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Annual  
Report  
2013





# Annual Report 2013



This Annual Report contains the Management Report and the most relevant tables of Ercros Group Annual Financial Statements for the year ended 31 December 2013, which was unanimously approved by the Board of Directors on 20 February 2014, following a favourable report from the Audit Committee meeting the same day.

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

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**Dear Shareholders:**

2013 has marked the beginning of the recovery at Ercros. When comparing the main entries in the company's income statement for the past two years, the magnitude of this improvement is underscored: the gross operating result ("ebitda") increased by 71%, rising to 28.5 million, and the profit for the year rose by 69%, though still remaining in the red (EUR -3.8 million).

The cause of this improvement is to be found primarily in the actions implemented under the restructuring plan to increase profitability, but also in moderating prices of major procurements and supplies and some recovery of business.

Among these measures, the most contentious at the time was to discontinue the production of chlorine at Flix, intended for manufacturing EDC, which is an intermediate product in the PVC process and which has been supplemented, as needed, with outside product purchases at a more profitable price. With this reorganization, we have achieved a reduction in production costs for the Chlorine Related Business group, which has been key to this segment's ebitda growth of some EUR 16 million.

Adding to the heightened profitability, in 2013 we sold off the nitric acid production plant for EUR 2.74 million, and we negotiated the sale of the phosphates for animal feed business for EUR 1.60 million, a sale we expect to be completed in the months ahead. Neither of these activities is part of the central core of Ercros, nor is they integrated into other production systems of the company.

The implementation of these measures has led to a decline in production volume, which has resulted in a decrease in turnover of 2.3%. However, the even greater reduction of expenditures (-7.4%) has led to improved operating margins for the company, increasing the ratio of ebitda to sales from 2.6% in 2012 to 4.6% in 2013.

Alongside of these actions, we have carried out a series of measures aimed at strengthening our cash position, which was affected by the credit crunch. It is within this context that the five capital increases recorded over 2013, for a total amount of EUR 2.55 million, would fall. These increases were made to the exclusion of preferential rights, and were subscribed by an American investment fund managed by Yorkville Advisors. Also during 2013, together with the financial institutions that make up the pool of subscribers to the syndicated factoring, we agreed on various measures to reduce the gap between the limit on available resources under the agreement, EUR 107 million, and what was actually available, which at year end was EUR 70 million. We are currently in negotiations for the renewal of such funding, which is set to expire in July 2014, and we hope reaching a successful conclusion.

In the area of sustainability, noteworthy developments include the registration of the Cardona centre in the European voluntary registry EMAS (Eco-Management and Audit Scheme), obtaining ISO 14064 certification, which is used to calculate the carbon footprint of the company, and the initial introduction of ISO 50001 certification for energy management at the Sabiñánigo factory. Between 2012 and 2013, the rate of emissions decreased by 7.2% and direct greenhouse gas emissions fell by 1.7%. In this same period, the rate of overall accident frequency improved by 48%.

Our forecasts for the year 2014 are that, despite the inevitable volatility that continues to prevail in the overall economic environment, the shift in business trend that began in 2013 will be consolidated, and improved results will continue on the strength of reduced costs and the gradual recovery in demand for our products.

However, uncertainties remain about how Ercros will be impacted by the reform of the energy market currently underway at the central government level, in the medium term, and the change of technology in the manufacturing of chlorine, which by law must be implemented before the end of 2017.

In recent years we have undertaken a set of actions that have allowed us to weather the crisis, and more specifically, to end the year of 2013 in a better situation than in 2012. But above all, they have put Ercros in a better position to take advantage of the emerging market recovery, and to combat the uncertainties we face on the horizon.

**Antonio Zabalza Martí**  
*Chairman and CEO of Ercros*

Barcelona, 20 February 2014

## 1. Organizational structure

The company's governing bodies are the General Shareholders Meeting and the Board of Directors and, within this, the Audit Committee and the Appointments and Remuneration Committee. The management body is the Management Team.

### a) General Shareholders Meeting

It is the ultimate decision-making body of the company, it represents all the owners and the agreements reached at the meetings must be complied with. All the shareholders holding at least ten shares may attend the General Meeting.

The Ordinary General Shareholders Meeting took place in Barcelona on June 28, 2013 upon second call. The shareholders approved all the agreements proposed by the Board of Directors, notably including the amendments to several articles of the By-laws in order to adapt them to legislation developments, and the advisory vote on the Annual Report on the Remuneration of the Directors. In attendance at the Meeting were 13,336 shareholders of 59,922,785 shares, representing 57.797% of the subscribed voting capital, of which 9.207% was present and the remaining 48.590% was represented. The shareholders that attended the Meeting received a premium of one EUR cent gross per share.

### b) Board of Directors

It is the ultimate decision-making body of the company, except for issues reserved to the Meeting of Shareholders. It governs the company and supervises its management. Its performance criterion is to preserve the interest of the stakeholders related to the company: shareholders, employees, providers, customers, public administrations, funders, and social environment.

The structure and number of members of the Ercros's Board of Directors have remained unchanged since they were appointed by the shareholders in the General Meeting held on April 9, 2010 until the approval of this report. Of the five members comprising the Board, four belong to the category of external directors and, of them, three are independent.

In 2013 the Board of Directors held 12 meetings, eight of which were attended by all the directors, and in the other four the absent director delegated their vote.

The president of the Board of Directors is also the CEO, and therefore, the top executive of the company.

### (i) Audit Committee

Ercros Audit Committee consists of three directors appointed by the Board of Directors and is chaired by an independent director. The Internal Audit Service depends on the Audit Committee.

In 2013 the structure of the Committee has remained unchanged. Over the last year, the Audit Committee has held four meetings attended by all its members.

### (ii) Appointments and Remuneration Committee

The Appointments and Remuneration Committee consists of two independent directors appointed by the Board.

In 2013 the structure of the Committee has remained unchanged. Over the last year, the Committee has held two meetings attended by all its members.

### Structure of the Board of Directors

Director	Position	Type	Committees	Date of renewal
Antonio Zabalza Martí	Chairman and CEO	Executive	Audit	9-04-10
Laureano Roldán Aguilar	Director	External	Audit	9-04-10
Ramón Blanco Balín	Director	Independent	Appointments and Remuneration	9-04-10
Eduardo Sánchez Morrondo	Director	Independent	Audit	9-04-10
Luis Fernández-Goula Pfaff	Director	Independent	Appointments and Remuneration	9-04-10
Santiago Mayans Sintés	Non-voting Secretary	—	—	—

### c) Management team

It is the body that ensures that the agreements reached by the Board of Directors are put into practice and followed up, and periodically monitors business evolution.

It consists of the chairman-CEO, the general managers, the managers of the four divisions and the managers of the General Secretariat, Administration, Finance, Sustainable Development, Human Resources and Information Systems. Several other managers of the company are invited to the meetings of the Management Team, including the sales managers of the main business segments.

In 2013 the structure of the Management Team of the company has remained unchanged. Over the year, it held 11 meetings.

## 2. Industrial structure

Ercros is an industrial group diversified into three areas of activity: the Chlorine Related Business group, which includes the divisions of Basic Chemicals and Plastics and which is presented as a business strategic unit with chlorine as its common link; the Intermediate

Chemicals division, which focuses on the formaldehyde chemistry, which is the product from which the other products composing its portfolio are manufactured, and the Pharmaceuticals division, which engages in the manufacture of active pharmaceutical ingredients ("APIs").

The Group has 14 production centres distributed throughout Spain. The main changes in the Group's scope, between January 1, 2013 and the approval of this report (February 20, 2014) are as follows:

- The sale of the nitric acid plant in the Tarragona factory to the company Maxam Chem, S.L., on July 31, 2013. After this operation, the activity of this factory focuses on the rendering of services to the companies located in the Tarragona South Industrial Complex.
- The agreement to sell the animal feed phosphates activity to the company Timab Ibérica, on January 10, 2014. This agreement envisages the sale of the Cartagena factory, and the production of dicalcium phosphate, under a toll-manufacturing agreement, in the Flix factory for the abovementioned company. At the date of approval of this Management Report, the transaction is pending approval by the Spanish and Portuguese Competition authorities.

### Industrial structure

Divisions	Centres	Products	Applications
Basic Chemicals	Cardona, Cartagena, Flix, Palos de la Frontera, Tarragona, Sabiñánigo, Salina de Huelva and Vila-seca I	Caustic potash Caustic soda Chlorine Chloroisocyanurates Hydrochloric acid Phosphates Sodium chlorate Sodium chloride Sodium chlorite Sodium hypochlorite	Chemical industry Industry Derivatives manufacturing Swimming pools Industry Compound fodder Paper pulp bleaching Chemical industry Water treatment Water treatment
Plastics	Monzón and Vila-seca II	EDC VCM PVC	VCM manufacturing PVC manufacturing Construction
Intermediate Chemicals	Almussafes, Cerdanyola and Tortosa	Formaldehyde Glues and resins Moulding compounds Paraformaldehyde Pentaerythritol Sodium formate	Derivatives manufacturing Wood industry Electrotechnics Resins Paints Tanning industry
Pharmaceuticals	Aranjuez	Erythromycin Fosfomicin Fusidic acid	Antibiotic Antibiotic Skin infections

### 3. Operation

#### a) Mission and principles

The general purpose of the Ercros Group is the consolidation of a solid and long-lasting industrial group, that contributes toward the wealth and wellbeing of the company in response to the trust placed in it by its shareholders and which enable it to fully develop the personal and professional capacity of those who form a part of it.

The action of Ercros, aimed at increasing the value of the company, is guided by three basic principles: maximum security for its employees, neighbours and installations; absolute respect for the environment, and satisfying the needs of its clients and the total quality of its products.

#### b) Corporate strategy

The three major strategic objectives of the Group are:

- To create an efficient, healthy and profitable chemical group with international presence.
- To achieve productive, industrially-integrated installations, of a European dimension and located at efficient sites.
- To specialize its commercial portfolio in products with which it may obtain higher performance, those that present the greatest comparative advantages for the Group and offer the highest growth expectations.

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

On February 20, 2013 the company presented a restructuring plan to increase profitability in the Chlorine Related Businesses group, a business segment that in 2012 showed losses amounting to EUR 22.39 million. Associated to the Plan, the Group implemented a labour force adjustment plan, agreed with the unions, which affected 90 employees (6% of the initial headcount). At December 31, 2013, the Group's headcount consisted of 1,475 employees, 145 less than at 2012 year end.

According to the restructuring plan:

- Chlorine production in the Flix factory has decreased since they no longer supply it to the Vila-seca II factory, which in turn used it to manufacture EDC, an intermediate product for the manufacture of PVC. The decreased chlorine availability is being replaced with the direct purchase of third-party EDC, which has a more profitable price than the cost of manufacturing chlorine in Flix.

- In the Cartagena factory, monocalcium phosphate is exclusively produced from dicalcium phosphate manufactured in Flix rather than from third-party phosphoric acid.

#### c) Business model

##### (i) Chlorine-caustic soda chain

Chlorine is the common link of the Basic Chemicals and Plastics divisions, which constitutes a strategic business unit. Chlorine and caustic soda are obtained simultaneously during the same production process from sodium chloride (common salt) dissolved in water (brine) and electricity, in a proportion of 1 ton of chlorine to 1.1 tons of caustic soda. This assembly is known as the electrolytic unit ("ECU").

Caustic soda is a basic chemical product that is broadly used in the industry, which shows growth equal to 1.5 times GDP growth. The margin on caustic soda is determined by the price of electric power, which comprises 50% of its total costs.

For reasons of safety and efficiency, it is advisable that the chlorine be used in the same place of production. The Ercros Group itself uses 2/3 parts of the chlorine produced in the manufacture of derivative products, the major one being PVC, which is in turn the major chlorine consumer in the world.

The evolution of PVC is tied to the progress of construction, its main market. The margin on PVC is determined by the price of ethylene, which entails 52% of its total costs. However, in order to understand the ultimate profitability of PVC, the electrolytic unit should be considered overall. In other words, it is necessary to consider the income and expenses deriving from PVC, as well as those of its co-product caustic soda.

The main challenge facing the Chlorine Related Businesses group is to increase the overall margin on PVC with associated soda, within a context of the increased price of electricity and ethylene, and to address the change in technology of electrolytic plants, as explained further below.

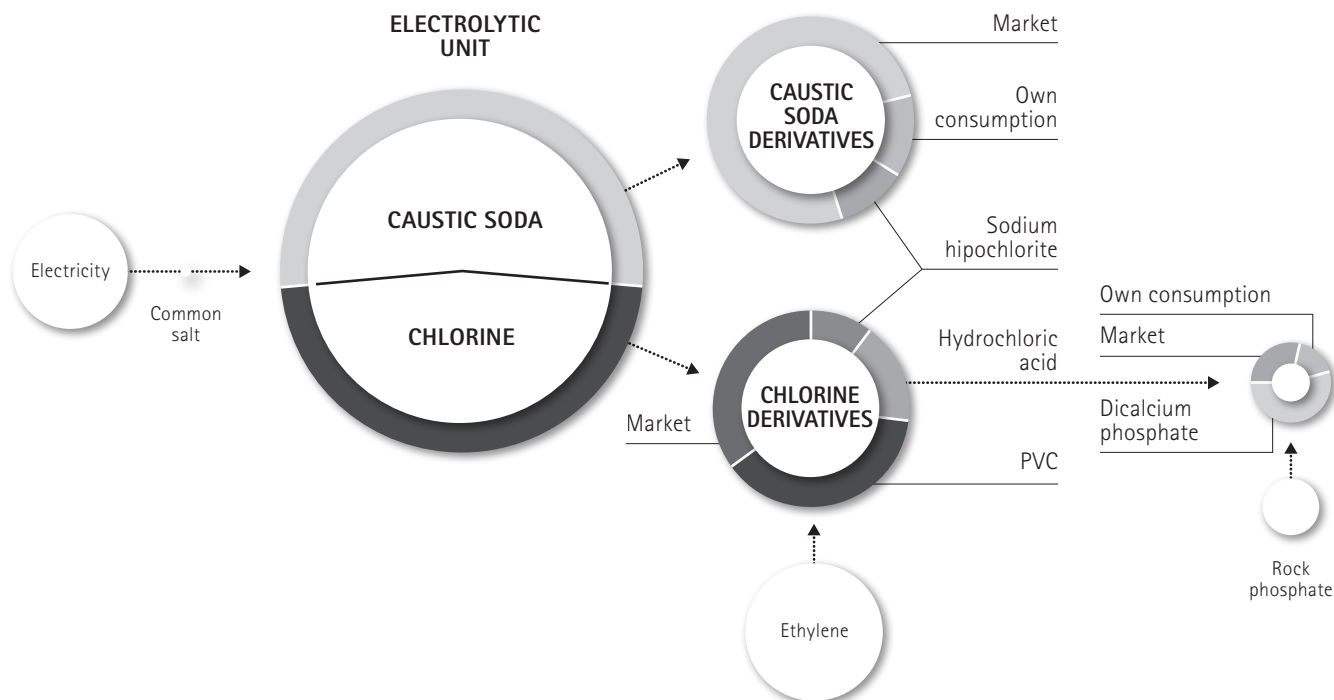
##### (ii) Formaldehyde chain

Formaldehyde is the key product of the Intermediate Chemical Division, from which paraformaldehyde, pentaerythritol, glues and resins, and moulding compounds are manufactured, by means of the addition of urea, acetaldehyde, melamine and phenol.

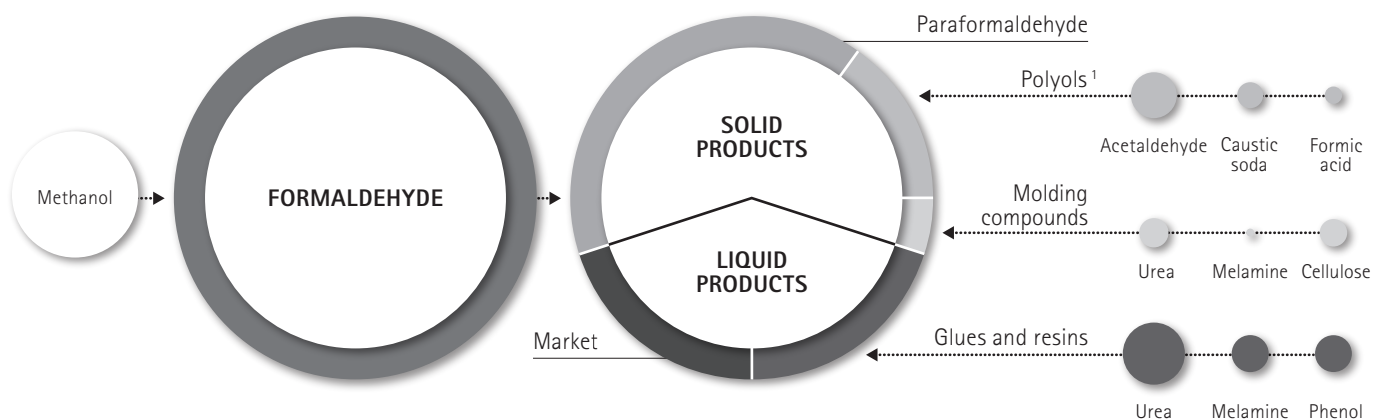
Methanol entails 50% of the raw material costs of the Division.



Chlorine-caustic soda process scheme



Formaldehyde process scheme



<sup>1</sup>Pentaerythritol, dipentaerythritol and sodium formate.

80% of formaldehyde that is produced is used in the manufacture of liquid as well as solid derivatives. The latter, which comprises 63% of the billing for the business, has greater added value than the liquids and its market is global, attaining an export percentage of 88%.

Solid products are used in the manufacture of high-performance resins, lubricants, varnishes and lacquers, as well as in the manufacture of electric and sanitary components. The margin on this group of products, which is determined by the difference between the cost of methanol and the selling price of finished products, benefits from the market's recognition of the product quality and the know-how applied in their production.

The challenge of this business is to maintain global leadership based on qualitative differentiation with respect to the products of the competition, mainly of Asian origin, maintaining competitiveness, and to counterbalance dependence on the dollar and the price of methanol.

### (iii) Active pharmaceutical ingredients

The Pharmaceuticals Division focuses on the production of raw materials and intermediate pharmaceutical products, from the family of antibiotics, antiulceratives and antifungals. The Division also specializes in the preparation of active and intermediate principles specially tailored for the customer.

Exports account for 83% of its sales, and therefore, the margin on these products is highly dependent on the euro/dollar exchange rate.

The major challenge for this business is to meet the quality demands of the customers and regulatory agencies, develop new products and face competition from China and India.

### d) Competition <sup>1</sup>

The Ercros Group maintains a leadership position in the main markets in which it is present, and supplies a wide range of sectors: chemical industry, construction, wood industry, paints, food industry, pharmaceuticals, electric material, water treatment, etc.

The products of the Intermediate Chemicals and Pharmaceuticals divisions absorb a significant percentage of worldwide market. With paraformaldehyde, the Group is ranked first in the worldwide market. It is also a leader in fusidic acid and fosfomicin markets.

<sup>1</sup> Data provided in this caption are extracted from calculations made by the Group itself.

In Europe, it is the leader in sales of trichloroisocyanuric acid ("TCCA"). In Spain, it is first in the national ranking in sales of caustic soda, sodium hypochlorite, sodium chlorate, dicalcium phosphate and moulding compounds, and is the second agent on the PVC market.

The size of the company's competition changes depending on the division and the type of marketed product. The Group sells its products to over 2,000 customers.

### e) Seasonal trends

Higher activity has generally been noted in the markets in which the Group operates between the second and third quarter of the year, except for the month of August. In recent years the customer's trend towards a reduction in order has accentuated at the end of the year, related to the Christmas holidays and a generalized will to decrease stocks in warehouses at year end.

The products that have suffered a seasonal trend the most are the ones used in water treatment (sodium hypochlorite, sodium chlorite and chloroisocyanurates), due to the summer peak consumption, and PVC, which shows greater apathy in the coldest months as a result of the stoppage in construction. The rest of the products show a regular demand throughout the year.

### f) Regulatory environment

The key legal requirements, specific to the sectors in which the Group operates, that have a greater impact on its activity and results are those related to the energy market, prevention and protection of the environment.

### (i) Energy market reform

The Spanish Government is currently modifying the legal framework for the energy market. Within this context, several initiatives have been proposed that may have a significant impact on the Group:

- Amendment to the allocation of the interruptibility service demand management, through Order IET 2013/2013. Ercros, as an electric-intensive company, is being remunerated for its willingness to stop or reduce energy consumption at the operator's request (interruptibility), and to shift such consumption from peak to off-peak hours (modulation) in order to favour the flattening of the electric power system load curve. The new Order punishes the modulation and introduces an auction mechanism to access the remuneration for the interruptibility service, the development of which is pending approval.

- The review of the regulatory framework for the cogeneration activity may render the cogeneration plant of the Vila-seca II factory inoperative, which would need to get electricity from the network and generate vapour in new boilers. The Tortosa cogeneration plant, in which Ercros holds a minority interest, which provides almost all vapour consumption demanded by this factory, could also stop, or reduce its charge significantly. Consequently, the Tortosa factory would need to produce vapour in its own boilers, through third-party gas, at a higher cost.

In 2013 5.5% of the Group's energy consumption related to its electricity and vapour cogeneration plants, which reached a total production of 99.5 GWh, with a 9% increase relative to 2012.

#### **(ii) Contaminated soil**

Royal Decree 9/2005, which establishes the list of potentially soil polluting activities and the criteria for the definition of contaminated soil, requires industries to submit a preliminary situation report, based on which the relevant authority may request the performance of supplementary studies of the soil status and, where applicable, the approval of the corresponding remediation project.

In 2013 the Group continued with the soil characterization of Cartagena, Palos de la Frontera, Monzón, Vila-seca I and Vila-seca II, and Huelva factories (Huelva factory is dormant), and remediation projects have started on Flix, Tarragona and El Hondón soils (El Hondón is dormant). The expected cost to remediate the Flix soil amounts to EUR 3.66 million, and Silla soil (dormant) amounts to EUR 0.81 million. A provision for both amounts was recognized in the 2012 financial statements.

#### **(iii) Industrial emissions**

Directive 2010/75/UE on industrial emissions (integrated prevention and control of pollution), transposed to the Spanish legislation through Law 5/2013, requires to adapt integrated environmental authorizations in all affected centres and applied the best available techniques ("BAT") in production processes within four years after the date of issue of the conclusions of on the best available techniques reference document ("BREF") applicable.

To date, this regulation affects the electrolysis plants that use mercury electrolyzes (Flix, Palos and, partially, Vila-seca I), which must implement the BAT technology before December 11, 2017.

#### **(iv) Registration and authorization of chemicals**

European regulations on registration, evaluation and authorization of chemicals ("Reach") and classification and labelling substances ("CLP") require companies to register the manufacture and marketing of certain chemicals, and to provide information about hazards related to them through safety data sheets ("SDS").

These regulations affect most of the products manufactured and sold by the Group. To date, the implementation of the Reach regulations in the Group has cost EUR 1.60 million and 266 SDS have been issued in Spanish, and translated to several EU languages.

#### **(v) Greenhouse gas emissions**

Law 1/2005, regulating the greenhouse gas emission allowance trading, establishes a maximum amount of emissions for companies based on their production processes and assigns them their share of free rights. Thus, if a company exceeds the maximum amount assigned to it, it has to buy the corresponding rights.

The Council of Ministers, which met on November 15, 2013, assigned Ercros 2,252,346 tons of free greenhouse gas emission rights for the period 2013-2020, of which 300,197 tons correspond to 2013 (396,225 tons in 2012).

#### **(vi) Major-accident hazards involving dangerous substances**

Royal Decree 1254/1999 and subsequent updates, the last one known as Seveso III, approve measures to control major-accident hazards involving dangerous substances.

This Royal Decree requires the affected production centres to prepare an updated safety report, perform periodical prevention inspections and major-accident drills, implement an internal emergency plan and investigate accidents and report them to the authorities.

### 1. Analysis of the business evolution and results

#### a) Production

In 2013 the Group's plants manufactured 2.13 tons of products, 12% less than in the prior year. This decrease was mainly due to the effects of the restructuring plan, which resulted in:

- The reduction in the production of chlorine in Flix, which was used to manufacture EDC in Vila-seca II. Besides these two products, the measure also affected the production of chlorhydric acid and phosphates.
- The stop in some factories in March due to industrial disputes originated as a result of the implementation of the labour force adjustment plan associated to the restructuring plan.

The two divisions involved in this plan, which comprise the Chlorine Related Businesses group, are the most affected ones by the drop in production: Basic Chemicals (15%) and Plastics (7%).

#### b) Sales

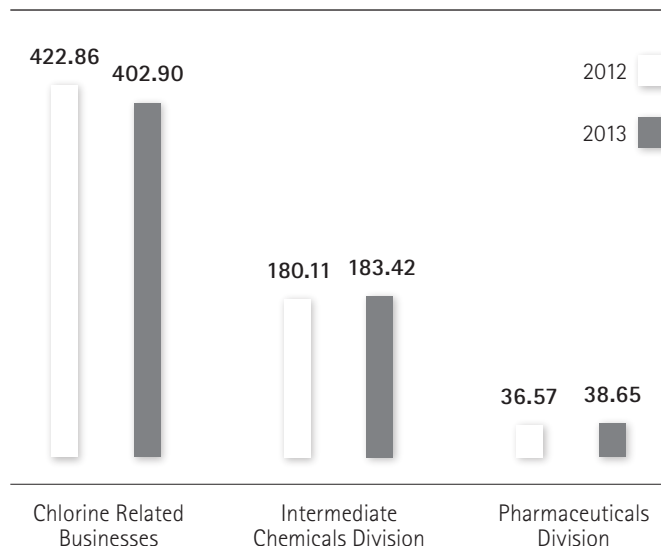
The Ercros Group sales amounted to EUR 624.97 million in 2013, 2.3% less than in the prior year, when they amounted to EUR 639.54 million. This decrease is due to a lower volume of products sold, since overall prices show a slight upward trend.

The drop in sales focuses on the Chlorine Related Businesses group, whose turnover has decreased by 4.7% between both years, since both the Intermediate Chemicals Division (+1.8%) and the Pharmaceuticals Division (+5.7%) show a positive evolution.

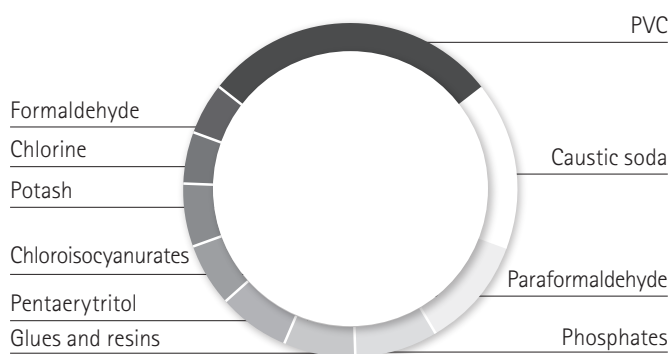
PVC was the most sold product in the Group's portfolio, followed by caustic soda and paraformaldehyde. These three products account for 38% of total consolidated sales.

#### Sales by divisions

EUR MILLION

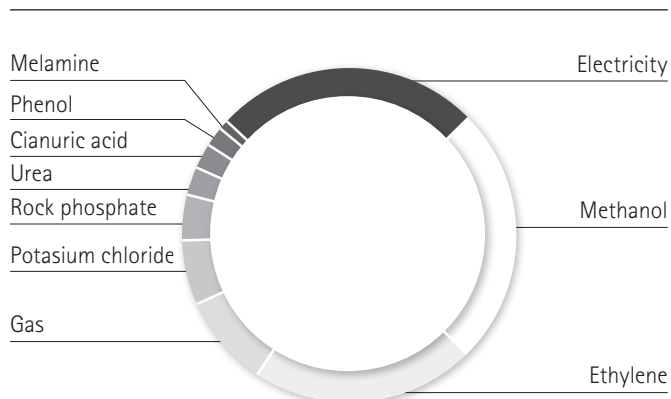


#### Top ten products



#### Top ten supplies and procurements

% OVER TOTAL AMOUNT OF PURCHASES IN 2013



### c) Expenses

Expenses amounted to EUR 595.76 million, 7.4% less than in the prior year, due to a decrease in supplies and cost of sales and salary costs. Compared to the prior year, variable costs dropped by 8% and fixed cost by 4.3%.

Supplies and cost of sales decreased by 6.5% as a result of the lower production mentioned above, but also the price reduction for most of the main purchases, among others, electricity (-9%) and ethylene (-5%). These two products, together with methanol, account for more than half of the Group's total purchases.

The reduction in purchases has resulted in an improvement in the ratio that measures the weight of supplies and cost of sales over sales, which has decreased from 69.2% in 2012 to 66.2% in 2013.

Salary costs decreased by 3.6% due to the wage restraint policy and the staff reduction as a result of the labour force adjustment plans related to the restructuring plans and the voluntary redundancy plan. In 2013 EUR 4.91 million were allocated to severance payments related to such plans.

### d) Results

Actions taken by the Group to increase margins, implemented through the abovementioned restructuring plans, have resulted in a decrease in expenses higher than the decrease in income, and therefore, the operating profit/loss has improved.

Thus, earnings before interest, taxes, depreciation and amortization ("ebitda"), which is the best indicator of the company's operating activity, amounted to EUR 27.88 million. This is EUR 12.04 million more than in 2012 or an increase of 76%.

Such improvement is especially noticeable in the margin of ordinary ebitda over revenue, which has increased from 2.5% to 4.5% between both years.

Total ebitda, which among other non-recurring items includes the abovementioned expenses from severance payments, amounted to EUR 28.45 million, which is a 71% increase compared to 2012 (EUR 16.64 million).

In 2013 depreciation and amortization amounted to EUR 19.31 million (+6.2%) and finance cost amounted to EUR -10.14 million (-8.3%), which results in a loss for the year of EUR -3.75 million, improving by EUR 8.40 million the losses recorded in the prior year, which amounted to EUR -12.13 million.

The caption "Profit/loss from discontinued operations", included in the 2013 income statement and amounting to EUR -3.43 million, relates to losses from the subsidiary Fosfatos de Cartagena and the business activity of Ercros, S.A. engaged in the manufacture and marketing of animal feed phosphates, whose sale has been agreed on in January 2014. For the 2013 figures to be comparable with 2012, profit/loss has been modified by isolating the profit/loss from the discontinued activity also for the said year.

### Income statement

EUR MILLION			
	Year 2013	Year 2012	Change (%)
<b>Income</b>	<b>624.21</b>	<b>660.14</b>	<b>-5.4</b>
Revenue	624.97	639.54	-2.3
Other operating income and change in inventories	-6.06	12.35	-
Other extraordinary income	5.30	8.25	-35.8
<b>Expenses</b>	<b>-595.76</b>	<b>-643.50</b>	<b>-7.4</b>
Cost of sales	-319.66	-331.66	-3.6
Employee benefits expenses	-80.14	-83.11	-3.6
Other operating expenses <sup>1</sup>	-191.23	-221.28	-13.6
Severance payments	-4.23	-1.50	182.0
Other extraordinary costs	-0.50	-5.95	-91.6
<b>Ebitda</b>	<b>28.45</b>	<b>16.64</b>	<b>71.0</b>
Ebitda from ordinary activities	27.88	15.84	76.0
Non-recurring ebitda	0.57	0.80	-28.8
Depreciation & amortization expense	-19.31	-18.19	6.2
<b>Ebit</b>	<b>9.14</b>	<b>-1.55</b>	<b>-</b>
Finance costs	-10.14	-11.06	-8.3
<b>Profit/loss before tax</b>	<b>-1.00</b>	<b>-12.61</b>	<b>-92.1</b>
Profit/loss from discontinued operations	-3.43	-1.33	157.9
Taxes	0.68	0.94	-27.7
Non-controlling interest	0.00	0.87	-100.0
<b>Profit/loss for the year</b>	<b>-3.75</b>	<b>-12.13</b>	<b>-69.1</b>

<sup>1</sup> Includes supplies by an amount of EUR 94.19 million in 2013 and EUR 111.12 million in 2012.

The implementation of the restructuring plan in 2013 and decreased cost of sales cost have resulted in a significant improvement in the ebitda of the Chlorine Related Businesses group. Therefore, ebitda has increased from EUR 1.90 million in 2012 to EUR 17.67 million in 2013.

The Intermediate Chemicals Division showed an opposite scenario. In 2013, the price of its main raw material, methanol, increased by 17% average. Within a context of weakened demand, this increased could not be passed on to the price of finished products, which together with a lower production volume, resulted in a decrease in the division's margin. Thus, ebitda, which amounted to EUR 7.99 million, was 37.79% lower than in 2012.

2013 was a good year for the Pharmaceuticals Division, which showed a very favourable behaviour thanks to higher sales due to the increased manufacturing capacity of several products, and resulting in ebitda of EUR 2.83 million (44.39% higher than in 2012). This fine result, together with the reversion of the impairment of the division's assets, for an amount of EUR 7.08 million, resulted in profit of EUR 8.80 million for the Division (EUR 3.17 million in 2012).

#### Statement of comprehensive income by divisions

EUR MILLION

	Chlorine Related Businesses			Intermediate Chemicals Division			Pharmaceuticals Division		
	Year 2013	Year 2012	Change (%)	Year 2013	Year 2012	Change (%)	Year 2013	Year 2012	Change (%)
Total income	402.90	422.86	-4.7	183.42	180.11	1.8	38.65	36.57	5.7
<b>Ebitda</b>	<b>17.67</b>	<b>1.90</b>	<b>830.0</b>	<b>7.95</b>	<b>12.78</b>	<b>-37.8</b>	<b>2.83</b>	<b>1.96</b>	<b>44.4</b>
Depreciation & amortization expense	-15.21	-15.25	-0.3	-3.61	-2.68	34.7	-0.49	-0.26	88.5
Impairment/reversion of assets	-7.08	-1.27	457.5	—	—	—	7.08	1.27	457.5
<b>Ebit</b>	<b>-4.62</b>	<b>-14.62</b>	<b>-68.4</b>	<b>4.34</b>	<b>10.10</b>	<b>-57.0</b>	<b>9.42</b>	<b>2.97</b>	<b>217.2</b>
Finance costs	-6.54	-7.38	-11.4	-2.98	-3.01	-1.0	-0.62	-0.67	-7.5
<b>Profit/loss before tax</b>	<b>-11.16</b>	<b>-22.00</b>	<b>-49.3</b>	<b>1.36</b>	<b>7.09</b>	<b>-80.8</b>	<b>8.80</b>	<b>2.30</b>	<b>282.6</b>
Taxes	0.68	0.94	-27.7	—	—	—	—	—	—
Profit/loss from discontinued operations	-3.43	-1.33	157.9	—	—	—	—	—	—
<b>Profit/loss for the year</b>	<b>-13.91</b>	<b>-22.39</b>	<b>-37.9</b>	<b>1.36</b>	<b>7.09</b>	<b>-80.8</b>	<b>8.80</b>	<b>3.17</b>	<b>177.6</b>
Assets	318.37	366.21	-13.1	188.89	184.47	2.4	57.03	54.50	4.6
Liabilities	275.31	311.65	-11.7	68.42	69.73	-1.9	48.35	49.93	-3.2
Investments in fixed assets	5.47	9.48	-42.3	1.10	5.46	-79.9	0.61	1.49	-59.1

**e) Markets**

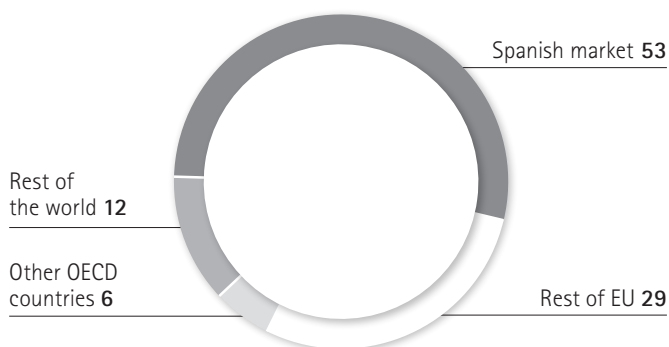
53% of Ercros's sales in 2013 (EUR 332.73 million) were made in Spain, 2.4% more than in the prior year. On the contrary, exports, which accounted for 47% of sales and amounted to EUR 292.24 million, decreased by 7.1% compared to the prior year.

This is a turning point in the last years' trend, since the lower availability of products made it advisable to focus sales on the Spanish market, which offers greater margins.

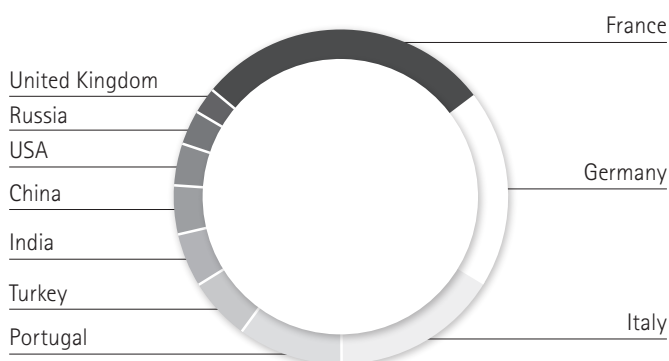
The EU continues to be the main destination of Ercros's exports, although they decreased by 9% in 2013. But it was in the rest of OECD countries where sales increased the most, by 14%. Finally, exports to countries in the rest of the world, mainly China, India and Russia, continued to show an upward trend, since they increase by 3%.

**Sales by markets**

% OVER TOTAL SALES IN 2013



**Top ten destinations**



**f) Exchange rate**

Between 2013 and 2012 the euro/dollar exchange rate showed a negative evolution for the company, and specifically, for the Pharmaceuticals and Intermediate Chemicals divisions, the sales of which are traditionally made in greater proportion to foreign markets (83% and 61%, respectively). If in 2012 the average exchange rate was 1.29 dollar/euro, in 2013 it was 1.33 dollar/euro, a 3% increase.

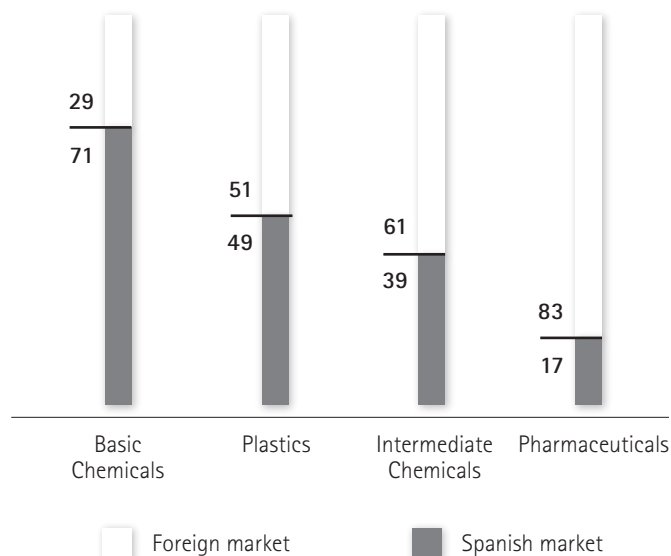
The net balance of sales (payments) less purchases (collections) in dollars in 2013 amounted to 13.60 million (13.26 million in 2012).

Sales in dollars amounted to 96.38 million (100.42 million in the prior year), which accounts for 11.6% (11.5% in the prior year) of consolidated sales.

Purchases paid in dollars amounted to 82.78 million (87.16 million in the prior year), accounting for 12.3% (13.5% in the prior year) of total supplies and procurements made by the Group.

**Markets by divisions**

% OVER EACH DIVISION'S SALES IN 2013



## 2. Key indicators

Indicators <sup>1</sup>	Year 2013	Year 2012
<b>Financing</b>		
Liquidity	0.95	0.90
Solvency	0.96	0.91
Indebtedness	0.78	0.71
Debt hedging	4.79	7.81
ROCE (%)	2.76	-0.46
Average collection period (days)	79	83
Average payment period (days)	82	90
<b>Operating</b>		
Production (Mt)	2.40	2.13
Added value (M€)	108.02	98.95
Productivity (€/person)	69,243.59	61,155.75
Gross margin/income (%)	48.78	49.76
Ebitda/sales (%)	4.46	2.48
<b>Stock exchange</b>		
Quotation (€/share)	0.47	0.40
Capital value (M€)	50.27	40.60
EPS (€)	-0.05	-0.12
CFA (€)	0.14	0.06
PER	—	—
PVC	0.30	0.23
<b>Social</b>		
IF	1.54	1.47
Global IFG	2.87	5.63
Absenteeism	2.88	3.37
Emission rate	1,167.18	1,258.05
CO <sub>2</sub> emissions (Mt of equivalent CO <sub>2</sub> )	0.30 <sup>2</sup>	0.32
Activity with quality certification (%)	100.00	100.00
Activity with environmental certification (%)	100.00	100.00
Activity with prevention certification (%)	100.00	100.00

<sup>1</sup> The calculation formula and purpose of each indicator are described at the end of this section.

<sup>2</sup> Estimate.

## 3. Environmental issues

### a) Objective

The objective of environmental management in the Group is the prevention of pollution and environmental impact generated by its activity, which entails:

- To reduce discharges into water and emissions into the air, especially greenhouse gas emissions, because of its effects on climate change.
- To reduce and rationalize consumption of energy supplies and natural resources.
- To decrease industrial waste, giving priority to its reduction and ensuring it is appropriately treated.
- To preserve biodiversity in the protected areas belonging to the environment of the industrial plants.

### b) Available tools

The main tools to reach these objectives are: the company's Sustainable Policy, and the manual developing it, as well as procedures and plans derived from it, voluntary agreements, mainly the Responsible Care program of the chemical industry; training and sustainability committees.

Ercros's Sustainability Policy, reviewed in 2013, is based on the protection of people and environment, as well as other essential pillars such as prevention, product responsibility and its customers' satisfaction.

The body responsible for ensuring sustainability is Ercros's Committee for Sustainable Development.

The Group has several procedures to regulate, among others, the training of the people working in the company's installations, internal communication, awareness, consultation and participation, and filing of claims on the violation of the Ethical Code of Conduct of the Group's personnel ("Ethics Channel"). In relation to the external stakeholders, the Group has a procedure regulating the filing of claims, complaints and suggestions for improvement.



### c) Management systems and certifications

The Group applies environmental management systems in its plants, which are certified and verified annually by an accredited company, and based on:

- UNE-EN ISO 14001:2004 standard on environmental management systems. Since April 2009 all the Group's industrial plants have received this certification.
- UNE-EN ISO 14064-1:2012 standard on specifications for the quantification and reporting of greenhouse gas emissions. This standard was implemented in January 2013 and from its adoption derives the calculation of the carbon footprint of the Group as an organization.
- UNE-EN ISO 50001 standard on energy management systems. In Vila-Seca I and Vila-seca II factories this standard has been implemented since 2012, and in Sabiñánigo factory its implementation started in 2013, which is expected to be completed in 2014. It will be gradually implemented in the rest of the factories.
- The registration in the European Eco-Management and Audit Scheme ("EMAS"). In May 2013 the Cardona plant was registered in the scheme. All plants are currently registered, except for Almussafes and Flix.

### d) Achievements

Data presented below, corresponding to 2013, confirm the Group's commitment to the continuing improvement in environmental objectives.

- The emission rate decreased by 7.2% compared to the prior year. Direct greenhouse gas emissions decreased by 1.7% between both years.
- Compliance with the Responsible Care program reached 99.5%, an improvement of 0.7 percentage points on 2012.
- The score obtained in the CDP questionnaire on information on greenhouse gas emissions was 74 out of 100 (66 in 2012) in transparency of measurement and public communication techniques, and received a D mark over five ranks (like in 2012) for its performance in fighting climate change.

### e) Litigation and risks

No significant litigation has been brought against the Group in 2013. As for pending litigation proceedings, the following developments have occurred:

- On September 2, 2013 the High Court of Catalonia passed sentence in favour of the Group's interest regarding the appeal lodged in 2009 by the ecologist group Fundació Oceana, against the Integrated Environmental Authorization granted to Flix and Vila-seca I factories for using mercury technology in the production of chlorine. The sentence has been appealed against by the plaintiffs, with Ercros's corresponding disagreement. In 2012 a lawsuit filed by the same group for the same reason regarding the Palos de la Frontera factory was not accepted.
- On October 29, 2013 Ercros filed an administrative appeal against the dismissal of the appeal lodged by the company against the imposition of a limit to the emission of formaldehyde in the Cerdanyola factory, since prevailing legislation establishes none.
- Over 2013 Ercros submitted 6 legal initiatives regarding the dispute on provisional payments of the water charge in the Flix factory, between the fourth quarter of 2011 and the second quarter of 2013. Law 2/2004 of Generalitat de Catalunya on tax, administrative, financial and public sector measures establishes a new corrective factor on the applied tax rate, which made it possible to reduce its impact in 2013.

Environmental risks inherent to the Group's activity are described in section 5.1 a) (i) of this Management Report.

### f) Government incentives, subventions and tax deductions

In 2013 expenses incurred by the Group whose purpose is to protect and improve the environment amounted to EUR 17.02 million (EUR 17.49 million in 2012).

In 2013 the Group received subsidies for greenhouse gas emission allowances amounting to EUR 1.79 million (EUR 1.55 million in 2012), and in turn, an overprovision of 0.50 million was obtained (EUR 1.66 million in 2012).

At 2013 year end, the Group has unused incentives and tax deductions for investments in the protection of the environments, arisen between 2002 and 2006, amounting to EUR 1.36 million.

### 4. Human resources

#### a) Management model

The Group has developed and consolidated a management model for the human team approved for all its plants and consistent with the industrial reality and the business environment in which it operates.

The objectives of this model is to allow the men and women that work for the Group to be able to unlimitedly develop their human potential and adapt their training level to the business needs.

#### b) Headcount evolution

At December 31, 2013 the Group's headcount consisted of 1,475 employees, 145 less than in the prior year. This decrease is due to the implementation of individual dismissal plans and labour force adjustment plans. In 2013 the average headcount consisted of 1,560 employees.

#### c) Headcount structure

The decrease in headcount has not resulted in a change in the headcount's structure, which has hardly changed compared to 2012, whether analysed by professional categories or by gender.

Operators and junior officers account for 43% of the average headcount, technicians 42%, and administrative personnel 16%. 13% of the headcount are women, who mostly carry out administrative and technical work.

#### d) Gender diversity and equal opportunity

The Group does not discriminate anyone on the basis of gender in selection processes, nor in wage and functional policies. However, the presence of women in the Group is lower than desired. It is expected that the implementation of the Gender Equality Plan and generational shift will facilitate getting closer to gender parity.

The Gender Equality Committee, comprising representatives of the company's Management and social agents, is the body responsible for fostering equality and non-discrimination within the company and watch over compliance with the Gender Equality Policy.

The Group complies with the 2% objective of hiring discriminated groups, including people with some disability. In 2013 the average number of employees with a disability greater than or equal to 33% was 10 people (11 people in 2012).

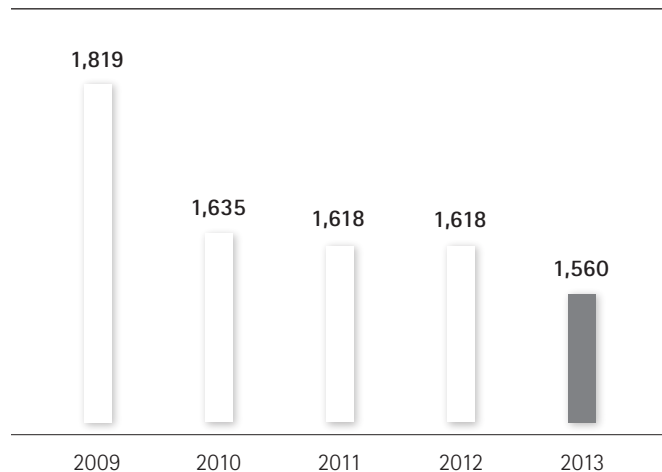
#### e) Development, promotion and training

Training plays a major role in the Group's activity. The areas that receive greater focus are prevention, environment and personal and professional development.

In 2013 83 courses were credited through the Tripartite Foundation for On-the-job Training ("FTFE"), which were attended 602 people, with a total of 11,677 teaching hours, which means an average of 7.2 training hours per person. The credit available for training amounted to EUR 179,258.03.

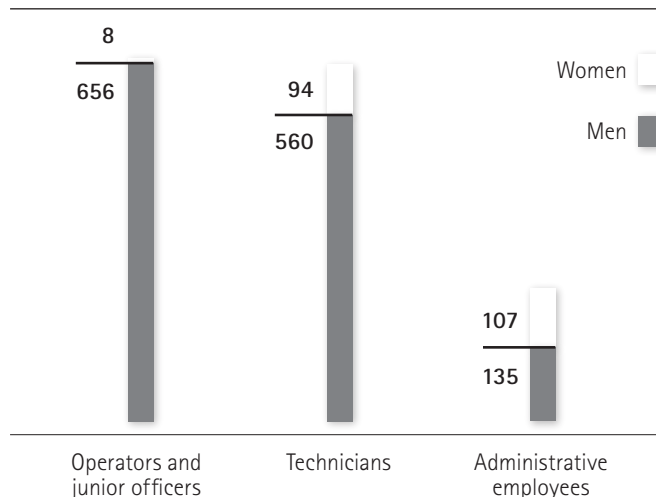
#### Evolution of the average headcount

NUMBER OF EMPLOYEES



#### Distribution of the headcount by categories and gender

NUMBER OF EMPLOYEES



The Group has signed agreements with teaching centres to offer internship programs in its work centres. 47 professional training students, graduates and postgraduate students took this chance in 2013 (50 students in 2012).

## f) Prevention

Between 2012 and 2013 the Group's general accident frequency rate, which measures the number of accidents –with or without leave– among own and external employees per million of worked hours, improved by 48%, decreasing from 5.6 to 2.9. This rate, which is the most representative one in occupational risk prevention management in a company, is the best one in current Ercros's history.

In 2013, absenteeism for non-occupational sickness decreased by 15%.

### Calculation formula and purpose of each indicator

#### Liquidity:

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

#### Solvency:

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

#### Indebtedness:

- Calculation: net debt ÷ capital used
- Purpose: evaluate the level of non-group financing

#### Debt hedging:

- Calculation: net debt ÷ ordinary ebitda
- Purpose: evaluate the capacity to repay third-party financing in number of years

#### ROCE (return on capital employed):

- Calculation: operating profit/loss ("ebit") ÷ resources used
- Purpose: evaluate the capacity of assets in operation to generate operating gains

#### Average collection period:

- Calculation: (average receivables in the year ÷ sales) × 365
- Purpose: evaluate the average of days between sales and total collections in the year

#### Average payment period:

- Calculation: (average payables in the year ÷ operating costs) × 365
- Purpose: evaluate the average of days between purchases and total payments in the year

#### Production:

- Calculation: volume of produced units
- Purpose: measure the number of physical units produces

#### Added value:

- Calculation: ordinary ebitda + personnel expenses
- Purpose: measure the wealth generated by the Group

#### Productivity:

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

#### Gross margin ÷ income:

- Calculation: (income – cost of sales) ÷ income
- Purpose: evaluate the profitability of the Group's product portfolio

#### Ebitda ÷ sales (earnings before interests, taxes, depreciation and amortization):

- Ebitda ÷ sales
- Purpose: measure the proportion between shares and operating gains obtained

#### Quotation:

- Calculation: Ercros share quoted price at year end
- Purpose: know the quotation value at the end of the reporting period

#### Capital value:

- Calculation: quoted price at year end × number of issued shares
- Purpose: know the company's value in the stock exchange

#### EPS (earnings per share):

- Calculation: profit/(loss) for the year ÷ number of shares
- Purpose: measure the earnings corresponding to each share

#### CFA (cash flow per share):

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

#### PER (price earnings ratio):

- Calculation: capital value ÷ profit/(loss) for the year
- Purpose: know how many times the profit/(loss) is included in the company's value in the stock exchange

#### PVC or P/BV (price/book value):

- Calculation: capital value ÷ equity
- Purpose: relate de company's value in the stock exchange to its underlying net book value

#### IF (accident frequency rate):

- Calculation: number of accidents with leave of own personnel × millions of worked hours
- Purpose: measure the rate of accidents suffered by own personnel

#### Global IFG (global accident frequency rate):

- Calculation: number of accidents with or without leave of own and third-party personnel × millions of worked hours
- Purpose: measure the rate of total accidents, with or without leave, suffered by all the people working in the Group's plants, whether they belong to the Group or not.

#### Absenteeism:

- Calculation: percentage of lost days ÷ total theoretical days to be worked in the year
- Purpose: know the percentage of lost days due to non-occupational sickness

#### Emission rate:

- Calculation: volume of most significant pollutants (air, water and waste), × a factor that varies based on their danger
- Purpose: measure the evolution of the company's environmental behaviour

#### CO<sub>2</sub> emissions:

- Calculation: in accordance with standard UNE-EN ISO 14064-1:2012 guidelines
- Purpose: measure the impact of the activity on climate change

#### Activity with quality certification:

- Calculation: percentage of centres with the ISO 9001 certification ÷ total centres
- Purpose: know the stage of implementation of a quality management system in the Group

#### Activity with environmental certification:

- Calculation: percentage of centres with the ISO 14001 certification ÷ total centres
- Purpose: know the stage of implementation of an environmental management system in the Group

#### Activity with prevention certification:

- Calculation: percentage of centres with the OHSAS 18001 certification ÷ total centres
- Purpose: know the stage of implementation of an occupational risk prevention management system in the Group

÷= divided += added ×= multiplied

## 1. Economic analysis of the balance sheet

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

The table below shows an increase in working capital of EUR 27.50 million between 2012 year end and 2013 year end.

Within this caption, current liabilities decreased by EUR 50.36 million, mainly due to the agreements signed with several creditors to transform trade debts into financial debts, extending repayments terms, which in return resulted in the increase in the caption net financial debt.

Whereas current assets decreased by EUR 22.82 million due to the combined effect of several factors: on the one side, the better management of inventories and the reduction in the accounts receivable balances, and on the other, the reclassification of a debt with the European Commission from non-current to current.

At December 31, 2013, the net financial debt amounted to EUR 133.65 million, compared to EUR 123.65 million in 2012.

### Economic analysis of the balance sheet

EUR MILLION

	31-12-13	31-12-12	Change (%)
<b>Non-current assets</b>	<b>271.72</b>	<b>291.18</b>	<b>-6.7</b>
<b>Working capital</b>	<b>71.00</b>	<b>43.46</b>	<b>63.4</b>
Current assets	221.42	244.24	-9.3
Current liabilities	-150.42	-200.78	-25.1
<b>Applied funds</b>	<b>342.72</b>	<b>334.64</b>	<b>2.4</b>
<b>Equity</b>	<b>172.21</b>	<b>173.87</b>	<b>-1.0</b>
<b>Net financial debt<sup>1</sup></b>	<b>133.65</b>	<b>123.65</b>	<b>8.1</b>
Non-current borrowings	53.53	52.72	1.5
Current borrowings	80.12	70.93	13.0
<b>Provisions and other borrowings</b>	<b>36.86</b>	<b>37.12</b>	<b>-0.7</b>
<b>Origin of funds</b>	<b>342.72</b>	<b>334.64</b>	<b>2.4</b>

<sup>1</sup> All financial debts with non-bank entities are recognized in net financial debt. Additionally, apart from cash and cash equivalents, those deposits that guarantee debt commitments have been recognized as a decrease in the financial debt (EUR 19.93 million in 2013 and EUR 21.92 million in 2012).

## 2. Liquidity

The Group uses financial planning techniques to manage liquidity risk that take into consideration cash inflows and outflows relating to operating, investment and financing activities.

The Group's objective is to keep a balance with the flexibility, terms and conditions of the financing sources registered, based on expected needs at short, medium and long-term.

The Group's financing is subject to meeting several obligations and financial ratios, which the directors of Ercros consider will be appropriately fulfilled. Otherwise, the corresponding exemptions will be obtained on time.

At December 31, 2013 the Group has negative working capital amounting to EUR 13.31 million (EUR -28.53 million in 2012). The Group expects that cash flows considered in its business plan for 2014, the renewal of financing facilities and the collection of accounts receivable from Reyal Urbis will allow it to face current liabilities and will be sufficient to finance operating and investing activities and debt services.

### a) Major financing sources

In 2013 the Group has used the following financing sources:

#### (i) External

- Capital increases within the framework for the agreement with the American fund Yorkville Advisors, signed on March 9 2012. Over 2013, 5 capital increases have been made for an overall amount of EUR 2.55 million.
- Utilization of the resource syndicated factoring facility within the framework for the agreement signed with the company's creditor financial entities on July 22, 2011. By virtue of the said agreement, the Group restructured almost all of the debts it had with financial entities, thus obtaining a financing through a factoring facility whereby certain accounts receivable can be discounted. At December 31, 2013 the used balance amounted to EUR 69.93 million.
- Agreements with providers, the European Commission and the Social Security to defer the payment of debts.

**(ii) Internal**

- Free cash flows from the divisions' operating activities. In 2013 cash flows from the Group's operating activities amounted to EUR 23.86 million (EUR 19.17 million in 2012).
- Reduction in the financing needs of working capital through the decrease in inventories. Between 2012 year end and 2013 year end inventories decreased by EUR 15.37 million.
- Disposal of non-strategic assets:
  - Sale of the nitric acid plant to the company Maxam Chemie, for an amount of 2.74 million on July 31, 2013, which generated gains of EUR 1.10 million.
  - Agreement reached with Timab Ibérica for the sale of the phosphate activity on January 10, 2014, for an amount of EUR 1.60 million, with estimated gains of EUR 1.20 million.
  - Sale to Atlantic Cooper, SLU of 50% of the concession of the pier located in the port of Huelva, according to the agreement dated April 17, 2013, for an amount of EUR 1.30 million.

**b) Limitations on the distribution of dividends**

The syndicated factoring agreement establishes certain limitations, such as the obligation for the Group not to approve or distribute any amounts to its shareholders, whether through dividends, refund of contributions in the event of a capital decrease, distribution of any kind of reserves or any other kind of premium or remuneration or payment, even by means of repayment of the principal or payment of interest, commissions or any other kind of debt held with its shareholders.

Such agreement also includes a series of obligations (among others, the deferral of the debt with the European Commission, which has already been settled and financial ratios (on minimum equity, maximum volume of investments, payment terms and the ebitda/financial debt relationship), which at December 31, 2013 are adequately met or it is estimated that the corresponding exemptions from compliance with those that are not met to date.

**c) Level of indebtedness**

Between 2012 and 2013 year end, the ratio obtained from dividing the net financial debt by the sum of equity plus net financial debt, which allows measuring the company's level of indebtedness regarding available resources, slightly worsened, increasing from 0.42 to 0.44 as a result of the increase in net financial debt in 2013.

In this same period, the ratio obtained from dividing the net financial debt by ordinary ebitda decreased from 7.81 to 4.78 thanks to the increase in ordinary ebitda between 2012 and 2013. The Group considers that a ratio close to four times, like the one in 2013, is the adequate one in the current economic environment.

In 2014 Ercros will renew the syndicated factoring agreement, which matures in July, as well as a Corporate ICO line, amounting to EUR 10 million and maturing in September. The company is currently negotiating the renewal of such financing, which is expected to conclude satisfactorily.

The Group also expects to reduce the level of indebtedness in the next years thanks to:

- The collection of the deferred amount for the sale to Reyal Urbis of some plots of lands, which amounts to EUR 19.9 million. Ercros expects to collect this amount, which has been guaranteed through on-demand guarantees over the current year.
- The increased cash flow generation of its ordinary transactions to the extent to which the economic recovery and the cost reduction carried out in 2013 produces results as of 2014.
- New capital increases within the framework for the agreement signed with Yorkville Advisors. Since 2012 until the date of approval of this Management Report, the Board of Directors has approved 7 capital increases, for an overall amount of EUR 3.96 million.

**d) Bad debts**

In 2013 Ercros reduced by EUR 12.62 million the amount of outstanding payments exceeding the maximum legal deadline established by Law 15/2010, which establishes measures to be taken in combating arrears in commercial transactions. In the current year, bad debts amounted to 7.8% of all payments made (10.4% in 2012).

### 3. Capital resources

The Group manages capital resources by applying a prudent financial policy and maintaining a high level of solvency.

The Group's equity showed a variation of EUR -1.66 million between 2012 year end and 2013 year end mainly due to the allocation of the losses for the year and the capital increases carried out.

#### a) Firm commitments to obtain capital resources

- The agreement with the fund Yorkville Advisors to make capital increases, for an overall amount of EUR 25 million, is valid until 2017. At the date of approval of this Management Report the remaining amount is EUR 21.04 million.
- The agreement with Timab Ibérica for the sale of the phosphate activity, for an amount of EUR 1.60 million, is expected to be completed in the next months.

#### b) Investment commitments or obligations

The most significant investment commitment for the Group, not yet signed though, is the migration of technology in electrolytic processes, as commented above, the legal term for which ends on December 11, 2017.

27% of the chlorine currently produced by the Group is manufactured through membrane technology ("BAT"), which is fully implemented in the Sabiñánigo factory, and partially implemented in Vila-seca I.

The Group is analysing the feasibility of facing the change in technology in the rest of its chlorine production plants (Flix, Palos de la Frontera and the remaining part of Vila-seca I), assessing the high cost required by such investment and the uncertainties over these installations, and which are determining for their competitiveness in the short-term.

These uncertainties notably include: the determination of the final cost of electricity within the energy market reform framework; the time and intensity of the recovery of the demand; the dimension of the market after the crisis, the potential economic backing of the administrations, and the financing available to make the required investment.

At year end investment commitments amount to EUR 6.44 million. The Group expects that, just like it has happened until now, if new investment opportunities in production plants to meet its growth expectations arise, financing from providers or customers of favoured products may be available.

The significant investments made in prior years have reduced the need to invest in tangible assets ("capex"), and therefore, the volume of investments in 2013 as remained low (EUR 7.96 million compared to EUR 16.43 million in 2012). As from 2014, and during the next four years, the volume of investments is expected to be around EUR 9 million annually.

### 4. Contractual or out-of-balance obligations

The Group has not assumed any contractual or out-of-balance obligations that require significant financial resources.

## 1. Main risks for the Group

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

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

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

Many of the risks that the Group is subject to are inherent in the development of its activities or the result of external factors. Thus, the Group can try to avoid them, but it is not possible to eliminate them completely.

The main risks that may affect the Group's performance are as follows:

### a) Operational risks

In the development of its activities, the Group is exposed to the following operational risks:

#### (i) Environmental risk

Although all the Group factories have implemented environmental management systems to reduce the environmental impact derived from the industrial activity, these factories are subject to risks that may cause environmental damages, such as accidental emissions of harmful substances or fires.

The Group carries out official test controls on its management systems and develops its activity in line with emission limits provided in the applicable legislation, the corresponding authorizations and prevailing voluntary agreements.

Additionally, the Group has implemented indexes to assess global emissions, to water and atmosphere, and generation of waste, in order to check the evolution of environmental management.

Ercros periodically informs of the reductions in emissions achieved in its industrial activity.

#### (ii) Risk from changes in regulations

In recent years, legal requirements have become more demanding and have caused significant changes in chemical sector in both the Europe and Spain and its autonomous communities. The Group makes significant efforts to adapt to this new legal framework, and carries out the necessary activities and actions to comply with legislation requirements, and in particular, with regulations on installations and people's safety, occupational health, environment protection, and transport, packaging and manipulation of dangerous goods.

#### (iii) Risk of claims

Ercros is a group with a vast record of industrial activity and some of its production centres were created over 100 years ago. The Group has always complied and come to terms with the legislation prevailing in each moment. Nevertheless, more demanding legal requirements in recent years, which in some cases are applied retrospectively, entail the risk that the Group could be currently affected by claims for equity liability regarding costs of cleaning and remediation of polluted land and environment, or professional illnesses. In such cases, the Group recognizes a provision for the claims for which the company considers reasonable that it may be held liable by the courts.

#### (iv) Risk of losing competitiveness

The Group carries out its activity within a global environment that sees new competitors each year, who benefit from more lax regulations in their countries of origin, the euro/dollar exchange rate, lower labour and energy costs and measures to encourage development.

This situation is worsened by the fact that the Group's main products are commodities, which are subject to a strong competition from the pressure of emerging countries such as India or China.

In these countries the labour costs differential becomes a decisive competitive factor to set the products' final price. On the other hand, these countries do not usually have as demanding environmental requirements as Europe, which results in cheaper final products. These countries competition is one of the main risk factors for the businesses of Intermediate Chemicals and Pharmaceuticals.

In this environment, the Group focuses its strategy on improving productivity, reducing costs to the maximum, increasing efficiency in operations, diversifying activity to include innovative products with greater added value and fostering its growth through acquisitions that improve its position in the market.



**(v) Risk of concentration and cyclical nature of products**

65% of the Group's activity hinges around the production of chlorine and its derivatives.

Chlorine and caustic soda are manufactured in the same process, but whereas for safety and efficiency reasons almost all chlorine is consumed in the production centre in order to manufacture derivatives, caustic soda is traded at global level. The most significant product made from chlorine is PVC, the evolution of which is related to the construction sector. Consequently, the price of soda (a co-product of chlorine) is volatile, affecting the projection of the Group results.

**(vi) Risk of dependence on raw materials**

The Group has a strong dependence on certain raw materials, the prices of which are subject to cyclical variations and, on occasion, may not be available in the amounts required or in the right timeframe.

The three main supplies and procurements –electricity, ethylene and methanol– account for half of the total amount of consolidated purchases, and exceed 50% of total costs of the manufacturing processes of chlorine-soda, PVC and formaldehyde, respectively.

The Group tries to reflect all these cost variations in the selling price of its products, but it cannot always fully achieve it or, in some cases, it needs time to do so.

The Group tries to mitigate this effect by signing stable contracts with providers of higher volatile raw materials and conducting an efficient stock management. Additionally, it tries to negotiate stable agreements with its clients, linking prices to the cost of raw materials.

Electrolytic plants, which are the ones that require the greatest amount of energy consumption in the Group, are designed to work adjusting their production to operate during off-peak energy cost hours, and thus, reduce unit production costs. Ercros consumes around 1.2 million Mwh a year.

**(vii) Risk of customer concentration**

Although no customer accounts for more than 5% of the Group's turnover, the importance of Bayer should be noted, as it consumes half of the chlorine produced in Vila-seca I factory. The Group is currently negotiating with the company in order to assess the investments that would be necessary to continue with the chlorine supply as from 2018, given the legal obligation to change the technology in the electrolytic plant, as commented above.

**b) Financial risks**

In the normal course of operations, the company is exposed to the following financial risks:

**(i) Credit risk**

Ercros has established a credit policy and the exposure to default risk is managed in the normal course of business. Solvency evaluations are carried out for all customers who require a limit greater than a determined value. Furthermore, the company has taken out insurance on certain accounts receivable.

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

**(ii) Market risk***Interest rate risk*

External financing is obtained through the syndicated factoring, loans granted by public finance institutions, credit lines with finance institutions, and to a lesser extent, loans subsidized by public bodies. Interest rates are variable for credit lines and loans (the risk thereof has been partially covered using hedging instruments).

*Exchange rate risk*

In order to mitigate the exchange rate risk, Ercros aims to equal the amount of sales in dollars to its purchases in that currency. Therefore, in 2013, the difference between the revenues of purchase and sales made in dollars amounted to 13.60 million (13.26 million in 2012).

Sales in dollars amounted to 96.38 million (100.42 million in 2012), which represents 11.6% (11.5% in 2012) of total consolidated sales.

Regarding purchases, those made in dollars amounted to 82.78 million (87.16 million in 2012), meaning 12.3% (13.5% in 2012) of total Ercros supplies and procurements.



**(iii) Liquidity risk**

Ercros manages liquidity risk by using financial planning techniques which take into consideration cash inflows and outflows relating to operating, investment, and financing activities. Company's aim is to keep a balance with the flexibility, terms and conditions of the financing sources registered, based on expected needs at short, medium and long-term.

The company's financing is subject to meeting several obligations and financial ratios, which the directors of Ercros consider will be appropriately fulfilled. Otherwise, the corresponding exemptions will be obtained on time.

At December 31, 2013 the Group has negative working capital amounting to EUR 13.40 million (EUR -28.53 million in 2012). The Group expects that cash flows considered in its business plan for 2014, and the renewal of syndicated factoring, by a limit of EUR 107 million, as well as the Corporate ICO line, amounting to EUR 10 million, besides the collection of accounts receivable from Reyal Urbis, amounting to EUR 19,9 million, will allow it to face current liabilities and will be sufficient to finance operating and investing activities and debt services.

With respect to Law 15/2010 of July 5, modifying Law 3/2004 of December 29, which establishes measures to be taken in combating arrears in commercial transactions, the company informs that at December 31, 2013, the overdue payments to providers exceeding the legal payment period is EUR 39.61 million (52.23 million in 2012).

**2. Risks presented in 2013**

Type of risk	Causes	Practice of control systems
Risk arising from regulatory changes and dependency on supplies and procurements	Energy market reform	The restructuring plan to increase profitability and adapt productions to the future regulatory framework. The implementation of production optimization systems in off-peak hours
Risk arising from regulatory changes	Law 5/2013, which establishes Dec.11.2017 as the deadline for electrolytic plants to stop using the mercury technology	The assessment of the impairment of affected plants and its recognition in the financial statements, and the inclusion of measures in the strategic plans to address the necessary adjustments in their industrial assets and the financial needs derived from them

**a) Capital increases**

On January 9, 2014 new shares began trading by means of the issue of 1,207,240 shares for an amount of 599,998.28 EUR (nominal amount and share premium). This capital increase was approved by the Board of Directors on December 4, 2013.

On January 28, 2014 the Board agreed to undertake a new capital increase for an amount of 999,996.03 EUR (nominal amount and share premium), by means of the issue of 1,949,310 shares. The increase was registered on February 17, 2014 at the Mercantile Registry of Barcelona although at the date of approval of the consolidated financial statements (February 20, 2014), new shares have not begun trading.

After the aforementioned transaction, share capital amounts to 32,695,516.80 EUR and is represented by 108,985,056 shares.

**b) Sale of the animal feed phosphates activity**

On January 10, 2014 Ercros agreed with Timab Ibérica, a subsidiary of the French Group Roullier, the sale of the animal feed phosphates activity. The deal consists in the acquisition by Timab Ibérica of 100% ownership interest in Fosfatos de Cartagena, S.L.U. as well as the animal feed phosphates marketing activity for a total amount of EUR 1.6 million. The estimated capital gains amount to EUR 1.2 million.

The agreement envisages that Ercros will continue producing dicalcium phosphate in the Flix factory for Timab Ibérica under a toll-manufacturing agreement.

The operation is subject to approval by Spanish and Portuguese competition authorities.

The transaction implied the reclassification of assets and liabilities as well as the result from the animal feed phosphates activity as a discontinued operation, both in the financial statements for the year ended December 31, 2013 and in the 2012 consolidated statement of comprehensive income, which has been modified for comparative purposes.

**c) Judgments about asbestosis**

In January 2014, Ercros received notification of three court decisions which ordered the company to pay 435,117 EUR to the heirs of former employees for damages arose from their exposure to asbestos. Fertiberia was declared jointly and severally liable to the payment of two of the aforementioned rulings. The amount was provided for at December 31, 2013.

These employees worked in factories owned by some Group companies which either ceased operations or were divested at least 25 years ago, in all three cases.

All these decisions have been appealed against and are still pending resolution at the date of preparation of these financial statements.

Despite the inevitable volatility still prevailing in the global economic environment, Ercros Group's forecasts for the year 2014 assume that the change in trend that began in 2013 will consolidate and results will continue to improve due to the cost reduction, as a consequence of the restructuring plan implemented and the gradual recovery of the demand for its main products.

However, the impact that the energy market reform carried out by the Spanish Government may have on Ercros is still uncertain. Additionally, in the medium term, and by legal imperative, Ercros's capacity to produce chlorine will fully require the use of membrane technology instead of mercury technology.

The company's research and development activity focuses on the development of new products with high added value, the search of new applications for already existing products and the improvement in production processes in order to reduce the environmental impact generated in the industrial activity and increase the profitability of production plants, as well as improving technical and sales assistance.

The Group has four R&D centres in Aranjuez, Monzón, Sabiñánigo and Tortosa, that provide service to the Pharmaceuticals, Basic Chemicals and Intermediate Chemicals divisions, respectively, and establishes collaboration agreements with universities and innovation centres.

In 2013 innovation and technology investments and expenses amounted to EUR 4.59 million (EUR 4.26 million in 2012).

### Most relevant projects

Regarding the development of new products, we should note:

- The submission of the patent application for the technology to manufacture self-plasticized PVC polymers and co-polymers.
- The different formula to manufacture new bioplastic materials, produced with annually renewable and biodegradable or biocompostable raw materials, which make up the portfolio of ErcrosBio®, a trademark registered by Ercros.
- The project to increase the productivity of the microorganisms with which the different active pharmaceutical ingredients are prepared by fermentation, from process strains owned by the company.
- A line for the manufacture of oxidants and water treatment products with substances that contain active oxygen.

Regarding the processes and new applications for already existing products we should note:

- The improvement in the manufacture of potassium chlorate by electrolysis to reduce energy costs by 10%.
- The cost reduction in raw materials for the PVC process by diversifying providers.
- Quality and reproducibility improvement in PVC resins, especially in the colour parameter.
- Reduction in the consumption of raw materials in the production processes of pentaerythritol and dipentaeritritol and in the preparation of new qualities to provide new market segments.
- The increase in productivity and quality in the manufacturing process of moulding compounds, and the obtainment of new qualities to increase the customer portfolio.
- The development of new types of resins that improve reactivity and reduce the emission of formaldehyde in the applications for which they are intended.

Ercros does not own any treasury shares, either directly or through a third party, nor has it acquired treasury shares in 2013.

The company does not have any share option plan (stock options) for its directors or employees, nor has it established any legal or by-law limitation on the exercise of voting rights, nor for the acquisition or transfer of shares.

Additionally, the company is not aware of the existence of agreements between shareholders that limit or condition the free transfer of shares.

In the general meeting held on June 28, 2013 the shareholders authorized the company to acquire treasury shares, directly or through the Group companies, during 18 months and within the limits and requirements established by the law, in accordance with article 146 and other articles in concordance of the Spanish Capital Companies Law. Over 2013 and until the date of approval of this report (February 20, 2014), the Board of Directors has not made use of such authorization.

## 1. Stock market information

### a) Evolution of share capital

In 2013 the company recorded five capital increases for an overall amount of EUR 2.55 million: EUR 1.66 million of nominal value and EUR 0.89 million of share premium. Through these capital increases a total amount of 5.53 million shares were issued (1.18 million of shares corresponding to the last one of these capital increases began to be quoted in 2014).

As a result of these transactions, the company's share capital at December 31, 2013 amounted to EUR 32.11 million and consisted of 107.04 million shares with a par value of EUR 0.30 each.

On February 17, 2014 another capital increase, which was approved by the Board of Directors on January 28, 2014, was recorded. Such capital increase amounted to EUR 1 million (EUR 0.58 million of nominal value and EUR 0.42 million of share premium), and 1.95 million shares were issued, which at the date of approval of this Management Report have not yet began to be quoted on the stock exchange.

After this transaction, share capital amounts to EUR 32.70 million and consists of 108.99 million shares, with a par value of EUR 0.30 each.

### b) Share evolution

In 2013 Ercros shares listed on the stock exchange showed greater activity and better behaviour than in 2012. Over the year 65.49 million Ercros shares were traded (34.55 million in 2012), for an amount of EUR 32.13 million (a 90% increase).

The average share quotation in 2013 was EUR 0.49 and closed the year at EUR 0.47, 18% higher than the quotation at December 31, 2012. The record in annual trading was reached on October 22, with 1.66 million of traded securities a day. The average daily volume of transactions amounted to 0.26 million shares, twice as much as in 2012.

At December 31, 2013 the company's capital value amounted to EUR 50.27 million (EUR 40.60 million in 2012). Over the year, Ercros capital had a turnover of 0.62 times.

### Main share-related parameters

	31-12-13	31-12-12	31-12-11	31-12-10	31-12-09
<b>Shares on the stock market (M)</b>	107.03 <sup>1</sup>	101.50 <sup>2</sup>	100.62	100.62	100.62 <sup>3</sup>
<b>Capital value (M€)</b>	50.27	40.60	68.42	71.84	139.87
<b>Traded shares (M)</b>					
In the course of the year	65.49	34.55	63.43	73.46	133.75
Maximum in one day	1.66	1.21	2.31	2.68	1.62
Minimum in one day	0.02	0.01	0.03	0.03	0.09
Daily average	0.26	0.13	0.25	0.29	0.53
<b>Traded volume (M€)</b>					
In the course of the year	32.13	18.62	56.81	78.78	213.47
Daily average	0.13	0.07	0.22	0.31	0.84
Annual turnover	0.62	0.34	0.63	0.73	1.33
<b>Share price (€)</b>					
Highest	0.61	0.74	1.15	1.64	2.13
Lowest	0.35	0.36	0.66	0.66	1.20
Average	0.49	0.53	0.89	1.07	1.59
Last	0.47	0.40	0.68	0.71	1.39
<b>Frequency rate (%)</b>	100	100	100	100	100
<b>Liquidity rate (%)</b>	61.89	34.04	63.04	73.00	132.93

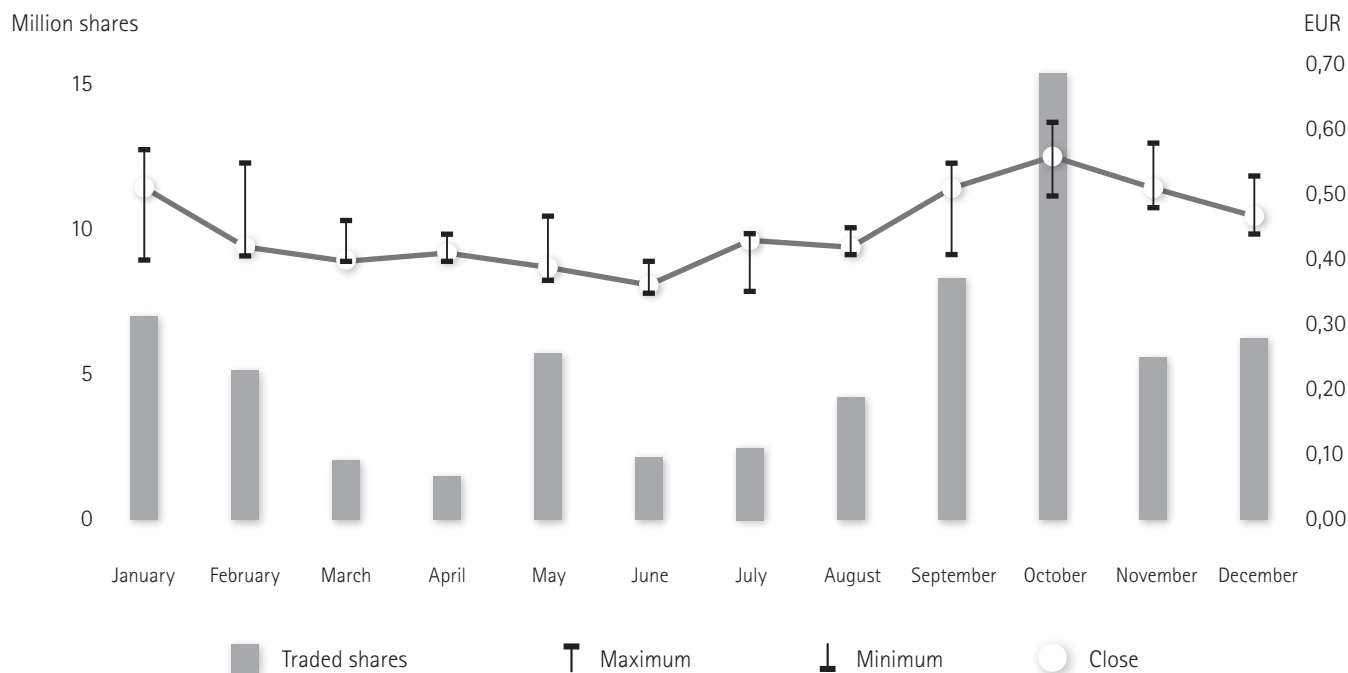
<sup>1</sup> Yearly average 2013= 103.52 million shares.

<sup>2</sup> Yearly average 2012= 100.77 million shares.

<sup>3</sup> Yearly average 2009= 807.74 million shares.

## Share price and traded volume evolution

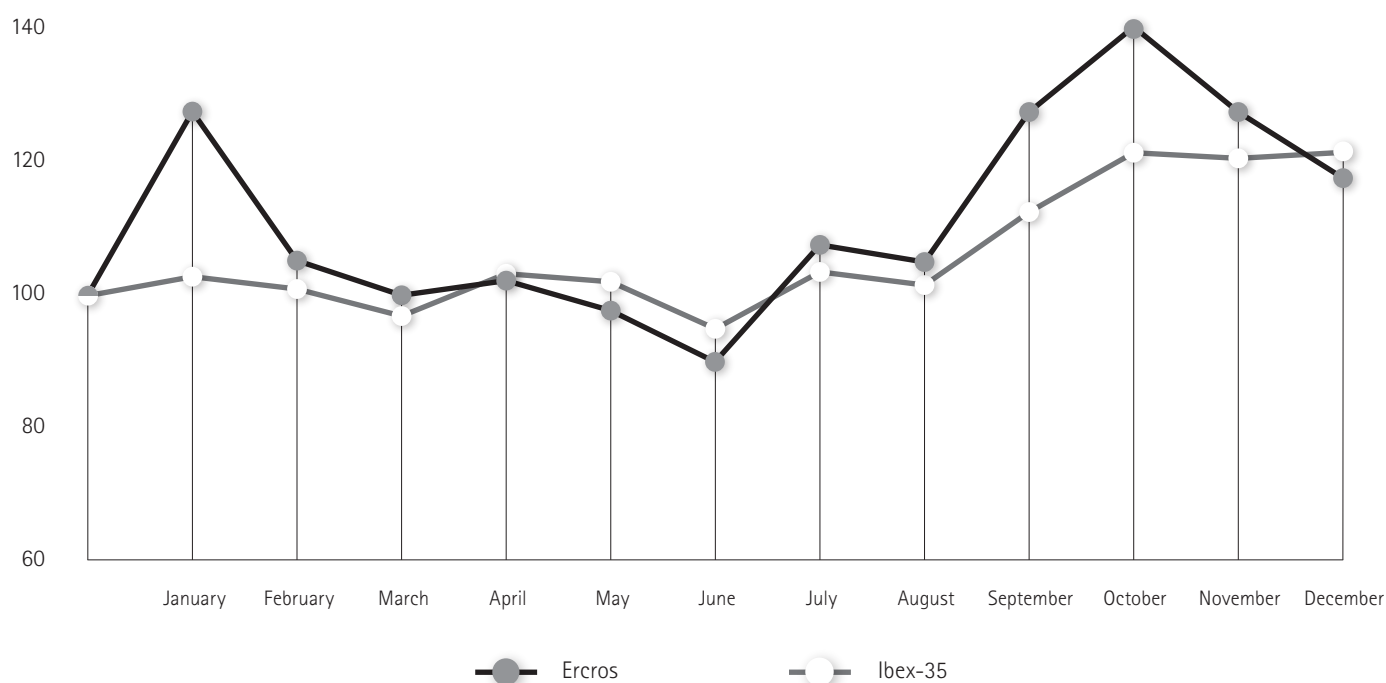
2013



## Comparison between Ercros share price and Ibex-35

2013

BASE 100= 31-12-12



**c) Stock indexes evolution**

Like Ercros shares, the main indexes also improved over 2013. Specifically, Ibex-35 increased by 21% and Madrid Stock Exchange index increased by 23%.

**Stock indexes evolution**

	Ercros	General	Ibex-35
31-12-09	100.00	100.00	100.00
31-12-10	51.08	80.83	82.57
31-12-11	48.92	69.07	71.74
31-12-12	28.78	66.42	68.40
31-12-13	33.81	81.50	83.05

**d) Dividend policy**

Ercros does not have a dividend policy. At December 31, 2013 the company shows losses, so no dividends can be distributed. Additionally, the financing agreements currently in force do not allow distributing dividends.

**e) Credit rating**

Ercros is aware of an unsolicited credit rating by the agency Axesor.

**2. Significant events in 2013****a) Measures taken to reinforce the Group's cash position**

The main measures taken by Ercros in 2013 to improve its cash position are the following:

**(i) Amendment to the agreement with Yorkville**

In May 8, 2013 Ercros and Yorkville Advisors, LLC ("Yorkville"), parent company of the investment fund YA Capital Dutch, B.V. ("YA Global Dutch"), agreed to make some amendments to the agreement signed on March 9, 2012, to subscribe capital increases with exclusion of the pre-emptive rights for a total amount of EUR 25 million.

The purpose of the amendment was to make the terms and clauses more flexible. The main changes were the following:

- Extending the term of the agreement by 24 months, up to five years.
- Extending the term for Yorkville to settle the swap.
- Setting the amount of each capital increase at 10 times the average trading volume of the last 25 days (before the amendment, it was settled as two times the average trading volume of the last five days).
- Reducing the maximum amount for each capital increase from 750,000 EUR to 400,000 EUR. However, it is permitted to overlap capital increases when the value of the shares owned by Yorkville is lower than 200,000 EUR.
- Notwithstanding the above, capital increases can exceed the maximum amount if both parties agree so. This was the case for the last capital increases.
- Both parties agreed that 25% of increased capital could be immediately drawn by Ercros. The remaining 75% is settled through the swap contract.



All other terms and clauses of the original agreement remained the same, including the limitation for Yorkville to have ownership interests in Ercros greater than or equal to 3%.

In accordance to the agreement signed with Yorkville, and the authorization given by the shareholders at the Annual Meeting, the Board of Directors approved in 2013 five capital increases with exclusion of pre-emptive subscription rights, which were fully subscribed by YA Global Dutch.

These capital increases amounted to 2,549,273.11 EUR (including its nominal value and share premium) by means of the issue of 5,534,431 shares.

**(ii) Payment deferral of the penalty imposed by the European Commission**

In April 2013, Ercros and the European Commission agreed to defer a large part of the penalty imposed to 2014 and 2015, as requested by the refinancing agreement signed in 2011. This enabled the Group to reclassify debt to the long term. In addition, a mortgage guarantees was given to secure the debt, which resulted in a reduction in the interest rate by 2% annually.

**(iii) Negotiation with members of the banking pool**

Ercros negotiated with the members of the banking pool to include new customers in the syndicated factoring facility and to extend the limit of some customers already included, in order to make greater use of this facility, since at December 31, 2013 the company has only used EUR 69.93 million (EUR 74.10 million at December 31, 2012) of the available limit of EUR 107 million.

**(iv) Optimization of working capital management**

The optimization of working capital management, by decreasing trade receivables collection terms by an average of two days, and stocks of finished goods and raw materials, allowed the Group to reduce its financing needs.

**(v) Payment deferment agreements with providers**

In 2013, Ercros agreed with certain providers to defer payments of debts amounting to EUR 23.40 million for several years. This improved the financial position of Ercros.

**(vi) Social security contributions deferment**

In 2013, Ercros agreed with the General Treasury of the Social Security to defer accrued contributions amounting to EUR 1.2 million. These contributions will be paid in 39 monthly instalments.

**b) Measures taken to improve the Group's profitability**

The main actions implemented in 2013 to improve Ercros's profitability are as follows:

**(i) Closure of less profitable production lines**

On February 20, 2013 Ercros approved a restructuring plan aiming at reducing chlorine produced in Flix factory due to its lack of profitability, after stop providing this product to the Vila-seca II factory for the manufacturing of EDC, which is an intermediate product in the PVC manufacturing process. The decrease in fixed costs due to the plant closure was observed immediately as ebitda improved throughout 2013.

**(ii) Production costs reduction**

In addition, Vila-Seca II plant replaced the supply of chlorine produced in Flix with direct purchases of EDC from third parties, with more competitive prices than the chlorine production cost of Flix.

The aforementioned restructuring plan also affected the production of monocalcium phosphate by exclusively using dicalcium phosphate produced in Flix instead of phosphoric acid acquired from third parties.

**(iii) Cost reducing measures through operational efficiency**

Ercros implemented new actions dealing with operational efficiency to reduce costs. Savings arose from different services, both in factories and headquarters, and amounted to EUR 0.5 million.

**(iv) Sales profitability**

To prioritize profitable sales even if this means leaving markets with lower margins.

**(v) Production capacity expansion**

The extension of production capacity for products with increasing market demand will have an impact on the 2014 profit and loss account. These capacity increases started as part of the profitability increase plan agreed with financial institutions in the refinancing agreement signed in 2011.

**(vi) Sale of the nitric acid plant**

On July 31, 2013 Maxam Chem, S.L. acquired from Ercros the nitric acid plant located in Tarragona. The deal consisted in Maxam Chem, S.L. acquiring 100% ownership interest in Nitricomax, S.L., which is the plant's owner.

Previously, on February 1, 2013 Ercros set up a legal entity named Nitricomax, S.L. and transferred the business activity related to the acid nitric production, including personnel and assets.

The manufacture of nitric acid was neither a strategic business for Ercros nor was it integrated in other production systems of the Group. The purchase price amounted to EUR 2.74 million and generated a capital gain of EUR 1.10 million. It also had a positive impact on the profit and loss account and cash position due to the fact that the plant was generating annual losses amounting to EUR 1 million.

**(vii) Sale of the animal feed phosphates activity**

In 2013, Ercros started negotiations for the sale of the animal feed phosphates manufacture and marketing activities, which resulted in the agreement described in the previous section 6 b).

**c) Shareholders Meeting agreements**

Ercros's General Shareholders Meeting took place in Barcelona, on June 28, 2013. All resolutions were approved, including amendments to the company's Articles of Association and Bylaws to adapt them to recent regulatory changes and advisory vote on the remuneration earned by the members of the Board, and other ordinary agreements, as well as the delegation to the Board to carry out capital increases.

13,336 shareholders attended the meeting, owners of 59,922,785 shares, representing 57.797% of the issued capital with voting rights. 9.207% were present and 48.590% were represented.

### 3. Information on social responsibility

Ercros has voluntarily adopted the social responsibility principles that are part of the company's value system.

The company has a Corporate Social Responsibility ("CSR") Policy that sets forth the principles to be followed regarding sustainable growth, gender equality, information and transparency, involvement in the social, work, environmental and economic reality in which it operates, among others. To supplement such Policy, the company has adopted specific policies, internal codes of conduct, plans and procedures.

Ercros has also signed several voluntary agreements comprising more ambitious objectives than those established by prevailing regulations, notably including the Responsible Care program, for the chemical industry, and the Global Compact program, promoted by the UN.

Ercros's Code of Ethical Conduct defines the rules of ethical conduct that all the company's employees must follow, including employees of contracted companies over the time they render services to the company. The rules of ethical conduct address such matters as non-discrimination and equal opportunities, conflict of interest, gifts and amenities, prevention of bribery and corruption, safeguard of confidential information, data protection, etc. Over 2013 Ercros's personnel separately signed the acceptance of this Code, and a clause was included in this regard in the agreements that the company has with providers of goods and services.

The company has a procedure, the Ethics Channel, which establishes the mechanisms through which alleged non-compliance with the rules included in the Code of Ethical Conduct can be reported.

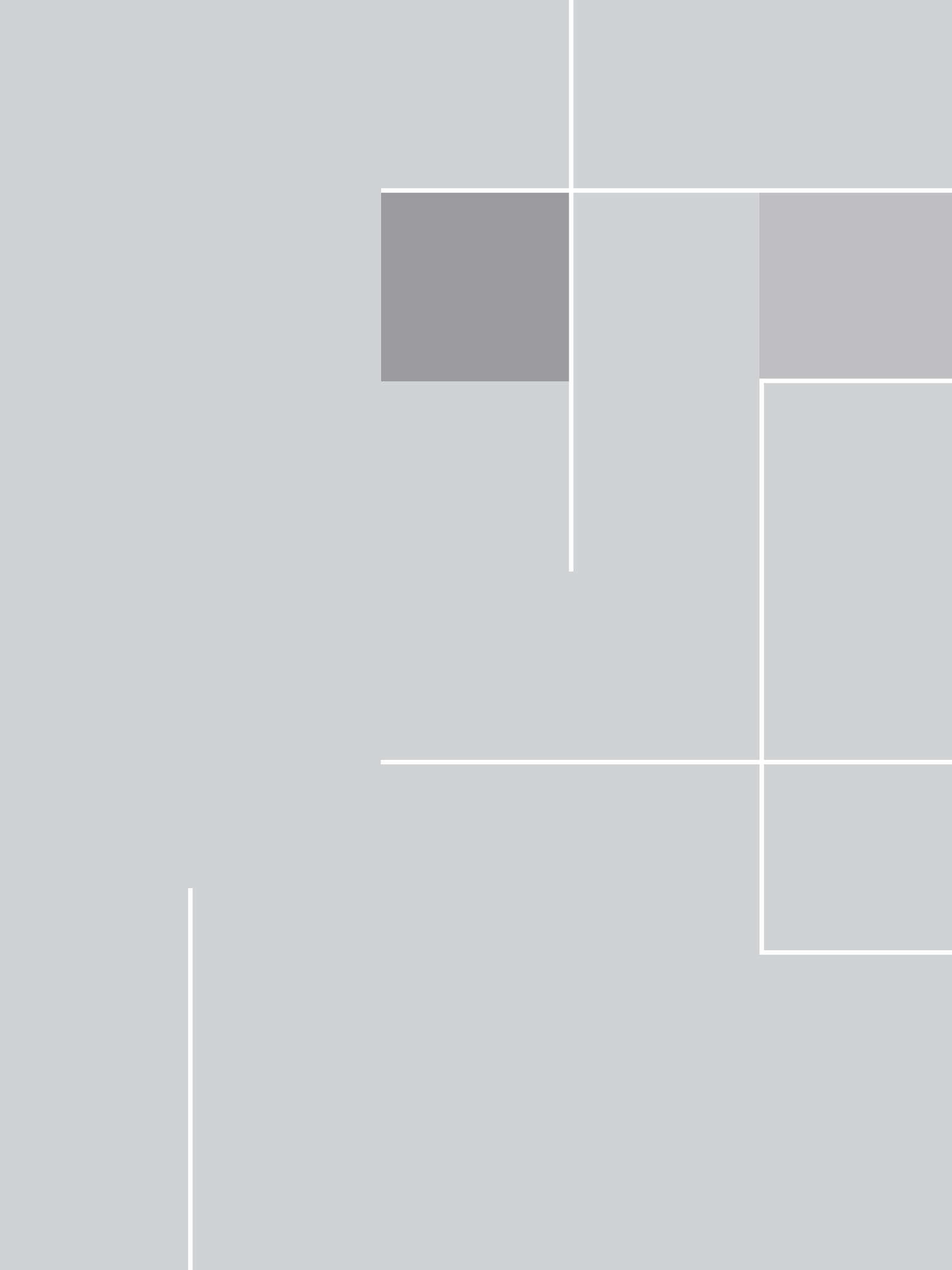
The Audit Committee, and the Internal Audit Service by delegation, is the body responsible for watching over compliance with the Ethical Code and manage the Ethics Channel.

In 2012 the Ethics and Social Responsibility Committee was set up with the purpose, among others, to advise Management on initiatives related to social responsibility, identify risks related to such matter and approve the CSR Report.

The CSR Report follows the indicators included in the Guide to the application of CSR in the chemical and life sciences industry, promoted by the Spanish chemical industry federation ("Feique") in collaboration with Forética. This report is audited by the company Bureau Veritas, which has always given it an Excellent rating in the editions published until now.

### 4. Corporate Governance Report

Ercros Corporate Governance Report for the year 2013, which is an integral part of this Management Report, is presented in a separate document and is also available at Ercros, S.A.'s webpage ([www.ercros.es](http://www.ercros.es)) and CNMV's ([www.cnmv.es](http://www.cnmv.es)).



# 11

## Ercros Group annual financial statements

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# 1

## Consolidated statement of financial position

EUR MILLION

Assets	31-12-13	31-12-12
<b>Non-current assets</b>	<b>309.43</b>	<b>331.21</b>
Property, plant and equipment	264.37	277.14
Investment properties	27.98	27.95
Intangible assets	4.82	4.53
Investments in associated companies	6.13	6.12
Non-current financial assets	2.87	12.13
Deferred tax assets	3.26	3.34
<b>Current assets</b>	<b>254.86</b>	<b>273.97</b>
Inventories	60.51	75.88
Trade and other receivables	145.37	151.02
Other current assets	30.45	33.51
Cash and cash equivalents	16.20	11.59
Non-current assets held for sale	2.33	1.97
<b>Total assets</b>	<b>564.29</b>	<b>605.18</b>

EUR MILLION

<b>Equity and liabilities</b>	<b>31-12-13</b>	<b>31-12-12</b>
<b>Equity</b>	<b>172.21</b>	<b>173.87</b>
Equity of the parent company	172.21	173.87
<b>Total liabilities</b>	<b>392.08</b>	<b>431.31</b>
<b>Non-current liabilities</b>	<b>123.91</b>	<b>128.81</b>
Non-current loans	56.22	56.50
Deferred taxes	35.02	36.25
Provisions	27.57	30.45
Other non-current liabilities	5.10	5.61
<b>Current liabilities</b>	<b>268.17</b>	<b>302.50</b>
Current loans	87.36	89.36
Current portion of non-current loans	26.20	11.30
Trade and other payables	137.29	169.86
Provisions	2.16	1.06
Other current liabilities	13.00	30.92
Liabilities associated with non-current assets held for sale	2.16	–
<b>Total equity and liabilities</b>	<b>564.29</b>	<b>605.18</b>

EUR MILLION

	Year 2013	Year 2012
<b>CONTINUING OPERATIONS</b>		
<b>Income</b>	<b>624.21</b>	<b>660.14</b>
Income from ordinary operations	624.97	639.54
Other operating income	8.79	13.02
Changes in inventory of finished goods and work in progress	-9.55	7.58
<b>Expenses</b>	<b>-595.76</b>	<b>-643.50</b>
Consumption of raw materials and other consumables	-319.66	-331.66
Personnel expenses	-84.37	-84.61
Other expenses	-191.73	-227.23
<b>Gross operating profit</b>	<b>28.45</b>	<b>16.64</b>
Depreciation & amortization expense	-19.31	-18.19
<b>Operating profit / (loss)</b>	<b>9.14</b>	<b>-1.55</b>
Finance income	1.57	0.76
Finance expenses	-11.45	-11.63
Exchange differences (net)	-0.27	-0.51
Share of gains from associated companies	0.01	0.32
<b>Profit / (loss) before tax</b>	<b>-1.00</b>	<b>-12.61</b>
Corporate income tax	0.68	0.94
<b>Loss for the year from continuing operations</b>	<b>-0.32</b>	<b>-11.67</b>
<b>DISCONTINUED OPERATIONS</b>		
<b>Loss for the year from discontinued operations</b>	<b>-3.43</b>	<b>-1.33</b>
<b>Loss for the year</b>	<b>-3.75</b>	<b>-13.00</b>
<b>Other comprehensive income net of tax effect</b>	<b>0.18</b>	<b>-0.05</b>
Captions to be reclassified to profit (loss) in subsequent periods:		
Cash flow hedges	0.26	-0.09
Hedging deferred tax	-0.08	0.04
<b>Consolidated comprehensive income</b>	<b>-3.57</b>	<b>-13.05</b>
<b>Loss for the year attributable to:</b>		
Non-controlling interests	–	-0.87
<b>Equity holders of the parent</b>	<b>-3.75</b>	<b>-12.13</b>
<b>Other comprehensive income attributable to:</b>		
Non-controlling interest	–	–
Equity holders of the parent	0.18	-0.05
<b>Profit / (loss) per basic and diluted share (€)</b>	<b>-0.0362</b>	<b>-0.1204</b>
From continuing operations	-0.0031	-0.1072
From discontinued operations	-0.0331	-0.0132



## 3

## Consolidated statement of changes in equity

EUR MILLION

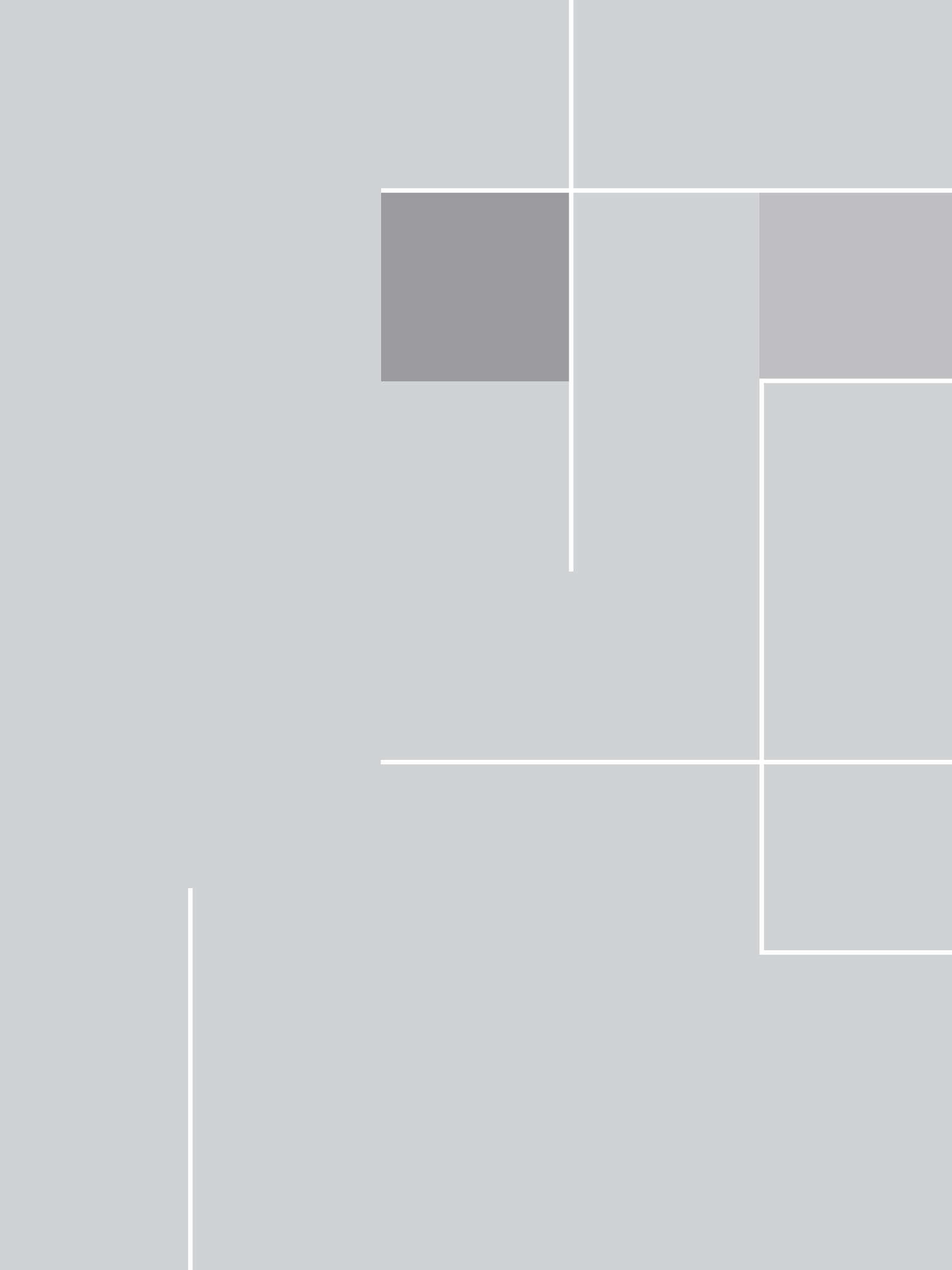
	Capital	Other reserves	Capital increase cost	Retained earnings	Non-controlling interests	Total
<b>Balance at 1-01-12</b>	<b>30.19</b>	<b>172.34</b>	<b>-14.98</b>	<b>-0.81</b>	<b>0.37</b>	<b>187.11</b>
Transfer of 2011 accumulated gains	–	-0.81	–	0.81	–	–
Comprehensive income for 2012	–	-0.05	–	-12.13	-0.87	-13.05
Transactions with shareholders and owners:						
Capital increase	0.26	0.15	-0.68	–	–	-0.27
Meeting attendance bonus	–	-0.60	–	–	–	-0.60
Other concepts	–	0.18	–	–	0.50	0.68
<b>Balance at 31-12-12</b>	<b>30.45</b>	<b>171.21</b>	<b>-15.66</b>	<b>-12.13</b>	<b>–</b>	<b>173.87</b>
Transfer of 2012 accumulated gains	–	-12.13	–	12.13	–	–
Comprehensive income for 2013	–	0.18	–	-3.75	–	-3.57
Transactions with shareholders and owners:						
Capital increase	1.66	0.89	-0.06	–	–	2.49
Meeting attendance bonus	–	-0.30	–	–	–	-0.30
Other concepts	–	-0.28	–	–	–	-0.28
<b>Balance at 31-12-13</b>	<b>32.11</b>	<b>159.57</b>	<b>-15.72</b>	<b>-3.75</b>	<b>–</b>	<b>172.21</b>

EUR MILLION

	31-12-13	31-12-12
<b>A. Cash flow from operating activities (+/-1. +/-2. +/-3. +/-4)</b>	<b>23.86</b>	<b>19.17</b>
<b>1. Profit/(loss) before tax</b>	<b>-4.43</b>	<b>-13.94</b>
Continuing operations	-1.00	-12.61
Discontinued operations	-3.43	-1.33
<b>2. Adjustments to profit</b>	<b>24.00</b>	<b>23.15</b>
Depreciation & amortization expense (+)	19.31	18.19
Impairment losses (+/-)	0.77	3.41
Changes in provisions (+/-)	-1.73	-6.35
Grants released to income (+/-)	-1.79	-1.55
Gains (losses) from derecognition and disposals of property, plant and equipment and intangible assets (+/-)	-1.73	-1.66
Gains (losses) from derecognition and on disposals of discontinued operations (+/-)	-1.10	–
Finance income (-)	-1.57	-0.76
Finance costs (+)	11.45	11.63
Exchange gains (losses) (+/-)	0.27	0.51
Other income and expenses (-/+)	0.12	-0.27
<b>3. Change in working capital</b>	<b>11.79</b>	<b>18.03</b>
Inventories (+/-)	14.81	-3.19
Trade and other receivables (+/-)	12.40	1.54
Other current assets (+/-)	4.02	0.70
Trade and other payables (+/-)	-18.43	18.96
Other current liabilities (+/-)	–	0.42
Other non-current assets and liabilities (+/-)	-1.01	-0.40
<b>4. Other cash flows from operating activities</b>	<b>-7.50</b>	<b>-8.07</b>
Interest paid (-)	-8.11	-8.59
Interest received (+)	0.61	0.52
Income tax payments (+/-)	–	–
Other payments (+/-)	–	–
<b>B. Cash flows from investing activities (6-5)</b>	<b>-1.67</b>	<b>-15.10</b>
<b>5. Payments on investments (-)</b>	<b>-4.35</b>	<b>-16.16</b>
Intangible assets	-0.13	-0.28
Property, plant and equipment	-4.22	-15.78
Investment in subsidiaries	–	–
Other financial assets	–	-0.10
<b>6. Proceeds from disposals (+)</b>	<b>2.68</b>	<b>1.06</b>
Intangible assets	0.30	1.06
Property, plant and equipment	–	–
Other financial assets	–	–
Divestment in discontinued operations	2.38	–

EUR MILLION

	31-12-13	31-12-12
<b>C. Cash flows from financing activities (+/-7 +/-8 -9)</b>	<b>-17.58</b>	<b>-0.04</b>
<b>7. Proceeds from and payments on equity instruments</b>	<b>2.49</b>	<b>-0.27</b>
Proceeds from issuance of equity instruments	2.49	-0.27
<b>8. Proceeds from and payments of financial liabilities</b>	<b>-19.77</b>	<b>0.83</b>
Issues:	4.12	13.37
Loans (+)	2.81	13.37
Subsidies, donations and bequests received (+)	—	—
Other borrowings (+)	1.31	—
Repayment and redemption of:	-23.89	-12.54
Bonds and other marketable debt securities (-)	—	—
Loans (-)	-23.89	-12.54
Other borrowings (-)	—	—
<b>9. Dividends paid and payments on other equity instruments</b>	<b>-0.30</b>	<b>-0.60</b>
Shareholders Meeting attendance bonus	-0.30	-0.60
<b>D. Net increase / decrease in cash and cash equivalents</b>	<b>4.61</b>	<b>4.03</b>
Cash and cash equivalents at January 1	11.59	7.56
Cash and cash equivalents at December 31	16.20	11.59



# 12

## Ercros Group financial statements historical data series

1	Consolidated statement of financial position	44
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EUR MILLION

Assets	31-12-13	31-12-12	31-12-11	31-12-10	31-12-09
<b>Non-current assets</b>	<b>309.43</b>	<b>331.21</b>	<b>334.77</b>	<b>347.47</b>	<b>357.39</b>
Property, plant and equipment	264.37	277.14	279.71	297.06	307.04
Other non-current assets	45.06	54.07	55.06	50.41	50.35
<b>Current assets</b>	<b>254.86</b>	<b>273.97</b>	<b>270.79</b>	<b>275.54</b>	<b>279.14</b>
Inventories	60.51	75.88	73.46	67.59	73.98
Trade and other receivables	145.37	151.02	155.80	156.80	141.53
Other current assets and cash and cash equivalents	46.65	45.10	41.53	51.15	53.90
Non-current assets held for sale	2.33	1.97	–	–	9.73
<b>Total assets</b>	<b>564.29</b>	<b>605.18</b>	<b>605.56</b>	<b>623.01</b>	<b>636.53</b>
<b>Equity and liabilities</b>					
<b>Equity</b>	<b>172.21</b>	<b>173.87</b>	<b>187.11</b>	<b>188.55</b>	<b>201.81</b>
<b>Non-current liabilities</b>	<b>123.91</b>	<b>128.81</b>	<b>144.08</b>	<b>134.02</b>	<b>229.73</b>
Non-current loans	56.22	56.50	65.06	50.56	126.73
Provisions	27.57	30.45	35.33	42.53	63.39
Deferred taxes and other non-current liabilities	40.12	41.86	43.69	40.93	39.61
<b>Current liabilities</b>	<b>268.17</b>	<b>302.50</b>	<b>274.37</b>	<b>300.44</b>	<b>204.99</b>
Current loans	113.56	100.66	86.64	120.09	45.56
Trade and other payables	137.29	169.86	153.26	139.45	130.68
Provisions and other current liabilities	15.16	31.98	34.47	40.90	26.58
Liabilities associated with non-current assets held for sale	2.16	–	–	–	2.17
<b>Total equity and liabilities</b>	<b>564.29</b>	<b>605.18</b>	<b>605.56</b>	<b>623.01</b>	<b>636.53</b>

EUR MILLION

Items	Year 2013	Year 2012 <sup>1</sup>	Year 2011	Year 2010	Year 2009
<b>Income</b>	<b>624.21</b>	<b>699.08</b>	<b>700.51</b>	<b>608.77</b>	<b>612.54</b>
Revenue	624.97	677.53	686.04	609.28	569.81
Other income and changes in inventories	-0.76	21.55	14.47	-0.51	42.73
<b>Expenses</b>	<b>-595.76</b>	<b>-683.77</b>	<b>-673.71</b>	<b>-598.10</b>	<b>-642.32</b>
Cost of sales	-319.66	-365.21	-370.32	-299.75	-294.22
Employee benefits expenses	-80.14	-86.10	-84.62	-88.70	-106.19
Other expenses	-195.96	-232.46	-218.77	-209.65	-241.91
<b>Gross operating profit ("ebitda")</b>	<b>28.45</b>	<b>15.31</b>	<b>26.80</b>	<b>10.56</b>	<b>-29.78</b>
Ebitda from ordinary activities	27.88	14.51	21.80	9.25	-31.32
Non-recurring ebitda	0.57	0.80	5.00	1.31	1.54
Depreciation Et amortization expense	-19.31	-18.19	-18.01	-19.30	-16.85
<b>Operating profit / (loss) ("ebit")</b>	<b>9.14</b>	<b>-2.88</b>	<b>8.79</b>	<b>-8.74</b>	<b>-46.63</b>
Finance costs	-10.14	-11.06	-9.85	-5.19	-3.25
<b>Profit / (loss) before tax</b>	<b>-1.00</b>	<b>-13.94</b>	<b>-1.06</b>	<b>-13.93</b>	<b>-49.88</b>
Profit/loss for the year from discontinued operations	-3.43	—	—	1.61	1.17
Corporate income tax and non-controlling interests	0.68	1.81	0.25	-0.26	-0.77
<b>Equity holders of the parent</b>	<b>-3.75</b>	<b>-12.13</b>	<b>-0.81</b>	<b>-12.58</b>	<b>-49.48</b>

<sup>1</sup> Data corresponding to 2012 match with those approved in that year, but not with those presented in the financial statements for year 2013, as to facilitate the comparison between the two years, the result of the discontinued activities engaged in the manufacturing and marketing business of phosphates for animal feed (whose sale has been agreed in January 2014) has been isolated, in both 2013 and 2012.

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