts to the maximum amount of the 2023 payout (40%) and the proposed dividend amount of EUR 6,401 thousand [see note 3 d)], the amount to be allocated to the buy-back of treasury shares against the 2023 payout amounted to EUR 2,318 thousand.

As of 31 December 2023, the company has no treasury shares in its portfolio.

Nota 4 c) 3D investment plan

The 3D Plan contains 20 projects that over the 2021-2029 period will represent a cumulative investment of EUR 92 million and an additional cumulative EBITDA of EUR 194 million. 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 powders 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 at 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 (gentamicin and vancomycin) at the Aranjuez extraction plant, which was built in 2022.

As regards the digitalisation dimension, the Business Intelligence projects for the areas of procurement, logistics, production and maintenance; tracking and monitoring of containers shipped by sea and overland shipments; and mobility solutions in the industrial environment (work permits and meter readings), among others, have been completed. Big Data and IoT projects, mobility and logistics, infrastructure improvement, cybersecurity, optimisation of the work environment and automation, as well as sensorisation and upgrading of control systems in the production area continue to make progress.

In the decarbonisation dimension, the following projects have been completed: (i) improvement of energy efficiency 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, the projects of (i) salt recrystallisation in Sabiñánigo; (ii) recycling of moulding powders in Cerdanyola; and (iii) construction of a photovoltaic park in Flix are expected to be commissioned. The projects for energy recovery, electrification and steam production using biomass at the Tarragona industrial complex have also made progress.

Details of investment commitments at year-end are set out in note 7 a).

Nota 4 d) Breakdown of transactions with related parties

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

Transactions and balances between Ercros and its subsidiaries form part of its ordinary course of business in terms of their nature and conditions and have been eliminated on consolidation [see notes 1 b) and 3 f)].

The transactions carried out by Ercros in 2023 and 2022 with its subsidiaries are detailed below:

Thousand euros	Ercros France, S.A.	Ercekol, S.A.	Total
Financial year 2023:			
Supplies and other expenses	-	-1,881	-1,881
Other income	-	62	62
Financial year 2022:			
Supplies and other expenses	-100	-4,190	-4,290
Financial expenses	-50	-	-50
Sales	23,282	-	23,282
Other income	-	59	59

Balances with subsidiaries are detailed below:

Thousand euros	Ercros France, S.A.	Ercekol, S.A.	Total
Financial year 2023:			
Receivables	718	64	782
Accounts payable	-126	-	-126
Financial year 2022:			
Receivables	689	51	740
Accounts payable	-126	-	-126

4 d) (ii) Ercros' balances and transactions with associates

The transactions carried out by Ercros in 2023 and 2022 with its associates are detailed below:

Thousand euros	Salinas de Navarra, S.A.	Aguas Industriales de Tarragona, S.A.	Total
Financial year 2023:			
Supplies	183	1,976	2,159
Financial year 2022:			
Supplies	346	1,703	2,049

The associate companies have not entered any transactions with each other.

Balances with associate companies are detailed below:

Thousand euros	Salinas de Navarra, S.A.	Aguas Industriales de Tarragona, S.A.	Total
Financial year 2023:			
Accounts payable	-34	-101	-135
Financial year 2022:			
Accounts payable	-22	-535	-557

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

In 2023, the total remuneration earned by the directors amounted to EUR 907 thousand in fixed remuneration, payments in kind and life insurance premiums (EUR 835 thousand in 2022). Directors' fixed remuneration was increased by 5.7% effective 1 January 2023, based on the CPI for the year 2022.

The remuneration received by each director in 2023 and 2022 is detailed below:

Thousand euros	FY 2023					
Remuneration items	Antonio Zabalza Martí	Laureano Roldán Aguilar	Eduardo Sánchez Morrondo	Lourdes Vega Fernández	Carme Moragues Josa	Joan Casas Galofré
Fixed remuneration	572.62	52.85	52.85	68.71	68.71	52.85
Payments in kind	25.86	-	-	-	-	-
Pension plan contributions	-[1]	-	-	-	-	-
Life insurance premiums	12.41	-	-	-	-	-
Total	**610.89**	**52.85**	**52.85**	**68.71**	**68.71**	**52.85**

1. Since 2012, the Group has not made contributions to pension funds and plans for the benefit of the executive director as he has reached the age of 65.

Thousand euros	FY 2022					
Remuneration items	Antonio Zabalza Martí	Laureano Roldán Aguilar	Eduardo Sánchez Morrondo	Lourdes Vega Fernández	Carme Moragues Josa	Joan Casas Galofré
Fixed remuneration	541.74	48.74	48.74	57.12	57.12	48.74
Payments in kind	19.81	-	-	-	-	-
Pension plan contributions	-[1]	-	-	-	-	-
Life insurance premiums	13.14	-	-	-	-	-
Total	**574.69**	**48.74**	**48.74**	**57.12**	**57.12**	**48.74**

1. Since 2012, the Group has not made contributions to pension funds and plans for the benefit of the executive director as he has reached the age of 65.

The directors of Ercros have not received from the Company or its Group of companies any other items of remuneration other than those listed in the table above, such as: statutory benefits, stock options or other financial instruments, advances, loans granted, obligations assumed in pension plans and funds or guarantees provided in their favour.

Ercros has taken out directors' and executives' liability insurance to cover possible claims for management errors by directors and executives. This insurance accrued a net premium of 267,000 euros in 2023(263,000 euros in 2022) and is renewed annually.

4 d) (iv) Remuneration of senior management

The total remuneration of the members of the Group's senior management for the financial year 2023 amounted to EUR 1,011.26 thousand (EUR 907.42 thousand in 2022).

The Company does not have any stock option plans for its directors, senior management or staff.

4 d) (v) Conflicts of interest

No director of the Company has reported any conflict of interest with the Group, in accordance with the provisions of Article 229 of the Spanish Companies Act ("LSC").

4 d) (vi) Main shareholders

According to the notifications 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% of the share capital, as follows:

Shareholder	No. of direct shares (thousands)	No. of indirect shares (thousands)	Shareholding of 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 on the number of shares in circulation at 31 December 2023.
2. Mr Casas Galofré was appointed proprietary director of the Company by 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 4.991%.

The estimated free float of the Company as at 31 December 2023 is 79.86%, after excluding significant shareholdings (20.14%).

The movements of significant shareholdings in the capital of Ercros during the financial years 2023 and 2022 can be consulted in the CNMV register (www.cnmv.es).

4 d) (vii) Shareholder directors

The following table shows the shareholdings in the share capital of Ercros at the end of 2023 and 2022 of the members of the Company's Board of Directors:

Board Members	Voting rights at 31 December 2023[1] Number	%	Voting rights at 31 December 2022[2] Number	%
Joan Casas Galofré[3]	5,500,000	6.02	5,500,000	5.69
Antonio Zabalza Martí[3]	100,000	0.10	100,000	0.10
Laureano Roldán Aguilar	100	0.00	100	0.00

1. Percentages are calculated on the number of shares in circulation at 31 December 2023.

2. Percentages are calculated on the number of shares in circulation at 31 December 2022.

3. As a result of the capital reduction carried out by the Company on 24/07/23, (i) the proprietary director Joan Casas Galofré reported on 31/07/23 an increase in his direct holding to 6.02%, and (ii) the managing director Antonio Zabalza Martí voluntarily reported on 28/07/23 a change in the percentage from 0.104% to 0.109% of the number of shares he holds (100,000), which has not changed.

Nota 4 e) Closure of the Flix factory

At year-end 2022, the Group decided to close the dicalcium phosphate production activity in Flix due to the impossibility of renewing the supply and tolling contracts. In this way, the company negotiated with the trade union representatives the termination of most of the workers at this site, keeping a small group for dismantling and remediation work to facilitate the installation of new industries on the industrial site. Thus, at year-end 2022, the company made provisions for staff redundancies and for the decommissioning of facilities, which are disclosed in note 6 j).

Although the activity was scheduled to cease on 31 December 2022, it was extended until the beginning of February 2023 due to the use of all the raw materials in stock and the management of finished products, which is why the results for the first two months of the Flix factory are presented as a discontinued activity in the statement of comprehensive income results for the year 2023.

Details of the results of discontinued operations are provided below:

Thousand euros	FY 2023	FY 2022
Income	600	10,571
Expenses	-2,182	-20,535
Gross operating income	**-1,582**	**-9,964**
Depreciation and amortisation expense	-35	-243
Operating income	**-1,617**	**-10,207**
Income on income tax[1]	404	2,552
Loss net of tax for the year from discontinued operations	**-1,213**	**-7,655**

As the Group shows positive results on a consolidated basis, it has been estimated that losses from discontinued operations generate tax income which is offset by continuing operations at the current rate of 25%.

The cash flows from this discontinued operation are:

Thousand euros	FY 2023	FY 2022
Operations	-3,438	-7,276
Net cash flows	**-3,438**	**-7,276**

Nota 4 f) Impacts arising from Russia's invasion of Ukraine

The group's sales to the countries affected by the conflict and sanctions, Ukraine, Russia and Belarus are less than 0.5%, thus the sanctions imposed by the European Union have not had a significant impact on the group. The group also has no tangible assets in these countries and has recovered virtually all receivables related to customers in these countries, the amount of which is also immaterial.

The other relevant effects of the outbreak of the conflict were the large increase in the price of gas and electricity in Europe in 2022, which in turn led to higher commodity costs and high inflation rates that have led central banks in major economies to aggressively raise interest rates. In 2023 both gas and electricity prices have moderated their increasing trend, although they remain at higher levels than before the conflict. Inflation is starting to ease but is still far from the central banks' target.

As a result, demand for chemical products has been weakening in recent quarters, affecting the group's margins, volumes and profitability. Demand is expected to start recovering from 2024 onwards. The group has taken appropriate measures to mitigate these impacts.

Higher interest rates will mean higher costs for the company, as most of the debt is at floating interest rates.

Nota 4 g) Impacts stemming from the Israel-Gaza conflict

The group's sales to the countries affected by the conflict are less than 0.1%, so in terms of turnover it will not have a significant impact. The group also has no tangible assets in these countries and has recovered virtually all receivables related to customers in these countries, the amount of which is also immaterial.

The relevant effects of the outbreak of the conflict include the tensions in maritime transport in the Red Sea, forcing a change in maritime routes with an increase in freight costs and a delay in the delivery of goods, which affects us both in terms of sales to Asian countries and purchases of supplies from the Asian region.

Nota 4 h) Events occurring after the close of the financial year

On 18 January 2024, the Constitutional Court issued a unanimous ruling declaring the unconstitutionality of RDL 3/2016 in relation to Article 3. First, paragraphs One and Two, which provided for 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 had been challenged prior to the ruling.

The Group has appealed the corporate income tax returns for 2016 to 2022. As a result of this ruling, management and its tax advisers have assessed the impact of the ruling and the Group has recognised an asset corresponding to tax income from the application of tax loss carryforwards of EUR 18,630 thousand plus financial income corresponding to late-payment interest of EUR 707 thousand, totalling EUR 19,337 thousand receivable from the tax authorities [see note 6 o)], and other tax income from the activation of tax deductions that could not be applied in the recalculation of the new tax assessments of EUR 5,947 thousand [see note 6 o) and 6 d)].

Sección 5: Detailed information of certain captions in the consolidated statement of comprehensive income

Nota 5 a) Revenue for provision of services

Thousand euros	FY 2023	FY 2022
Services rendered	18,080	26,370

The Group records under this heading income from supplies to third parties of energy, steam and maintenance services, the cost of which has been reduced in 2023 due to lower energy prices.

Nota 5 b) Financial income and costs

The financial income in 2023 includes the impact of the Constitutional Court ruling on RD 3/2016 in the amount of EUR 707 thousand.

Borrowing costs are recognised as an expense in the period in which they are incurred. The Group does not allocate finance costs to the acquisition of new fixed assets.

The breakdown of this heading of the balance sheet at 31 December 2023 is as follows:

Thousand euros	FY 2023	FY 2022
Euro and US dollar factoring	2,506	1,640
From interest on other loans (Ministry of Industry, ICF, IDAE, ICO and others)	3,065	1,676
Lease creditors [Note 6 d) vi)]	396	471
Bank charges	1,398	1,152
Others	2,428	1,592
Financial costs	**9,793**	**6,531**

Nota 5 c) Other income

The breakdown of "Other income" is as follows:

Thousand euros	FY 2023	FY 2022
Free allocations of CO_2 allowances [note 6 l)]	16,458	16,833
Non-refundable grants taken to profit and loss [note 6 l)]	1,037	1,080
Indirect CO_2 offsets awarded	7,214	4,603
Offsets for electro-intensive status	660	1,194
Gas-intensive subsidy	2,594	400
Training cost subsidies	206	202
Other current operating revenue	1,980	3,317
Work on fixed assets	994	765
Other income	**31,143**	**28,394**

Revenues from the free allocation of CO_2 allowances have a balancing expense for the same amount recorded in "Other expenses" [see note 5 g)] and therefore their net impact on the Group's results is nil.

Nota 5 d) Depreciation, amortisation, impairment of assets, change in inventories and consumption of raw materials included in the statement of comprehensive income and results on sales of investment properties.

5 d) (i) Depreciation and amortisation expense

Depreciation of property, plant and equipment is provided on the cost of such items on a straight-line basis over their estimated useful lives in accordance with the following average depreciation rates, which are reviewed annually:

	FY 2023 and 2022
Buildings and constructions	2–3%
Machinery and installations	7–11%
Other property, plant and equipment	8–12%

Intangible assets are amortised on a straight-line basis over a period of five years.

The breakdown of "Depreciation and amortisation expense" in the consolidated statement of comprehensive income is as follows:

Thousand euros	FY 2023	FY 2022
Depreciation of property, plant and equipment [note 6 a)]	23,828	22,544
Amortisation of intangible assets [note 6 c)]	515	559
Amortisation of investment property [note 6 b)]	214	
Amortisation of rights of use of leased assets [note 6 c) iii)]	7,751	7,106
Amortisation reclassified to discontinued operations [note 6 b)]	-35	-243
Depreciation and amortisation expense	**32,273**	**29,966**

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

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

Thousand euros	FY 2023	FY 2022
Reversal of impairment of investment properties [note 6 b)]	1,006	-
Impairment of property, plant and equipment [note 6 a)]	-	-539
Reversal / Impairment of value of non-current assets	**1,006**	**539**

5 d) (iii) Changes in inventories of finished goods and consumption of raw and secondary materials

The reconciliation between the headings “Change in inventories of finished goods and work in progress” and “Consumption of raw and secondary materials” in the consolidated statement of comprehensive income and the expense for the provision and income from the reversal of impairment of inventories is shown in the following tables:

Thousand euros	FY 2023	FY 2022
Admissions:		
Value of inventories at the beginning of the year [note 6 e)]	-69,681	-61,196
Value of inventories at year-end [note 6 e)]	61,907	69,681
Provision for impairment	-1,400	-2,495
Reversal of provision for impairment	294	-
Change in finished goods and work in progress inventories	**-8,880**	**5,990**
Expenses:		
Purchases	326,709	476,659
Value of inventories at the beginning of the year [note 6 e)]	79,650	66,821
Value of inventories at year-end [note 6 e)]	-54,870	-79,650
Provision for impairment	1,315	6,743
Reversal of provision for impairment	-4,480	-1
Consumption of raw and secondary materials	**348,324**	**470,572**

Nota 5 e) Allocation and reversal of provisions for sundry liabilities

Details of provisions and reversals of provisions for sundry liabilities made by the Group in 2023 and 2022 are as follows [see note 6 j)]:

Thousand euros	FY 2023	FY 2022
Provisions and other extraordinary expenses	**-4,990**	**-20,612**
Provisions for environmental remediation [note 6 j)]	-3,514	-14,168
Other decommissioning expenditure	-	-93
Provision Collective redundancy [note 6 j)]	-	-4,571
Labour claims [note 6 j)]	-55	-809
Other provisions [note 6 j)]	-1,099	-688
Others	-322	-283
Reversals and other extraordinary revenue	**1,189**	**399**
Return of IIEE Alcohol surety insurance 2016-2022	589	-
Sale of scrap metal	100	104
Indemnities for claims	50	140
Sales tangible fixed assets	184	-
Others	266	155

Nota 5 f) Staff expenditure and structure

The breakdown of this heading of the balance sheet at 31 December 2023 is as follows:

Thousand euros	FY 2023	FY 2022
Gross personnel expenses	**93,961**	**89,700**
Wages and salaries accrued	67,939	65,548
Social Security payable by the Group	20,535	19,096
Cost of defined contributions to the active staff pension scheme	2,266	2,169
Accrual of loyalty bonuses [note 6 k)]	228	347
Other social costs	2,993	2,540
Less restructuring provisions applied [note 6 j)(ii)]	**-2,334**	**-118**
Net amount	**91,627**	**89,582**

Staff structure

The average number of people employed by category and gender in 2023 and 2022 is as follows:

	Average workforce					
	FY 2023			FY 2022		
Number of people	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Managers	28	23	5	29	23	6
Senior technicians	66	48	18	64	47	17
Technicians	253	166	87	242	160	82
Group 6 CGIQ	92	79	13	91	77	14
Group 5 CGIQ	168	156	12	172	159	13
Group 4 CGIQ	565	477	88	571	482	89
Group 3 CGIQ	139	130	9	158	147	11
Group 2 CGIQ	23	11	12	21	14	7
Total	**1,334**	**1,090**	**244**	**1,348**	**1,109**	**239**

The staff has been classified according to the categories of the General Chemical Industry Agreement (“CGIQ”).

The number of persons employed at the end of each of the two financial years, distributed by category and gender, is as follows:

	Workforce at year-end					
	31/12/2023			31/12/2022		
Number of people	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Managers	27	21	6	30	24	6
Senior technicians	64	47	17	64	47	17
Technicians	256	163	93	247	164	83
Group 6 CGIQ	95	79	16	89	77	12
Group 5 CGIQ	160	150	10	170	157	13
Group 4 CGIQ	562	476	86	565	479	86
Group 3 CGIQ	125	116	9	157	144	13
Group 2 CGIQ	24	12	12	14	5	9
Total	**1,313**	**1,064**	**249**	**1,336**	**1,097**	**239**

The average number of employed persons with a degree of disability greater than or equal to 33%, distributed by category, is as follows:

Number of people	Average workforce FY 2023	FY 2022
Senior technician	1	-
Technicians	1	1
Group 6	1	1
Group 5	1	1
Group 4	11	11
Group 3	1	1
Total	**16**	**15**

Nota 5 g) Other costs:

The breakdown of the heading “Other expenses” of the consolidated statement of comprehensive income is as follows:

Thousand euros	FY 2023	FY 2022
Research and development costs	472	271
Leases outside the scope of IFRS 16 [note 6 d) (vi)]	3,594	2,770
Royalties	1,450	2,328
Repairs and maintenance	24,473	21,929
Professional services	5,360	6,931
Insurance premiums	4,187	4,688
Advertising and publicity	547	488
Other services	18,691	16,724
Taxes	3,833	3,343
CO_2 emission allowance expenses [note 5 c)]	16,458	16,833
Other expenses	**79,065**	**76,305**

Audit fees

The fees for the audit of the annual accounts for the financial year 2023 amounted to EUR 250 thousand (previous year: EUR 244 thousand).

In addition, fees paid in the year for other services rendered by the auditor of the annual accounts amounted to 97 thousandeuros (39 thousand euros in 2022).

Nota 5 h) Environmental costs

Business actions with environmental impact

Costs incurred in the acquisition of systems, equipment and installations aimed at eliminating, limiting or controlling the possible impacts that could be caused by the normal course of the Group's business on the environment are considered as investments in fixed assets.

All other expenses related to the environment, apart from the aforementioned, are considered expenses for the financial year.

In accordance with current Spanish legislation, the information corresponding to the items included in property, plant and equipment relating to environmental protection and improvement activities is detailed below:

Thousand euros	31/12/2023 Historical cost	31/12/2023 Depreciation	31/12/2022 Historical cost	31/12/2022 Depreciation
At the Almussafes factory:				
Sewage treatment plant	1,031	1,031	1,031	1,026
Other investments	1,577	57	142	47
At the Aranjuez factory:				
Biological treatment plant	1,013	438	1,635	1,353
Closed-loop river water catchment	1,635	1,378	1,013	366
Pea salt plant	460	100	460	67
Extraction plant	15,593	371	14,886	-
Other investments	7,568	1,844	6,913	1,349
At the Cerdanyola factory:				
Formaldehyde emissions treatment system	1,983	897	1,983	755
Other investments	191	65	191	52
At the Flix factory:				
Thermal treatment plant	3,012	3,012	346	346
Biological treatment plant	346	346	3,012	3,012
Photovoltaic park	951	-	252	-
Other investments	559	559	559	559
At the Sabiñánigo factory:				
Change of technology in 2009	18,306	18,306	18,306	17,324
Membrane-based chlorine-soda plant	15,194	6,421	15,194	5,336
Crystallisation of sodium chlorate	3,896	3,695	3,896	3,643
Brine plant	1,394	373	1,394	274
Other investments	577	19	530	-
At the Tarragona factory:				
Biological treatment plant	2,499	2,499	2,499	2,499
Other investments	882	141	353	77
At the Tortosa factory:				
Polyol manufacturing plant	220	58	220	42
Mechanical vapour recompression	1,014	139	1,014	66
Other investments	979	314	892	256
At the Vila-seca I factory:				
Membrane-based chlorine-soda plant	33,894	12,739	33,894	10,288
Soda concentration plant	4,236	1,796	4,236	1,491
Development of the salt park	628	273	628	228
Water collection channelling	529	186	529	148
Chlorine loading	236	68	236	51
Other investments	1,065	71	412	35
At the Vila-seca II factory:				
Reactor at the PVC plant	3,782	1,701	3,782	1,429
Gas treatment plant	8,026	525	7,234	-
Other investments	2,029	111	1,172	26
Total	**135,305**	**59,533**	**128,844**	**52,145**

The expenses incurred in 2023 and 2022, recorded in the consolidated statement of comprehensive income, the purpose of which was to protect and improve the environment, are detailed below:

Thousand euros	**FY 2023**	**FY 2022**
Maintenance	2,524	2,729
Consumption of chemical products and energy	3,586	4,363
Environmental services	8,691	8,502
Staff	2,212	2,854
Internal cost	732	770
External action	1,376	2,144
Total	**19,121**	**21,362**

Nota 5 i) Earnings per share

The calculation of earnings per share for the year is detailed in the table below:

Thousand euros	**FY 2023**	**FY 2022**
a. Earnings obtained (thousand euros)	27,585	62,989
b. Average number of shares outstanding (thousands)	93,587	98,421
Basic and diluted earnings per share (euros) [a/b]	**0.2948**	**0.6400**

In calculating the average number of shares outstanding, the capital reductions in each year have been taken into consideration [note 4 a)].

At the end of 2023 and 2022 there are no potential ordinary shares, hence diluted earnings per share do not differ from basic earnings per share.

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

Nota 6 a) Property, plant and equipment

The movements in 2023 and 2022 in both cost and accumulated depreciation are as follows:

Thousand euros	Balance at 31/12/2022	Additions	Retirements	Transfers	Balance at 31/12/2023
Cost	**984,957**	**27,448**	**-129**	**-**	**1,012,276**
Land and buildings	163,626	-	-28	1,234	164,832
Plant and machinery	751,633	-	-95	58,734	810,272
Other property, plant and equipment	2,826	-	-6	1,348	4,168
Advances and construction in progress	66,872	27,448	-	-61,316	33,004
Accumulated depreciation	**-610,376**	**-23,828**	**25**	**-**	**-634,179**
Buildings	-50,858	-1,454	19	-	-52,293
Plant and machinery	-554,895	-22,126	-	-	-577,021
Other property, plant and equipment	-4,623	-248	6	-	-4,865
Impairment and provisions	**-33,086**	**-**	**95**	**-**	**-32,991**
Buildings	-29	-	-	-	-29
Plant and machinery	-33,057	-	95	-	-32,962
Net value	**341,495**	**3,620**	**-9**	**-**	**345,106**

Thousand euros	Balance at 31/12/2021	Additions	Retirements	Transfers	Balance at 31/12/2022
Cost	**970,078**	**47,680**	**-32,801**	**-**	**984,957**
Land and buildings	178,082	-	-16,597	2,141	163,626
Plant and machinery	752,132	-	-16,180	15,681	751,633
Other property, plant and equipment	2,850	-	-24	-	2,826
Advances and construction in progress	37,014	47,680	-	-17,822	66,872
Accumulated depreciation	**-600,350**	**-22,544**	**12,518**	**-**	**-610,376**
Buildings	-50,650	-1,456	1,248	-	-50,858
Plant and machinery	-545,100	-21,041	11,246	-	-554,895
Other property, plant and equipment	-4,600	-47	24	-	-4,623
Impairment and provisions	**-45,211**	**-539**	**12,664**	**-**	**-33,086**
Buildings	-6,324	-	6,295	-	-29
Plant and machinery	-38,887	-539	6,369	-	-33,057
Net value	**324,517**	**24,597**	**-7,619**	**-**	**341,495**

Additions to property, plant and equipment in 2023 basically correspond to the investments of the 3D Plan, capacity expansions and process improvements carried out in the Group’s various factories, mainly in Sabiñánigo, Vila-seca I and Aranjuez.

The Group has taken out the insurance policies it considers necessary to cover possible damage to property, plant and equipment.

At year-end 2023, land and buildings with a net book value of EUR 29,993 thousand (EUR 29,845 thousand at year-end 2022) are pledged as security for loans and other commitments, guaranteeing debt of EUR 14,820 thousand (EUR 19,337 thousand at year-end 2022), corresponding to financing from the Institut Català de Finances (“ICF”) and Instituto de Crédito Oficial (“ICO”).

The net value at 31 December 2023 of property, plant and equipment acquired under finance leases amounts to EUR 770 thousand (EUR 919 thousand at year-end 2022).

The amount of fully depreciated assets in use at 31 December 2023 totals EUR 356,990 thousand (EUR 299,564 thousand at the end of the previous year).

Investment commitments are detailed in notes 7 a).

Impairment and reversal of impairment of property, plant and equipment

The Group considers each of the factories it operates as a cash-generating unit ("CGU") and does not consider the corporation as a CGU.

The corporation's expenses and assets are allocated among all the CGUs considered for the purpose of determining the free cash flows generated by each of them and the value of the assets allocated to them.

The corporation's assets correspond mainly to the corporate data processing centre, other IT equipment (servers, laptops, etc.), premises for archiving documentation and furniture and installations of the central offices and of the functional areas common to the businesses (logistics, customer service, etc.).

The Group prepares monthly income statements for all its CGUs. This income statement includes a charge for the costs allocated to the corporation.

To detect signs of impairment of a CGU, each month the Group monitors the evolution of:

1. The gross margin obtained by each CGU in absolute value and in relation to sales and its possible deviation from the cycle average. Gross margin is calculated as the difference between net sales minus all variable costs of products sold. Negative deviations of more than 5% in the ratio (as a percentage) of gross margin to sales in relation to the average of the cycle is considered an indicator of impairment.

2. The return generated by the CGU in relation to the tangible assets allocated to that CGU, measured as the ratio of the earnings before interest and taxes of the CGU to the balance of the assets allocated to that CGU. When this ratio is lower than the weighted average cost of capital ("WACC"), it is considered an indication of impairment of the CGU.

If the Group detects indications of impairment of a CGU, it performs the appropriate impairment test, in which case, depending on the interdependence of the various factories, it may consider several factories to be part of the same CGU for the purpose of determining their value in use based on the estimated free cash flows.

None of the Group's CGUs contain goodwill or intangible assets with indefinite useful lives.

At the end of 2023 there is no property, plant and equipment whose impairment can be reversed. On the other hand, based on the aforementioned metrics, the Group estimates that there is no need to recognise impairment in any of the CGUs considered by the Group.

Nota 6 b) Investment property

The movements during the 2023 and 2022 financial periods have been the following:

Thousand euros	Balance at 31/12/2022	Additions	Retirements	Sales	Balance at 31/12/2023
Investment property	63,108	-	-	-	63,108
Accumulated depreciation	-4,289	-214	-	-	-4,503
Impairment	-32,773	-2,423	3,429	-	-31,767
Net value	**26,046**	**-2,637**	**3,429**	**-**	**26,838**

Thousand euros	Balance at 31/12/2021	Additions	Retirements	Sales	Balance at 31/12/2022
Investment property	50,333	14,360	-342	-1,243	63,108
Accumulated depreciation	-4,074	-215	-	-	-4,289
Impairment	-26,859	-6,295	-	381	-32,773
Net value	**19,400**	**7,850**	**-342**	**-862**	**26,046**

The carrying amount of investment property is allocated in full to land and buildings, which at 31 December 2023 incorporate capital gains allocated in the business combinations carried out by the Group in 2005 and 2006 and other increases in value applied previously, for a total amount of EUR 13,798 thousand (EUR 10,521 thousand in 2022).

In 2023, the Group obtained new appraisals for the land of the Monzón and Flix factories. The result of the appraisals has led to a reversal of EUR 3,429 thousand for the land in Monzón and an impairment of EUR 2,423 thousand for the land in Flix.

Investment property corresponds to land and factory sites located in industrial plants that were operational at the time of acquisition by the Group, which have subsequently ceased such activity due to the complete or partial closure of the production centre, and to other land on which no industrial activity has been carried out.

The valuation of land and built-up property in investment property has been valued using the cost method. No value has been assigned to those buildings and facilities where the higher and better use of the land on which they are located makes their demolition advisable, in which case the independent experts who have appraised them have also taken into consideration the cost of such demolition.

The fair value of investment property amounts to EUR 45,575 thousand (EUR 43,185 thousand in 2022).

The fair value of investment properties has increased in 2023 compared to 2022 due to the net impact of the updated valuation of the land of the Monzón factory and the Flix factory. It should be borne in mind that most of the investment properties correspond to land suitable for use by heavy industry, with high-voltage electricity supply, water, a large surface area and communications that make their comparison with the surrounding areas somewhat complicated.

The valuations have not taken into account whether the land is environmentally affected, as the Group carries out regular assessments of the land it owns in order to determine whether remediation is necessary based on its intended use, at which point a corresponding provision is recorded (at 31 December 2023 this provision amounts to EUR 2,780 thousand (EUR 2,354 thousand in 2022)) [see note 6 j)].

The valuations have no limitations and no sensitivity analysis.

Direct operating expenses - including repair and maintenance expenses - related to investment property amounted to EUR 949 thousand (EUR 1,211 thousand euros in the previous year).

Investment property generated rental income of EUR 9 thousand in 2023 (EUR 169 thousand in the previous year).

Nota 6 c) Intangible assets and rights to use leased assets

6 c) (i) Intangible assets

The movements in intangible assets in 2023 and 2022, both in cost and amortisation, are as follows:

Thousand euros	Balance at 31/12/2022	Additions	Retirements	Transfers	Balance at 31/12/2023
Cost	**27,546**	**17,612**	**-16,167**	**-**	**28,991**
Patent and trademark grants	3,161	-	-6	-	3,155
Computer applications	7,732	-	-	211	7,943
Emission rights	16,653	17,401	-16,161	-	17,893
Property, plant and equipment under construction	-	211	-	-211	-
Accumulated depreciation	**-8,512**	**-515**	**-**	**-**	**-9,027**
Patent and trademark grants	-2,312	-130	-	-	-2,442
Computer applications	-6,200	-385	-	-	-6,585
Net value	**19,034**	**17,097**	**-16,167**	**-**	**19,964**

Thousand euros	Balance at 31/12/2021	Additions	Retirements	Transfers	Balance at 31/12/2022
Cost	**19,551**	**18,806**	**-10,811**	**-**	**27,546**
Patent and trademark grants	2,371	-	-	790	3,161
Computer applications	6,709	-	-	1,023	7,732
Emission rights	10,471	16,993	-10,811	-	16,653
Property, plant and equipment under construction	-	1,813	-	-1,813	-
Accumulated depreciation	**-7,953**	**-559**	**-**	**-**	**-8,512**
Patent and trademark grants	-2,046	-266	-	-	-2,312
Computer applications	-5,907	-293	-	-	-6,200
Net value	**11,598**	**18,247**	**-10,811**	**-**	**19,034**

The amount of fully depreciated assets in use amounts to EUR 8,608 thousand (EUR 7,674 thousand in the previous year).

6 c) (ii) Information on greenhouse gas emission allowances

The emission allowances allocated free of charge to the Group for the 2021-2025 period amount to 1,030,247 EUA (“allocated emission allowances”), as follows:

USA

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

This allocation represents an increase of 5% compared to 2021. In the event that the allocation is insufficient to cover the Group’s emissions, allowances will be purchased in the market.

The accounting reflection in the different captions of the consolidated statement of financial position and the consolidated statement of comprehensive income derived from the operation with emission allowances is summarised in the following table:

	Statement of financial position			Consolidated statement of comprehensive income	
Thousand euros	**Intangible assets**	**Current provisions**	**Capital grant**	**Income**	**Expenditure**
Balance at 31/12/2022	**16,653**	**-16,354**	**-289**	**-**	**-**
Allocation of allowances	17,401	-	-17,401	-	-
Delivery of allowances	-16,161	16,354	-193	374	-374
Actual emissions	-	-16,458	16,458	16,458	-16,458
Balance at 31/12/2023	**17,893**	**-16,458**	**-1,425**	**16,832**	**-16,832**

	Statement of financial position			Consolidated statement of comprehensive income	
Thousand euros	**Intangible assets**	**Current provisions**	**Capital grant**	**Income**	**Expenditure**
Balance at 31/12/2021	**10,471**	**-10,443**	**-18**	**-**	**-**
Allocation of allowances	16,993	-	-16,993	-	-
Delivery of allowances	-10,811	10,443	368	72	-72
Actual emissions	-	-16,354	16,354	16,833	-16,833
Balance at 31/12/2022	**16,653**	**-16,354**	**-289**	**16,905**	**-16,905**

The Group does not hold any forward contracts relating to greenhouse gas emission allowances.

6 c) (iii) Rights of use of leased assets

The movements in the rights of use of leased assets in 2023 and 2022, both in cost and depreciation, are as follows:

Thousand euros	Balance at 31/12/2022	Additions	Retirements	Balance at 31/12/2023
Cost	**32,281**	**4,680**	**-1,690**	**35,271**
Properties	1,652	26	-	1,678
Deposits	23,249	2,536	-	25,785
Equipment	1,760	687	-242	2,205
Vehicles	4,353	811	-877	4,287
Others	1,267	620	-571	1,316
Accumulated depreciation [note 5 d) (i)]	**-20,016**	**-7,751**	**1,690**	**-26,077**
Properties	-383	-340	-	-723
Deposits	-14,916	-5,638	-	-20,554
Equipment	-851	-560	242	-1,169
Vehicles	-3,111	-913	876	-3,148
Others	-755	-300	572	-483
Net value	**12,265**	**-3,071**	**-**	**9,194**

Thousand euros	Balance at 31/12/2021	Additions	Retirements	Balance at 31/12/2022
Cost	**19,917**	**13,254**	**-890**	**32,281**
Properties	1,503	149	-	1,652
Deposits	11,645	11,662	-58	23,249
Equipment	1,335	681	-256	1,760
Vehicles	4,447	482	-576	4,353
Others	987	280	-	1,267
Accumulated depreciation [note 5 d) (i)]	**-13,800**	**-7,106**	**890**	**-20,016**
Properties	-75	-308	-	-383
Deposits	-9,726	-5,248	58	-14,916
Equipment	-727	-380	256	-851
Vehicles	-2,748	-939	576	-3,111
Others	-524	-231	-	-755
Net value	**6,117**	**6,148**	**-**	**12,265**

Ercros

The additions in the year 2023 mainly relate to the renewal of warehouse contracts at port terminals. Of the total additions in 2023 there are EUR 2,595 thousand corresponding to extensions of existing contracts and updates for CPI revision (EUR 2,445 thousand in 2022).

Nota 6 d) Financial assets and liabilities

6 d) (i) Non-current financial assets

Details of financial assets in the consolidated statement of financial position are shown below:

Thousand euros	**31/12/2023**	**31/12/2022**
Deposits as security for debts [note 3 c)]	1,257	1,257
Tax Authority debtor on account of Judgement RD 3/2016 [note 4 h)]	19,337	-
Subsidies pending collection	3,294	4,522
Other deposits and guarantees	443	446
Other credits	240	240
Non-current financial assets at amortised cost	**24,571**	**6,465**

6 d) (ii) Financial liabilities with explicit cost

The following table shows details of financial liabilities with explicit cost in the consolidated statement of financial position, all of which relate to loans carried at amortised cost:

Thousand euros	**31/12/2023**	**31/12/2022**
Non-current	94,642	97,151
Current	7,803	9,277
Current portion of non-current loans	19,544	16,675
Loans	**121,989**	**123,103**

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

Thousand euros	Limit	31/12/2023	31/12/2022
Non-current	**94,642**	**94,642**	**97,151**
ICF loans	3,057	3,057	4,013
ICO loans	7,193	7,193	10,752
Ministry of Industry, Trade and Tourism loans	6,366	6,366	7,916
Revolving credit	-	-	20,000
Tranche B revolving credit for investments	-	-	5,625
Tranche A revolving credit investments	5,625	5,625	-
Bank borrowings	32,856	32,856	26,718
European Investment Bank (EIB) loan	36,927	36,927	19,910
Other debts	2,618	2,618	2,217
Current	**107,176**	**7,803**	**9,277**
Other bank loans	5,176	5,176	279
Syndicated factoring with recourse	102,000	2,627	8,998
Current portion of non-current loans	**19,544**	**19,544**	**16,675**
Debts with ICF	971	971	972
ICO loan	3,600	3,600	3,600
Ministry of Industry, Trade and Tourism loans	1,642	1,642	1,545
Tranche B revolving credit for investments	-	-	3,750
Bank borrowings	9,385	9,385	5,544
European Investment Bank (EIB) loan	3,285	3,285	61
Other debts	661	661	1,203

The maturity breakdown of non-current loans as at 31 December 2023 and 2022 is as follows:

Thousand euros	31/12/2023	31/12/2022
2024	-	39,735
2025	23,419	18,680
2026	25,808	16,738
2027	19,550	10,537
2028	14,980	8,500
2029 and after	10,885	2,961
Total	**94,642**	**97,151**

The main financing agreements are as follows:

Contracts subject to compliance with covenants

Some of the Group's financing contracts are subject to compliance with certain covenants which, under certain conditions and if not remedied, could lead to early maturity due to non-compliance with certain financial ratios. These ratios are calculated on the minimum total equity, maximum level of investments, the ratio of consolidated NFD to consolidated EBITDA, the ratio of consolidated EBITDA, consolidated net financial expenses and minimum operating cash. There is a risk that some of these covenants may be breached from time to time. The above-mentioned financial ratios are to be met on a half-yearly basis. All ratios are met as at 31 December 2023, except for the ratio of maximum level of investments for which a waiver has been obtained.

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

In the event of non-compliance with future covenants, the Group would apply for a corresponding waiver [see note 3 c)].

a) Factoring and revolving syndicated credit agreement

On 22 December 2023, Ercros signed the syndicated financing renewal agreement with a pool of financial institutions. The agreement provides for the following financial instruments:

1. A syndicated factoring, with an aggregate limit of EUR 102,000 thousand. The term is six years and includes dollar-denominated customers. It consists of two tranches: (i) a non-recourse tranche, for those customers with payment guaranteed by a credit insurance policy; and (ii) a recourse tranche, for those customers not included in the non-recourse tranche.

2. A syndicated term loan for a global amount of EUR 115,000 thousand comprising two tranches and incorporating an ESG component based on two KPIs to be finalised during the first half of 2024. Depending on the annual assessment of the ESG rating, the margin of this credit may fluctuate within a range of +/- 2.5 basis points.

3. This syndicated credit facility includes a first revolving tranche of EUR 50,000 thousand, for a term of four years, extensible to six years, which replaces the revolving credit facility in force in 2022, and a second specific tranche to finance investments, for a maximum amount of EUR 65,000 thousand for a term of six years.

This tranche to finance investments is drawn down at the end of 2023 by EUR 5,625 thousand and has a drawdown period for the remaining amount of two years from the date of signature. This provision may be made for an amount of EUR 30,000 thousand for the financial year 2024, of which EUR 15,000 thousand are conditional upon obtaining a minimum accumulated EBITDA in the last four quarters of EUR 35,000 thousand; and the remaining amount may be drawn down during the financial year 2025, with EUR 15,000 thousand being freely available, the remaining amount pending drawdown being conditional upon obtaining a minimum accumulated EBITDA in the last four quarters of EUR 55,000 thousand.

As mentioned above, the agreement provides for a factoring tranche for the non-recourse assignment of receivables. The amount drawn down under this contract is not recorded as financial debt of the Group, while the assigned receivables are retired from the consolidated statement of financial position.

At 31 December 2023, the amount drawn down on the non-recourse factoring contract was EUR 43,345 thousand (EUR 66,241 thousand at 31 December 2022).

b) European Investment Bank (EIB) loan

On 23 December 2021, the Ercros Group signed a EUR 40 million loan agreement with the European Investment Bank ("EIB") to finance Ercros' investments in research, development and innovation ("R&D&I"), digitalisation, decarbonisation and modernisation of its main facilities as part of the Plan 3D strategic plan that Ercros has launched for the 2021-2025 period. The EIB loan is backed by the guarantee of the European Fund for Strategic Investments ("EFSI"), the main pillar of the Investment Plan for Europe.

This financing is in loan format and has a drawdown period of 24 months and a duration for each drawdown of 7 years of amortisation with a 2-year grace period. The financing can be at a fixed or floating interest rate. The balance drawn down at 31 December 2023 amounted to EUR 10,661 thousand (EUR 10,065 thousand euros at 31 December 2022).

The contract includes clauses similar to those in the syndicated contract which, under certain conditions and if not remedied, could lead to early maturity due to non-compliance with certain financial ratios. These ratios are calculated on the minimum total equity, maximum level of investments, the ratio of consolidated NFD to consolidated EBITDA, the ratio of consolidated EBITDA to consolidated net financial expenses and minimum operating cash. The above-mentioned financial ratios are to be met on a half-yearly basis. All ratios are met by 31 December 2023.

Contracts not subject to compliance with covenants

ICO loan

This financing, which matured in September 2019, was renewed on 21 June 2019, increasing the amount to EUR 18,000 thousand and extending its maturity to 2026, with a repayment period of seven years with a two-year grace period. In this renewal, the inventory pledge was cancelled. At 31 December 2023, the balance of this loan amounts to EUR 10,793 thousand (EUR 14,352 thousand in the previous year).

ICF loans

These are two loans signed with the Institut Català de Finances ("ICF") for the financing of investments which were signed on 28 July 2017, for a total amount of EUR 8,000 thousand. The two loans have a ten-year term with a two-year grace period and are intended to finance the expansion of chlorine production capacity with membrane technology at the Vila-seca I plant. One of the loans is for EUR 6,000 thousand, is part of the ICF Industry line and has a 2% interest rate subsidy from the Directorate General of Industry of the Regional Government of Catalonia. The other loan is for EUR 2,000 thousand and is part of the ICF Industrial Reactivation line. The balance of these loans at 31 December 2023 is EUR 4,028 thousand (EUR 4,985 thousand in the previous year).

Ministry of Industry, Trade and Tourism loans

They correspond to loans granted by the Ministry of Industry, Trade and Tourism, in different calls, which have a duration of ten years with a three-year grace period.

During the year 2022, EUR 24,565 thousand of these loans were repaid early and replaced by new bank loans at a lower fixed interest rate.

The balance of these loans at 31 December 2023 is EUR 8,008 thousand (EUR 9,461thousand in the previous year). These loans are secured by bank guarantees in the amount of EUR 1,284 thousand at 31 December 2023 (EUR 1,081 thousand at 31 December 2022).

Collateral

The loans with the ICO and the ICF are secured by mortgages on certain of the Group's property, plant and equipment [see note 6 a)].

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

The following table shows the changes in assets and liabilities arising from financing activities in 2023 and 2022:

Thousand euros	Balance at 31/12/2022	Cash flow	Exchange rate effects	Short-term transfers	Leases and other	Balance at 31/12/2023
Financial liabilities	**135,427**	**-10,731**	**-**	**-**	**6,553**	**131,249**
Non-current loans	97,151	15,558	-	-19,544	1,477	94,642
Current loans	9,277	-1,474	-	-	-	7,803
Current portion of non-current loans	16,675	-16,675	-	19,544	-	19,544
Lease creditors	12,324	-8,140	-	-	5,076	9,260
Financial assets	**-2,034**	**-**	**-**	**-**	**-**	**-2,034**
Pledged deposits:						
Non-current [item (i) above]	-1,257	-	-	-	-	-1,257
Current [note 6 m)]	-777	-	-	-	-	-777
Cash and cash equivalents [note 6 h)]	**-58,283**	**18,606**	**532**	**-**	**-**	**-39,145**
Net financial debt	**75,110**	**7,875**	**532**	**-**	**6,553**	**90,070**

Thousand euros	Balance at 31/12/2021	Cash flow	Exchange rate effects	Short-term transfers	Leases and other	Balance at 31/12/2022
Financial liabilities	**120,002**	**926**	**-**	**-**	**14,499**	**135,427**
Non-current loans	92,793	20,258	-	-16,675	775	97,151
Current loans	5,739	3,538	-	-	-	9,277
Current portion of non-current loans	15,244	-15,244	-	16,675	-	16,675
Lease creditors	6,226	-7,626	-	-	13,724	12,324
Financial assets	**-2,588**	**554**	**-**	**-**	**-**	**-2,034**
Pledged deposits:						
Non-current [item (i) above]	-1,257	-	-	-	-	-1,257
Current [note 6 m)]	-1,331	554	-	-	-	-777
Cash and cash equivalents [note 6 h)]	**-51,573**	**-6,478**	**-232**	**-**	**-**	**-58,283**
Net financial debt	**65,841**	**-4,998**	**-232**	**-**	**14,499**	**75,110**

6 d) (iv) Reconciliation of NFD with financing flows

The reconciliation of the NFD to the funding streams in the consolidated statements of financial position in 2023 and 2022 is as follows:

Thousand euros	31/12/2023	31/12/2022
NFD opening balance	**75,110**	**65,841**
Financing flows	-10,731	1,480
New financial lease agreements	5,076	13,724
Non-cash accruals	1,477	775
Increase/decrease in cash and cash equivalents	18,606	-6,478
Effect of changes in exchange rate:		
Cash and cash equivalents	532	-232
NFD year-end balance	**90,070**	**75,110**

6 d) (v) Financing available

The Group's available financing at year-end 2023 is set out below:

Thousand euros	Available
Syndicated factoring	19,427
Revolving syndicated credit facility	50,000
Syndicated revolving credit facility - Capex	15,000
Bank financing lines	24,000
Confirming lines	1,060
Cash and cash equivalents	39,145
Total financing available	**148,632**

The financing available from syndicated factoring is limited on each date by the number of eligible receivables existing at the time of drawing down such financing.

6 d) (vi) Creditors for financial lease

The impact of the application of IFRS 16 on the accompanying consolidated financial statements for 2023 and 2022 is detailed below:

Thousand euros	31/12/2023	31/12/2022
Total increase in assets	**9,194**	**12,265**
Rights of use of leased assets	9,194	12,265
Increase in total liabilities and total equity	**9,194**	**12,265**
Increase in liabilities:		
Lease creditors	9,260	12,324
Reduction of total assets:		
Cumulative earnings	-59	-108
Comprehensive income for the period	-7	49
Reduction of comprehensive income for the period	**-7**	**49**
Increase in depreciation expense	-7,751	-7,106
Increase of financial expenses	-396	-470
Decrease of other expenses	8,140	7,625
Increase in gross operating profit	**8,140**	**7,625**

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

The Group has no rental income from the rights of use of assets.

Lease cash outflows are detailed in chapter B4 of the consolidatedcash flow statement.

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

There have been no gains or losses arising from sale and leaseback transactions.

The carrying amount of right-of-use assets by underlying asset class is detailed in note 6c)(iii).

All future minimum lease payments (including those subject to IFRS 16 and those not subject to IFRS 16) are detailed below:

	FY 2023				
Thousand euros	**Machinery**	**Computer equipment**	**Transport elements**	**Deposits**	**Properties**
2024	300	487	549	2,902	383
Between one and five years	571	488	668	2,618	669
Total	**871**	**975**	**1,217**	**5,520**	**1,052**

	FY 2022				
Thousand euros	**Machinery**	**Computer equipment**	**Transport elements**	**Deposits**	**Properties**
2023	194	388	758	3,590	373
Between one and five years	347	459	568	5,186	1,026
Total	**541**	**847**	**1,326**	**8,776**	**1,399**

Nota 6 e) Inventory

Inventories are stated at acquisition cost (raw materials) or production cost (intermediate and finished goods), and when their market value is lower than said cost, due to market conditions, physical deterioration or obsolescence, an impairment loss is recognised in profit or loss and the appropriate valuation adjustment is made.

The assessment criteria adopted are as follows:

- Supplies warehouse: at acquisition cost, according to the weighted average cost system.

- Products and work in progress and commercial warehouses: at cost of manufacture on the same system basis, including raw and general materials, direct and indirect labour, depreciation and other attributable direct and indirect manufacturing overheads, not exceeding realisable value.

The breakdown of inventories by category, net of the impairment provision, is as follows:

Thousand euros	31/12/2023	31/12/2022
Supplies warehouses and other	28,175	53,995
Spare parts	20,578	16,373
Finished products and work in progress	55,525	64,405
Inventory	**104,278**	**134,773**

The movement in the impairment provision already incorporated in the above figures, as they are presented net of the provision, which mainly corresponds to the adjustment of the value of inventories to their net realisable value, is as follows:

Thousand euros	2023	2022
Balance at 01/01	**-14,558**	**-5,321**
Allocations	-2,715	-9,238
Reversion	4,774	1
Balance at 31/12	**-12,499**	**-14,558**

The breakdown and movement of the provision for impairment of inventories by product type is as follows:

Thousand euros	Supplies	Spare parts	Finished products and work in progress	Total
Balance at 31/12/2021	**1,204**	**1,336**	**2,781**	**5,321**
Allocations	5,878	865	2,495	9,238
Reversion	-1	-	-	-1
Balance at 31/12/2022	**7,081**	**2,201**	**5,276**	**14,558**
Allocation	-	1,315	1,400	2,715
Reversal	-4,480	-	-294	-4,774
Balance at 31/12/2023	**2,601**	**3,516**	**6,382**	**12,499**

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

Thousand euros	Supplies	Spare parts	Finished products and work in progress	Total
Balance as at 31/12/2022	**53,995**	**16,373**	**64,405**	**134,773**
Production/acquisition cost	61,076	18,574	69,681	149,331
Impairment provision	-7,081	-2,201	-5,276	-14,558
Balance as at 31/12/2023	**28,176**	**20,577**	**55,525**	**104,278**
Production/acquisition cost	30,777	24,093	61,907	116,777
Impairment provision	-2,601	-3,516	-6,382	-12,499

Nota 6 f) Trade and other accounts receivable

The changes in the balance of this heading are as follows:

Thousand euros	31/12/2023	31/12/2022
Trade receivables for sales and services rendered:	**56,940**	**100,409**
Assigned to factoring with recourse from customers	2,370	5,714
Unassigned balances	54,570	94,695
Provision for impairment of trade receivables (expected loss)	-1,832	-1,902
Total	**55,108**	**98,507**
Receivables assigned without recourse to factoring and retired from the balance sheet [note 6 d]	**43,345**	**66,241**

Debts with credit institutions from syndicated factoring amounted to EUR 2,627 thousand (EUR 8,998 thousand in the previous year). The difference with the factored balances corresponds basically to the reserve of the amount to be advanced which is retained by the banking syndicate, which is credited once the assigned credit claims corresponding to each remittance factored have been collected.

The maturity analysis of receivables is as follows:

			Non-impaired past due balances				
Thousand euros	**Total**	**Balances not yet due**	**<30 days**	**30-60 days**	**60-180 days**	**180-365 days**	**>365 days**
31/12/2023	56,940	46,909	8,188	1,233	546	50	14
31/12/2022	100,409	87,698	10,147	1,802	709	20	33

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

Thousand euros	2023	2022
Provision at 01/01	**1,902**	**1,998**
Allocation	13	124
Distribution	-83	-220
Provision at 31/12	**1,832**	**1,902**

Nota 6 g) Financial derivatives

The Group has contracted a derivative in 2023 to hedge the exchange rate of a current account remunerated in US dollars, in the amount of EUR 118 thousand at 31 December 2023.

The other comprehensive income of EUR -10,957 thousand in 2022 is due to the settlement of the cash flow hedging financial asset which had no movement in 2023. The movement of this heading during 2022 was as follows:

Thousand euros	Balance as at 31/12/2021	Effective tax rate change	Transfer to profit or loss for the period	Fair value changes	Balance as at 31/12/2022
Cash flow hedge reserve	14,610	-	-12,665	-1,945	-
Deferred tax [Note 6 o) (i)]	-3,653	475	2,755	423	-
Other comprehensive income net of taxe effect	**10,957**	**475**	**-9,910**	**-1,522**	**-**

Nota 6 h) Cash and cash equivalents

The breakdown of this heading is as follows:

Thousand euros	31/12/2023	31/12/2022
Available bank account balances	37,533	55,480
Balance in syndicated factoring account (pledged)	1,612	2,803
Cash and cash equivalents	**39,145**	**58,283**

The balance of the account pledged by the syndicated factoring is made available to the Group on a weekly basis [see note 6 d)].

Bank accounts are remunerated at market interest rates.

Nota 6 i) Total assets

The breakdown of assets is as follows:

Thousand euros	31/12/2023	31/12/2022
Equity attributable to owners of the controlling company	27,431	28,980
Retained earnings and other Group reserves:		
Legal reserve of the parent company	15,451	15,451
Capitalisation reserve	10,860	8,851
Capital adjustment reserve in euros	93	93
Voluntary reserves	281,695	251,982
Profits for the year	27,585	62,989
Less own shares acquired for redemption	-	-7,636
Total assets	**363,115**	**360,710**

6 i) (i) Equity attributable to owners of the controlling company

Registered and paid-up share capital	31/12/2023	31/12/2022
Number of ordinary shares (thousands)	91,436	96,599
Nominal value per share (euro)	0.30	0.30
Share capital (thousand euros)	**27,431**	**28,980**

As stated in note 4 a), in 2023 the share capital was reduced by EUR 1,549 thousand through the redemption of 5,163 thousand shares that had been acquired for redemption under the shareholder remuneration programme for the 2022 payout.

All shares are ordinary shares, each with a nominal value of EUR 0.30, of the same class, which are fully paid-up and are represented by book entries [see chapter 10.2 a) of the CMR].

6 i) (ii) Own shares acquired for redemption

At the end of 2023, the Company did not hold any treasury shares acquired for redemption under the shareholder remuneration policy.

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

The retained earnings and other reserves of the Group companies are subject to certain legal safeguards restricting their free availability, which are detailed below:

Legal reserve

In accordance with the redrafted text of the Spanish Companies Act, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve is not available and can only be used to offset losses, if there are no reserves available for this purpose, or to increase the share capital up to a limit of 10% of the increased capital. It would only be distributable in the event of liquidation of the Group companies. The Company's legal reserve is constituted in excess of the legally required amount at 31 December 2023 and 2022.

Capitalisation reserve

This reserve has been endowed annually since 2016 with a charge to unrestricted profits and is intended to increase the Company's equity, in accordance with the provisions of Article 25 of Law 27/2014, of 27 November, on corporate income tax ("LIS"). The Company annually reduces the pre-tax base by an amount equal to the capitalisation reserve set up with a limit of 10% of the pre-tax base, with this reserve being unavailable for a period of five years [see note 6 o)].

Voluntary reserves

Voluntary reserves are freely distributable subject to the restrictions provided for in the Spanish Capital Companies Act.

Capital adjustment reserve in euros

The restricted reserve is derived by adjusting the nominal value of the shares to the nearest cent, in accordance with Article 28 of Law 46/1998, of 17 December 1998, on the introduction of the euro.

Shareholders' meeting attendance bonus

The amount of the premium paid has been recorded directly as a reduction of the Group's voluntary reserves.

Restrictions on dividend distributions

Some financing contracts 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 one of the required ratios is not met, but a corresponding waiver has been obtained.

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

Provisions are recognised when:

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

2. It is likely that the Group will have to give up resources embodying economic benefits to settle such an obligation.

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

To assess these elements in doubtful cases and, where appropriate, to make the corresponding provision, the Group analyses the factors involved, in collaboration with its legal advisors and specialists, establishing the degree of probability associated with the event in question. If such an estimated degree of probability exceeds 50 %, a corresponding liability is recorded.

Expenses incurred as a result of restructuring processes, mainly employee severance payments, are recognised when there is a formal and detailed plan to carry out the restructuring, identifying the main parameters of the plan (such as activities concerned, main locations, functions and approximate number of employees involved, estimated disbursements and implementation schedule) and a realistic expectation has been created among those affected that the restructuring will be carried out.

The Group does not restate long-term provisions to present value because of the difficulty in determining the probable date of the outflow of resources and the limited relevance of the restatement.

The Group considers that the provisions recorded and detailed in this note are adequate and sufficient to cover the cash outflows necessary to settle the obligations assumed, according to the information available.

The breakdown and movements in current and non-current provisions in 2023 and 2022 are as follows:

6 j) (i) Provisions for environmental remediation

Thousand euros	Balance at 31/12/2022	Allocation	Distribution	Transfers	Balance at 31/12/2023
Non-current	**18,215**	**1,800**	**-**	**-4,762**	**15,253**
Land remediation	12,283	1,800	-	-1,322	12,761
Dismantling	5,932	-	-	-3,440	2,492
Current	**5,969**	**1,714**	**-6,186**	**4,762**	**6,259**
Land remediation	3,219	600	-1,595	1,322	3,546
Dismantling	2,750	1,114	-4,591	3,440	2,713
Provisions for environmental remediation	**24,184**	**3,514**	**-6,186**	**-**	**21,512**

Thousand euros	Balance at 31/12/2021	Allocation	Distribution	Transfers	Balance at 31/12/2022
Non-current	**10,041**	**9,874**	**-**	**-1,700**	**18,215**
Land remediation	8,948	3,942	-	-607	12,283
Dismantling	1,093	5,932	-	-1,093	5,932
Current	**4,357**	**4,294**	**-4,382**	**1,700**	**5,969**
Land remediation	2,767	1,443	-1,598	607	3,219
Dismantling	1,590	2,851	-2,784	1,093	2,750
Provisions for environmental remediation	**14,398**	**14,168**	**-4,382**	**-**	**24,184**

Remediation of land in El Hondón

In relation to the former site located in El Hondón (Cartagena), the Group has assumed the obligation towards Reyal Urbis to decontaminate to residential use the land awarded to said company in the reparcelling project, equivalent to 25% of the cost of the remediation. The City Council of Cartagena has assumed the cost of the remaining 75% of the remediation [see note 7 c)].

Remediation of remaining land and dismantling of plants

The provisions also cover land remediation and the dismantling of the mercury plants and plants affected by the closure of the Flix plant [see note 4 f)], which continue as planned both in terms of the payment schedule and the amounts expected to be paid. The main movements in allocations and applications relate to land remediation and plant dismantling.

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

Thousand euros	Balance at 31/12/2022	Allocation	Distributio n	Reversal	Balance at 31/12/2023
Non-current	**2,464**	**100**	**-473**	**-**	**2,091**
Collective redundancy	1,046	-	-	-	1,046
Labour claims	1,151	55	-473	-	733
Other provisions	267	45	-	-	312
Current	**21,874**	**17,512**	**-18,688**	**-**	**20,698**
Collective redundancy	5,520	-	-2,334	-	3,186
Free CO_2 emission allowances [note 6 c) (ii)]	16,354	16,458	-16,354	-	16,458
Other provisions	-	1,054	-	-	1,054
Other provisions	**24,338**	**17,612**	**-19,161**	**-**	**22,789**

Thousand euros	Balance at 31/12/2021	Allocation	Distributio n	Reversal	Balance as at 31/12/2022
Non-current	**662**	**2,543**	**-741**	**-**	**2,464**
Collective redundancy	-	1,046	-	-	1,046
Labour claims	598	809	-256	-	1,151
Other provisions	64	688	-485	-	267
Current	**12,556**	**19,879**	**-10,489**	**-72**	**21,874**
Collective redundancy	2,113	3,525	-118	-	5,520
Free CO_2 emission allowances [note 6 c) (ii)]	10,443	16,354	-10,371	-72	16,354
Other provisions	**13,218**	**22,422**	**-11,230**	**-72**	**24,338**

The additions of other provisions for the year correspond to the levy established by the US Department of Commerce for imports of TCCA made by Ercros into the US in the period from 1 June 2021 to 31 May 2022.

Nota 6 k) Long-term liabilities to active personnel

These obligations correspond to bonuses for active staff, in accordance with the various agreements signed between the Group and its trade union representatives, as follows:

Thousand euros	Balance at 31/12/2022	Allocation	Distribution	Reversal	Transfers	Balance at 31/12/2023
Non-current	**2,401**	**228**	**-287**	**-**	**-**	**2,342**
Loyalty bonuses	2,401	228	-287	-	-	2,342

Thousand euros	Balance at 31/12/2021	Allocation	Distribution	Reversal	Transfers	Balance at 31/12/2022
Non-current	**2,190**	**397**	**-186**	**-**	**-**	**2,401**
Loyalty bonuses	2,190	397	-186	-	-	2,401

The actuarial calculation to obtain the present value of the obligation derived from the loyalty bonuses has taken into account the mortality tables PER 2020_Ind_1er orden, published in the resolution of the Directorate General of Insurance and Pension Plans on 17 December 2020, and an interest rate of 1.88% per annum, which is the maximum annual interest rate established by the resolution of 17 January 2023 of the aforementioned Directorate General.

Nota 6 l) Deferred income. Public grants

Government grants are recognised at fair value when there is assurance that the conditions attached to the grant will be met and there is a reasonable expectation that the grant will be received.

In the case of a grant related to an expense stream, the grant is taken to profit or loss in the periods necessary to match the grant to the expenses it is intended to offset, on a systematic basis. This is the case for the indirect CO_2 emission allowances and for electro- and gas-intensive consumers, which have been charged directly as revenue for the year.

When the grant relates to an asset, the fair value is recognised as deferred income and is taken to profit or loss over the expected useful life of the asset.

Zero-interest (or subsidised) loans received from public institutions are initially recorded at their discounted value, assuming a market interest rate. Subsequently, the interest expense and amortisation of the implicit grant are charged accordingly.

The breakdown of this heading in 2023 and 2022 was as follows:

Thousand euros	FY 2023	FY 2022
Grants for free allocation of emission allowances:		
Opening balance	**289**	**18**
Allowances allocated in the financial year	17,401	16,993
Transfers to comprehensive income for the period for allowances consumed [note 5 c)]	-16,458	-16,833
Adjustments for previous year allocation	193	111
Closing balance	**1,425**	**289**
Non-repayable grants for investments in property, plant and equipment:		
Opening balance	**12,513**	**10,979**
Grants awarded in the year	725	2,614
Implicit interest grants	440	-
Grants taken to profit or loss for the period [note 5 c)]	-1,037	-1,080
Adjustments to previous years' grants	-732	-
Closing balance	**11,909**	**12,513**
Closing balance of total grants	**13,334**	**12,802**

Grants from the Instituto para la Diversificación y Ahorro de la Energía (“IDAE”) are linked to investments that represent a relevant saving of energy consumed.

The balance pending receipt for grants received is as follows:

Thousand euros	31/12/2023	31/12/2022
Non-current financial assets [note 6 d) (i)]	3,294	4,522
Other current assets [note 6 m)]	1,168	1,572
Grants	**4,462**	**6,094**

The movement in the balance receivable from grants is as follows:

Thousand euros	FY 2023	FY 2022
Opening balance	**6,094**	**5,339**
Concession of:		
Non-repayable grants	725	2,614
Indirect CO_2 emission offsets	7,214	4,603
Electro-intensive consumption offset	660	1,194
Intensive gas consumption offset	2,594	400
Collection of:		
Indirect CO_2 grants	-7,214	-4,603
Electro-intensive consumption grants	-660	-1,194
Intensive gas consumption grants	-2,994	-
Other grants	-1,225	-2,259
Adjustments to previous years' grants	-732	-
Closing balance	**4,462**	**6,094**

Nota 6 m) Total current assets

The breakdown of this heading in 2023 and 2022 was as follows:

Thousand euros	31/12/2023	31/12/2022
Collateral deposits received [notes 3 c) and 6 d)]	777	777
Balances due to Public Administrations:		
For VAT	4,963	3,236
For withholding taxes	69	339
For grants awarded [Note 6 l)]	1,168	1,572
Others	883	835
Other current assets at amortised cost	**7,860**	**6,759**

Long-term deposits are pledged as collateral for various guarantees issued by financial institutions which, in turn, guarantee the Group's obligations to third parties.

As indicated in note 6 d) (i), the Group has other deposits as collateral for obligations to third parties - recorded under "Non-current financial assets" - amounting to EUR 1,257 thousand (EUR 1,257 thousand in 2022). Total deposits pledged as collateral for guarantees and other debts therefore amount to EUR 2,034 thousand (EUR 2,034 thousand in 2022). The Group presents these pledged balances as a deduction from gross financial debt for the purpose of calculating the Group's net financial debt [see notes 3 c) and 6 d)].

Nota 6 n) Other current liabilities and trade payables

The breakdown of "Other current liabilities" is as follows:

Thousand euros	31/12/2023	31/12/2022
Fixed asset suppliers	5,193	13,553
Advances received from clients	1,041	1,456
Public authorities	4,095	4,346
Remuneration pending payment	4,071	5,388
Other current liabilities	**14,400**	**24,743**

6 n) (i) Information on payment terms to trade creditors

In relation to Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, establishing measures to combat late payment in commercial transactions, it is reported that at 31 December 2023 the average payment period to suppliers was 46.64 days (48.78 days at the end of 2022).

As at 31 December 2023, payments exceeding 60 days amounted to 171,297 thousand euros (out of a total of 35,403 invoices) and accounted for 24.17% of all payments made (32.47% in 2022).

The following table shows the breakdown of the average payment period to suppliers, the ratios of transactions paid and transactions pending payment, as well as the total payments made and pending in 2023 and 2022:

	FY 2023	FY 2022
Average payment period to suppliers (days)	46.64	48.78
Ratio of transactions paid (days)	47.82	49.60
Ratio of transactions pending payment (days)[1]	28.27	39.92
Total payments made (thousand euros)	692,976	958,532
Total outstanding payments (thousand euros)	90,909	139,027
Total invoices paid	67,510	69,213
Total payments exceeding 60 days (thousand euros)	175,964	321,005
% of payments exceeding 60 days	24.83%	32.47%
Total invoices paid exceeding 60 days (thousand euros)	35,403	50,719

1. At 31 December 2023 and 2022.

Nota 6 o) Income tax

Deferred tax assets and liabilities are recognised in respect of temporary differences existing at the date of the consolidated statement of financial position between the carrying amounts of assets and liabilities and their tax value.

A deferred tax liability is recognised for all types of taxable temporary differences, except for taxable temporary differences arising from purchased goodwill whose amortisation is not tax deductible and those arising from the initial recognition of an asset or liability in a transaction that is not a business combination and that at the time of the transaction affected neither accounting profit nor taxable profit or loss.

Pillar 2 legislation has been enacted, or substantially enacted, in certain jurisdictions in which the Group operates. The legislation will be effective for the Group's financial years beginning on 1 January 2024. The Group has assessed its potential exposure to Pillar 2 taxes.

The assessment of the potential Pillar 2 tax exposure is based on financial and tax information of the companies forming the Group. Based on this assessment, effective Pillar 2 tax rates in all jurisdictions in which the Group operates are above 15% and management does not expect this to change. Therefore, the Group is not potentially exposed to such legislation.

Deferred tax liabilities recognised by the Group relate to (i) goodwill allocated to property, plant and equipment as a result of a business combination, as well as (ii) deferred tax liabilities already recognised in the financial statements of the acquired companies arising from the recognition of increases in the value of property, plant and equipment: (iii) the non-deductible part of dividends or income obtained on the sale of investments in associates (5%) and (iv) the amount to be taxed on the cash flow hedging reserve.

The recoverability of a deferred tax asset is reviewed at each balance sheet date and the amount of the deferred tax asset is reduced to the extent that it is considered probable that taxable profit will not be available and the recoverability of the deferred tax asset becomes probable. For this purpose, the Group prepares estimates of future results to assess the level of probability of effective utilisation of the tax credits, within a 10-year time horizon.

The Group has revised its profit forecasts for the next ten years to include the effects of the 3D Plan approved by the Board of Directors on 23 February 2023. These projections have been reviewed by an independent expert.

In 2023, the Group has elected to recognise the deferred tax asset:

- For deductible temporary differences arising in the year.
    - For tax deductions pending application due to the impact of the RD 3/2016 ruling.
- Due to the increase in expected tax benefits over the next 10 years compared to the estimated tax benefits of the previous year.

Deferred tax assets and liabilities are measured based on their expected manner of materialisation and the tax regulations and tax rates that have been enacted or substantively enacted at the date of the consolidated statement of financial position.

The impact of changes in tax rates on deferred tax assets and liabilities are recognised in the consolidated statement of comprehensive income, except to the extent that they relate to items that are recognised directly in total equity.

Ercros, S.A. is subject to the special tax consolidation regime provided for in Chapter VI of Title VII of the Spanish Corporation Tax Law, which came into force on 1 January 2015. In particular, this company is the parent entity of the Ercros tax group in Spain which, at 31 December 2023, was also formed by Cloratita, S.A. [see note 3 f) (i)].

Consequently, the income tax expense and liability for the Group is calculated by aggregating the income tax expense and liability of all the Group companies, adjusted for the tax effect arising from the special system applied to the tax group represented by the aforementioned companies.

The companies individually present the balance of the consolidated statement of comprehensive income after considering the accrued income tax liability, whereby this amount is recorded as an expense, considering permanent differences of a tax nature and regardless of the tax payable. As a result of temporary differences between the profit for the year and the tax base, each company considers the deferred tax assets and liabilities that they will reverse in subsequent years and in the tax payable, taking into consideration the foreseeable realisation or application of each of them.

The taxation of the different companies in the Group may be differentiated according to whether they are integrated into the tax group or are taxed independently. The breakdown of the various Group companies is as follows:

Tax group (consolidated taxation)	**Excluded from the tax group (individual taxation)**
Ercros, S.A.	Ercros France, S.A.
Cloratita, S.A.	Salinas de Navarra, S.A.
	Gades, Ltd.
	Ercekol, A.I.E.
	Asociación Flix-Coquisa, S.L.

In the tax group, the tax bases of all component companies are aggregated, corrected for the tax effect arising from the special consolidated taxation regime. This aggregation may be reduced, if positive, by offsetting tax losses from previous years of the tax group itself and, additionally, of those of the integrated companies. This makes it possible to determine the income tax expense or income tax revenue of the tax group, which in turn is added to the income tax expense of the other companies excluded from the tax group.

It should be noted that in the following sections of this note reference is made to the Company as it is the generator of all permanent and temporary differences in the corporate income tax settlement and, therefore, it is the company that reflects the impact of the income/expense for this tax.

On the other hand, since the company presents the net tax result of discontinued activities under a single heading, the calculations associated with the income tax expense of ongoing activities are broken down below. However, it should be noted that, since for the purposes of the tax return this differentiation does not exist, the final taxable amount of the tax will be that corresponding to the ongoing and discontinued activities added together. On the other hand, as discontinued activities show losses, a 25% 25% (current tax rate) corporate income tax of the pre-tax losses has been considered and this amount has been deemed to have been paid from ongoing activities to discontinued activities as the pre-tax losses are integrated with the pre-tax profits of continuing activities.

Note 4 h) explains the impact of the Constitutional Court's ruling on RDL 3/2016.

Components of income tax expense/revenue

Thousand euros	**FY 2023**	**FY 2022**
Accrued income tax expense for the year	**-1,643**	**-16,362**
Tax group tax expense	-1,643	-16,248
Current (see calculation below)	-404	-16,126
Deferred (see breakdown below)	-1,239	-122
Tax expense of other Group companies not consolidated for tax purposes	-	-114
Differences in the final tax settlement for the previous year's tax	**9**	**19**
Recording of deferred tax assets	**6,768**	**-971**
For tax loss carryforwards from previous years	821	-
For deductions credited for the year and previous years	-	-
For deductions from previous years	-	-971
For deductions not applied due to the ruling of RD 3/2016 [note 4h)]	5,947	-
Reimbursement from the tax authorities due to RD 3/2016 ruling [note 4 h)]	**18,630**	**-**
Income tax income/expense recognised in profit or loss for the year	**23,764**	**-17,314**

The income tax expense for the year 2023 has been estimated by applying a rate of 25% for the companies of the tax group resident in Spain as described in the table included below.

The profit for the year before tax is shown in the following table:

Thousand euros	FY 2023	FY 2022
Tax group profit	4,275	89,822
Profit/loss of companies accounted for using the equity method	1,571	877
Profit/loss of fully consolidated companies excluded from the tax group	-85	460
Elimination of dividends received from companies accounted for using the equity method	-720	-3,250
Impact of IFRS 16 application	-7	49
Income for the year, before tax	**5,034**	**87,958**

The estimated current expenditure accrued in the year by the tax group is detailed in the following table:

Thousand euros	FY 2023	FY 2022
1. Consolidated profit before tax	4,275	89,822
2. Permanent differences	381	110
Reversal of temporary differences from previous years:		
3. For which a deferred tax asset was recorded	-11,804	-7,184
4. For which no deferred tax asset was recorded	-141	-148
5. For which deferred tax liabilities were recorded	-2,939	792
For temporary differences arising in the year:		
6. For which a deferred tax asset was recorded	9,787	21,699
7. Dividends received	-684	-3,088
8. Difference on consolidation of results	-	-
9. Pre-tax base ("PTB") (1+2+3+4+5+6+7+8)	**-1,125**	**102,003**
10. Capitalisation reserve [note 3 d) (iii)]	-	-2,009
11. Offsetting of tax loss carryforwards from previous years (limit of 25% of PTB)[1]	-	-22,949
12. Payable base (9+10+11)	-1,125	77,045
13. Tax rate	25%	25%
14. Preliminary tax liability (13×12)[2]	**404**	**19,261**
15. Minimum tax rate	15%	15%
16. **Minimum rate (15x12)**	**-**	**11,557**
Deductions applied		
17. Generated in the period	-	54
18. Generated in previous years and not capitalised	-	40
19. Generated in previous years and capitalised	-	3,041
20. Tax liability (14-17-18-19) – current expenditure	**404**	**16,126**
21. Payment on account made and withholding tax paid in the period	2,940	15,431
22. Payment charged to discontinued activities [note 4 f)]	404	2,552
23. Balance receivable from the Tax Authorities for current income tax (20-21-22)	-2,940	-1,857

[1] *The amount of the offset Negative Taxable Income does not coincide with 25% of the Preliminary Taxable Base of the ongoing activities as it corresponds to 25% of the sum of the PTB of the ongoing and discontinued activities (the latter present a negative PTB amounting to EUR -10,207 thousand).*

[2] *The amount of the Tax Liability does not coincide with 25% of the Payable Base as it corresponds to the payment charged to the discontinued activities (25% of EUR 1,617 thousand).*

It should be noted that - from 2016 onwards - tax losses can only be offset up to a maximum amount equivalent to 25% of the previous tax base, as explained below.

For 2022 onwards, the tax regulations have set a minimum tax liability of 15% of the payable tax base. In the case of the Group, in 2023 there is no minimum tax liability to be paid.

As indicated above, the payment to discontinued activities of the corporate income tax income they obtain by integrating their losses with the profits of ongoing activities has been considered.

The resulting balance with the tax authorities for corporate income tax is in debit, as the minimum payments on account made during the year are calculated on the accounting result in accordance with current legislation and are therefore higher than the result of the estimated tax settlement calculated based on the taxable income.

6 o) (i) Current tax assets

As at 31 December 2023 and 2022 this balance consisted of:

Thousand euros	FY 2023	FY 2022
1. Balance receivable resulting from the estimated tax settlement for the year (as per table above)	**2,940**	**1,857**
2. Final balance receivable from the settlement submitted for the previous year	**-**	**-**
Initial estimate	-	-
Other adjustments to the final settlement submitted	-	-
Current tax assets (1+2)	**2,940**	**1,857**

The amount receivable from the settlements for 2021 and 2022 has been paid in December 2022 and November 2023, respectively.

Limitation on the offsetting of tax losses from previous years

In accordance with the provisions of the LIS, which came into force on 1 January 2015, tax losses may be offset against positive income in subsequent tax periods up to a limit of 60% (70% as from 2017) of the taxable income prior to the application of the capitalisation reserve and its offset. This legislation provides for the possibility of offsetting, in any event, up to EUR 1,000 thousand of tax losses in each tax period. Likewise, the regulatory reform eliminated the time limit of 18 years previously in force for the offset of tax loss carryforwards, making it an imprescriptible right to exercise for tax loss carryforwards that were in force on 1 January 2015.

However, as a transitional regime, during 2015, companies whose turnover exceeded EUR 6,010 thousand and whose net turnover in the previous year was at least EUR 20,000 thousand but less than EUR 60,000 thousand could only offset 50% of the tax base prior to such offsetting. This percentage was reduced to 25% in the case of entities with a turnover of at least EUR 60,000 thousand, as in the case of Ercros.

Notwithstanding the foregoing, on 2 December 2016, Royal Decree-Law 3/2016 was passed, adopting tax measures aimed at the consolidation of public finances and other urgent social measures, which modified, effective from 2016 onwards, the limits on the offsetting of tax losses. For these purposes, this limit is reduced for taxpayers whose net turnover exceeded EUR 60,000 thousand in the previous year to 25% of the taxable income prior to the application of the capitalisation reserve and its offsetting, in any case the amount of EUR 1,000 thousand would be deductible.

On 18 January 2024, the Constitutional Court declared unconstitutional and null and void some of the provisions of the previous Royal Decree-Law, including the limitation on the offsetting of tax losses [note 4 h)].

Limit on offsetting deductions

On the other hand, in relation to deductions, it should be noted that Royal Decree-Law 12/2012, of 30 March, which introduces various tax and administrative measures aimed at reducing the public deficit, established that the period for the application of deductions to encourage the performance of certain activities was 15 years in general and 18 years in the case of deductions for research and development and technological innovation activities.

A limit was also established for all deductions to encourage certain activities, which is limited to 25% of the gross tax liability less deductions for the avoidance of international double taxation and allowances (a limit which rises to 50% when the amount of the deduction for research and development corresponds to expenses and investments made in the tax period itself and exceeds 10% of the gross tax liability less deductions for the avoidance of international double taxation and allowances). This limit also applies to the reinvestment deduction.

In addition, the aforementioned Royal Decree-Law 3/2016, of 2 December, has established, for tax periods commencing on or after 1 January 2016, for taxpayers whose net turnover is at least EUR 20,000 thousand during the 12 months prior to the date on which the tax period begins, the amount of the deductions to avoid international double taxation, as well as those deductions to avoid double taxation referred to in transitional provision 23 of the Corporate Income Tax Act ("LIS") may not exceed, jointly, 50% of their gross tax liability.

As with the limitation on the offsetting of tax losses, the Constitutional Court has also declared unconstitutional and null and void the introduction *ex novo* of a limit on the application of double taxation deductions.

6 o) (ii) Reconciliation of the tax expense accrued in the year with the amount resulting from applying the current tax rate to the accounting profit before tax

A reconciliation between the tax expense accrued in the year and the amount resulting from applying the tax rate (tax rate) applicable to the Group, which is 25% in 2023 and 2022, to the pre-tax profit, is presented below:

Thousand euros	**FY 2023**	**FY 2022**
Pre-tax profit (1)	**5,034**	**87,958**
Applicable tax rate (2)	**25%**	**25%**
Taxes according to the applicable rate (1×2)	**1,259**	**21,990**
Adjustments:		
1. Lower tax rate of Ercros France, S.A.	21	-1
2. Higher taxes due to losses in non-tax consolidated subsidiaries	-	-
3. Lower tax on corporate profits under the equity method (already incorporating taxes)	-393	-219
4. Tax effect of the non-exemption of 5% of dividends received	9	40
5. Tax effect of the difference due to the consolidation of results	-	-
6. Tax effect of the application of IFRS 16	2	-12
7. Tax effect of non-deductible expenses	94	27
8. Tax effect of tax loss carryforwards generated in the year	686	-
9. Reduction of the tax base due to the allocation of the capitalisation reserve	-	-502
10. Amount of unrecognised tax benefits from previous years used to reduce the current year's tax expense:		
Temporary differences:	-35	-37
Tax loss carryforwards	-	-4,830
Tax deductions	-	-94
Accrued tax expense for the year	**1,643**	**16,362**

6 o) (iii) Deferred tax assets and liabilities

The movement in the "Deferred tax assets" heading was as follows:

Thousand euros	For temporary differences	Tax losses to be offset	Tax deductions pending application	Total deferred tax assets
Balance as at 31/12/2021	**9,176**	**22,475**	**4,007**	**35,658**
Additions for the year	5,424	4,830	-	10,254
Tax settlement applications	-1,796	-5,737	-3,041	-10,574
Higher/(lower) application in final settlement 2021	5	-1	5	9
Write-downs due to retirement of assets recognised in prior years	-	-	-971	-971
Balance as at 31/12/2022	**12,809**	**21,567**	**-**	**34,376**
Additions for the year	2,447	-	-	2,447
Tax settlement applications	-2,951	-	-	-2,951
Additions for the recognition of assets from previous years [note 4 h)]	-	821	5,947	6,768
Balance as at 31/12/2023	**12,305**	**22,388**	**5,947**	**40,640**

The movement in the "Deferred tax assets" heading was as follows:

Thousand euros	Deferred tax liabilities
Balance as at 31/12/2021	**26,766**
Tax settlement applications	-198
Tax effect of investments in associate companies	4
Tax effect of cash flow hedging instruments	-3,653
Balance as at 31/12/2022	**22,919**
Tax settlement applications	735
Tax effect of investments in associate companies	11
Balance as at 31/12/2023	**23,665**

The deferred tax liability recognised in the consolidated statement of financial position as at 31 December 2023 relates to:

Thousand euros	Deferred tax liabilities
Tax effect at a rate of 25% of the capital gains allocated to:	
Property, plant and equipment in:	
Business combinations	12,198
Other past increases in value	6,887
Investment property, in business combinations	3,449
Tax effect of investments in associate companies	95
Other	1,036
Total	**23,665**

The deferred income tax expense/income accrued in the year results from the change in deferred tax assets and liabilities as detailed in the table below:

Thousand euros	**FY 2023**	**FY 2022**
Income from:		
Additions of deferred tax assets in the estimated tax for the year	2,447	5,424
Retirements of deferred tax liabilities applied in the tax settlement	-735	198
Expenditure from:		
Retirements of deferred tax assets applied in the tax settlement for:		
Temporary differences	-2,951	-1,796
Deductions	-	-3,041
Tax loss carry-forwards	-	-907
Deferred tax income/expense for the period	**-1,239**	**-122**

At year-end 2023 and 2022, the Group has retired deferred tax assets as follows, calculated at a tax rate of 25% (for temporary differences and tax loss carryforwards):

Thousand euros	Deferred tax assets not recognised by the Group in the consolidated accounts			
	For temporary differences pending reversal	Tax losses to be offset	Tax deductions pending application	Total deferred tax assets not recognised
Balance as at 31/12/2021	**-**	**61,660**	**-**	**61,660**
Application in the 2022 tax estimate	-37		-94	-131
Credits for deductions from previous year	-	-	40	40
Other adjustments	37	-	54	91
Recording of deferred tax assets	-	-4,830	-	-4,830
Balance as at 31/12/2022	**-**	**56,830**	**-**	**56,830**
Application in the 2023 tax estimate	-35		-	-35
Credits for deductions from previous year	-	-	-9	-9
Other adjustments	35	-27,570	9	-27,526
Recording of deferred tax assets	-	-821	-	-821
Balance as at 31/12/2023	**-**	**28,439**	**-**	**28,439**

The reduction of EUR 27,570 thousand in unrecognised assets for tax losses pending offset corresponds to the impact of the Constitutional Court ruling on RDL 3/2016 [note 4 h)], due to the recalculation of the settlements for the years 2016 through 2022.

Section 7. Commitments and other contingencies

Nota 7 a) Investment commitments

At the end of financial years 2023 and 2022, the number of investments that have been approved for execution in the following year (or in subsequent years) by the Group is detailed below, based on the individual proposals made by the respective managers, with a breakdown of those that have already been committed to third parties and those that have not yet been committed to third parties:

Approved investments yet to be implemented

Thousand euros	FY 2023	FY 2022
Not committed to third parties	**13,505**	**11,913**
Capacity expansion	1,777	460
Energy efficiency	3,148	4,157
Other investments	8,580	7,296
Committed to third parties	**11,397**	**9,502**
Capacity expansion	430	2,584
Energy efficiency	4,619	2,202
Other investments	6,348	4,716
Total approved investments pending execution	**24,902**	**21,415**

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

Thousand euros	FY 2023	FY 2022
Opening balance	**21,415**	**30,510**
New investments authorised in the year	**31,146**	**40,398**
Capacity expansion	1,060	4,311
Energy efficiency	7,796	19,143
Other investments	22,290	16,944
Investments executed in the year	**-27,659**	**-49,493**
Capacity expansion	-19,812	-23,265
Energy efficiency	-7,001	-16,094
Other investments	-846	-10,134
Closing balance	**24,902**	**21,415**

In addition to the aforementioned investments, the Company plans to undertake other investments to adapt to new requirements deriving from the renewal of the integrated environmental authorisations ("IEA") of its factories, as well as those deriving from Plan 3D.

In 2023 the company has obtained a waiver from the financial institutions of the financing contracts subject to covenants, in relation to the maximum volume of investments, which has been authorised up to EUR 35 million, which is higher than the initial authorisation [see note 6 d) (ii)].

Nota 7 b) Treasury share buy-back commitments

The Ercros Board of Directors, at its meeting held on 16 June 2023, approved the eighth share buy-back programme, to be redeemed as part of shareholder remuneration against 2023 profit.

In accordance with the shareholder remuneration policy, it is foreseen that EUR 2,318 thousand will be allocated to the buy-back of treasury shares against the 2023 payout.

Nota 7 c) Contingencies for legal claims

7 c) (i) Environmental recovery of the land at El Hondón.

It has been 21 years since Ercros, after reaching agreements with the administrations, released the land at El Hondón from its historical industrial activity and 18 years since it owned any land on the site. In 2002, Ercros demolished all the facilities at El Hondón in accordance with the project approved by the administration, and in 2004 completed the sale of all the land it owned at the site.

The new owners, for their part, assumed the responsibility of taking over the remediation of the land for urban use, in accordance with the purchase contracts and the urban planning approach of the partial plan still in force, which foresees a residential use of the land and a subdivision project. Based on these commitments, in 2011 the landowners together with Ercros, the latter on behalf of Reyal Urbis, signed an agreement to implement a voluntary remediation project for the contaminated land. This agreement provides for the distribution of the full cost of the decontamination of the Sector according to the percentages of urban development. Ercros assumed the cost of the decontamination of the plots awarded to Reyal Urbis, S.A. in the land subdivision project. To cover the costs of this obligation, Ercros has recorded a provision of EUR 4,780 thousand at 31 December 2023, equivalent to 75% of the total estimated cost of recovery, the remaining 25% being the percentage assigned to Reyal Urbis, S.A. in the reparcelling project. The Cartagena City Council is currently the main owner of the land.

Although in the land subdivision project it is specified that the recovery of the land of El Hondón is an obligation assumed by the owners of said land, in 2019 the administration of the Region of Murcia initiated a file for the declaration of contaminated land, terminating the project for the voluntary recovery of El Hondón. Thus, on 17 October 2019, Ercros received notification from the regional administration in which the declaration of contaminated land was agreed, and which obliges Ercros as the cause of the contamination, and, subsidiarily, the owners of the site, to carry out clean-up and recovery work on the land until it is suitable for the use it had when the contamination was caused, in accordance with the legislation on contaminated land. In the case of El Hondón this use is industrial, which is less demanding in terms of remediation than residential use.

On 30 June 2020, the Group filed a contentious administrative appeal challenging the resolution declaring the El Hondón sector of Cartagena as contaminated land. Despite the legal challenge and given the enforceability of the resolution declaring the land contaminated, on 1 July 2020 Ercros submitted the technical project for the clean-up and recovery of El Hondón in order to comply with the obligation established in the resolution declaring the land as contaminated. By means of requests dated 30 November

2020 and 12 February 2021, the Directorate General for the Environment requested that the technical project be rectified.

On 5 and 23 February 2021, the Group filed appeals against the aforementioned requests to rectify the Project, requesting that they be rendered ineffective, 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 various experts and academic centres that have assessed the project.

On 29 November 2021, Ercros was notified of the Resolution of the Regional Minister for Water, Agriculture, Fisheries and the Environment of the Region of Murcia dated 19 November 2021, which resolved the inadmissibility of the appeals. On 21 January 2022, Ercros filed a contentious-administrative appeal against the decision of inadmissibility of the appeals before the Murcia High Court of Justice, which has been accepted for processing.

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

a) Appeal lodged on 30 June 2020 against the decision to declare the land as contaminated: on 2 September 2021, Ercros filed a statement of claim and on 14 February 2022, it was notified of the reply from the Regional Ministry of Water, Agriculture, Livestock and Fisheries of the Autonomous Community of the Region of Murcia opposing Ercros' claim. Likewise, ADIF, summoned to the proceedings and appearing as a co-defendant, has also opposed Ercros' claim in writing dated 30 June 2020. On 26 July 2022, an order was issued to accept the appeal for the purpose of which a hearing will be held on a date yet to be determined. On 29 November 2023, the hearing for the ratification of expert opinions was held before the Murcia High Court of Justice. On 19 December 2023, a written statement of conclusions was submitted. By Decree of the Murcia High Court of Justice of 21 December 2023, the suspension of the proceedings, requested on 30 November 2023, was agreed.

b) Appeal submitted on 21 January 2022 against the decision rejecting the appeals lodged against the requests to remedy the updated remediation project presented by Ercros on 23 September 2022, Ercros filed a statement of claim, which was accepted for processing by means of a writ of summons dated 29 September 2022. On 1 December 2022, Ercros was notified of the administration's response, and on 5 December 2022 and 16 January 2023 the responses of the Cartagena City Council and Reyal Urbis. Likewise, on 28 September, notice was served of the writ of summons accepting the appearance of the Sector Estación Neighbourhood Association as a co-defendant. On 20 January 2023, a response to the claim was submitted. On 17 October 2023, a written statement of conclusions was submitted. By Decree of the Murcia High Court of Justice of 16 January 2024, the suspension of the proceedings, requested on 30 November 2023, was agreed.

At the same time, Ercros is working with the competent authorities to agree on a Remediation Project using on-site containment techniques that avoid the mass extraction of waste. In this respect, the remediation project proposal submitted by Ercros has been favourably reported on by the Segura Hydrographic Confederation and by the Nuclear Safety Council.

On 30 January 2023, the Ercros Group removed and transferred to a disposal facility the 30 m3 of El Hondón waste with the highest concentration of radionuclides. The work is being carried out under the supervision of Empresa Nacional de Residuos Radiactivos ("Enresa").

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

7 c) (ii) Alcohol excise duty inspection reports

In the first half of 2022, the National High Court issued a ruling favourable to Ercros' interests, annulling the inspection reports that claimed EUR 5,300 thousand from Ercros in relation to the exemptions applied to the consumption of anhydrous ethyl alcohol used in the manufacture of medicines during 2011 and 2012. This judgement has become final and cannot be appealed. In 2023 the costs of the surety insurance guaranteeing the debt have been recovered in EUR 589 thousand [see note 5 e)].

7 c) (iii) Personal income tax inspection report

With reference to the non-conformity assessment for personal income tax ("IRPF"), corresponding to financial years 2012 and 2013, in which an amount of EUR 312 thousand and late payment interest of EUR 70 thousand is proposed, an amount that has been paid in full, a date for voting and ruling is awaiting to be set by the National Court.

7 c) (iv) Corporation tax inspection report

In relation to the tax assessments for corporate income tax for the years 2011, 2012 and 2013, which after several estimates propose the reduction of the reinvestment deductions in the amount of EUR 921 thousand, a ruling is pending before the Spanish National Court of Appeals. In 2022 the Company has retired the deferred tax asset corresponding to the right to offset the EUR 921 thousand reinvestment tax credit on a prudent basis.

7 c) (v) Financial years open to tax inspection

According to the legal provisions in force, the settlement of taxes cannot be considered final until they have been inspected by the tax authorities or the statute of limitations period has elapsed, currently established at four years. The Group has the last four years open for inspection for all applicable taxes, except for corporate income tax, which has been open for inspection since 2016, as the company has appealed the self-assessments filed for 2016 through 2022.

In the opinion of the Directors of the Group, and their tax advisors, there are no significant tax contingencies that could arise, in the event of an inspection, from potentially different interpretations of the tax regulations applicable to the transactions carried out by the Group.

It should be noted that the LIS allows the tax administration to regularise the amounts corresponding to those items that are included in the tax base in the tax periods subject to verification, even when they derive from transactions carried out in tax periods that are no longer open for inspection.

The legislation also establishes the power of the tax authorities to verify or investigate tax credits (tax loss carryforwards, deductions to avoid double taxation, deductions to encourage certain activities) pending offset/application at the entry into force of the legislation within a period of 10 years.

The Group is not aware of any other risks, claims or litigation which, at 31 December 2023, would require provisions in addition to those detailed in note 6 j).

Nota 7 d) Contingent assets

The Group has a claim against a supplier for breach of the supply contract agreed at the time, which could give rise to an indemnity in favour of the Group, although it is not determinable at the year-end whether such indemnity will be paid and, if so, for what amount.

Nota 7 e) Deferred tax assets

At year-end 2023 the amount of the unrecorded deferred tax asset for tax loss carryforwards amounts to EUR 28,439 thousand [see note 6 o)].

B 7. Responsibility for the Group's annual accounts

The purpose of this document is to record that the Board of Directors of Ercros, S.A., at its meeting held on 23 February 2024, prepares the consolidated annual accounts of the Ercros Group, including the statement of financial position, income statement, statement of total comprehensive income, statement of changes in equity, cash flow statement and notes to the financial statements, for the year ended 31 December 2023, they have been prepared in eXtensible HyperText Markup Language (XHTML) electronic format and, in the case of the main financial statements contained therein, tagged using the eXtensible Business Reporting Language (XBRL) standard, all in accordance with the Single European Electronic Format (SEEF) set out in Directive 2004/109/EC and Delegated Regulation (EU) 2019/815.

The content of the consolidated annual accounts is in accordance with the provisions of Title VII of the Capital Companies Act, Title III of the Code of Commerce and other applicable legislation.

In compliance with the provisions of Article 8 b) of Royal Decree 1362/2007, the directors of the Company, whose names appear in the forewords, declare their responsibility for the contents of the consolidated annual accounts, in the sense that, to the best of their knowledge, the consolidated annual accounts prepared in accordance with the applicable accounting principles provide a true and fair view of the net worth and financial position of Ercros, S.A. and its subsidiaries.

All director appointments are current at the time of this proceeding.

Barcelona, 23 February 2024

Antonio Zabalza Martí
Chairman and CEO

Carme Moragues Josa
Member

Lourdes Vega Fernández
Member

Laureano Roldán Aguilar
Member

Eduardo Sánchez Morrondo
Member

Joan Casas Galofré[1]
Member

[1] Pursuant to Article 253.2 of the Spanish Capital Companies Act, on the following page, director Joan Casas states the reason for the absence of his signature.

Daniel Ripley Soria
Non Director Secretary

The director Joan Casas Galofré disagrees with the application of the result for the year for the following reasons:

- The result for 2023 justifies a payout of 50% of the profit, in accordance with the shareholder remuneration policy approved by the general meeting of 11/06/21 for the years 2021-2024, and in line with the Company's practice in the years in which the result has met the conditions for remuneration.

- In relation to the above, it should be recalled that although partial, the application of Constitutional Court Ruling 11/2024 increases the result, but in reality it means incorporating into the profit for 2023 results from other years that should have been enjoyed by the shareholders had it not been for the enactment of the rule declared unconstitutional, hence it is only fair and consistent for the shareholder to receive now the aggregate result that it would have received had the unconstitutional rule not existed.

- The repurchase of the shares (which is one of the payout instruments, in accordance with the shareholder remuneration policy) should start immediately, so that the treasury shares acquired are redeemed at the 2024 annual general meeting, expected to be held in June 2024, as has been the case in the past and in line with the shareholder remuneration policy. In this respect, the repurchase proposal made (from July 2024, with redemption scheduled for the 2025 annual general meeting) does not in fact involve the distribution of the payout resulting from the 2023 financial year, since the redemption of the shares acquired is postponed to 2025, when the shareholder remuneration policy would require their redemption at the 2024 meeting, which is when the distribution of the payout relating to the 2023 result materialises. Therefore, the payout for 2023 is limited to the dividend, hence the proposed percentage is only 23%. The share buybacks proposed for the second half of 2024 will correspond to the remuneration for that year, not for the 2023 result.

The board of directors of Ercros does not allow this director to sign the accounts with this caveat.

Barcelona, 27 February 2024.

CASAS GALOFRE JOAN - 36959508A

Firmado digitalmente por CASAS GALOFRE JOAN - 36959508A
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A. ERCROS GROUP'S MANAGEMENT REPORT

This consolidated management report ("CMR") is published in compliance with the provisions of articles 44 of the Spanish Code of Commerce and 253 of the Spanish Companies Act ("LSC").

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

In addition to complying with the provisions of chapter III of the LSC and Article 49 of the Code of Commerce, its content follows the guide for the preparation of the management report of listed companies drawn up by the working group promoted by the CNMV. The Ercros Group adopts this guide on a voluntary basis, in the interests of good corporate governance practices.

The CMR also contains the statement of non-financial information required by articles 49 of the Code of Commerce and 262 of the Capital Companies Act, as amended by Law 11/2018, of 28 December. The statement of non-financial information is presented in a separate document as permitted by law and will be submitted for approval by the General Shareholders' Meeting as a separate item on the agenda.

Similarly, in accordance with Article 540 of the LSC, the Ercros Group presents the annual corporate governance report in a separate document, which forms part of this CMR.

C. Ercros Group management report

C 1. Situation of the Group

1.1. Organisational structure

The governing bodies of Ercros, S.A. (“the Company” or “Ercros”) are the General Shareholders’ Meeting and the Board of Directors, including the Audit, Appointments, Remuneration, Sustainability and Corporate Social Responsibility Committee and the Strategy and Investment Committee. The operational management bodies are the executive committee and the management committee.

a) The General Shareholders’ Meeting

On 16 June 2023, the Company held the Ordinary General Shareholders’ Meeting in mixed format: in person and online.

At this meeting, all proposed resolutions submitted by the Board of Directors were approved. The agenda included, in addition to the mandatory or customary proposals - approval of the annual accounts, management 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 EUR 13,715 thousand, equivalent to EUR 0.15 gross per share, representing a payout of 21.1% of the Company’s profit for 2022 [see section 10.1 b) (ii) of this CMR and note 3 d) (iv) of the consolidated financial statements].

- A reduction in share capital of EUR 1,548,897.00, through the cancellation of the 5,162,990 treasury shares held by the Company, representing 5.34% of the share capital, which were acquired within the framework of the seventh treasury share buy-back programme, with an acquisition cost of EUR 18,770 thousand, representing a disbursement equivalent to 28.9% of the consolidated profit obtained in 2022 [see chapter 9 and section 10.2 a) of this CMR and note 4 a) of the consolidated financial statements].

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.

The Company paid a gross premium of EUR 0.005 per share to the shareholders attending this meeting.

b) Board of Directors

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

- Chairman and Chief Executive Officer: Mr Zabalza Martí.

- Independent members: Ms Moragues Josa (coordinator) and Vega Fernández (substitute coordinator).

- Members classified as “other external directors”: Mr Roldán Aguilar and Mr Sánchez Morrondo.

- Proprietary director: Mr Casas Galofré.

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

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

At its 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 that meeting, the board of directors decided, given the scope of the issues raised, to postpone the annual evaluation of the quality and efficiency of the functioning and composition of the board and the committees, as well as the performance of the chief executive of the Company and of each director, in accordance with the provisions of Article 529h of the LSC, to the board meeting of 23 February 2024 in order to address these aspects in detail.

The individual remuneration of board members is detailed in note 4 d) (iii) of the consolidated financial statements.

(i) Audit Committee

The composition of the Audit Committee has not changed during 2023 and its configuration is as follows:

- Chairperson: Ms Moragues Josa, independent director.

- Members: Ms Vega Fernández, independent director, and Mr Roldán Aguilar, director classified as “other external directors”.

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

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

The audit committee reports to the internal audit service, which is headed by Xavier Álvarez García, and the compliance committee, which is made up by Xavier Álvarez García and Asunción Loste Madoz, head of the legal department.

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

In 2023 there has been no change in the composition of said committee, which is made up by:

- Chairperson: Ms Vega Fernández, independent director.

- Members: Ms Moragues Josa, independent director, and Mr Sánchez Morrondo, director classified as “other external directors”.

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

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

The profiles of the members of this committee are trained in the analysis of the risks and opportunities associated with climate change.

(iii) Strategy and Investment Committee

In 2023 there has been no change in the composition of said committee, which is made up by:

- Chairman: Mr Zabalza Martí, executive director.

- Members: Ms Lourdes Vega, 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 video-conference.

Composition of the Board of Directors as at 31/12/22

Board member	Position	Category	Committees	Last appointment
Antonio Zabalza Martí	Chairman and Chief Executive	Officer	- Strategy and investments	05/06/2020
Carme Moragues Josa	Coordinating director	Independent	- Audit - Appointments and remuneration	11/06/2021
Lourdes Vega Fernández	Substitute coordinating director	Independent	- Audit - Appointments and remuneration - Strategy and investments	05/06/2020
Laureano Roldán Aguilar	Board member	Other external	- Audit	05/06/2020
Eduardo Sánchez Morrondo	Board member	Other external	- Appointments and remuneration	05/06/2020
Joan Casas Galofré	Board member	Proprietary	- Strategy and investments	05/06/2020
Daniel Ripley Soria	Non-Director Secretary			

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.

d) Management Committee

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

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

In 2023 the management committee met 11 times.

1.2. 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 the products in its portfolio are manufactured; and (iii) the pharmaceutical division, which is dedicated to the manufacture of active pharmaceutical ingredients (APIs).

At 31 December 2023, the Group had 9 production centres, all of them located in Spain. In December, the Group agreed to close the Flix production centre to produce dicalcium phosphate due to the impossibility of renewing the supply and machining contracts. The Group plans to support industrial initiatives by third parties that could be set up on its land in Flix, for which purpose it will undertake the appropriate dismantling work to generate available land for potential new industries.

Centres and products

Divisions	Centres	Main products	Main uses
Chlorine derivatives	Flix, Monzón, Tarragona, Sabiñánigo, Vila-seca I and Vila-seca II	Hydrochloric acid TCCA Sodium chlorate Sodium chlorite Chloride EDC Sodium hypochlorite Caustic potash PVC Caustic soda VCM	Industrial in general Swimming pool water Pulp bleaching Water treatment Manufacturing derivatives Manufacturing VCM Water treatment Chemical industry Construction Industrial in general Manufacturing PVC
Intermediate chemistry	Almussafes, Cerdanyola and Tortosa	Glues and resins Formaldehyde Sodium formate Paraformaldehyde Pentaerythritol Dipentaerythritol Moulding powders	Wood industry Manufacturing derivatives Tanning industry Resins Paint Paint Sanitary and electrical equipment
Pharmacy	Aranjuez	Fusidic acid Erythromycins Phosphomycins	Skin infections Antibiotics Antibiotics

1.3. Operation

a) Mission and principles

The general aim of the Ercros Group is to consolidate itself as a solid and lasting industrial group, which contributes in a sustainable manner to the generation of wealth and the well-being of society, which provides adequate returns to its shareholders, and which favours the full personal and professional development of those who form part of it.

The Group's actions, aimed at increasing its value, are guided by four basic principles: (i) maximum safety for its employees, neighbours and facilities; (ii) sustainability; (iii) meeting the needs of its customers; and (iv) highest quality of its products.

b) Business strategy

The Ercros Group defines its business strategy in multi-year plans that set out the measures to be implemented to increase productivity and efficiency in the use of its resources.

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

- Form a chemical group with an international presence that is sustainable, efficient, healthy and profitable.

- Achieve productive, modern, sustainable, environmentally friendly, industrially integrated facilities of European dimension in competitive locations.

- Focus on high value-added products with competitive advantages and growth prospects.

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

The 3D Plan contains 20 projects that over the 2021-2029 period will represent a cumulative investment of EUR 92 million and an additional cumulative EBITDA of EUR 194 million. 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 powders 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 at 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 (gentamicin and vancomycin) at the Aranjuez extraction plant, which was built in 2022.

As regards the digitalisation dimension, the Business Intelligence projects for the areas of procurement, logistics, production and maintenance; tracking and monitoring of containers shipped by sea and overland shipments; and mobility solutions in the industrial environment (work permits and meter readings), among others, have been completed. Big Data and IoT projects, mobility and logistics, infrastructure improvement, cybersecurity, optimisation of the work environment and automation, as well as sensorisation and upgrading of control systems in the production area continue to make progress.

In the decarbonisation dimension, the following projects have been completed: (i) improvement of energy efficiency 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, the projects of (i) salt recrystallisation in Sabiñánigo; (ii) recycling of moulding powders in Cerdanyola; and (iii) construction of a photovoltaic park in Flix are expected to be commissioned. The projects for energy recovery, electrification and steam production using biomass at the Tarragona industrial complex have also made progress.

d) Business models and challenges

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

The ECU margin is determined: (i) on the revenue side, by the sales price of the co-produced soda and the profitability of the various chlorine applications; and (ii) on the cost side, by the current price of electricity, which in 2022 accounted for more than 50% of production costs, and by the cost of raw materials consumed in the production of chlorine derivatives.

Caustic soda is a basic chemical reagent widely used in industry (the main consumers are the aluminium sector - and thus the automotive sector - and the paper industry). Demand is growing at 1.5 times the rate of GDP growth and is traded globally.

For reasons of safety and economic efficiency, most of the chlorine produced is consumed on site, as it is produced as a gas and is highly reactive. Approximately 60% of the chlorine produced by the Group is self-consumed to manufacture derivative products (sodium hypochlorite, hydrochloric acid, TCCA and the EDC/VCM/PVC chain); the remainder was supplied by pipeline to a customer.

The main strengths of the chlorine derivatives division are integrated production, the synergies and complementarity between the division's plants and the efficiency of its modern industrial park.

The main challenges of this business are the reduction of the carbon footprint of the processes; the expansion of the production capacity of products with higher added value such as sodium chlorite and the diversification of the portfolio with the incorporation of new products.

Formaldehyde is the core product of the intermediate chemicals division, with methanol as its main raw material. This procurement accounts for around 40% of the division's total costs. The Group has contracts of varying duration with several suppliers of this raw material.

80% of the formaldehyde produced goes to the manufacture of derivatives, both liquid and solid. The latter, which account for around 65% of the division's turnover, have a worldwide market (their export share is around 90%). The main foreign currency in the market for solid products is the US dollar, therefore the competitiveness of the business and its profitability are affected by the dollar/euro exchange rate.

The main strengths of this division are the know-how and proprietary technology in the production processes, as well as the ability to develop tailor-made products for our customers.

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 maintain the commitment to the progressive decarbonisation of processes; 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 APIs (Active Pharmaceutical Ingredient) for generic and branded medicines, mainly relating to antibiotics. The division also specialises in the production of active ingredients and intermediates for third parties, custom-designed for customers.

The main value of this business is its mastery of fermentation processes, as well as its ability to obtain sterile products for injectable use. It is also highly valued for 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 significant weight of foreign markets in the business means that both its sales volume and margin are influenced by the exchange rate of the dollar against the euro.

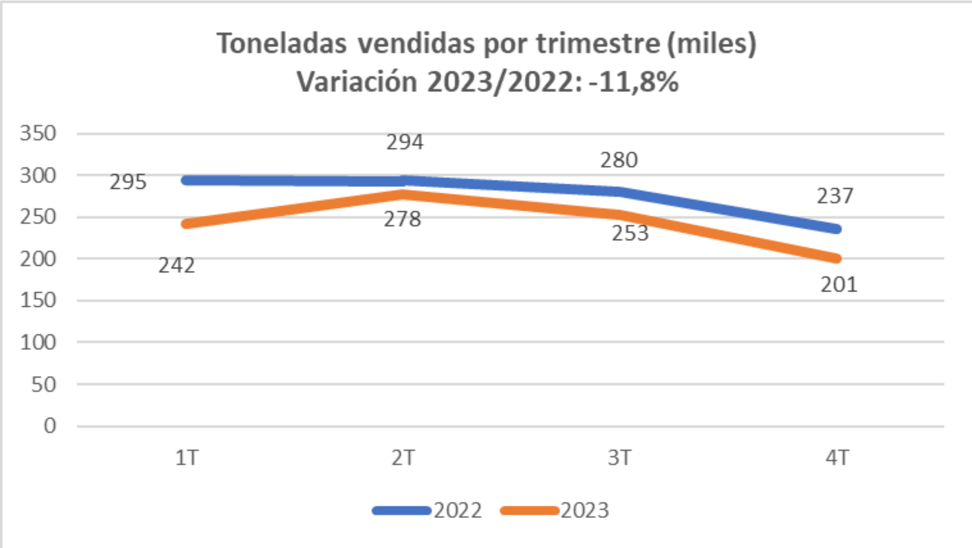
The main strengths of this business are its mastery of fermentation processes, its capacity to obtain sterile products for injectable use, its high degree of internationalisation (it exports more than 90% of sales) and its good positioning as a reliable and quality supplier to the world's leading laboratories.

The main challenges for this business are: to make profitable the increased manufacturing capacity of sterile medicines, with the incorporation of new products and their opening to 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 for the construction of a new extraction plant for the manufacture of the antibiotics vancomycin and gentamicin, contemplated in the 3D Plan, is an example of this expansion of the product portfolio); continuous adaptation to the new quality requirements of customers and regulatory bodies and to face competition from emerging markets.

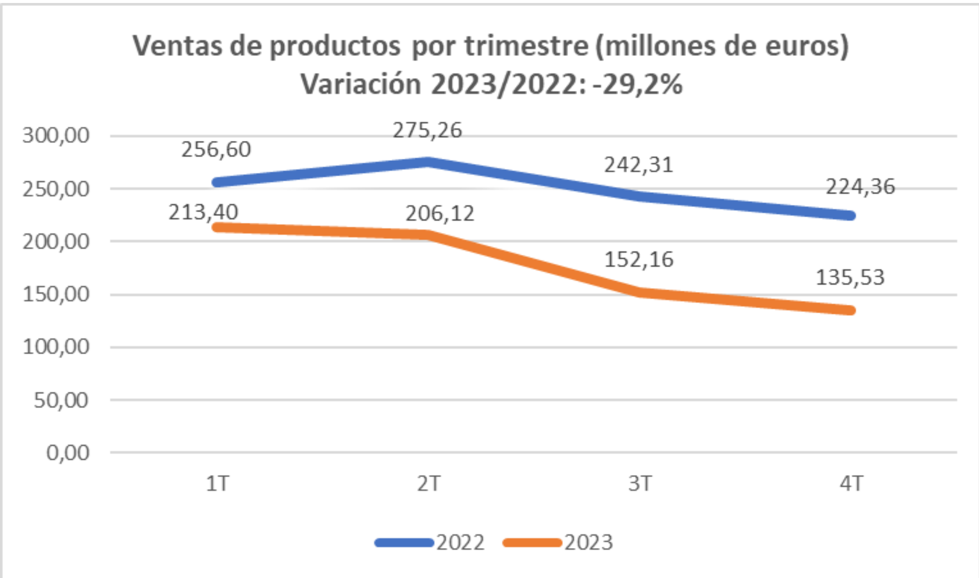
C 2. Business performance and results

2.1 Analysis of the evolution of the main indicators

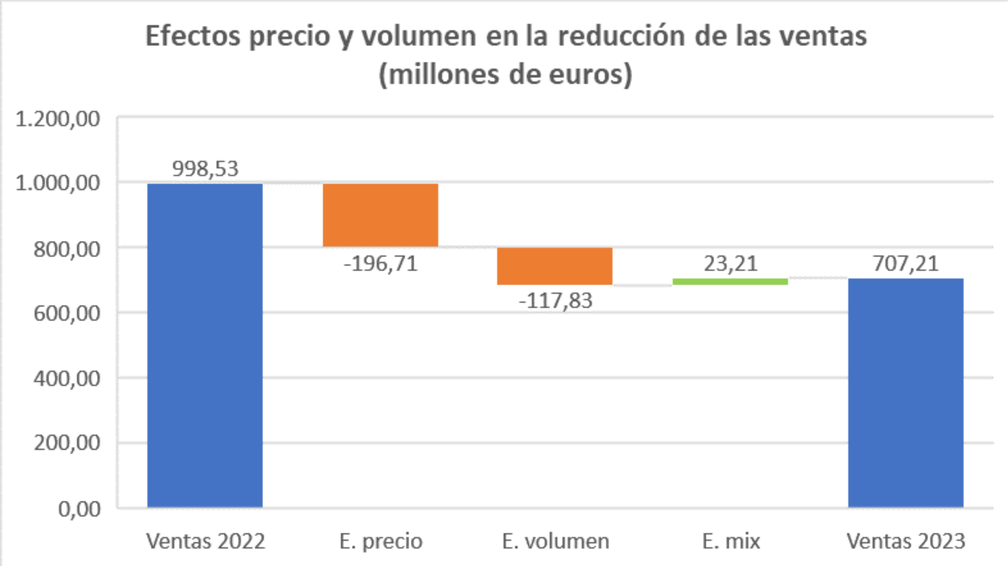
1. The 2023 data confirm the downward adjustment in the volume of products sold that had already been observed since mid-2022. In 2023, Ercros sold 974,000 tonnes of products compared to 1,105,000 tonnes in 2022: an 11.8% fall.



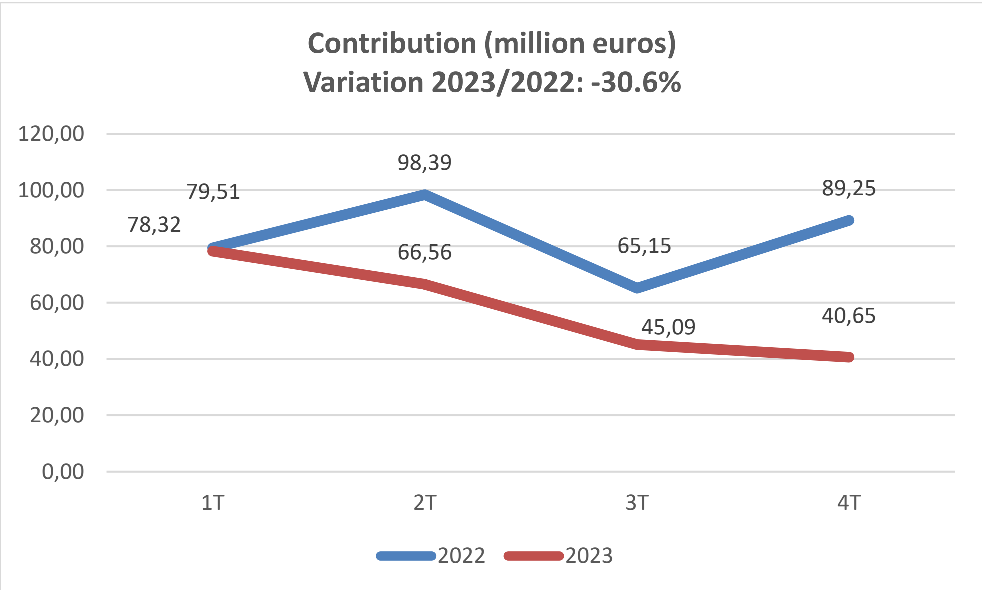
2. The amount of product sales amounted to EUR 707.21 million in 2023 compared to EUR 998.53 million in 2022: a decrease of EUR 291.32 million, equivalent to a drop of 29.2%. On a percentage basis, the amount of sales falls more than the volume sold, which anticipates a significant negative price effect.



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



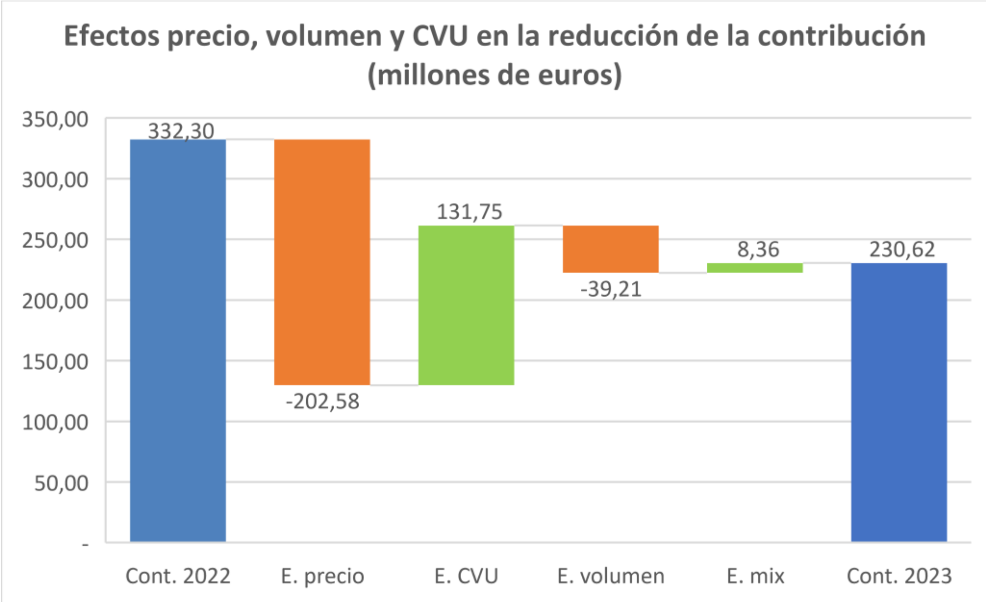
4. The amount of product sales amounted to EUR 230.62 million in 2023 compared to EUR 332.30 million in 2022; decrease of EUR 101.68 million, equivalent to a 30.6% drop. This reduction occurs because the negative effect of falling sales (and service provision) outweighs the positive effect of falling variable costs.



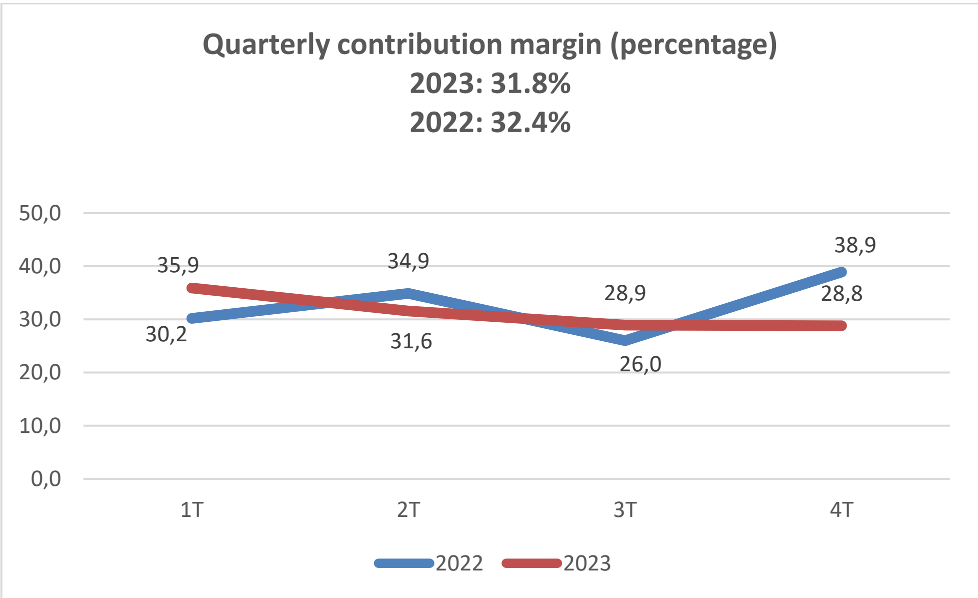
Contribution: (sales of products + provision of services - procurement - supplies + change in stocks).

5. As far as the contribution is concerned, the net effect of prices and costs is best identified by setting the effect of the average price of products sold against the unit variable cost (UVC) incurred in the production of these products. In 2023 the negative price effect of -202.58 million outweighed, in absolute terms, the positive UVC effect of 131.75 million. The net effect of price and UVC amounts to -70.83 million and explains 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%).



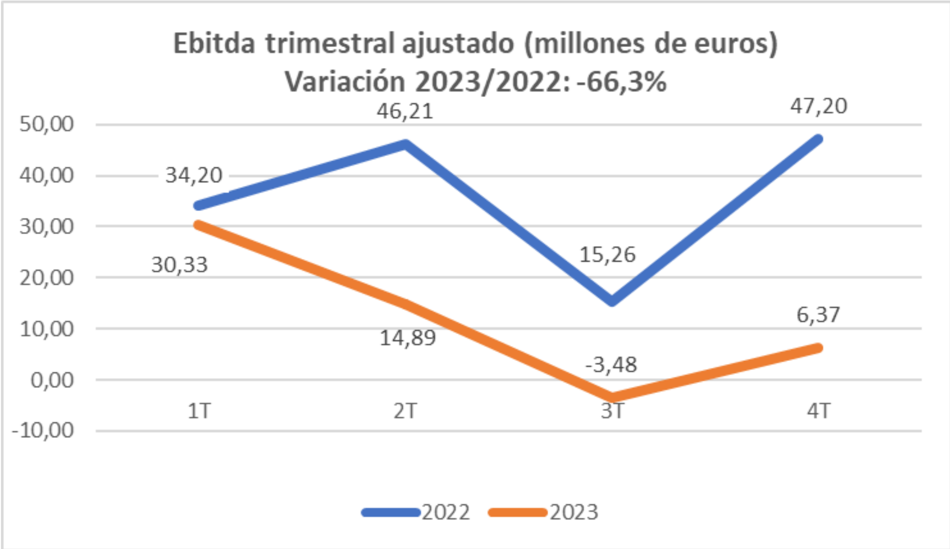
6. The contribution margin (contribution divided by the sum of product sales plus service provision) decreased from 32.4% in 2022 to 31.8% in 2023. A variation of -0.6 percentage points, because over 2023 the change in the sum of sales and service provision (-29.2%) exceeded, in absolute terms, the change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



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

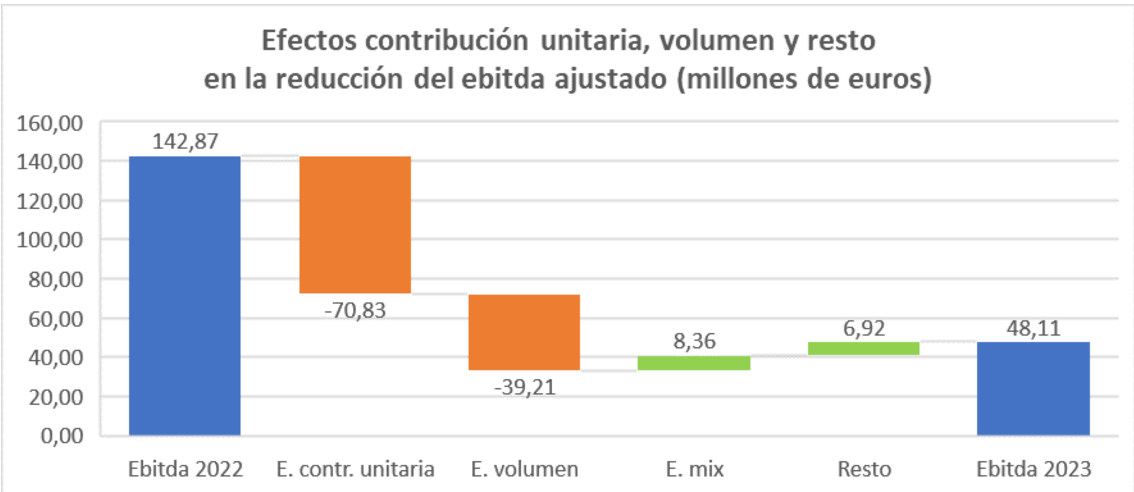
7. Adjusted EBITDA in 2023 was EUR 48.11 million compared to EUR 142.87 million in 2022; a reduction of EUR 94.76 million, equivalent to -66.3%. The 94.76 million drop in adjusted EBITDA largely reflects the 101.68 million decrease in

contribution. The 6.92 million lower fall reflects, among other things, the lower transport cost of the products sold.



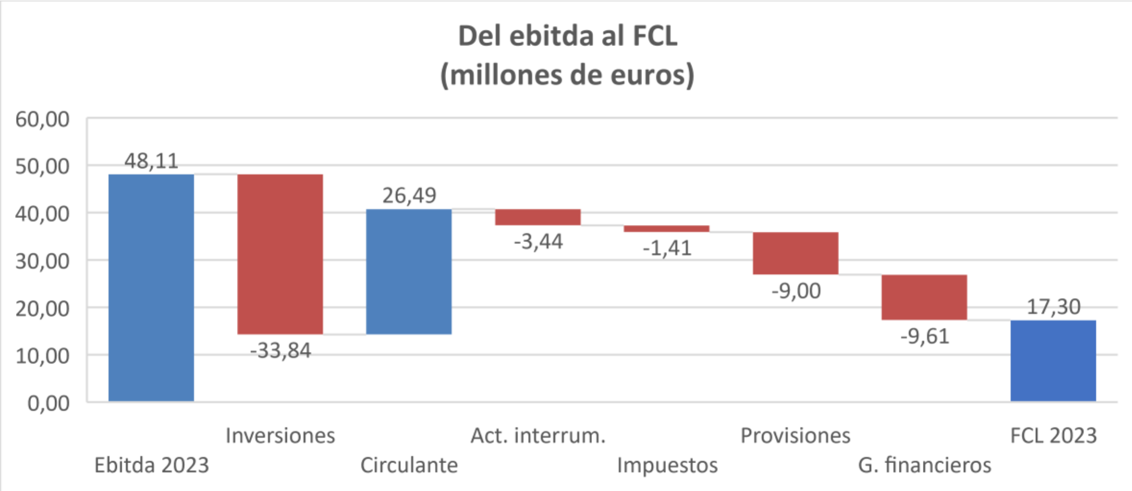
Adjusted EBITDA: EBITDA excluding atypical items. See table "Reconciliation of EBITDA" in note 3 c) of the consolidated annual accounts.

8. Compared to 2022, the change in adjusted EBITDA in 2023 of EUR -94.76 million is due to: (i) the unit contribution effect of -70.83 million, due to the average sales price falling more than the UVC, which explains 74.7%; (ii) the volume effect, due to less tonnes sold, of -39.21 million euros, which explains 41.4%; and (iii) the mix effect of EUR 8.36 million, which explains -8.8%. The remaining 6.92 million, which explains the -7.3% drop in EBITDA, reflects the net effect of the variation in other expenses and income.

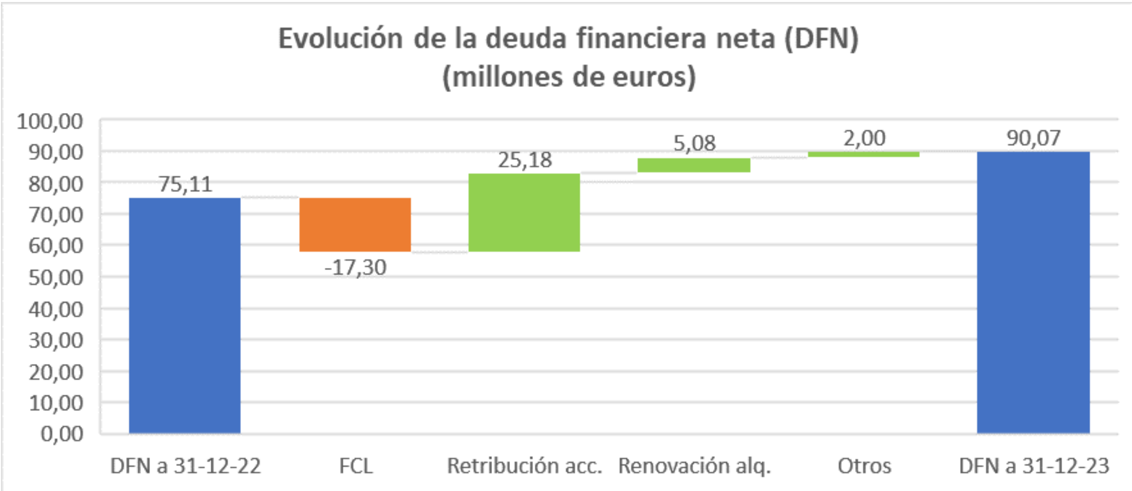


Other: variation in service provision, other income, fixed and non-standard costs.

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



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



11. At 31 December 2023, Ercros had liquidity of EUR 148.63 million, of which EUR 39.15 million were cash and EUR 109.48 million euros were undrawn financing facilities.

2.2 Results

Regarding the 2023 profit, in addition to what is indicated in Section A of this note, the following should be noted:

Services rendered decreased by 31.4% due to lower customer demand for these services and reduced 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 higher subsidy for the gas-intensive status.

The amount of supplies plus the change in stocks of finished goods and work in progress decreased by 24.1%. The main cause of this decrease was the fall in the price of raw materials, which, although significant, was lower than the fall 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.

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 2021-2023 period; and the increase in social security contributions.

Other operating expenses increased by 3.6% compared to 2022.

Provisions and other extraordinary expenses decreased by 75.8% compared to 2022, mainly as a result of the provisions made in 2022 in connection with 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.

Depreciation and amortisation 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 of EUR -8.0 million worsened by EUR 3.81 million due to lower exchange rate differences from EUR 1.50 million in 2022 to EUR -0.81 million in 2023 and higher interest cost of debt due to higher interest rates.

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

- Limitation on the offsetting of tax losses.

- Reversal of impairment losses on investments deducted in financial years prior to 2013 at the rate of one-fifth as from 2016.

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

The impact of this ruling is generally limited to those settlements that have been challenged prior to the ruling.

As a result of this ruling, Ercros has recorded an asset corresponding to tax income from the application of negative tax bases of EUR 18.63 million; financial income corresponding to late payment interest of EUR 0.71 million; and other income from the activation of tax deductions not applied due to the recalculation of new settlements of EUR 5.95 million and the activation of negative tax bases in the amount of EUR 0.82 million.

2.3 Other comprehensive income

The heading "*Other comprehensive income*" had no movement in 2023. In 2022, the amount, net of tax, of the transfer to the income statement of the settlement of the cash flow hedges on the purchase of electricity contracted for that year, as well as the changes in value experienced by the hedge in the period, were recorded.

2.4 Profit and loss account

Thousand euros	2023	2022	%
Ongoing activities			
Income	**757,626**	**1,059,685**	**-28.5**
Sale of finished products	707,214	998,532	-29.2
Services rendered	18,080	26,370	-31.4
Other income	31,143	28,394	9.7
Reversal of provisions and other extraordinary income	1,189	399	198.0
Increase in inventories of finished products and undergoing manufacture	-	5,990	-
Expenses	**-713,320**	**-937,024**	**-23.9**
Supplies	-348,324	-470,572	-26.0
Reduction in inventories of finished products and undergoing manufacture	-8,880	-	-
Supplies	-137,469	-228,015	-39.7
Transport	-42,965	-51,938	-17.3
Personnel expenses	-91,627	-89,582	2.3
Other operating expenses	-79,065	-76,305	3.6
Reversal of provisions and other extraordinary expenses	-4,990	-20,612	-75.8
EBITDA	**44,306**	**122,661**	**-63.9**
Amortisation	-32,273	-29,966	7.7
Reversal of value of assets	1,006	-539	-
EBIT	**13,039**	**92,156**	**-85.9**
Financial result	-8,005	-4,198	90.1
Income before tax	**5,034**	**87,958**	**-94.3**
Income tax	23,764	-17,314	-
Results of the year from ongoing activities	**28,798**	**70,644**	**-59.2**
Net loss for the year from discontinued activities	-1,213	-7,655	-84.2
Profits for the year	**27,585**	**62,989**	**-56.2**

Reconciliation of adjusted EBITDA

Thousand euros	2023	2022	%
EBITDA	**44,306**	**122,661**	**-63.9**
Atypical revenue items	-1,189	-399	198.0
Atypical expenditure items	4,990	20,612	-75.8
Adjusted EBITDA	**48,107**	**142,874**	**-66.3**

Other Total comprehensive income

Thousand euros	2023	2022	%
Profits for the year	**27,585**	**62,989**	**-56.2**
Other comprehensive income- Items to be reclassified subsequently to profit or loss for the year	-	-10,957	-
Total comprehensive income	**27,585**	**52,032**	**-47.0**

2.5 Results by businesses

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 sales volumes and 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 be geared towards 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 noted that the chlorine supply contract with an external customer ended in 2022, which has contributed to the reduction of the sales volume in 2023, as the chlorine is now used to produce own EDC (intermediate product in PVC production). Compared to 2022, the division's sales amount decreased by 34.2%, as the drop in volume was coupled with a 24.1% drop 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 was 7.7%, 10.8 points lower than the 18.5% recorded in 2022.

After the good performance in the first half of 2023, the **intermediate chemicals** division has 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 **pharmacy** 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% increase in selling prices. However, continuing pressure from raw material costs has pushed the 2023 EBITDA to only EUR 0.81 million. The division's margins are expected to recover in the coming quarters thanks to progressively lower raw material prices and higher selling prices.

During 2023, the pharmaceuticals division obtained approval for the manufacture of new sterile products (micronised fusidic acid and sodium fusidate), as well as approval of registrations for the sale of famotidine in China and erythromycin base dihydrate in

Australia and the US. In addition, the division launched a new presentation of fosfomycin trometamol compact and 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 gentamicin, which will contribute to the recovery of results.

Results by divisions

	Derivados del cloro			**Química intermedia**			**Farmacia**		
Miles de euros	**Ejercicio 2023**	**Ejercicio 2022**	**Variación %**	**Ejercicio 2023**	**Ejercicio 2022**	**Variación %**	**Ejercicio 2023**	**Ejercicio 2022**	**Varia-ción %**
Ingresos totales	**480.638**	**716.534**	**-32,92%**	**208.556**	**278.055**	**-24,99%**	**68.432**	**65.096**	**5,12%**
Ventas de productos	442.729	673.099	39,3%	197.392	260.518	9,2%	67.093	64.915	28,0%
Prestación de servicios	18.055	26.334	-5,0%	25	36	16,1%	0	0	
Otros ingresos	19.409	17.045	15,4%	11.019	10.949	32,8%	715	400	23,5%
Variación de existencias de productos terminados		-183			6.407			-234	
Reversión de provisiones y otros ingresos extraordinarios	445	239		120	145		624	15	
Gastos ordinarios y variación de inventarios productos acabados	**-450.915**	**-611.355**	**-26,2%**	**-195.324**	**-263.711**	**-25,9%**	**-67.081**	**-61.958**	**8,3%**
Aprovisionamientos	-212.207	-273.309	-22,4%	-105.495	-169.935	-37,9%	-30.622	-27.329	12,0%
Variación de existencias de productos terminados	-1.715	-		-9.032			1.867		
Suministros	-113.726	-190.335	-40,2%	-15.831	-29.813	-46,9%	-7.912	-7.867	0,6%
Gastos de personal	-26.834	-51.517	-47,9%	-14.713	-23.112	-36,3%	-15.718	-14.953	5,1%
Transportes	-52.540	-29.905	75,7%	-23.369	-20.617	13,3%	-1.418	-1.416	0,1%
Otros gastos de explotación	-39.298	-46.412	-15,3%	-26.573	-19.614	35,5%	-13.194	-10.278	28,4%
Dotación de provisiones y otros gastos extraordinarios	-4.595	-19.877		-311	-620		-84	-115	
Resultado bruto explotación	**29.723**	**105.179**	**-71,74%**	**13.232**	**14.344**	**-7,75%**	**1.351**	**3.138**	**-56,95%**
Gasto por depreciación y amortización	-21.435	-19.414	10,4%	-6.553	-6.563	-0,2%	-4.285	-3.989	7,4%
Reversión / (Deterioro) de propiedades de inversión	1.006	-539							
Ganancia de explotación	**9.294**	**85.226**	**-89,09%**	**6.679**	**7.781**	**-14,16%**	**-2.934**	**-851**	**244,77%**
Activos	355.986	328.277	8,40%	173.778	174.456	-0,40%	83.001	67.837	22,40%
Pasivos	108.463	126.260	-14,10%	39.900	46.506	-14,20%	16.541	14.741	12,20%
Inversiones en inmovilizado	26.095	17.997	45,00%	4.361	3.369	29,40%	16.834	12.170	38,30%

1. The calculation to obtain the ordinary EBITDA is detailed in note 3 c) of the consolidated financial statements.

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

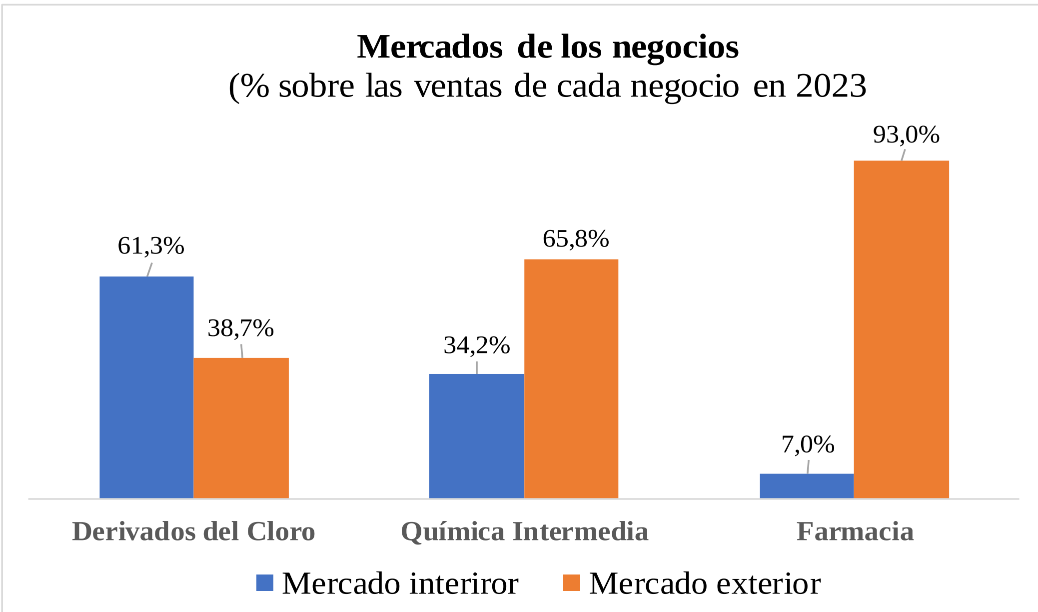
The chlorine derivatives division sold 60.3% of its turnover in Spain. In this business, sales to the Spanish market decreased by 38.5% and exports by 25%.

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 the foreign market with an increase of 21.8%. This business exports 65.8% of its turnover.

The pharmacy 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 for the Company's exports, accounting for 29.5% of its sales. The reduction in turnover in this area reached 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 the turnover and which between 2022 and 2023 experienced a reduction of 17.2%.

Sales to France, Italy and Portugal, together with the US, Germany and Turkey are the main destinations for the Company's exports.



2.7 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 [see note 3 b) (ii) of the consolidated financial statements].

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 6 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 depreciation of the dollar against the euro had a negative effect of EUR 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, it 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.

In 2023, dollar sales 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 reduced purchases of raw materials and falling prices. In 2023, dollar-denominated purchases accounted for 9% of the Group's total procurement and supplies, the same percentage as the previous year.

2.8 Financial, operational and stock market indicators

Indicators[1]	FY 2023	FY 2022
Financial		
Leverage ratio (<0.5)[2]	0.25	0.21
Solvency ratio (<2)[2]	1.87	0.53
Liquidity	1.28	1.35
Hedging of fixed asset financing	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 (thousand tonnes)	1,110	1,183
Added value (thousand euros)	135,933	212,243
Productivity (euros/person)	101,899	157,450
Gross margin/revenue (%)	54.02	55.59

Ordinary EBITDA margin/sales (%)	6.63	13.94

Stock market

Share price (euros/share)	2.64	3.24
Capitalisation (thousand euros)	241,392	312,981
EPS (euros)[2]	0.29	0.640
CFA (euros)	0.60	0.84
PER	8.75	4.97
P/BV	0.66	0.87

[2] Conditions for dividend payment.

[1.] **Method of calculation and purpose of each indicator:**

Leverage ratio:
- Calculation: net debt ÷ total equity.
- Purpose: to assess the degree of borrowed funds in relation to the Group's equity.

Solvency ratio:
- Calculation: net debt ÷ gross ordinary operating profit.
- Purpose: to assess the repayment capacity of borrowed funds in number of years.

Liquidity:
- Calculation: current assets ÷ current liabilities.
- Purpose: to assess the capacity to meet short-term payment commitments.

Hedging of fixed asset financing:
- Calculation: (total equity + non-current liabilities) ÷ non-current assets.
- Purpose: to assess the extent to which non-current assets are financed with permanent resources.

ROCE:
- Calculation: operating result ÷ resources employed.
- Purpose: to measure the level of profitability obtained by the Group in its business in relation to the investment made.

Average collection period:
- Calculation: (average debtors for the year ÷ sales) × 365.
- Purpose: to assess the average number of days between sales and total collections for the year.

Average payment period:
- Calculation in accordance with Law 15/2010, 5 July.
- Purpose: to assess the average number of days between purchases and total payments for the year.

Production:
- Calculation: Volume of units produced.
- Purpose: to measure the number of physical units produced.

Added value:
- Calculation: gross operating result + staff costs.
- Purpose: to measure the wealth generated by the Group.

Productivity:
- Calculation: added value ÷ No. of employees.
- Purpose: to measure the average contribution per employee to the Group's added value.

Gross margin/revenue:
- Calculation: (income – procurement) ÷ income.
- Purpose: to assess the profitability of the Group's product portfolio.

Ordinary EBITDA margin/sales:
- Calculation: gross operating result ÷ sales.
- Purpose: to measure the profitability of sales in relation to gross operating profits earned.

Share price:
- Calculation: Ercros share price at year-end.
- Purpose: to know the value given by the market to each share of the Company.

Capitalisation:
- Calculation: closing share price × number of shares issued.
- Purpose: to know the value that the market assigns to the Group's total assets.

EPS:
- Calculation: consolidated result for the year ÷ weighted average number of shares.
- Purpose: to measure the earnings that corresponds to each share.

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

PER:
- Calculation: capitalisation ÷ result of the year.
- Purpose: to know the number of times earnings per share are included in the value of the share.

P/BV:
- Calculation: capitalisation ÷ total equity.
- Purpose: to relate the Company's stock market value to its underlying book value.

+ = added.
× = multiplied.
÷ = divided.

C3. Liquidity and capital resources

3.1. Economic analysis of the balance sheet

Non-current assets increased by EUR 26.11 million, due to the recording of assets and tax deductions reversed as a result of the above-mentioned CC ruling. Working capital decreased by EUR 13.13 million, due to a decrease in current assets, inventories and receivables by EUR 71.59 million, compared to a decrease in current liabilities by EUR 58.46 million.

Equity increased by EUR 2.41 million, the net result of the profit for the period of EUR 27.59 million on the one hand, and on the other hand, with a negative sign, the repurchase of own shares of EUR 11.13 million, the share premium of EUR 0.33 million, and the dividend of EUR 13.72 million.

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

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

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

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 EUR 4.38 million, mainly due to the change in payments associated with the closure of the Flix plant and payments for the dismantling of facilities and various environmental remediations.

Economic analysis of the balance sheet

Thousand euros	31/12/2023	31/12/2022	Variation (%)
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
Resources used	**483,370**	**470,389**	**2.8**
Total assets	**363,115**	**360,710**	**0.7**
Net financial debt[1]	**90,070**	**75,110**	**19.9**
Provisions and other liabilities	**30,185**	**34,569**	**-12.7**
Origin of the funds	**483,370**	**470,389**	**2.8**

1. Net financial debt includes all debts of a financial nature to non-banks as well as lease payables (in 2023: EUR 9,260 thousand, and in 2022: EUR 12,324 thousand). Furthermore, in addition to cash and cash equivalents, deposits collateralising debt commitments have been considered as reduction in financial debt (in 2023: EUR 2,034 thousand, and in 2022: EUR 2,034 thousand).

Breakdown of net financial debt

Thousand euros	31/12/2023	31/12/2022	Variation	%
Loans	108,831	85,007	23,824	28.0
Creditors for financial lease	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**
Treasury	-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**

3.2. Liquidity

The Group manages its liquidity risk using financial planning techniques. These techniques consider cash inflows and outflows from ordinary, investment and financing activities, as well as shareholder remuneration. The Group’s objective is to maintain a balance between the flexibility, term and conditions of the contracted sources of financing 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 environment, which has reduced the cash flow generated by ordinary activities, although this increase has been to levels that the company can afford, 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 where 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 a covenant in the future.

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

In relation to the financing facilities available, the Group has renewed and extended the syndicated financing contracts and currently has available until May 2029 a syndicated factoring facility for an amount of EUR 102,000 thousand and a syndicated credit facility with a global limit of EUR 115,000 thousand with two tranches: a revolving tranche for an amount of EUR 50,000 thousand and a loan tranche to finance investments up to a maximum of EUR 65,000 thousand.

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

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 on the Alternative Fixed Income Market ("MARF").

Similarly, on 23 December 2021, the Ercros Group signed a EUR 40 million agreement with the European Investment Bank ("EIB") to finance Ercros' investments in research, development and innovation ("R&D&I"), digitalisation, decarbonisation and modernisation of its main facilities as part of the Plan 3D strategic plan that Ercros has launched for the 2021-2025 period. The Group has drawn down the entirety of this financing at year-end 2023.

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 on the Alternative Fixed Income Market ("MARF").

a) Main sources of funding

In 2022, the Group has used the following sources of funding:

(i) External [see note 6 d) (ii) to the Consolidated Financial Statements]

- The euro factoring line, which allows financing of working capital up to a limit of EUR 102,000 thousand. At 31 December 2023, the balance drawn down from this line was EUR 48,2198 thousand (EUR 76,048 thousand for the previous year).

- The revolving credit agreement, for an overall limit of EUR 50,000 thousand. As at 31 December 2023, the amount drawn down was EUR 0 thousand (EUR 20,000 thousand in the previous year).

- The CAPEX tranche of the syndicated revolving credit facility in loan format had an outstanding amount of EUR 5,625 thousand at 31 December 2023 (EUR 9,375 thousand in the previous year).

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

- The loan contracts with the ICF, which at 31 December 2023 had a balance of EUR 4,028 thousand (EUR 4,985 thousand in the previous year).

- Various loans with public entities such as the Ministry of Industry, Tourism and Trade, CDTI and other financial entities for a total amount of EUR 11,060 thousand.

- Various bank loans with maturities of 5 to 7 years with a drawn down balance at 31 December 2023 of EUR 42,443 thousand (EUR 32,432 thousand in the previous year).

- Several bank working capital financing lines with a total limit of EUR 29,000 thousand. As at 31 December 2023, a balance of EUR 5,000 thousand (EUR 0 thousand in the previous year) had been drawn down on these bank working capital financing facilities.

- The loan agreement with the European Investment Bank signed on 23 December 2022 for a total amount of EUR 40,000 thousand, with a drawn down balance of EUR 40,000 thousand at 31 December 2023 (EUR 19,971 thousand in the previous year).

(ii) Internal [see consolidated cash flow statement table in chapter B5 of the consolidated annual accounts]

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

- As at 31 December 2023, the Group also had cash of EUR 39,145 thousand (EUR 58,283 thousand at year-end 2022) and additional financing of EUR 148,632 thousand (EUR 99,863 thousand at year-end 2022) [see note 6 d) (v) to the consolidated financial statements].

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

- It is worth noting the overall amount received during the 2023 financial year relating to grants (for indirect CO_2 emissions, intensive electricity consumption and others), which amounted to EUR 11,648 thousand (EUR 8,460 thousand in the 2022 financial year).

The Group is confident that, as in the past, should new investment opportunities or needs arise in any production facility to meet its growth expectations, it could resort to other complementary mechanisms to obtain liquidity, such as partial and selective disposal of non-operating assets, subscription of new bank financing, issuance of promissory notes or issuance of short or medium-term bonds in organised markets.

b) Public subsidies and grants

In 2023, Ercros received the following subsidies and grants from public bodies:

Body	Concept	Factories	Amount (thousand euros)
Ministry of Industry, Trade and Tourism	Offsetting the cost of indirect CO_2 emissions from 2022	Vila-seca I and Sabiñánigo	7,214
Ministry of Industry, Trade and Tourism	Redress for electricity-intensive consumers in 2023	Vila-seca I, Sabiñánigo, Vila-seca II, Tortosa, Almussafes, Aranjuez and Cerdanyola	660
Ministry of Industry, Trade and Tourism	Redress for gas-intensive consumers in 2023	Vila-seca I, Sabiñánigo, Vila-seca II, Tortosa, Almussafes and Cerdanyola	2,594
IDAE[1]	Extension TCCA	Sabiñánigo	633
IDAE[1]	Improved Chlorine Potash technology (gap 0)	Sabiñánigo	547
Government of Aragón	Chlorine electrolyser monitoring	Sabiñánigo	45
Total			**11,693**

1. The Institute for Energy Diversification and Saving ("IDAE") is a public business entity attached to the Ministry for Ecological Transition and the Demographic Challenge that provides aid for actions to improve energy efficiency and the implementation of renewable energies.

The Group has also been granted subsidies from IDAE and ICAEN, amounting to EUR 4,478 thousand, which are pending collection awaiting justification and review of the investments that have generated them [see note 6 l) of the consolidated financial statements].

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

- The Ministry of Industry, Trade and Tourism granted the Group free allocations of greenhouse gas emission allowances for an equivalent value of EUR 16,458 thousand (EUR 16,833 thousand in financial year 2022) [see notes 5 c) and 6 l) of the consolidated financial statements].

- The Fundación Estatal para la Formación en el Empleo (“Fundae”) subsidised part of the training expenses incurred, amounting to EUR 206 thousand, which is deducted from the social security contributions paid by the Group (EUR 202 thousand in 2022).

c) Restrictions on dividend distributions

There are no restrictions on the distribution of dividends as long as the ratios set out in the syndicated financing are met, which are less restrictive than the three conditions set out in the shareholder remuneration policy in force for the 2021-2025 period, as detailed below:

- The profit for the financial year must exceed EUR 10,000,000.

- The NFD/ordinary EBITDA ratio (solvency ratio) is less than or equal to 2.

- The NFD/total equity ratio (leverage ratio) is less than or equal to 0.5 [see paragraph 10.1 a)].

Some financing contracts 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 the corresponding waiver has been obtained [see section 10.1 a)].

d) Level of indebtedness

As mentioned in section 3.1 above, the NFD has increased by EUR 14,960 thousand. At 31 December 2023, the NFD stood at EUR 90,070 thousand compared to EUR 75,110 thousand at the end of 2022 [see note 3 c) to the consolidated financial statements].

The breakdown and maturities of the Group’s financial debt and liquidity risk management are explained in detail in notes 3 b) (iii) and 6 d) (ii) to the consolidated financial statements.

e) Payment term to suppliers and collection from customers

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

As at 31 December 2023, payments exceeding 60 days accounted for 32.47% of all payments made (32.47% in 2022). The Group plans to continue to reduce the percentage of payments exceeding 60 days [see note 6 n) (i) to the consolidated financial statements].

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

3.3. Capital resources

See note 3 c) to the Consolidated Financial Statements.

a) Firm commitments for raising capital resources

There are no firm commitments to raise new capital resources.

b) Committed or obligatory investments

On 22 January 2021, the Board of Directors approved a new investment plan called 3D Plan, which is described in note 4 c) to the consolidated financial statements.

3.4. Contractual or off-balance sheet obligations

The Group has no contractual or off-balance sheet obligations requiring significant financial resources other than those described in notes 7 d) and 7 e) to the consolidated financial statements.

C 4. Main risks and uncertainties

4.1. Identification of risks

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

Since 2017, the Ercros Group has had a compliance committee that assists the audit committee - to which it reports functionally - in the prevention of criminal risks. The functions of this committee include: (i) compliance with the criminal compliance management system ("CCMS"); (ii) propose to the audit committee the adoption of such measures as it deems appropriate to ensure compliance with the CCMS and inform the committee of any breaches detected; (iii) monitor the policies, procedures and controls established in relation to risk control and, in general, compliance with the manual and the principles and rules set out in the code of ethical conduct; and (iv) ensure compliance with the internal rules of conduct in matters relating to the securities market.

On 28 April 2023, following the publication of Law 2/2023, of 20 February, regulating the protection of persons who report regulatory infringements and the fight against corruption, following a favourable report from the audit committee, on 28 April 2023 the board of directors approved: (i) the adaptation of the existing Internal Information System (Ethical Channel) to the new law; (ii) the policy of the internal information system and whistleblower protection; (iii) the updating of the Code of Ethical Conduct; (iv) the updating of the Ethical Channel procedure and (v) the appointment, within the Compliance Committee, of the director of the internal audit service as the person responsible for the management of the Internal Information System ("IIS") and the processing of investigation files, which was registered with the Anti-Fraud Office of Catalonia on 11 May 2023.

On 13 June, the new digital platform of the Ethics Channel was implemented on the home page of the corporate website, which allows the submission of reports on alleged breaches and non-compliance with regulations and the Group's internal regulatory framework that any person in a work or professional context notices within the company.

In addition to the regulations approved and revised during 2023 upon publication of the above law, the Group has (i) a criminal compliance management system; (ii) anti-corruption and crime prevention; tax; zero tolerance to market manipulation and personal data protection policies; and (iii) a conflict-of-interest procedure.

On 21 November 2023, the Group obtained certification from Aenor for the UNE 19601:2017 standard on criminal compliance, which verifies the suitability of the criminal compliance management system implemented by the Ercros Group in accordance with the requirements established by the standard.

The Group seeks to minimise the tax risks to which it is exposed because of its activities and to avoid aggressive interpretations of the tax rules to which it is subject. To this end, it is assisted by qualified external advisors to prepare the tax-related information and, before making decisions, it carries out an analysis of the tax impacts that may arise from its actions.

The Group also has the necessary governance bodies to oversee the development of the organisation's overall strategy and to exercise its functions with the necessary efficiency, objectivity and independence. It also has procedures in place to identify, measure, assess, monitor and prioritise the risks to which it is exposed, and management systems that define the control, monitoring and mitigation or elimination of these risks.

Name of the body	**Description of the functions**
Board of Directors	Establishes and supervises general risk control arrangements
Audit Committee	Responsible for internal control and risk management systems
Appointments, remuneration, sustainability and corporate social responsibility committee	Oversees compliance with the Company's environmental, social and corporate governance ("ESG") policies and rules, as well as internal codes of conduct.
Strategy and Investment Committee	Advises the Board on the analysis and monitoring of the Group's strategic policy and investments.
Internal Audit Service	Oversees the effectiveness of the internal control systems
Compliance Committee	Oversees the prevention of criminal risks
Executive Committee	Oversees operational management and risk management in general. Authorises investments; annual contracting of corporate services in excess of EUR 250,000; risks to clients over EUR 5 million and other aspects, such as communication; relations with the stock market; etc.
Management Committee	Oversees overall operational management and risk management
Business Committees	Overseeing the management and operational risks of their business
Risk and Recovery Committee	Responsible for risk control of trade credit
IFRS Committee[1]	Responsible for the correct application of IAS[2] and IFRS[3] in the preparation of financial information and the control of tax risk
FIICS Committee[4]	Responsible for the operation of the FIIC system
Systems Committee	Manages cybersecurity risk
CEDES[5]	Oversees non-financial risks
CERS[6]	Monitors reputational risks

1. International Financial Reporting Standards.

2. International accounting standards.

3. International financial reporting standards.

4. Financial information internal control system.

5. Sustainable Development Committee

6. Ethics and Social Responsibility Committee

4.2. Main risks to which the Group is exposed

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

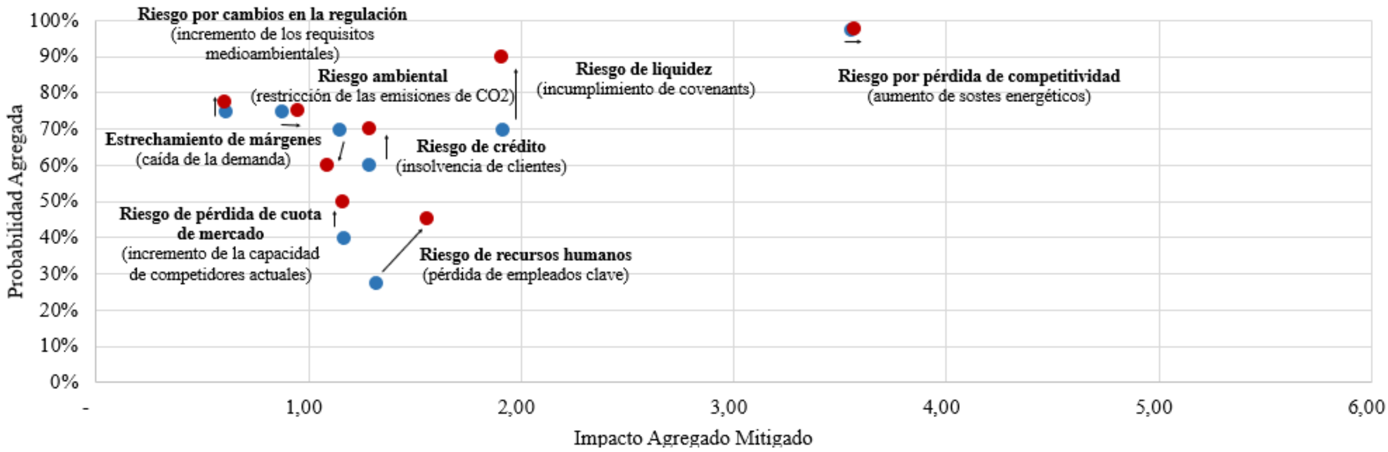
Many of these risks are inherent in the conduct of the Group's business or are the result of external factors and can be mitigated but cannot be eliminated. In other cases, the Group transfers the risks by taking out insurance policies.

Relevant risks are those that could jeopardise the achievement of the objectives 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 map of the different businesses and an aggregate 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 on the Group if they were to materialise (on a scale of 0 to 6). Based on these maps, the Group has implemented controls to mitigate the risks identified.

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

Aggregate mitigated risk 2023
Aggregate mitigated risk 2024



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

Furthermore, on 15 December 2023, the business managers and general managers also presented to the Board of Directors the financial impact maps derived from risks and opportunities associated with climate change, identified through the analysis of **RCP** *(Representative Concentration Pathways*) **climate scenarios**, and the study of the IPCC *(Intergovernmental Panel on Climate Change*) reports.

Once risks and opportunities have been identified, they have been assessed based on several criteria:

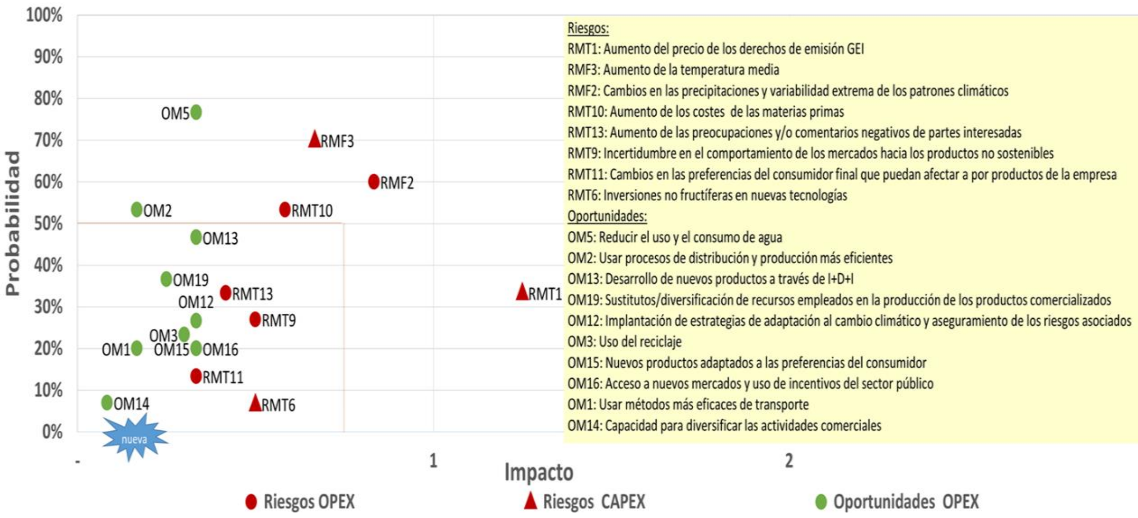
1. Probability of occurrence of the event, on a scale of 0% to 100%
2. Magnitude of impact, on a scale of 1 (low) to 5 (high)
3. Implementation horizon or programme: short term (0-3 years); medium term (3-10 years) or long term (more than 10 years);
4. Financial impact: minor (less than 6 million), moderate (6-15 million), high (15-30 million) and major (more than 30 million)
5. Area of financial impact: operational costs (OPEX); capital expenditure (CAPEX); assets and liabilities; and capital and financing.

Finally, following the recommendations of the *Task Force on Climate-related Financial Disclosures* ("TFCD"), the Ercros Group has categorised the risks associated with climate change into two dimensions: transition risks and physical risks, and has implemented various actions and controls aimed at mitigating the risks detected and their financial impact.

- Regarding **transition risks** (those arising from adaptation towards a low-emission economy, considering technological, market, reputational and political aspects related to climate change), the Ercros Group is executing the 3D Strategic Plan, which includes a decarbonisation dimension comprising key projects in energy efficiency, climate adaptation, optimal use of hydrogen, circular economy and sustainable mobility.

- With regard to physical risks (those arising from the direct impacts of climate change on Ercros' operations, such as extreme weather events, changes in weather patterns and increases in average temperature), the company has established protocols and action plans to address potential adverse weather events, such as floods, droughts and other extreme weather events, thereby strengthening resilience and ensuring operational continuity by also addressing investments aimed at improving efficiency, harnessing resources and strengthening external infrastructure in collaboration with the authorities.

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



In relation to the 2023 annual accounts, the work plan of the external auditor, Ernst & Young, has focused on analysing the following significant issues: (i) net sales and receivables; (ii) provisions for environmental remediation, contingencies and litigation; (iii) tax credits and their future tax recoverability; (iv) macroeconomic aspects / high volatility in markets: price developments of supplies, raw materials and exchange rates; (iv) appraisal of investment properties and fixed assets; (v) tax inspections and excise taxes; and (vi) compliance with covenants linked to financing contracts and the European Investment Bank ("EIB") financing facility. No issues affecting its opinion on the annual accounts have been identified.

Section E.3 of the corporate governance report, which forms part of this CMR, describes in detail the main risks to which the Group is exposed.

4.3. Risks materialised during the financial year

Risks materialised in the financial year	**Circumstances that have led to them**	**Operation of the control systems**
Risk of loss of competitiveness	Loss of competitiveness due to continuing high energy costs (in Europe) and the different intensity of aid for the electro-intensive and gas-intensive industry provided by EU members.	Signing of supply hedging contracts. Inclusion of price review clauses in customer contracts that consider variations in energy costs.
Margin squeeze risk	Fall in the demand. Increased costs associated with the	Search for new markets and customers. Customer loyalty through improved service, multi-year

	transition to low-emission technology.	contracts and the sale of products tailored to individual requirements. Improved competitiveness due to cost reductions. Investments in more efficient technologies.
Risk of market share loss	Emergence of new competitors and capacity increases by existing competitors.	Improving competitiveness through investments in modernisation of facilities, operational improvements and development of specialities. Increasing market share by seeking new markets and customers and better pricing or service to existing customers.
Regulatory change risk	Increased legal requirements (environment, product safety, safety of persons and facilities, etc.)	Monitoring of the sector and of calls for aid through 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 emission economy. Increase in average temperature and severe extreme weather events. Reduced rainfall and extreme variability of weather patterns.	Investments for the adaptation of facilities to a low-carbon economy and minimisation of resource consumption; request to administrations for improvements to external infrastructures (water evacuation network, access to main roads, etc.); implementation of procedures and action plans for emergency situations due to adverse climatic episodes and training of workers in their execution.
HR risk	Loss of key employees	Implementation of social measures, measures to promote work-life balance, and measures to make working hours more flexible. Fostering training plans and internal promotion. Implementation of the talent management model and performance system. Encouraging loyalty through loyalty bonuses, defined contribution pension plans and life and health insurance.
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	Creditworthiness 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.

C 5. Events occurring after the close of the financial year

See note 4 h) to the Consolidated Financial Statements.

C 6. Risks and opportunities of 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 held on 16 December 2022, financial impact maps derived from risks and opportunities associated with climate change to assess the financial implications of climate change.

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

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

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

c) range of financial impact:
- Minor < 6 million euros
- Moderate ≥ 6 < 15 million euros
- High ≥ 15 < 30 million euros
- Major ≥ 30 million euros

d) Area of impact of the 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 aligned with the 2015 Paris Agreement goal of keeping global temperature rise below 2°C compared to pre-industrial levels and striving to limit temperature rise to 1.5°C by the end of this century.

The Group's Sustainable Development Division 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 give rise to new liabilities that would require new provisions to be recorded.

No risks with major 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 minor impact in the category of physical risks, as detailed below:

Climate risks	Associated financial impact	Likelihood	Time horizon	Impact on financial strategy
Technology transition risk				
Costs associated with the transition to low-emission technologies	New investments in more efficient assets	Probable	Short term	CAPEX
Chronic physical risks				
Environmental risk of changes in rainfall and extreme variability of weather patterns	Lack of water supply, increased operating costs for ancillary services and loss of production	Probable	Short term	OPEX
Increase in average temperature	Increased investments in expanding cooling and heat recovery capacity	Probable	Short term	CAPEX

Using the same methodology, five opportunities with a minor estimated impact have been identified and are detailed below:

Climate opportunity	Associated financial impact	Likelihood	Time horizon	Impact on financial strategy
Related to resource efficiency and cost savings				
Reducing water use and consumption	Lower operating costs	Probable	Short term	OPEX
Derived from the adoption of low-carbon emission energy sources				
Use of supportive policy incentives	Lower exposure to cost increases due to the use of fossil fuels	Certain	Short term	OPEX
Use of new technologies	Lower operating costs and GHG emissions. Reduced exposure to CO_2 price changes	Probable	Short term	OPEX
Use of low-emission energy sources	Reduction in operating costs	Probable	Short term	OPEX
Shift towards decentralised sustainable energy generation	Increased available funding, improved reputation, higher revenues	Possible	Short term	OPEX
Related to building climate resilience along the entire 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

C 7. Foreseeable developments

For the European chemical sector, the consensus of specialised publications delays the start of the recovery in demand, initially expected in the first quarter of 2024, until the second half of 2024.

In this environment of high uncertainty, weak demand and strong international competition, the company's margins and volumes will continue to be negatively affected in the first half of 2024 before gradually recovering throughout 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.

C 8. R&D&i projects

8.1. R&D&i projects

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 chemicals divisions, and collaborates with several universities and technology centres. In 2023, it has incurred expenses and investments in innovation amounting to EUR 6,552 thousand (EUR 6,658 thousand in 2022).

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

The Group's research and development activity in 2023 has mainly focused on nine projects. Seven of them have been carried out in collaboration with the Centre for the Development of Industrial Technology ("CDTI"): (i) the development of sustainable solutions in the manufacture of biopolymers; (ii) the development and scale-up of a bioprocess for the production of biopolymers; (iii) research into eco-sustainable alternatives to the use of intentionally added microplastics in detergent and cosmetic applications; (iv) the development of PVC profiles including thermal insulation made from recycled material; (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 powders; and (vii) research into a process for the synthesis of di-pentaerythritol. The development of bio-based and biodegradable anti-fouling paints for marine applications has been carried out within the public-private collaboration programme of the State Research Agency; and the latest project involves the synthesis of new antibiotic salts.

8.2. Product development

The most relevant 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 moulding and rotational moulding.

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

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

- 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 chemistry division

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

- New moulding powder grades with extra-fluid properties, specifically designed for the sanitary materials sector.

- Study for the manufacture of more sustainable moulding powders with a lower carbon footprint.

c) In the Pharmaceutical 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.

8.3. Improvements to processes

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 chlorine-soda plant of elements with activated anodes using proprietary technology.

- Start-up of the Sodium Chlorite Plant IV with proprietary technology.

- Modification of the brine purification process in the chlorine-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 Vila-seca I and Vila-seca II centres through electrification, the recovery and use of low-thermal energy and the replacement of fossil fuels with 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 common conditions for the different extractive processes in pharmacy.

8.4. In the field of research

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

- Collaboration programmes with the CDTI for the development of sustainable solutions in the manufacture of biopolymers and PVC profiles with recycled insulating materials; research into eco-sustainable alternatives to the use of intentionally added microplastics in detergent and cosmetic 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 powders; and research into a process for the synthesis of di-pentaerythritol.

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

- ACCIÓ’s Nuclis aid programme for R&D projects with a project to obtain more sustainable moulding powders.

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

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

- Contracts with the Chemical Institute of Sarria (“IQS”), for conducting 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 conducting a study on new high added-value applications for moulding powders and for the development of compounds to produce 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 Autonomous University of Madrid, for the promotion of research, teaching and study activities in the field of pharmaceutical chemistry.

- The contract with the National Renewable Energy Centre ("Cener"), for the development and scale-up of a bioprocess to produce biopolymers.

- Collaboration with the board of trustees of the Foundation for the development of new hydrogen technologies in Aragon.

C 9. Purchasing and disposal of treasury shares

See note 3 d) and note 4 b) to the Consolidated Financial Statements.

C 10. Other relevant information

10.1. Shareholder remuneration

a) Shareholder remuneration policy

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

Shareholder remuneration will be carried out through the buy-back of own shares for redemption and the payment of a dividend.

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

The buy-back of own shares for their redemption will be executed provided that a dividend of at least: 18% of profit in 2021; 20% of profit in 2022; 22% of profit in 2023; and 24% of profit in 2024 is foreseen.

The shareholder remuneration is conditional (i) on the achievement of a minimum profit of EUR 10 million and (ii) on 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 EUR 27,585 thousand; the solvency ratio was 1.87 (0.53 in 2022); and the leverage ratio was 0.25 (0.21 in 2022) [see section 10.2 c) below].

Ercros' dividend policy is defined in this shareholder remuneration policy. Some financing contracts 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 the corresponding waiver has been obtained. [see note 3 d) (i) to the Consolidated Financial Statements].

b) Shareholder remuneration paid and proposed in 2023

See note 3 d) to the Consolidated Financial Statements.

10.2. Stock market information

a) Share capital

See note 4 a) and note 6 i) (i) to the Consolidated Financial Statements.

On 24 July 2023, the Barcelona Mercantile Registry registered a reduction in Ercros' share capital of EUR 1,548,897, 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, 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 EUR 18,769 thousand for the Company.

Following this transaction and up to the time of approval of this CMR - 23 February 2024 - the share capital of Ercros amounts to EUR 27,431 thousand and is represented by 91,436 thousand ordinary shares, each with a nominal value of 0.30 euros.

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

	Share capital (euros)	Number of shares
At 31/12/2022	28,979,756.70	96,599,189
Capital reduction	-1,548,897.00	-5,162,990
At 31/12/2023	27,430,859.70	91,436,199

b) Share price evolution

The Ercros share decreased by 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%).

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

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

For the year, the volume of cash traded amounted to EUR 118,754 thousand (EUR 144,495 thousand in 2022), while the number of shares changing hands was 34,243 thousand (44,958 thousand in 2022).

8 November 2023 was the day on which most securities were traded: 1,156 thousand shares. The average daily turnover for the year was 134,286 shares.

Main parameters related to the share

	31/12/2023	31/12/2022	31/12/2021	31/12/2020	31/12/2019
Shares on the 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 year	34,243,015	44,958,441	59,865,606	64,917,707	88,224,937
Maximum in one day	1,156,304	750,362	2,443,430	1,856,361	2,413,214
Minimum 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 (EUR):					
In 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 (EUR):					
Maximum	4.81	3.91	3.98	2.89	3.95
Minimum	2.40	2.60	2.08	1.41	1.56
Medium	3.47	3.21	3.14	2.20	2.50
Last	2.64	3.24	2.97	2.16	2.56
Frequency index (%)	**100**	**100**	**100**	**100**	**100**
Liquidity ratio (%)	**37.45**	**46.54**	**59.29**	**64.29**	**84.09**

1. Annual average 2023= 93,587,445 shares.

2. Annual average 2022= 98,420,876 shares.

3. Annual average 2021= 100,971,237 shares.

4. Annual average 2020= 102,614,814 shares.

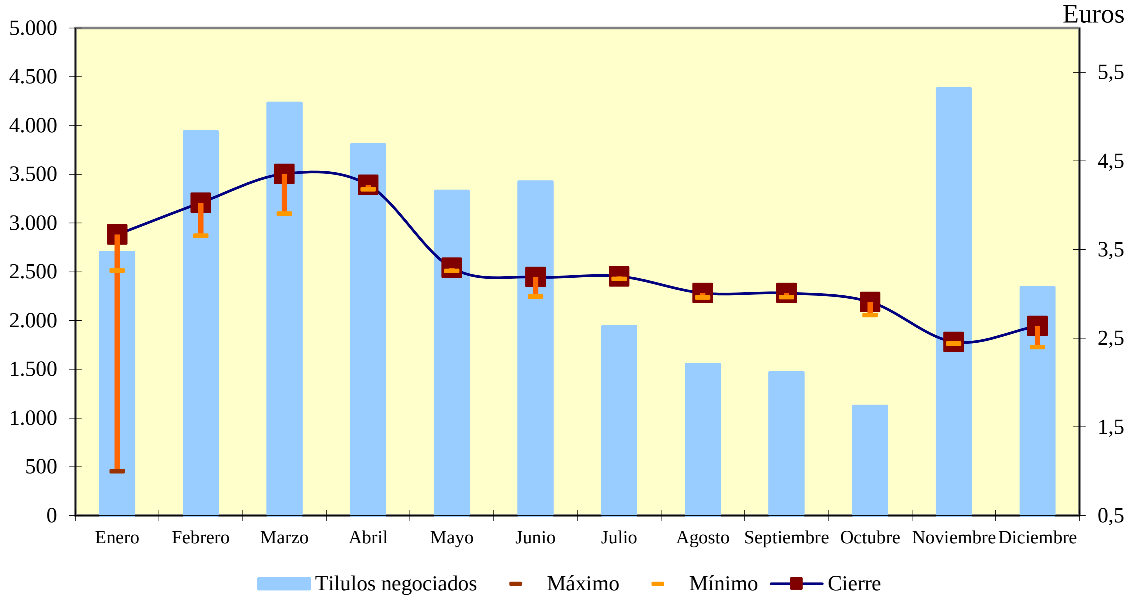
5. Annual average 2019= 106,149,488 shares.

Indicators[1]	**FY 2023**	**FY 2022**
Stock market		
Share price (euros/share)	2.64	3.24
Capitalisation (thousand euros)	241,392	312,981
EPS (euros)[2]	0.29	0.64
CFA (euros)	0.60	0.84
PER	8.75	4.97
P/BV	0.66	0.87

Share price and trading volume performance

Thousands of shares

2023

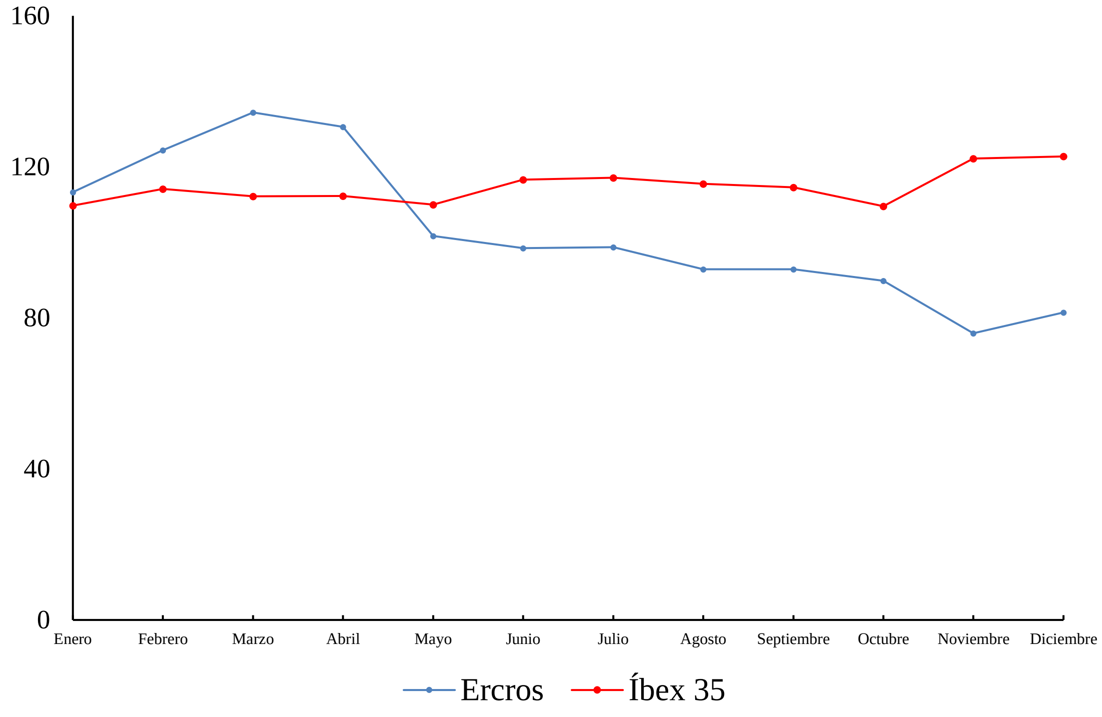


Source: Bolsas y mercados españoles ("BME").

Comparison between Ercros and Íbex-35

2023

Base 100= 31/12/22



Source: Bolsas y mercados españoles ("BME").

c) Key stock market ratios

Between 2022 and 2023, the CFA - calculated by 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 by each share.

The performance has had a direct impact on the EPS improvement from EUR 0.640/share in 2022 to EUR 0.295/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 PER ratio - calculated as the number of times capitalisation to profit for the year - has increased from 4.97 times in 2022 to 8.75 times in 2023.

In the reporting period the P/BV - calculated by the ratio of capitalisation to total equity and relating the value of the Company's shares on the stock exchange to their underlying book value - went from 0.87 in 2022 to 0.66 in 2023 [see section 2.2 of this CMR].

d) Significant shareholders

Because 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% because of the aforementioned reduction.

According to the notifications 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% of the share capital, as follows [see note 4 d) (vi) to the Consolidated Financial Statements].

e) Credit rating

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

10.3. Significant events of the year

a) Purchase of treasury stock

See Chapter 8 and paragraph 10.1 b) above of this CMR and notes 3 d) (v) and 4 b) to the Consolidated Financial Statements.

b) Payment of dividends

See paragraph 10.1 b) above of this CMR and note 3 d) (iii) and (iv) to the Consolidated Financial Statements.

c) Ordinary General Shareholders' Meeting

See section 1.1 a).

C 11. Annual directors' remuneration report

The Ercros Group publishes an annual directors' remuneration report ("DRR") in compliance with Article 541 of the Spanish Capital Companies Act ("LSC"). The DRR forms part of this CMR but is presented in a separate document as permitted by the regulations.

This report is prepared in accordance with the provisions of Article 541 of the Capital Companies Act and follows the model established in Circular 3/2021, of 28 September, of the National Securities Market Commission (CNMV) amending Circular 5/2013, of 12 June.

The DRR 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 financial year ended, as well as details of the individual remuneration accrued for all items by each of the directors in that financial year.

The DRR 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).

C 12. Annual corporate governance report

The Ercros Group publishes an annual corporate governance report ("CGR") in compliance with Article 540 of the Spanish Capital Companies Act ("LSC"). The CGR forms part of this CMR but is presented in a separate document as permitted by the regulations.

This report is prepared in accordance with the provisions of Article 540 of the Capital Companies Act and follows the model established in Circular 3/2021, of 28 September, of the National Securities Market Commission (CNMV) amending Circular 5/2013, of 12 June.

The CGR 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 CGR 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).

C 13. Non-financial information statement

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

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

The NFI 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 French 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).

C 14. Responsibility for the Group management report

The purpose of this notice is to state for the record that the Board of Directors of Ercros, S.A., at its meeting held on 23 February 2024, has approved the content of the consolidated management report of the Ercros Group for the year ended 31 December 2023, which has been formulated and prepared in electronic format eXtensible HyperText Markup Language (XHTML), all in accordance with the Single European Electronic Format (SEEF) established in Directive 2004/109/EC and in Delegated Regulation (EU) 2019/815, and its content is in accordance with the provisions of Article 49 of the Code of Commerce and Chapter III of the Capital Companies Act, which have been amended by Act 11/2018, of 28 December.

This management report accompanies the consolidated annual accounts of the Ercros Group for the year ended 31 December 2023 and its content is in accordance with the provisions of Article 262 of the Capital Companies Act and Article 49 of the Code of Commerce, and follows the model established in the guide for the preparation of the management report of listed companies drawn up by a group of experts at the request of the National Securities Market Commission (Comisión Nacional del Mercado de Valores).

The directors of the Company, whose names appear in the forewords, declare that this management report provides a fair review of the development of the business performance and the position of the issuer, and the undertakings included in the consolidation taken as a whole, together with a description of the main risks and uncertainties that they face.

All director appointments are current at the time of this proceeding.

Barcelona, 23 February 2024

Antonio Zabalza Martí Chairman and CEO	**Carme Moragues Josa** Member
Lourdes Vega Fernández Member	**Laureano Roldán Aguilar** Member
Eduardo Sánchez Morrondo Member	**Joan Casas Galofré**[1]

[1] Pursuant to Article 253.2 of the Spanish Capital Companies Act, on the following page, director Joan Casas states the reason for the absence of his signature.

Ercros

Member

Daniel Ripley Soria
Non Director Secretary

The director Joan Casas Galofré disagrees with the application of the result for the year for the following reasons:

- The result for 2023 justifies a payout of 50% of the profit, in accordance with the shareholder remuneration policy approved by the general meeting of 11/06/21 for the years 2021-2024, and in line with the Company's practice in the years in which the result has met the conditions for remuneration.

- In relation to the above, it should be recalled that although partial, the application of Constitutional Court Ruling 11/2024 increases the result, but in reality it means incorporating into the profit for 2023 results from other years that should have been enjoyed by the shareholders had it not been for the enactment of the rule declared unconstitutional, hence it is only fair and consistent for the shareholder to receive now the aggregate result that it would have received had the unconstitutional rule not existed.

- The repurchase of the shares (which is one of the payout instruments, in accordance with the shareholder remuneration policy) should start immediately, so that the treasury shares acquired are redeemed at the 2024 annual general meeting, expected to be held in June 2024, as has been the case in the past and in line with the shareholder remuneration policy. In this respect, the repurchase proposal made (from July 2024, with redemption scheduled for the 2025 annual general meeting) does not in fact involve the distribution of the payout resulting from the 2023 financial year, since the redemption of the shares acquired is postponed to 2025, when the shareholder remuneration policy would require their redemption at the 2024 meeting, which is when the distribution of the payout relating to the 2023 result materialises. Therefore, the payout for 2023 is limited to the dividend, hence the proposed percentage is only 23%. The share buybacks proposed for the second half of 2024 will correspond to the remuneration for that year, not for the 2023 result.

The board of directors of Ercros does not allow this director to sign the accounts with this caveat.

Barcelona, 27 February 2024.

CASAS GALOFRE JOAN - 36959508A

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