

ANNUAL
REPORT

2015



Ercros



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This annual report contains the management report and the most relevant tables of Ercros group annual accounts for the year ended 31 December 2015, which were unanimously approved by the board of directors on 18 February 2016, 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.

Dear Shareholders,

2015 was a good year for Ercros. We once again obtained a profit after a complex transition through the deepest economic crisis the industrialised world has had to endure. In order to achieve this, and at the very first signs of a crisis, we did not hesitate to implement the measures necessary to adapt the company to the new economic circumstances and to improve costs and productivity. Today, we are beginning to reap the rewards of those measures.

Profit for 2015 amounted to EUR 7.24 million, representing year-on-year growth of EUR 13.53 million. This significant improvement must be attributed to the increase in sales, the reduction of costs and the improvements made to productivity.

Growth in income (3.4%), with respect to expenses (0.4%) explains the significant upturn in the company's margins and results. Between 2014 and 2015, the gross profit margin more than doubled to reach more than 5%.

Rigorous cost control applied between 2007 and 2015 led to a decrease of EUR 59.26 million in fixed costs; a 29% reduction. However, this remarkable effort had to contend with the sharp increase in the price of electricity, which grew 76.5% in the aforementioned period. In fact, in 2015, against a general backdrop of lowering commodity prices, Ercros' electricity bill grew by EUR 8.69 million.

During this period, the company also had to dispose of non-strategic assets. The most recent transaction, formalised on 2 June 2015, was the sale of the factory in Palos de la Frontera and the concession of the Salina of Huelva, for EUR 3.95 million.

This adjustment process must continue until the end of 2017 when the prohibition on the use of mercury technology in the production of chlorine (which at Ercros currently represents 100% of the chlorine production capacity at the Flix factory and 71% of the capacity at the Vila-seca I factory) goes into effect in Europe and the MDI plant at the Tarragona factory of Ercros' main chlorine customer, the German company Covestro (formally Bayer), closes.

We hope to offset the impact on the income statement of both circumstances with returns from other lines of business (the intermediate and pharmaceutical chemicals divisions), which are increasing their contribution to the company's earnings, and the continuation of a favourable environment due to the exchange rate, the recovery of the construction sector, and the economy in general, both in Spain and Europe, and falling commodity prices.

In addition, we will continue with chlorine production in the plants which have already converted their technology (100% of the chlorine production capacity at the Sabiñánigo factory and 29% of the chlorine production capacity at the Vila-seca I factory), although we have not ruled out new expansions in the event that the aforementioned investment yields appropriate returns. We also

expect to continue operating in the sodium hydroxide, sodium hypochlorite and hydrochloric acid markets, and in PVC production.

Due to the loss of employment as a result of the restructuring of the Flix production plants, we have contracted, together with the autonomous community and municipal authorities, a specialised consulting firm to launch a reindustrialisation project, the goal of which is to attract new projects capable of generating employment in the area. This initiative forms part of the commitment we made to our employees and to the area.

In 2015 groups of the company's shareholders exercised the rights of the minority in the shareholders meeting. Specifically, shareholders of 5.4% of the share capital requested an extraordinary meeting be called and shareholders of 3.1% of the share capital requested new proposals be included in the agenda of the ordinary shareholders' meeting. Although on both occasions the shareholders at the meeting rejected the proposals put forth by these groups of shareholders, the board of directors was sensitive to the request made to complete the share capital increases pursuant to the agreement with Yorkville Advisors. Thus, the agreement with this American fund was cancelled in 2015 once we waived the two-year extension envisaged in the agreement. This waiver was possible due to Ercros' increased profitability in 2015, which we expect will continue over the coming years.

During the past year, the company adapted its internal regulations to the legislative changes and the recommendations of the new good governance code. In this context, the board of directors approved the modification of the composition of the audit committee and the appointments and remuneration committee, which are now formed, respectively, by three non-executive directors, of which two are independent, including the chairman of the corresponding committee.

2015 was also a good year as regards safety. The accident reduction plan, launched as a result of the high number of accidents reported in 2014, allowed us to return to the trend of a decline in accidents prevailing in recent years (temporarily interrupted in 2014) and achieve the lowest accident ratio ever recorded by Ercros.

As regards 2016, we expect results to remain in a range similar to that of 2015 with a moderate rise in sales and decline in costs. The main risks which could alter this outlook are the evolution of the euro/dollar exchange rate, the devaluation of which in the first weeks of the year creates uncertainty regarding the near future and a possible deterioration of the global economic environment and, in particular, that of emerging countries.

Antonio Zabalza Martí
Chairman and CEO of Ercros

Barcelona, 18 February 2016

1. Organizational structure

The governing bodies of Ercros, S.A. ("the company" or "Ercros") are the general shareholders' meeting and the board of directors, and within the latter, the supervisory and control committees: the audit committee and the appointments and remuneration committee. The operational management body is ecofin and the body which monitors and controls business performance is the management committee.

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 shareholders meeting. According to the Spanish Capital Companies Law ("LSC"), the company has a regulation of the general shareholders meeting which strengthens the exercise of the information right of shareholders and facilitates the proxy and remote voting, and the communication with and between shareholders of the company

In 2015, pursuant to that set forth in articles 160 and 519 of the LSC, on the rights of minority shareholders to request an extraordinary general shareholders' meeting be called and to add new points to the agenda for the ordinary general meeting, respectively, shareholders of the company presented a request to hold an extraordinary meeting and add two points to the agenda for its ordinary meeting.

The extraordinary general shareholders' meeting took place on 6 March 2015 in Barcelona on second call. It was requested by shareholders of 5.4% of the share capital. The shareholders at the meeting approved all of the resolutions proposed by the board of directors related to legal adaptations to the company bylaws and rejected all of the resolutions proposed by the group of shareholders, related to: (i) revoking the powers delegated to the board of directors to increase the share capital and issue marketable securities, with the option to exclude pre-emptive subscription rights; (ii) increasing the number of members of the board of directors from 5 to 8 of and (iii) the appointment of new directors. In attendance at the extraordinary meeting were 10,708 shareholders of 69.99 million shares, representing 61.3% of share capital with voting rights, of which 8.7% was present and the remaining 52.6% was represented.

The ordinary general shareholders' meeting was held on 30 June 2015 in Barcelona on second call. All of the resolutions proposed by the board of directors were approved and all of the proposals proposed by the shareholders of 3.1% of the share capital were rejected. Among the approved resolutions, the following are of note: the adaptation of the internal regulations to changes in the law; the approval, in an advisory vote, of the report on the remuneration of the directors containing the remuneration policy for the coming

three years and the maximum annual amount of remuneration for directors, which was set at EUR 700,000. The proposals rejected requested: the termination of the independent director Mr Ramón Blanco Balín; the limitation of the payment premiums for attending ordinary meetings and that the maximum annual remuneration for directors be set at EUR 330,000. In attendance at the meeting were 9,999 shareholders of 72.01 million shares, representing 63.1% of share capital with voting rights, of which 8.8% were present and the remaining 54.3% were represented.

b) Board of directors

It is the company's maximum decision-making body, except in matters related to the shareholders' meeting. The board's main function is governing the company, and its work is focused on the task of supervising the group's management. Its criteria for action is the protection of the interests of the various stakeholders of the Ercros group: shareholders, employees, suppliers, customers, public authorities, funders and the community.

The composition and number of members of the board of directors have remained unchanged since April 2010. Of the five members comprising the board, four are external directors and, of them, two are independent.

On 20 July 2015, the board of directors resolved to change the category of the director Mr Ramón Blanco Balín, which shifted from "independent" to "other external" due to having served 12 consecutive years as an independent director, in accordance with that set forth in article 529 *duodecies* of the LSC.

As a result of having lost his independent status, Mr Ramón Blanco Balín ceased to perform the role of coordinator director, a duty which the independent director Mr Eduardo Sánchez Morrondo now performs, and who is authorised to exercise the powers envisaged in article 529 *septies* of the LSC and article 32 of the company bylaws in the event that the chairman is also the CEO, as is the case at Ercros.

In 2015 the board met on 10 occasions, nine of which were in person and one of which was via telephone conference call. All of the directors attended six meetings and in the four remaining meetings, the absent directors delegated their votes to a non-executive director.

In compliance with articles 249 and 529 *octodecies* of the LSC, the board of directors, in its meeting held on 21 May 2015, unanimously approved, and in the absence of the interested party, the partial modificatory novation of the contract between the CEO and the company. The main changes made to the new contract relate to his termination benefits and the maximum amount that the sum of his medical insurance and life insurance premium can reach, as explained in detail in the report on the remuneration of the directors.

Structure of the board of directors

Director	Position	Type	Committees	Date of renewal
Antonio Zabalza Martí	Chairman and CEO	Executive	–	9-04-10
Laureano Roldán Aguilar	Director	Other external	Audit	9-04-10
Ramón Blanco Balín	Director	Other external	Appointments and remunerations	9-04-10
Eduardo Sánchez Morrondo	Director	Independent	Audit and appointments and remunerations	9-04-10
Luis Fernández-Goula Pfaff	Director	Independent	Audit and appointments and remunerations	9-04-10
Santiago Mayans Sintes	Non-voting Secretary	–	–	–

(i) Audit committee

Pursuant to article 529 *quaterdecies* of the LSC the directors at the board meeting held on 22 January 2015 approved the following changes in the composition of the audit committee:

- The removal of the executive director, Mr Antonio Zabalza Martí.
- The appointment of the independent director, Mr Eduardo Sánchez Morrondo.

After this change, the audit committee became comprised of three directors, two of which are independent, including its chairman. The committee's current composition is the following:

- Mr Luis Fernández-Goula Pfaff, independent director, chairman.
- Mr Eduardo Sánchez Morrondo, independent director, member.
- Mr Laureano Roldán Aguilar, independent director of the "other external" type, member.

Over the course of 2015, the audit committee held four meetings, which were attended by all of its members. The internal audit service reports to the audit committee.

(ii) Appointments and remuneration committee

Pursuant to article 529 *quindecies* of the LSC, the directors at the board meeting held on 22 January 2015 approved the addition of the independent director Mr Luis Fernández-Goula Pfaff as a member of the appointments and remuneration committee.

After this change, said committee became comprised of three directors:

- Mr Eduardo Sánchez Morrondo, independent director, chairman.
- Mr Luis Fernández-Goula Pfaff, independent director, member.
- Mr Ramón Blanco Balín, independent director of "other external" type, member.

In 2015 the committee held four meetings, two of which were attended by all of its members and in the other two, the absent director delegated his vote.

c) Ecofin

Ecofin is the body which ensures that the resolutions adopted by the board of directors are implemented and monitored. It periodically monitors business performance and approves the execution of investments and the company's financing.

It is comprised of the chairman-CEO, the general business and economic-financial managers and the general secretary. This body meets at least biweekly and whenever necessary.

d) Management team

It is responsible for monitoring business performance on a monthly basis.

It is comprised of the chairman-CEO, the general managers, the managers of the four divisions and the managers of the general secretary, administration, finances, sustainable development, human resources and IT. The various group managers, including the sales managers of the various business segments, are invited to the management committee meetings.

In 2015 the composition of the management committee remained unchanged. Over the course of the year, this committee met on 10 occasions.

2. Industrial structure

The Ercros industrial group ("the group" or "the Ercros group") is diversified into three business segments: the business group associated with chlorine, which includes the basic and plastic chemicals divisions and which is presented as a strategic business unit, which have chlorine in common; the intermediate chemicals division, focused on the chemical formaldehyde, based on which the other products which compose the division's portfolio are manufactured, and the pharmaceuticals division, which is dedicated to the manufacture of active pharmaceutical ingredients ("APIs").

The primary change to the group's scope between 1 January 2015 and the date on which this report was approved, 18 February 2016, was the sale to Salinas del Odiel, on 2 June 2015, of Electroquímica Onubense, an Ercros subsidiary created in 2015, to which the Palos de la Frontera factory and the Salina of Huelva were added.

The group has 11 production centres distributed throughout Spain.

Industrial structure

Divisions	Centres	Products	Applications
Basic chemicals	Cardona, Flix, Tarragona, Sabiñánigo and Vila-seca I	Caustic potash Caustic soda Chlorine Chloroisocyanurates Hydrochloric acid Sodium chlorate Sodium chloride Sodium chlorite Sodium hypochlorite	Chemical industry General industry Derivatives manufacturing Swimming pool General industry Paper pulp bleaching Chemical industry Water treatment Water treatment
Plastics	Monzón and Vila-seca II	EDC PVC VCM	VCM manufacturing Construction PVC manufacturing
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 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.

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's medium-term strategy includes:

- In the business group associated with chlorine, restructuring the production processes as a result of the elimination of the electrolysis plants which operate using mercury technology and maintaining its level of presence in the markets in which it currently operates, in particular, in the sodium hydroxide, sodium hypochlorite, hydrochloric acid and PVC markets [see section c) (i) below].
- In the intermediate chemicals division, searching for new markets to offset the decline in sales in emerging countries [see section c) (ii) below].
- In the pharmaceuticals division, increasing the production capacities in order to satisfy growing demand [see section c) (iii) below].

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, highly reactive, 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 ECU production 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.

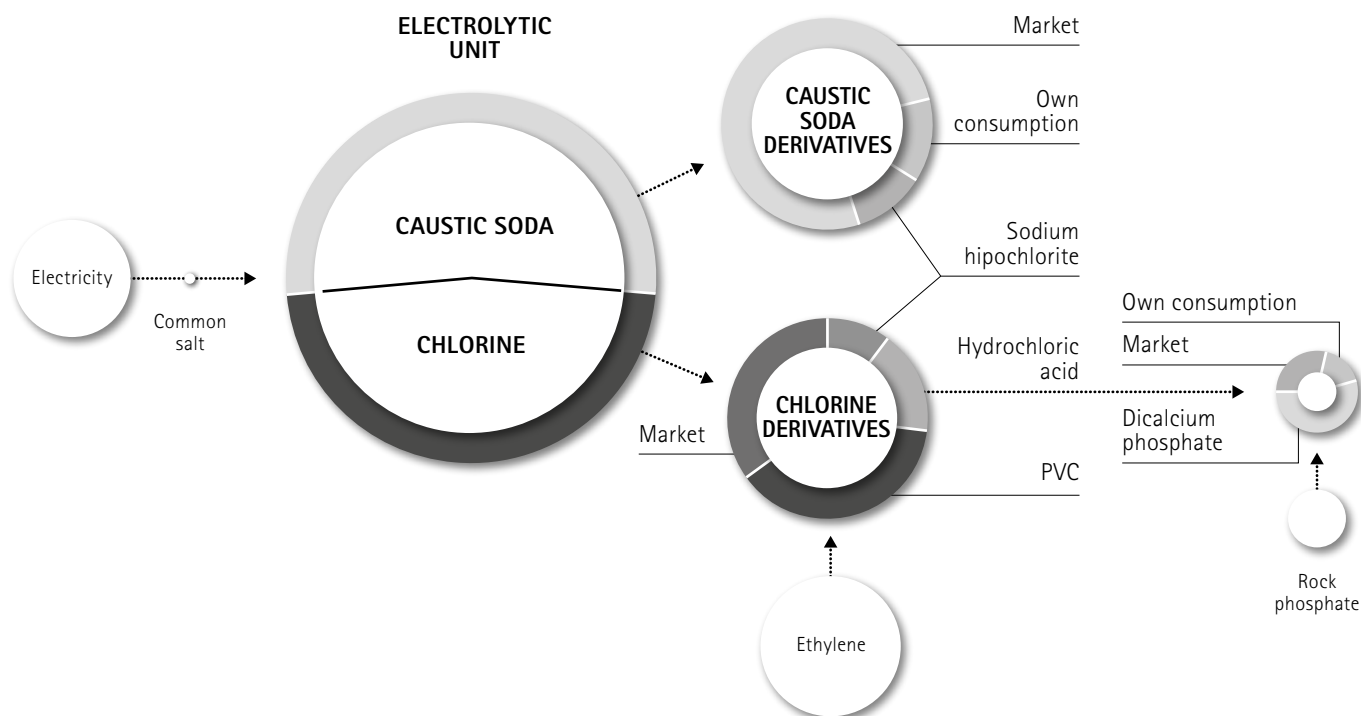
PVC is a thermoplastic widely demanded worldwide and has the advantage over other derivatives of ethylene, that chlorine becomes part in its composition (chlorine represents approximately 45% of PVC weight) making it a plastic less dependent on the ethylene.

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 55% of its total costs. However, in order to understand the ultimate profitability of PVC, the electrolytic unit should be considered overall, computing both revenues and expenses arising from the manufacture of PVC and caustic soda co-produced with the chlorine added to the PVC.

The short-term challenge for the business group associated with chlorine is to increase the margin of PVC and sodium hydroxide against a backdrop of electricity prices which are not competitive at a European level.

At medium term, this business group must deal with the closing of the chlorine and sodium hydroxide producing electrolytic plants which operate using mercury technology (100% of chlorine production capacity at the Flix factory and 71% of the current chlorine production capacity at the Vila-seca I factory) due to the EU's prohibition on the use of this type of technology for the production of chlorine and sodium hydroxide beyond 11 December 2017, and due to the loss of the main chlorine customer, Covestro (formerly Bayer), which on 4 December 2015 announced its decision to close, also at the end of in 2017, its diphenylmethane diisocyanate ("MDI") plant at its Tarragona factory which consumes this product as a raw material and is the group's primary chlorine customer.

Chlorine-caustic soda process scheme



This backdrop of closing mercury electrolysis plants was already considered by the directors of the company when preparing the financial statements for 2014, in which an impairment loss was recognised for the Vila-seca complex, comprised of the chlorine-sodium hydroxide production factories of Vila-seca I and the PVC the production factory of Vila-seca II.

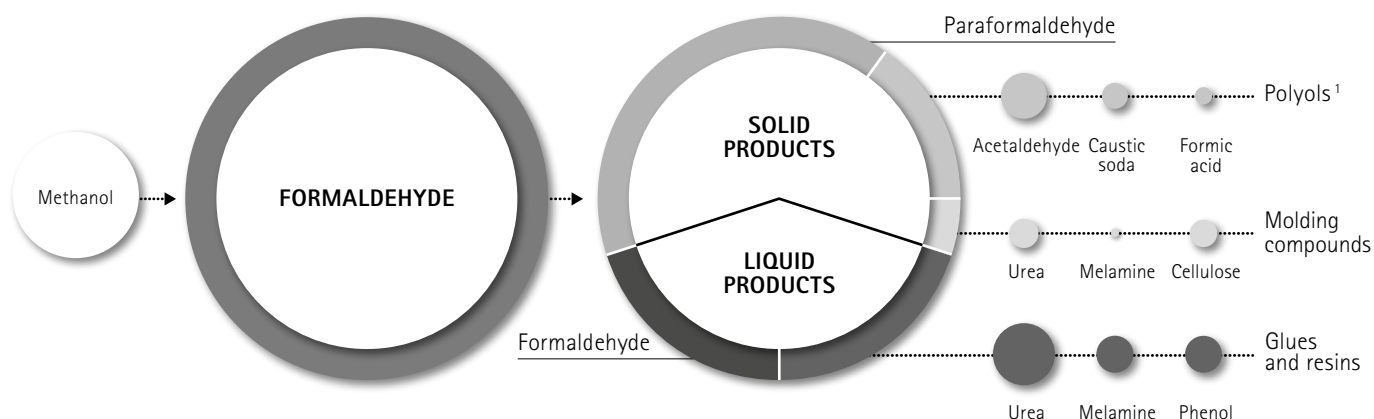
As stated earlier, the primary raw material used for the businesses associated with chlorine is electricity, the cost of which is set based on the auction price at the daily energy auctions carried out by Red Eléctrica de España ("REE") to which the regulated costs must be added. Although the sodium hydroxide market is European, the electricity costs for production belong to the Iberian market and, therefore, electricity is a component which affects Ercros' competitiveness. In fact, between 2014 and 2015, the cost of electricity increased by EUR 8.69 million, although for 2016 this cost is expected to remain stable or even drop slightly.

In addition, the group receives remuneration for the interruptibility services it provides REE, consisting of the option said company has to interrupt the supply of electricity to the group in cases in which the production and demand of electricity so require. The amount paid by REE for the interruptibility service is set annually through an auction which occurs prior to the start of the calendar year. The group has already been assigned an amount similar to that obtained in 2015 for remuneration for interruptibility in 2016.

As regards ethylene, the other important raw material for this business group, its price is set in relation to the evolution of oil prices, as well as the availability of ethylene in the eurozone although, in reality, this second factor is the determining factor for the price of this raw material because, when the ethylene supply is lower than the demand, the reduction in the price of oil is not transferred to the price of ethylene. Ethylene supply is determined by the level of activity, as well as the maintenance shut-downs of the crackers in which it is produced. Normally, increases and decreases in the price of ethylene are transferred to PVC customers.

PVC production entails high levels of thermal energy consumption, obtained primarily from natural gas. Natural gas prices are determined by the crude oil Brent price and the euro/dollar exchange rate. Against the current backdrop of a significant decline in the cost of crude oil Brent, the group could benefit from lower natural gas costs.

Formaldehyde process scheme



¹ Pentaerythritol, dipentaerythritol and sodium formate.

(ii) Formaldehyde chain

Methanol, which is the main raw material for the intermediate chemicals division, represents 40% of said division's total costs. Normally, the rise and fall of the price of methanol is transferred to customers, and thus the group seeks to maintain its margins, regardless of the evolution of the price of this raw material.

75% of the formaldehyde produced is used to manufacture derivatives, both liquid and solid. The latter, which represents 67% of the business' revenue, has greater added value than liquids and its market is global with exports representing 88%. Liquid products, due to their water content and, therefore, greater transport costs, have a smaller market, limited to a radius of between 800 and 1,000 km from the production centre.

Solid products are used to manufacture resins, lubricants, paints, varnishes and high-performing lacquers, as well as electrical and healthcare components. This margin for this group of products benefits from recognition by the market of its quality and the know-how applied in its production.

The challenge faced by this business is to remain a global leader as a result of the higher quality of its products with respect to the competition's products, mainly from Asia, while maintaining its competitiveness. Currently, this business is benefiting from the appreciation of the dollar with respect to the euro and from the repercussion of low oil prices on the cost of natural gas. However, the evolution of the global economy, in particular, that of emerging markets, will determine to a large extent, whether this division's results continue to improve.

(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.

The sales volume for this division's products is affected by the euro/dollar exchange rate, given that 90.7% of all products are sold abroad.

This business' main challenge is meeting the quality demands made by its customers and regulatory bodies, developing new products and withstanding competition from China and India.

The current context in which euro is depreciating against the dollar makes this division more competitive and, at the same time, is beneficial for the return in euros of sales made in dollars, which improves the division's profitability.

d) Competition¹

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 company exports nearly half of its production (49%) and operates in 108 countries, mainly from the EU.

The products of the intermediate chemicals and pharmaceuticals have 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 fosfomycin.

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 and glues and resins.

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.

As for the group of businesses associated with chlorine, Ercros represents 2% of the European soda market and competes with operators that are much larger than it. The same is true in the PVC market, where Ercros also has a 3% market share and competes with operators who not only have shares in the 40% range, but are also more vertically integrated.

Technology is another key factor for this business group's competitiveness and survival. This is favoured by producing chlorine using technology that are free of mercury, since, as mentioned above, the plants that still operate with mercury technology, accounting for 72% of the current capacity of the group, must cease production before 11 December 2017.

In this business segment, electricity is the main raw material, determining how competitive the company is. The price of electricity is in turn determined by the competitiveness of the Spanish electric power generation system, where high subsidies for renewable energies lead to average electricity costs that are higher than most other countries in the region.

The forecast of the group is reducing its production of chlorine and caustic soda and, therefore, its electricity consumption by 55% from 2018. This reduction will only affect sales of chlorine that currently are intended to its main customer, Covestro, which, as stated in paragraph c) (i) above, has announced the closure of its facilities. The group will continue operating in other markets in which it operates and PVC production will not be affected as it envisages to produce this product from foreign EDC.

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.

Also, due to electrical schedules, production of chlorine and caustic is lower in the winter months, when the number of hours of expensive price is higher and, therefore, costs are no longer competitive. Increased production of chlorine and caustic and associated products is therefore greater in the central quarters of the year.

f) Regulatory environment

The specific legal requirements of the sectors in which the group operates that have a greater impact on its activity and results are related to the energy market, the safety and health of people and environmental protection, for which they have not been produced significant changes over 2015.

(i) Energy market reform

Once the Spanish Government has developed the major milestones of the energy reform in the past two years, in 2015 has not carried out any new regulatory development of the energy market that has a significant economic impact on the activity of Ercros group. Nor it is expected to be in the medium term.

¹ The data provided in this section are from calculations made by the group itself.

(ii) Contaminated soil

Royal Decree 9/2005, establishing the list of potentially soil polluting activities and the criteria and standards for declaring polluted soil, requires industries to launch, if appropriate, a remediation project, subject to approval by the competent authority.

In 2015 the group continued its characterisation and remediation work, where applicable, on the soil of the Flix, Vila-seca I, Vila-seca II and Palos de la Frontera (the last of which was sold in June 2015) factories, and completed the remediation work on the soil of the plant it sold to Nitricomax in 2013 located in the Tarragona factory. The groundwater treatment plant at the Flix factory, launched in 2014, is functioning properly, in accordance with that set forth in the factory's subsoil and groundwater remediation project approved by the Catalan authorities.

On 10 November 2015, Ercros received authorisation from the Catalan authorities to carry out the project for the recovery and integration in the landscape of the land released by the Terrera Nova of Cardona waste tip.

The remediation project for the El Hondón lands, where the former Cartagena factory was located, is in the process of being reviewed by the local authorities. It is, likewise, pending determination by the local authorities of the funding for the cost which it must assume of the aforementioned project, the total amount of which is estimated to be EUR 36 million, 48% of which the authorities must assume.

The cost of the execution of these projects has been provisioned in full, together with the costs, as third-party liability, for contamination of the Flix reservoir. These provisions are included under "Provisions and other current and non-current liabilities".

(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.

In the case of electrolysis plants using mercury cell (100% of the production capacity of Flix chlorine factory and 71% of the current production capacity of Vila-seca I chlorine factory) this legislation means that the deadline to continue operating with this technology expires on December 11, 2017 [see chapter 5.1 a) (ii)].

(iv) Registration and authorization of chemicals

In 2015, there have been no new developments in Reach European regulations, on registration, evaluation and authorization of chemicals, and CLP classification and labelling of substances, which require companies to record the production and marketing of certain chemicals and to provide information about their safety through the safety data sheets ("SDS").

(v) Greenhouse gas emissions

On 18 November 2014 the Sub Secretariat for Environment assigned Ercros 1.98 million tons of free greenhouse gas emission right for the period 2013-2020, of which 251,900 tonnes correspond to 2015 (256,500 tons in 2014).

In 2015, the group had income from grants relating to gas emission allowances amounting to 138,000 euros.

(vi) Major-accident hazards involving dangerous substances

Royal Decree 840/2015 (known as Seveso III) which approves measures to control the risks inherent in major accidents involving hazardous substances, requires production centres affected to have an updated safety report, perform periodic inspections and major-accident drills, implement an emergency plan and investigate accidents and report them to the authorities.

1. Analysis of the business evolution and results

a) Production

In 2015 the group's facilities manufactured 2.13 million tonnes of product, 3.2% less than in 2014, due fundamentally to the sale of the Palos de la Frontera factory and the Salina of Huelva on 2 June 2015.

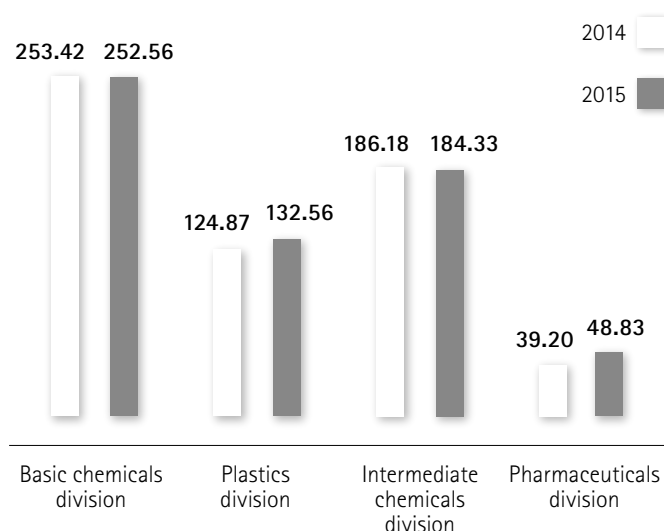
The basic chemicals division saw the sharpest drop in production (7.1%), having lost the manufacturing activity from the facilities sold.

In 2015 the intermediate chemicals division maintained its global production level, as it was able to offset a drop in paraformaldehyde demand, a product which suffered due to the downturn in emerging markets, with increased activity in the remaining products in response to the dynamism of their markets.

The production volume was particularly relevant in the other two divisions, plastics and pharmaceuticals, which experienced significant growth with respect to 2014. Specifically, the plastics division expanded its activity driven by increasing PVC demand, and the pharmaceuticals division, which in 2015 performed excellently, increased production by 24.8%, pushing its plans to the limit of their capacity, which is expected to be mitigated by the investments currently being made.

Sales by divisions

EUR MILLION



b) Sales

In general, the markets in which Ercros operates performed well in 2015. Sales amounted to EUR 618.27 million, up 2.4% from EUR 603.67 million in 2014,

Sales increased despite the sale of the Palos de la Frontera factory and the Salina of Huelva on 2 June 2015. This had an adverse effect on revenue for the basic chemicals division, although its impact was mainly offset by the recovery of sodium hydroxide price and, to a lesser extent, the increase in sales of chloroisocyanurates and potash. Thus, between 2014 and 2015 revenue for the basic chemicals business decreased only 0.3%, from EUR 253.42 million to EUR 252.56 million.

Revenue for the plastics division increased 6.2% in 2015, driven by an increase in PVC sales in comparison to 2014. The beginning of the recovery of civil construction benefited this product, above all, in the Spanish market. This activity's revenue amounted to EUR 132.56 million in 2015, (EUR 124.87million in 2014).

However, it was the pharmaceuticals division which performed best, with sales up 24.6% to EUR 48.83 million in 2015 (EUR 39.2 million in 2014). The reasons for this improvement were the solid performance of fusidic acid, mainly due to a larger volume of sales, but also due to the increase in its price, as well as that of the rest of the division's main products (fosfomycins and erythromycins) and the revaluation of the dollar, the currency in which 44.8% of its sales are performed.

The dollar exchange rate also benefited the intermediate chemicals division, which performs 22.6% of its sales in this currency, which explains to a large extent the growth in the sale of polyols and, among these, pentaerythritol. On the other hand, the slowdown of the emerging markets led to a decline in the sale of paraformaldehyde. All in all, although it increased its margin in 2015, revenue for this division fell by 1% from EUR 186.18 million in 2014 to EUR 184.33 million in 2015.

On the other hand, it must be borne in mind that the lower cost of commodities, such as an ethylene and methanol, also led to a decline in the sales figure, given that the increase in the price of these commodities is ultimately transferred to the end customers, as the group seeks to maintain its margins.

In 2015, as in previous years, the product which contributed most to the group's revenue was PVC. Although the sales from the Palos de la Frontera factory are no longer included, sodium hydrochloride continues to contribute the second most to consolidated revenue. Third place was held by paraformaldehyde, despite the drop in sales in 2015. These three products represent 34.7% of all sales.

The product which experienced the most significant year-on-year growth was fusidic acid (42.3%), from the pharmaceuticals division, followed by pentaerythritol (30%) and moulding powder (27.6%), both from the intermediate chemicals division.

Income in 2015 amounted to EUR 627.21 million, up 3.4% on 2014. The EUR 20.41 million increase in income between 2014 and 2015 is mainly a result of the aforementioned increase in sales (EUR 14.6 million), however, the increase in "Other operating income and changes in inventories" also had an impact (EUR 5.81 million).

c) Expenses

In 2015 expenses amounted to EUR 594.59 million, up 0.4% on 2014. Increased growth in expenses corresponds to "Other operating expenses", which includes the EUR 8.71 million rise in electricity costs. This significantly higher cost was partially offset by the healthy performance of procurements, which together fell 3.2%, due mainly to lower ethylene and methanol prices.

Electricity, methanol and ethylene are the commodities which have the greatest impact on the group's costs. These 3 products represent 53.1% of the total amount of consolidated purchases and more than 40% of all costs for the chlorine-sodium hydroxide, formaldehyde, and PVC manufacturing processes.

The product which grew the most in 2015 was cyanuric acid (54%), however the increase in the price of electricity (25.1%), due to its impact on costs, had the most significant adverse effect on the group's ebitda. In contrast, the prices of phenol and EDC dropped 30.6% and 18.1%, respectively ethylene (17.8%) and methanol (11.9%) also fell significantly which, as we stated earlier, have a significant impact on the group's expenses.

"Other operating expenses" includes, in addition to supplies, other costs arising from the dismantling of obsolete plants and ground treatment, maintenance costs, facility and equipment leases, etc. In total, "Other operating expenses", amounting to EUR 213.51 million, increased 11% with respect to 2014. If we exclude supplies, the increase was only EUR 2.25 million and was due, mainly, to the provisions for impairment losses on accounts receivable made by the group in order to cover the possible insolvency of customers affected by the current crisis in emerging countries.

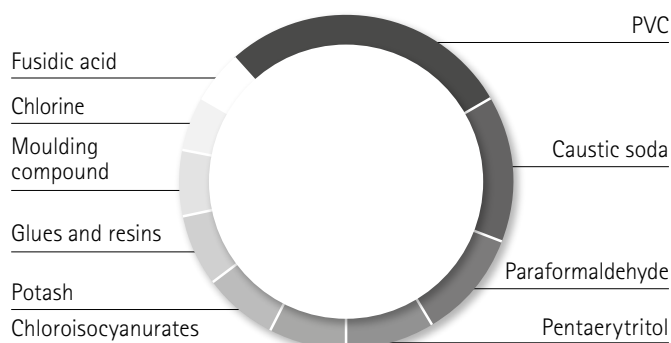
Between 2014 and 2015, the percentage impact of procurements and supplies on the group sales improved almost two percentage points from 67% to 65.3%.

Staff costs amounted to EUR 79.86 million, an increase of 1.3%, with respect to 2014, mainly due to the partial recovery of the salary freeze agreed in prior years. In 2015 the Ercros group's average headcount was 1,369 people, 1% lower than in 2014.

At the first signs of the recent economic crisis, the group began implementing various restructuring plans aimed at lowering fixed expenses and improving profitability. Between 2007 and 2015, fixed expenses have decreased by EUR 59.26 million, which is equivalent to 29% of the group's initial expenses. However, the impact of these significant efforts was erased due to the marked increase during this period in the price of electricity, which became 76.5% more expensive.

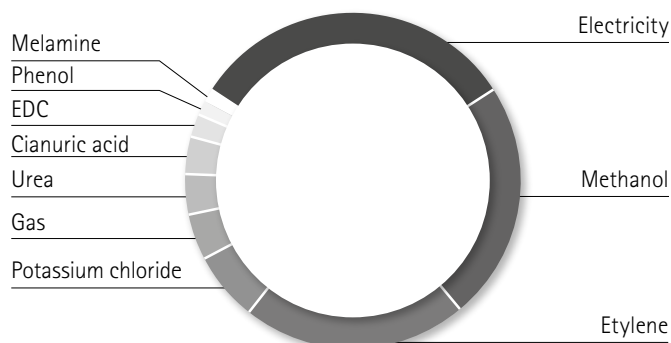
Top 10 products

% OF TURNOVER IN 2015



Top ten supplies

% ON PURCHASES IN 2015



d) Results**(j) Consolidated results**

Greater growth in income, compared to that of costs resulted in a notable upturn in the group's margins and results. Consequently, ebitda grew 125.9% from EUR 14.44 million in 2014 to EUR 32.62 million in 2015, a positive difference of EUR 18.18 million.

In both years, the ebitda to sales ratio increased from 2.4% to 5.3%, and improvement of nearly three points.

After taking into account amortisations and depreciation, which increased 5.2%, ebit stood at EUR 12.75 million, compared to the negative ebit of EUR 5.01 million in 2014.

Financial loss amounted to EUR 6 million, a 20% improvement due to low interest rates applied, the positive impact of exchange rates and the decrease in debt.

In 2014 "Results from discontinued operations", corresponded to the results from the manufacture and sale of phosphates for animal feed, the sale of which occurred in April of that year.

This gave rise to profit of EUR 7.24 million in 2015, compared to the EUR 6.29 million loss in 2014, representing a EUR 13.53 million improvement.

This difference is even more significant bearing in mind that in 2014 the group recognised income of EUR 5.41 million under "Taxes" due to the lowering of the corporate income tax rate from 30% to 25%. In 2015 "Taxes" amounted to EUR 0.49 million.

Income statement

EUR MILLION

	Year 2015	Year 2014	Change (%)
Income	627.21	606.80	3.4
Revenue	618.27	603.67	2.4
Other operating income and change in inventories	8.94	3.13	185.6
Expenses	-594.59	-592.36	0.4
Procurements	-301.22	-311.04	-3.2
Employee benefits expense	-79.86	-78.81	1.3
Other operating expenses ¹	-213.51	-202.51	5.4
Ebitda	32.62	14.44	125.9
Amortization expense	-19.87	-18.89	5.2
Impairment of assets	0.00	-0.56	-
Ebit	12.75	-5.01	-
Finance costs	-6.00	-7.50	-20.0
Profit/loss before tax	6.75	-12.51	-
Profit/loss from discontinued activities	0.00	0.81	-
Taxes	0.49	5.41	-90.9
Profit/loss for the year	7.24	-6.29	-

¹ Includes supplies by an amount of EUR 102.41 million in 2015 and EUR 93.76 million in 2014.

(ii) Results for the business group associated with chlorine

The positive evolution of the price of sodium hydroxide and the improved margins for PVC are the main reasons behind the 1.8% growth in the revenue for the business group associated with chlorine between 2014 and 2015, which otherwise has been adversely affected by the sale of the Palos de la Frontera factory and the Salina of Huelva.

PVC's positive performance in 2015, both in terms of income and production costs which benefited from a drop in the prices of its main raw materials, EDC and ethylene, enabled this group to significantly improve its ebitda, recognising a sixfold year-on-year increase from EUR 2.22 million in 2014 to EUR 13.69 million in 2015. This despite the notable increase in the price of electricity, which made the production of chlorine –the product which unites the activities of these businesses– significantly more expensive.

In 2015 no impairment loss had to be recognised for any asset of this business group, compared to the EUR 16.18 million recognised in 2014. This, together with the increase in ebitda, gave rise to a EUR 23.71 million improvement on results for the year.

(iii) Results for the intermediate chemicals division

The impact which the slowdown of the emerging markets has had on paraformaldehyde, the intermediate chemicals division's primary product, is the main reason for the drop in this business' revenue (-1%). This decline in activity was mitigated by an increase in sales of pentaerythritol and moulding powder, which were positively affected by the euro/dollar exchange rate.

With regard to costs, the intermediate chemicals division benefited from a drop in the prices of phenol and methanol, two of the main raw materials, which led to a EUR 2.55 million improvement in ebitda, which increased from EUR 9.29 million in 2014, two of EUR 11.84 million in 2015.

This improvement is also reflected in the 2015 results which stood at EUR 6.92 million, 49.1% higher than in 2014.

(iv) Results for the pharmaceuticals division

In 2015 the pharmaceuticals division continued to grow as it has in recent years.

Sales increased by 24.6%, thanks to the positive performance of the business' main products, led by fusidic acid, and the appreciation of the dollar with respect to the euro.

The exchange rate, however, had an adverse effect on costs due to the significant impact purchases made in dollars has on this division. However, the positive performance of costs as a whole and, above all, the activity's strength, led to a significant increase in the business' margin. Consequently, ebitda increased from EUR 2.93 million in 2014 to EUR 7.09 million in 2015, a positive difference of EUR 4.16 million.

However, there was no improvement recognised in the division's final result (which stood at EUR 16.79 in 2014, compared to EUR 4.32 million in 2015), since in 2014 income of EUR 50.62 million was recognised in relation to the reversal of impairment of assets.

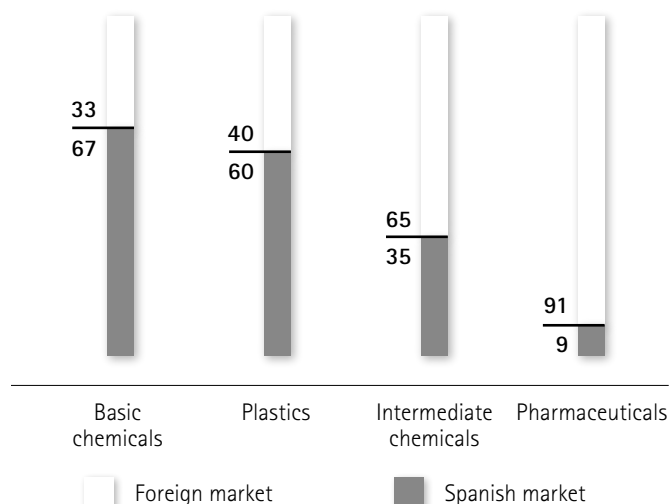
Statement of comprehensive income by divisions

EUR MILLION

	Chlorine related businesses			Intermediate chemicals division			Pharmaceuticals division		
	Year 2015	Year 2014	Change (%)	Year 2015	Year 2014	Change (%)	Year 2015	Year 2014	Change (%)
Total income	385.11	378.29	1.8	184.33	186.18	-1.0	48.83	39.20	24.6
Ebitda	13.69	2.22	516.7	11.84	9.29	27.4	7.09	2.93	142.0
Depreciation Et amortization expense	-13.30	-13.42	-0.9	-4.03	-3.86	4.4	-2.54	-1.61	57.8
Impairment/reversion of assets	0.00	-16.18	—	0.00	0.00	—	0.00	15.62	—
Ebit	0.39	-27.38	—	7.81	5.43	43.8	4.55	16.94	-73.1
Finance costs	-4.66	-4.59	-29.8	-1.06	-2.41	-29.8	-0.28	-0.50	-29.8
Profit/loss before tax	-4.27	-31.97	-86.6	6.75	3.02	123.5	4.27	16.44	-74.0
Taxes	0.27	3.45	-92.2	0.17	1.62	-89.5	0.34	0.34	0.0
Profit/loss from discontinued operations	0.00	0.81	—	0.00	0.00	—	0.00	0.00	—
Profit/loss for the year	-4.00	-27.71	-85.6	6.92	4.64	49.1	4.32	16.78	-74.3
Assets	283.93	289.10	-1.8	179.40	181.50	-1.2	48.02	50.12	-4.2
Liabilities	228.09	230.81	-1.2	74.07	82.27	-10.0	33.58	39.45	-14.9
Investments in fixed assets	3.13	2.38	32.4	4.46	1.83	143.7	2.76	1.53	80.4

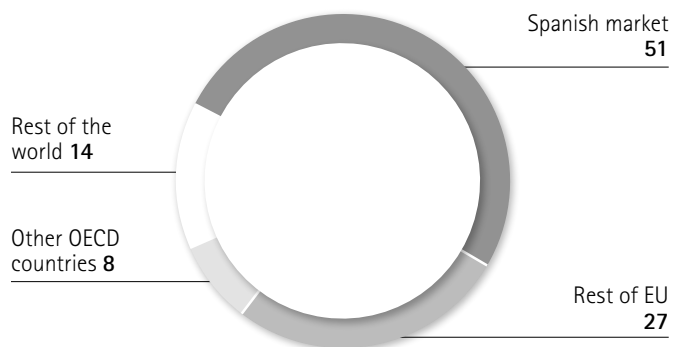
Markets of the business

% OVER EACH DIVISION'S SALES IN 2015



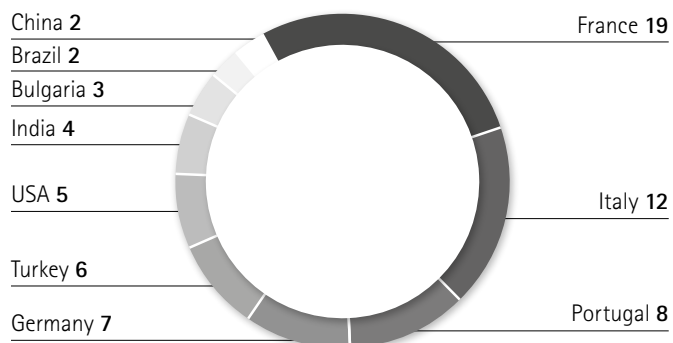
Sales by markets

% OVER TOTAL SALES IN 2015



Top ten destinations

% OVER EXPORTS IN 2015



e) Markets

Sales for the Ercros group in 2015 increased both in the Spanish, as well as the foreign market. Sales in Spain amounted to EUR 317.7 million, representing 51.4% of all sales, 2.6% up on 2014. Exports, amounting to EUR 300.5 million (48.6% of the total), increased 2.2%.

PVC led the surge shown by the Spanish market. The recovery of civil construction in Spain enabled sales to be made, which otherwise would have been made abroad, with tighter margins.

In contrast, the other businesses increased their sales abroad and reduced those made in Spain, mainly due to the competitiveness their products gained thanks to the appreciation of the dollar against the euro. Exports in the basic chemicals and intermediate chemicals divisions saw moderate growth, however, this was not the case in the pharmaceuticals division, which improved its sales abroad by 31.2%.

The main market for the basic chemicals and plastics divisions is the domestic market where they make 66.5% and 59.9% of their sales, respectively. However, the international market is the main market for the other two divisions (intermediate chemicals and pharmaceuticals) where they earn 64.7% and 90.7% of their respective revenue.

The market segment which performed strongest was the OECD, with Turkey and the USA in the lead, recording a 24.2% increase in sales with respect to 2014. This represents 8.1% of the group's total sales.

Despite a certain loss of relative weight, the EU continues to be Ercros' main market abroad. Sales in this market decreased by 2.3%, yet continue to represent 26.9% of all sales. France, Italy, Portugal and Germany are the primary destinations for the group's exports in this area.

The crisis in the emerging markets has weakened the group's sales in the rest of the world, which in 2015, came to a practical standstill. This area accounts for 13.6% of total revenue and the primary destinations are India, Brazil, China and Russia.

In fact, because of the decline in sales in Russia, said country is no longer one of the primary destinations for sales of the Ercros group. Its baton was picked up by Bulgaria, which for the first time is included in the aforementioned ranking, placing eighth in front of Brazil and China.

f) Exchange rate

In order to mitigate exchange rate risk, the Ercros group attempts to balance its sales in dollars, with its purchases in said currency.

In 2015 the euro continued to depreciate against the dollar, a process which began in the second half of 2014. As a result, the average exchange rate went from 1.33 euro/dollar in 2014 to 1.11 euro/dollar in 2015. As a result of this exchange rate, the group's results improved by EUR 8 million between 2014 and 2015.

The euro's devaluation improved the group's competitiveness with regard to sales in the dollar area, however, this improvement was diminished by the decline in sales in China, one of the main customers in the area. Consequently, although between 2014 and 2015 sales in dollars decreased, the difference in the exchange rate caused its equivalent in euros to rise.

Net sales minus purchases in dollars amounted to DOL 58.96 million in 2015 (DOL 31.81 million in 2014). The intermediate chemicals division benefited the most from this situation, due to the large amount of sales it performs in dollars, compared to the purchases it makes in this currency.

Sales in dollars amounted to DOL 94.38 million (DOL 107.79 million in 2014), representing 13.8% of consolidated sales (13.6% in 2014).

As regards purchases, those made in dollars amounted to DOL 35.42 million (DOL 75.98 million in 2014), representing 7.9% of the total procurements and supplies made by the group (14% in 2014).

The following is a table summarising summarizing the purchases and sales in dollars made by Ercros:

	Year 2015	Year 2014
Sales in dollars (million)	94.38	107.79
<i>Euro/dollar exchange</i>	<i>1.11</i>	<i>1.32</i>
Equivalent in euros (million)	85.24	81.87
Purchases in dollars (million)	35.42	75.98
<i>Euro/dollar exchange</i>	<i>1.11</i>	<i>1.34</i>
Equivalent in euros (million)	32.02	56.72
Transactions net balance in dollars	58.96	31.81
Equivalent in euros (million)	53.22	25.15

The group believes that in the current economic environment, the euro will maintain its value against the dollar, so it does not consider necessary any coverage in net exposure presenting the dollar.

2. Key indicators

Indicators ¹	Year 2015	Year 2014
Financing		
Liquidity	0.98	0.90
Solvency	0.98	0.92
Indebtedness	0.52	0.59
Debt coverage	2.80	6.89
ROCE (%)	4.16	-1.65
Average collection period (days)	68.00	79.20
Average payment period (days)	70.70	78.10
Operating		
Production (millions of tons)	2.13	2.21
Added value (EUR million)	112.48	98.18
Productivity (EUR/person)	82,162.16	70,990.60
Gross margin/sales (%)	51.97	48.74
Ebitda margin/sales (%)	5.28	2.39
Stock exchange		
Quoted market value (EUR/share)	0.62	0.39
Capital value (EUR million)	70.28	44.12
EPS (EUR)	0.06	-0.06
CFA (EUR)	0.12	0.09
PER	9.71	–
PVC	0.40	0.26
Social		
IF	1.67	3.24
Global IFG	3.03	4.80
Absenteeism	4.17	3.11
Emission index	1,058	1,133
Emissions of CO ₂ (millions of tons of equivalent CO ₂) ²	0.65 ³	0.65
Quality certification activity (%)	100.00	100.00
Environmental certification activity (%)	100.00	100.00
Prevention certification activity (%)	100.00	100.00

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

² Direct and indirect emissions of equivalent CO₂ (tier 1 and 2).

³ Pending external verification.

3. Environmental issues

a) Objective

The objective of environmental management in the group is the prevention of pollution, gradually reduce emissions and solid waste generated, reduce the environmental impact caused by its activities, through innovation in production processes, and achieve a more rational use of energy by implementing the latest technologies and incorporating improvements in production systems. This 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 provides the framework that governs its actions on sustainability and aims to protect people and the environment, and other mainstays such as product stewardship and customers' satisfaction. Sustainability policy is developed in the sustainability reference guide, which sets the basic guidelines of the management system and from which the general corporate procedures lead and constitute the foundation upon which specific documents from each centre are defined.

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 (customer service line "LAP")

The body responsible for ensuring sustainability is Ercros committee for sustainable development ("Cedes").

c) Management and certification systems

The group applies a sustainability management system that is certified and verified annually by an accredited company, based on the specific reference standards in environmental matters:

- UNE-EN ISO 14001:2004 standard. Since April 2009, all of the group's industrial facilities have been certified in accordance with this standard.
- The European registration system eco-management and audit scheme ("EMAS"). Currently all of the factories are registered, except for the Almussafes, Cerdanyola and Flix factories. Registration of the Aranjuez factory has been suspended until certain deficiencies are remedied.

In addition, the group uses other management systems with an environmental impact in its productive facilities which are also certified and verified annually by an accredited company, based on the following standards:

- UNE-EN ISO 14064-1:2012 standard on specifications for the quantification and declaration of greenhouse gas emissions. Certification under said standard has been in place since 2015 and the group's carbon footprint as an organisation is calculated based on its application.
- UNE-EN ISO 50001 standard on energy management systems which has been implemented in the Vila-seca I, Vila-seca II, Sabiñánigo and Tarragona factories and which will be progressively implemented in the remaining factories.

d) Achievements

The group upheld its commitment to continually improve its environmental objectives with the following achievements in 2015:

- Emissions decreased 6.7% year on year. Direct greenhouse gas emissions did not change between 2014 and 2015.
- Compliance with the Responsible Care programme was 99.2%.
- The group improved by 6% in the CDP ranking, which evaluates the quality and the thoroughness of the information provided by listed companies with respect to their greenhouse gas emissions. In relation to the transparency of information, the group received a score of 87 points out of 100, five points higher than in 2014 and three points higher than the average for its sector.

e) Lawsuits and risks

The following are new significant lawsuits and updates in relation to the main lawsuits pending resolution in 2015:

- On 22 January 2015, Ercros filed a complaint with the administrative court against the Secretary of the Environment and Sustainability of the Autonomous Community Government of Catalonia, after the Superior Court of Justice of Catalonia partially dismissed the appeal for judicial review filed by Ercros in relation to the decision of the aforementioned administrative body, requiring a guarantee for waste management at the Tortosa factory and the imposition of new total organic carbon ("TOC") limits at two emission sources as a condition for renewing the integrated environmental licence for said factory. On 18 December 2014, Ercros prepared its closing statements while the administrative body against which the complaint was filed did so on 20 January 2016. The vote and related decision regarding the proceedings have yet to be heard.
- On 2 March and 20 October 2015, Ercros was informed of the imposition of two sanctions for serious breaches of the formaldehyde emission limit at the Cerdanyola factory for a minimum amount of EUR 20,000. As yet, no evidentiary proceedings have begun for the appeal filed by Ercros before the Superior Court of Justice of Catalonia on 11 February 2014 in relation to the decision of the Autonomous Community Government of Catalonia which imposes a limit on the emission of formaldehyde of 20 mg/m³ at the Cerdanyola factory based on the fact that the autonomous community and state regulations in force do not establish one.

In relation to this complaint, Ercros began a judicial review proceedings before the Superior Court of Justice of Catalonia in relation to the decision of the Secretary of the Environment and Sustainability of the Autonomous Community Government of Catalonia in relation to the non-substantial modification of the integrated environmental licence for the Cerdanyola factory consisting of the unification of the sources of emissions of gases into the atmosphere. As in the previous case, Ercros is appealing the limit on formaldehyde emissions included in the decision. These proceedings are currently in the stage in which evidence is being taken.

- On 3 February 2015, Ercros filed a complaint before the Court of First Instance number 36, of Barcelona for damages arising from the agreement entered into with Acuamed and the Flix Municipal Council, through which Ercros granted the use of its waste tip to this municipality.
- On 2 March 2015, Ercros filed an appeal for judicial review in relation to the dismissal of the request for nullity of the approval of the non-substantial modification of the integrated environmental licence for the Solvin Spain plant in Martorell,

related to the increase in the capacity of the mercury cells in the electrolytic process. The appeal is awaiting a response from the Catalan authorities.

- On 7 July 2015, the Supreme Court handed down a ruling against the cassation appeal filed by the environmental group Fundación Oceana confirming the decision of the Superior Court of Justice of Catalonia in favour of the interests of the Ercros group in relation to concession of the integrated environmental licence for the electrolysis plants using mercury technology at the Flix and Vila-seca I factories.
- On 16 September 2015, Ercros filed its closing statements regarding the objection to the provisional liquidation of the water charge for the Flix factory for 2012. The objections corresponding to 2010 and 2011 have yet to be heard.
- In February 2015, the Agència Catalana del Agua upheld the appeal filed by Ercros in relation to the *ex officio* review of the water charge for the Flix factory corresponding to 2013, which used figures unfavourable for the group to correct the charge. Several days later, the review for the 2014 charge was received which used the same criteria which caused Ercros to submit pleadings on 29 May 2015.
- On 5 October 2015, Ercros filed its closing statements in relation to the appeal for judicial review it filed before the Supreme Court of Justice of Andalusia in relation to the dismissal by the Andalusian government of Ercros' appeal in relation to the extraordinary extension of the validity of the three public maritime land concessions affecting the Salina of Huelva, which has been sold. The Autonomous Community Government of Andalusia has not filed its closing statements.

In relation to this matter, on 25 June 2015, the Huelva Territorial Office of Agriculture, Fishing and the Environment of the Autonomous Community Government of Andalusia issued a notice declaring the extinction of the right held by Ercros to occupy public maritime land. On 17 July 2015, the company filed a brief requesting that the proceedings be closed, which at the date of approval of this report had yet to be resolved.

- On 19 November 2015, the Department of the Environment and Regional Planning of the Autonomous Community Government of Andalusia opened, at the request of the state prosecutor's office, an investigation of Ercros related to an alleged environmental crime perpetrated between 2008 in 2015, in the Palos de la Frontera factory which has been sold. Ercros presented the information as requested in the time period provided and, to date, has received no response from the authorities.

The environmental risks inherent to the group's activity are described in section 5.1 a) (i) below.

In 2015 the group recognised provisions to settle any possible liabilities related to environmental actions amounting to EUR 27.06 million (EUR 26.23 million in 2014).

Among said actions, of particular note is the land remediation carried out at the Flix, Vila-seca I, Vila-seca II and Palos de la Frontera factories (the latter of which was sold in 2015) and that of El Hondón (where the former Cartagena factory is located), as well as the recuperation of the Terrera Nova waste tip in Cardona [See Chapter 2.3 f) (ii) above].

Before 2018 the group must also undertake the closing of the electrolysis plants which produce chlorine and sodium hydroxide which operate using mercury technology (100% of the chlorine production capacity at the Flix factory and 71% of the chlorine production capacity at the Vila-seca II factory) [See chapter 5.1 a) (ii) below].

f) Public incentives, grants and deductions

The expenses incurred by the group for the protection and improvement of the environment in 2015 amounted to EUR 16.41 million (EUR 16.42 million in 2014).

In 2015 grants for greenhouse gas emission allowances amounted to EUR 1.9 million (EUR 1.41 million in 2014).

At 2015 year end, the group has incentives and tax credit carryforwards for investments in environmental protection accrued between 2002 and 2006 totalling EUR 1 million (EUR 1.36 million in 2014).

4. Headcount matters

a) Management model

The group has developed and consolidated a human resources management model, which is identical across all of its centres, and in line with the industrial reality and business environment in which it performs its activities.

The purpose of this model is to enable the men and women who work for the group to develop, without restrictions, their human potential and adapt their training level to the needs of the business.

b) Headcount evolution

Between 31 December 2014 and 31 December 2015, the number of Ercros staff decreased by 28 people from 1,377 to 1,349 as a result, mainly, of the sale of the Palos de la Frontera factory in June 2015. In 2015 the average number of staff was 1,369 people, 1% lower than in 2014.

c) Headcount structure

With respect to 2014, the reduction in staff did not give rise to any changes in the staff structure, either in relation to employment categories or gender.

Operators and service staff represent 42% of the total average headcount; technical staff, 43% and administrative staff 15%. Women represent 14% of staff and primarily perform technical and administrative tasks.

d) Gender diversity and equal opportunities

The group does not discriminate based on gender in the hiring process or in its wage and functional policies. Despite this, the number of women differs from the desired amount. The group expects that the implementation of the equality plan and the generational handover will enable it to move closer to gender parity.

The equality committee, comprised of representatives from the group's management and social agents, is responsible for promoting equality and non-discrimination in the group and to supervise compliance with the equality policy.

The Ercros group meets its goal of hiring 2% of staff with a disability greater than or equal to 33%. This percentage is covered through (i) direct hiring in 2015 –there were 14 people in this situation on the group's staff (16 people in 2014)– and (ii) contracting services from special employment centres.

e) Development, promotion and training

Training is an important part of the group's activity. The areas which receive the most attention are prevention, the environment and personal and professional development.

In 2015 the group coordinated 380 training actions, which were attended by 4,838 people and entailed 28,798 educational hours. Of these actions, 79 courses received a subsidy through the Fundación Tripartita para la Formación en el Empleo (a Spanish state foundation which promotes employment), which were attended by 680 people for a total of 10,058 educational hours. The credit available for the subsidy for training actions in 2015 was EUR 170,822.87, of which 59.4% was used.

Average training time per person was 21 hours. In the case of subsidised courses, the average was 7.4 hours

The group has signed 51 agreements with educational centres to conduct employment training at its work centres. In 2015, 52 professional training, undergraduate and graduate students availed themselves of this option.

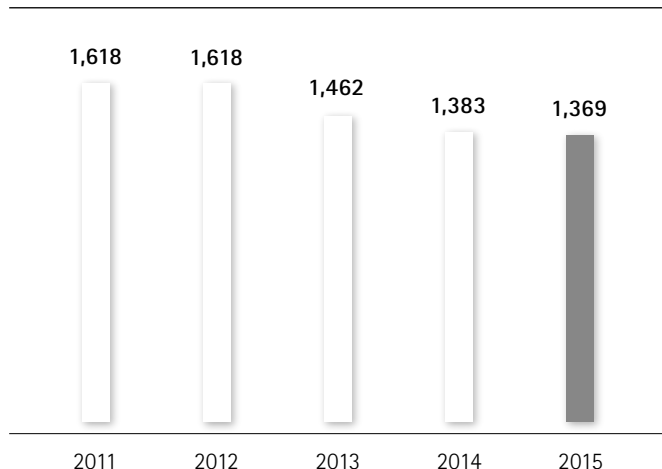
f) Prevention

In 2015 the overall accident frequency ratio, which measures the number of accidents –with and without leave– of internal and external staff for every 1 million hours worked, was 3.0 (4.8 in 2014). This is 36.2% less than the average ratio for the last five years. As a result, the Ercros group has once again returned to the trend of a decline in accidents prevalent in recent years, which was temporarily interrupted in 2014, recording the lowest figure ever from the group in its current configuration.

Absenteeism due to common illness was 4.2%, compared with 3.1% in 2014. The rise in absenteeism comes on the heels of four consecutive years in which the ratio had stabilised around 3%. In order to lower absenteeism rates, the Ercros group has begun to analyse its causes and based on the conclusions reached, will implement corrective actions.

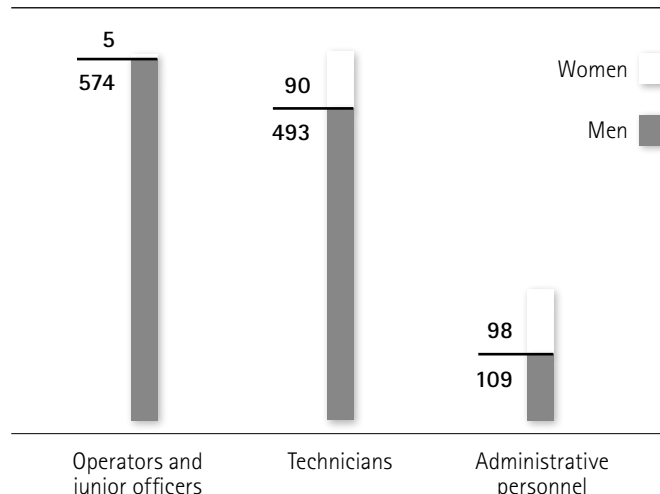
Evolution of the average headcount

NUMBER OF EMPLOYEES



Distribution of the headcount by gender

NUMBER OF EMPLOYEES



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 coverage:

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

ROCE:

- Calculation: 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: ebitda + personnel costs.
- Purpose: measure the wealth generated by the group.

Productivity:

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

Gross margin ÷ sales:

- Calculation: (income – supplies) ÷ sales.
- Purpose: evaluate the profitability of the group's product portfolio.

Ebitda margin ÷ sales:

- Calculation: ebitda ÷ sales.
- Purpose: measure the proportion between sales and operating gains obtained.

Quoted market value:

- 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:

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

CFA:

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

PER:

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

PVC or P/BV:

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

IF:

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

Global IFG:

- Calculation: number of accidents with or without leave of own and third-party personnel × millions of worked hours.
- Purpose: measure the ratio of total accidents, with or without leave, suffered by all the people working in the group's factories, 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 index:

- 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.

Emissions of CO₂:

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

Quality certification activity:

- 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.

Environmental certification activity:

- 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.

Prevention certification activity:

- 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.

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

1. Economic analysis of the balance sheet

For enhanced analysis and comparison, as a management tool, the group conducts an economic analysis of the balance sheet, which is obtained by reclassifying certain figures on the consolidated statement of financial position in order to reduce the number of operating aggregates.

The evolution of the balance sheet, presented below, shows a EUR 7.64 million reduction in non-current assets due to an increase in the depreciation and amortisations charge and to the control of investments made, and an increase in working capital of EUR 10.79 million due, mainly, to a reduction in balances with suppliers.

The EUR 7.69 million increase in the company's equity is a results of the profit obtained and the share capital increase carried out in the beginning of 2015. On the other hand, the EUR 8.29 million reduction in net financial debt is due, on the one hand, to repayment of long-term debt amounting to more than EUR 20 million and, on the other hand, to the increased draw down against the syndicated factoring. At 2015 year end, the net financial debt amounted to EUR 91.23 million.

Economic analysis of the balance sheet

EUR MILLION

	31-12-15	31-12-14	Change (%)
Non-current assets	255.86	263.50	-2.9
Working capital	50.59	39.80	27.1
Current assets	179.05	180.86	-1.0
Current liabilities	-128.46	-141.06	-8.9
Applied funds	306.45	303.30	1.0
Equity	175.88	168.19	4.6
Net financial debt¹	91.23	99.52	-8.3
Long term loan	42.77	42.33	1.0
Short term loan	98.37	106.35	-7.5
Debit balances	-49.91	-49.16	1.5
Provisions and other borrowings	39.34	35.59	10.5
Origin of funds	306.45	303.30	1.0

¹ 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 28.29 million in 2015, and EUR 29.10 million in 2014).

2. Liquidity

To manage its liquidity risk, the group uses financial planning techniques which take into account cash inflows and outflows for ordinary activities, investments and financing.

The objective of the group is to maintain a balance between the flexibility, term, and conditions of the source of financing contracted based on the expected requirements at short, medium and long term.

The group's financing is subject to compliance with a series of obligations and financial ratios, which in 2015, were appropriately fulfilled.

At 31 December 2015, current liabilities which amounted to EUR 231.3 million, were EUR 4.34 million greater than current assets which amounted to EUR 226.96 million (EUR 24.1 million at 31 December 2014).

However, taking into consideration that the company has classified as a current liability the debt corresponding to the syndicated factoring, amounting to EUR 81.03 million at 31 December 2015, in force until 31 October 2017, and a credit limit of EUR 102.15 million, which is therefore a long-term transaction, the company's directors believe that the cash flows included in the business plan, together with the financing available through the aforementioned factoring, will allow them to settle current liabilities and will be sufficient to finance operating activities and investments, as well as to cover the debt service.

As shown, between 2014 and 2015, the difference between current and non-current assets decreased by EUR 19.36 million. In addition, in 2016 the group must repay debt amounting to EUR 10 million, representing half of the debt repaid in 2015.

a) Main sources of financing

In 2015 the group used the following financing sources:

(i) External

- The group increased the drawdown limit on the factoring facility with syndicated recourse enabling the group to obtain working capital facilities amounting to EUR 102.15 million. At 31 December 2015, the balance drawn down against this facility was EUR 81.03 million, as compared with the EUR 68.60 million in 2014. The interest rate applied is 1-month Euribor plus a spread of 3.5 points.
- The loan granted by the Institut Català de Finances ("ICF") was extended by 18 months until June 2020, pursuant to the agreement reached in the first half of 2015. At 31 December 2015, the balance of said loan was EUR 14.50 million. The agreement also reduced the amounts set to be repaid in 2015,

2016 and 2017 to EUR 1.90 million, EUR 0.97 million and EUR 0.83 million, respectively, which will now be repaid in 2018, 2019 and 2020 of the notes the consolidated financial statements.

- Financing agreements with suppliers amounting to EUR 1.39 million.
- Agreements with the Social Security administration to delay payment of its debts amounting to EUR 1.2 million.
- Drawdown of the BIP credit facility with American Express for financing of suppliers amounting to EUR 0.9 million.
- Share capital increase subscribed and paid by YA Global Dutch, B.V., within the framework of the agreement with the American fund Yorkville Advisors, LLC, for a total amount of EUR 0.75 million. This agreement was terminated in 2015.
- The group is confident that, as has been the case until now, if new investment opportunities arise at any productive facility, in order to meet its expectations for growth, it could rely on suppliers or customers of the beneficiary products for financing.

(ii) Internal

- Unrestricted cash flows from the businesses' operating activities. In 2015 the cash flow obtained from the group's operating activities was EUR 14 million (EUR 9.82 million in 2014) [table of the consolidated statements cash flow from the consolidated financial statements].
- The disposal of non-strategic assets. On 2 June 2015, Ercros and Salinas del Odiel formalised the sale and purchase of Electroquímica Onubense, an Ercros subsidiary which owned the Palos de la Frontera factory and held the concession of the Salina of Huelva for EUR 3.95 million. No gains or losses were generated on this transaction.

With the financial resources obtained, the group repaid financial debts and made interest payments for an aggregate amount of EUR 30.25 million in 2015. Thus, it was able to reduce net financial debt by EUR 8.29 million between 31 December 2014 and 31 December 2015. Likewise, the group has reduced its average payment period to suppliers by 7.4 days.

b) Restrictions on the payment of dividends

The syndicated factoring agreement contains certain restrictions, such as the group's obligation not to approve or make payments to its shareholders, for dividends, the return of contributions due to share capital reductions, the distribution of any type of reserves,

including in the form of a principal repayment or the payment of interest, fees or any other item of any type of debt arranged with its shareholders.

The aforementioned agreement also contains a series of obligations (including, compliance with certain financial ratios regarding minimum equity, maximum investments and the ratio between financial debt and ebitda), which, at 31 December 2015 had been appropriately fulfilled.

c) Level of borrowings

Between 31 December 2014 and 31 December 2015, the ratio of net financial debt to the sum of equity plus net financial debt, which enables the company's level of debt to be measured in relation to the resources available and, therefore, the group's solvency, improved from 0.37 to 0.34 due to the reduction of its financial debt in 2015 and the increase of its shareholders' equity.

In this same period, the ratio of net financial debt to ebitda improved significantly from 6.89 to 2.80 as a result of the increase in ebitda between 2014 and 2015 and the decrease in net financial debt. A reduction which reflects clearly the significant improvement in the group's ability to settle its debts.

The group is confident that it will continue to reduce the level of debt in the coming years, thanks to:

- The partial and selective disposal of assets not used in operations.
- The increase in cash flows from its ordinary operations to the extent that the recovery of the economy, the euro/dollar exchange rate and low oil prices continue to bolster the profitability of the group's ordinary activities.

d) Default

In compliance with article 262 of the LSC, at 31 December 2015, the average payment period to suppliers was 70.7 days (78.1 days at 2014 year-end), representing a decrease of 7.4 days between the two years.

At 31 December 2015, payments exceeding 60 days represented 40.9% of all payments made (45.8% in 2014).

The Ercros group expects that the cash generated from its current activities will enable it to continue reducing the percentage of payments which exceed 60 days in line with the reduction between 2014 and 2015.

3. Capital resources

The group manages capital resources in accordance with a policy of financial prudence and maintaining a high level of solvency.

Between 31 December 2014 and 31 December 2015, equity increased by EUR 7.69 million as a result of the positive impact of the results obtained and the share capital increase carried out at the beginning of the last year.

a) Firm commitments to obtain capital resources

There are no firm commitments to obtain new capital resources.

The group is finalising negotiations to arrange a line of credit for receivables in dollars for a maximum amount of EUR 10 million.

b) Investment commitments or mandatory investments

In 2015 investments amounted to EUR 10.37 million, compared to EUR 5.74 million in 2014.

Among the investments authorised, which were pending execution or in progress at year end, the following stand out for their total amount: (i) of those aimed at increasing production capacity, the new hydrochloric acid and sodium hypochlorite plants at the Vila-seca I factory, amounting to EUR 7 million and the new sterile fosfomycin plant at the Aranjuez factory amounting to EUR 3.30 million and (ii) of those aimed at maintaining production capacity, the new steam boilers at the Vila-seca II factory, amounting to EUR 3.60 million; the integration of the computer systems throughout the entire group, amounting to EUR 2.06 million; the compression of process vapours at the Tortosa factory, amounting to EUR 1.85 million and the formaldehyde emissions treatment system at the Cerdanyola factory, amounting to EUR 1.70 million.

At 31 December 2015, there were investment commitments amounting to EUR 10.4 million (EUR 6.65 million in 2014).

The group has commitments related to the modification of certain industrial facilities, although there is no set time frame for execution. The cost of these actions is difficult to quantify, although it is not expected to be significant.

Until 2018, the Ercros group expects investments to stand at approximately EUR 12 million annually, the estimated amount necessary to carry out the actions contained in the 2018 strategic plan which is currently in the review phase.

The purpose of the actions, which are still being studied, is to offset the negative impact that the closure of the chlorine and sodium hydroxide plants which use mercury technology at the Flix and Vila-seca I and II factories will have on ebitda and the loss of its main chlorine customer (Covestro), events which will occur at the end of 2017, as explained in chapter 5.1 a) (ii) below. These actions, in relation to which there is as of yet no commitment, should enable the Ercros group to maintain its current presence in the markets in which it carries out its business associated with chlorine-related products.

Nor are there any commitments in relation to the investments which the group is considering carrying out in order to increase the production capacity of various plants of the pharmaceuticals division at the Aranjuez factory, which is currently saturated and facing growing demand.

4. Contractual or off-balance-sheet obligations

The group has no contractual or off-balance-sheet obligations which require significant financial resources.

1. Principal risks to which the group is subject

The Ercros group's activity involves various types of risks which are classified into different types, according to the criteria that the group considers most appropriate for the efficient management thereof. In this respect, not all of the activities present the same risks, although on occasions they do share some of them. In general, the Ercros group is subject to operating and financial risks.

The group has the governance bodies necessary to supervise the implementation of the general organisational strategy and perform its duties with the efficacy, objectivity and independence necessary. Ercros also has procedures in place to identify, measure, evaluate, control, and prioritise the risks to which it is exposed, and it has management systems to define the control, monitoring, and reduction or elimination of such risks.

Risks which could jeopardise achieving the objectives of the business strategy, the group's financial flexibility and its solvency are considered significant.

Many of these risks to which the group is subject are inherent to the activities which it carries on, or are the consequence of external factors and, therefore, an attempt may be made to mitigate such risks but it is impossible to eliminate them completely.

Among the main risks which may affect the running of the group, the following are worth noting:

a) Operational risks

During the course of carrying on its business activity, the group is exposed to the following operational risks:

(i) Environmental risk

Although all of the Ercros group's production centres have environmental management systems implemented which enable them to minimise the impact the industrial activity could have on the environment, in the performance of their business activity, the aforementioned centres are subject to risks which might cause environmental damage, such as the accidental emission of harmful substances or fires.

The Ercros group carries out the corresponding official verification controls on its management systems and carries on its business activity in accordance with the emission limits set forth in the applicable laws, relevant licences and in accordance with the voluntary agreements it has signed. In addition, the group has implemented indices to evaluate its overall emissions into the water and the atmosphere and waste generation, enabling it to verify the evolution of its environmental management.

The Ercros group periodically reports on the reduction of emissions achieved in its industrial activity.

(ii) Risks related to changes in regulations

In recent years legal requirements have become more demanding and have given rise to significant changes in the chemical industry, in Europe, Spain and regionally. The Ercros group makes a significant effort to adapt to this new legal framework and performs the activities and actions necessary to comply with the requirements set forth in the various regulations. Specifically legislation and regulations related to the safety of facilities and people, occupational health, environmental protection and the transport, packaging and manipulation of hazardous goods.

On 11 December 2017, the legal period imposed by the EU for the use of mercury technology for the production of chlorine in electrolysis plants ends. From that date, chlorine may only be produced using the best available technology ("BAT"). Currently, the chlorine production capacity using mercury technology comprises 100% of the electrolysis plant at the Flix factory and 71% of the electrolysis plant at the Vila-seca I factory.

As communicated by the company in a significant event reported on 20 January 2016, termination of the authorisation to use mercury technology will coincide with the closure of Covestro's (formerly Bayer) MDI factory in Tarragona, according to the announcement made by said company on 4 December 2015. Since Covestro is the Ercros group's main consumer of chlorine, closure of the aforementioned plant makes the investment the group would have to make in order to replace mercury technology unnecessary [see subsection (vii) below].

Until the end of 2017, the Ercros group will maintain its current chlorine production capacity and, thereafter, the group expects to continue with production at the plants which have already converted their technology, 100% of the capacity of the electrolysis plant at the Sabiñánigo factory and 29% of the current chlorine production at the Vila-seca I factory, and does not rule out the possibility of increasing its chlorine production capacity using membrane technology in the event that said investment is appropriately profitable and has sufficient financing.

(iii) Risk from complaints

The Ercros group has a long history of industrial activity and some of its production centres are more than 100 years old. The group has always complied with and adopted the legislation in force at all times, however, the stricter legal requirements established in recent years and their application, in certain cases retroactively, give rise to the risk that the group may be affected by unlimited liability complaints for the cost of treating or remedying polluted soils and environments or compensation due to occupational diseases.

Specifically, Ercros has complaints open for environmental pollution and has submitted soil remediation and landscape regeneration projects to the competent authorities. In recent months, complaints have increased from former employees or their heirs requesting payment of damages for exposure to asbestos. Complaints have also been filed against Ercros in relation to occupational accidents which occurred in their facilities.

For all of these cases, provisions have been recognised for the amount that the group considers there is a reasonable probability will be recognised by the court and, therefore, it will have to settle.

(iv) Risk of loss of competitiveness

The Ercros group carries on its activity in a global environment into which new competitors are continually entering, competitors which have benefited from looser regulations in their countries of origin, fewer environmental requirements compared to the European market, lower wages and energy costs and by measures in support of development. The cost differential in these countries is a decisive competitive factor when it comes to setting the final price of products. This situation is worsened by the fact that the group's main products are commodities which are subject to stiff competition from emerging markets, such as India and China. Competition from these countries is one of the main risk factors of the intermediate chemicals and pharmaceuticals businesses.

The group must compete in Europe –its primary market after the Spanish market– against competitors, which benefit from lower electricity prices (in the businesses associated with chlorine, this can represent up to 50% of the cost of production) and which have a network of logistics infrastructure, such as, for example, railway transport with international track gauge, which facilitates and reduces the cost of transporting goods.

Against this backdrop, the Ercros group is focusing its strategy on improving productivity, reducing costs, increasing the efficacy of operations and diversifying the business activity towards innovative products with greater added value.

However, what has been traditionally been a factor in the group's loss of competitiveness, the euro/dollar exchange rate, particularly with regard to products from the USA and from countries which use this currency in business transactions, mainly emerging economies, has become a competitive advantage as a result of the dollar's appreciation against the euro during the last year.

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

In general terms, the markets in which the group operates are more active during the second and third quarter of the year, except for August. In recent years, the trend among customers of reducing orders at the end of the year as a result of Christmas vacation and the general desire to reduce their warehouse stocks at the end of the year has become more pronounced.

The products with the most notable seasonal shifts are those used for water treatment –sodium hypochlorite, sodium chlorite and chloroisocyanurates–, use of which peaks in the summer, and PVC, consumption of which is slower in the cold months of the year due to the stoppage in construction. Demand for other products is steady throughout the year.

62% of the group's activity revolves around the production of chlorine and its derivatives. Chlorine and sodium hydroxide are produced in the same process, however, while chlorine, for safety and efficiency reasons is consumed practically in full in the production centre during the manufacture of chlorine derivatives, sodium hydroxide is sold worldwide. The most significant product manufactured from chlorine is PVC, the performance of which is tied to the performance of construction. This fact confers an element of volatility on the price of sodium hydroxide (a chlorine co-product) which has to be taken into account in the projections of for the group's results.

As mentioned in subsection (ii) above, the closure planned for the electrolysis plants which use mercury technology in 2017, will give rise to a significant reduction in the production capacity of chlorine, sodium hydroxide and their derivative products. The group is working towards maintaining its presence in all of its markets and, therefore, the current level of service to its customers, in particular, customers of sodium hydroxide, hypochlorite, hydrochloric acid and PVC.

In any event, the Ercros group believes that the impact that this event will have on ebitda will, in large part, be offset by the growing returns from the intermediate chemicals and pharmaceuticals divisions, due to the continuity of the advantageous environment as a result of the exchange rate, the recovery of the construction sector and the economy in general, both in Spain, as well as in Europe, and due to the lower cost of gas as a result of the drop in oil prices.

(vi) Risk of dependence on commodities

The group is heavily dependent upon certain commodities, the prices of which are subject to cyclical variations, and on occasions, may not be available in the quantities required or within the desired time.

The three main procurements and supplies –electricity, ethylene and methanol– represent 53% of the total amount of consolidated purchases and more than 40% of all costs for the chlorine-sodium hydroxide, formaldehyde, and PVC manufacturing processes.

The Ercros group attempts to pass the variations in costs on to its products, however it is not always able to do so entirely, or when it is able to, there is often a certain delay.

The group tries to mitigate this effect by signing stable agreements with the suppliers of the most volatile commodities and by efficiently managing stock. Furthermore, it tries to negotiate supply agreements with its customers in which the prices are tied to the cost of the commodities.

Therefore, with respect to the cost of electricity, the reform of the energy framework carried out in 2014 led to a significant change in the remuneration system for the interruptibility service and, therefore, Red Eléctrica Española pays large electricity consumers in order to allow it to interrupt the supply of electricity under certain conditions.

According to the new system implemented, remuneration for each consumption point is set through auctions which are held once a year and is valid for the following year. In the first week of September 2015 the auction which awarded the remuneration the company would receive for the interruptibility service in 2016, was held. Because the auctions are annual, the group does not know what remuneration it will receive for this service in the coming years. This uncertainty significantly affects the electrolysis plants due to the high energy consumption they require and the importance of this service to the income these plants obtain.

Furthermore, the price of the MWh consumed in the electrolysis plants is determined according to the daily electricity auctions, which are significantly influenced by the electricity generation structure, such that the price drops when generation of renewable energy is high (wind and hydraulic energy) and rises when the generation of renewable energy is low. This adds a component of uncertainty and variability to the energy costs borne by the group.

However, the drop in total chlorine production, as well as that of the co-produced sodium hydroxide, mentioned in subsection (ii) above, will lead to a more than 50% drop in electricity consumption in 2018 and, therefore, the group will notably reduce its sensitivity to this cost which has increased significantly in recent years.

As regards gas, ethylene and methanol, in 2015 their prices trended downwards in a manner similar to those of the main raw materials, although ethylene showed more rigid behaviour. In any case, the lower purchase price and the increased product supply have reduced the group's dependency on these products.

In general, we can conclude that the current context in which commodity prices have dropped overall will be beneficial for the group to extent that it will reduce natural gas costs, because the price of this material is tied to the euro/dollar exchange rate and the evolution of the crude oil Brent price.

The drop in the price of methanol and ethylene in 2016 will have a limited impact on the value of the products manufactured which were in stock at 2015 year end and which has already been recorded by the group. In general, the Ercros group passes on to its customers both the increases and decreases in the price of these two commodities, given that their value has a significant impact on the final product and forms part of the standard negotiations.

The lower price of these commodities will give rise to a reduction in the financial resources necessary to finance inventories and receivables, as they will both decrease however, the profitability of the products sold by the group is not expected to be effected.

(vii) Risk of customer concentration

Although no client represents more than 5% of the Ercros group's revenue, it is worth noting the importance of Covestro (formerly Bayer) as the consumer of half of the chlorine produced at the Vila-seca I factory. Currently, the group has an agreement with Covestro for the supply of chlorine until 30 November 2017. Covestro's decision to close the MDI plant implicitly entails that the aforementioned supply agreement with the group will not be renewed.

As mentioned in subsection (ii) below, the loss of this customer will coincide with the end of chlorine production with the use of mercury technology. Therefore, the Ercros group will reduce its production capacity and will make between 150 and 200 staff members redundant. It is estimated that the impact of no longer producing chlorine and the associated sodium hydroxide with mercury technology on ebitda will be between EUR 5 and EUR 10 million beginning in 2018, which is expected to be offset by the improvements in the group's other businesses.

(viii) Tax risk

The group tries to minimise the tax risk arising from its activities. To that end, it strives to comply meticulously with its tax obligations, and avoids taking decisions based on aggressive or controversial interpretations of tax regulations. Nor does it attempt to plan its operations based on structures which attempt to minimise the tax charge through companies located outside of Spain. The Ercros group receives advisory services from external tax advisors in order to comply with tax regulations and not assume risks in the interpretation of the regulations.

However, occasionally, the tax authorities use criteria for interpreting the regulations applicable to the activities carried out by the group which give rise to discrepancies with the criteria used by the group.

In this connection, on 20 October 2014, Ercros was notified of the commencement of a general audit in relation to the tax on alcohol and its derivative beverages for 2011 and 2012. Ercros is exempt from the tax on alcohol for all the alcohol it uses to produce medicine at its Aranjuez factory. At the date these financial statements were authorised for issue, 18 February 2016, the tax audit had not concluded. The company's directors, as well, as its tax advisors, believe that the aforementioned audit will not give rise to significant liabilities for the group.

b) Financial risks

In the normal course of operations, the Ercros group is exposed to credit risk, market risk (interest rate risk and exchange rate risk) and liquidity risk.

The Ercros group's main financial instruments, other than derivatives, include the syndicated factoring, loans from public financial institutions, bank loans, credit facilities, finance leases, cash and short-term deposits.

The only interest rate hedge contract arranged within the framework of its debt refinancing in 2011, the purpose of which was to reduce the potential impact of an increase in interest rates, matured in 2015. In the current context of low interest rates –near zero– the Ercros group does not consider it necessary to arrange hedges aimed at mitigating a potential increase in interest rates.

In recent years it has been the Ercros group's policy not to trade with financial instruments.

(i) Credit risk

The Ercros group has implemented a credit risk control policy, and its exposure to it is managed in the ordinary course of business activities. Solvency assessments are carried out on all customers who require a limit greater than a certain amount.

Due to the impact that the fall in commodity prices is having on the economies of countries which export them, as well as the uncertainty associated with the Chinese economy, the group analyses credit risk in accordance with the countries where its customers are located. At 2015 year end, it assessed the potential impairment losses on its accounts receivables due to country risk and recognised the appropriate provisions to cover said impairment losses.

Furthermore, the Ercros group has insured certain accounts receivable.

For the remaining financial assets of the Ercros group, such as cash and cash equivalents, credits, available-for-sale financial assets, the maximum exposure to credit risk is equivalent to the carrying amount of these assets at year end.

(ii) Market risk*Interest rate risk*

External financing includes the syndicated factoring, loans from public financial institutions, credit facilities from financial institutions and, to a lesser extent, loans subsidised by government agencies. The interest rate is variable for credit facilities and loans (the risk of which has been partially covered with hedging instruments) and is tied mainly to fluctuations in Euribor plus a spread.

In the current context of low interest rates –near zero– the group does not anticipate risks related to a rise in interest rates due to the expansive monetary policy implemented by the ECB which foreshadows an extended period of low interest rates.

Exchange rate risk

See chapter 3.1 f) above.

(iii) Liquidity risk

The company manages liquidity using financial planning techniques. These techniques take into account the cash inflows and outflows from ordinary activities, investments and financing. The objective of the Ercros group is to maintain a balance between the flexibility, term, and conditions of the source of financing contracted based on the expected requirements at short, medium and long term.

Europe's improved economic environment, as well, as its increased competitiveness as a result of the dollar's appreciation against the euro allowed the Ercros group to close 2015 with a profit, something which had not occurred since 2006. This profit provided it with the liquidity necessary to meet its obligations in a timely manner and reduce, at the same time, its financial debt. The company expects the situation to remain the same in 2016 and, therefore, does not expect to be exposed to liquidity risk in its transactions. In any case, the company is working to obtain new lines of financing with its accounts receivables in dollars which are not subject to financing under the current factoring.

The group's financing, through the syndicated factoring, is subject to compliance with a series of obligations and financial ratios, which at 2015 year end, were appropriately fulfilled. In addition, in the event the need arises, the Ercros group believes that it could use other complementary mechanisms to obtain one-off liquidity, such as the partial and selective disposal of assets not used in operations or share capital increases.

In relation to the information required on the Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, establishing measures to combat late payment in commercial transactions, [See the chapter 4.2 d) above].

2. Risks arising in 2015

Risks arising in the year	Circumstances which gave rise to the risks	Functioning of the control systems
Environmental risk.	Determination of the obligation to undertake the remediation of polluted soils.	Once the amount of the obligation and the expected dates of the outflows of cash were determined, the corresponding provisions were recognised.
Risks related to changes in regulations.	Asbestos complaints.	The corresponding provisions have been recognised.
Credit risk.	Impact of falling commodity prices in the countries of origin and uncertainty regarding the evolution of emerging countries.	It assessed the potential impairment losses on its accounts receivables due to country risk and recognised the appropriate provisions to cover said impairment losses.

a) Asbestos judgements

Since the beginning of 2016, the group has received several complaints from former employees or their heirs in relation to the exposure to asbestos. These complaints are in addition to those the group is already facing for the same reason.

These types of liabilities are not attributable to the group's current management, nor do they relate to damages caused to current, active employees, rather, they are liabilities demanded of the group as the universal successor of companies which have been extinct for many years and are not related in any way to the group's current activities.

The group has recognised provisions for the amounts it expects could be claimable in the legal proceedings which are still pending resolution, arising from complaints requesting payment of damages for exposure to asbestos and benefit surcharges for a lack of safety measures for exposure to asbestos.

b) Impact of the prohibition on the use of mercury technology and the closure of the Covestro plant

On 20 January 2016, the company reported a significant event it which is explained the impact of the prohibition on the use of mercury technology in the chlorine production plants and the closure of the MDI plant at Covestro's Tarragona factory, as explained in chapter 5.1 a) (ii) and (vii) above.

The outlook for 2016 is that the group's results will remain in a range similar to that of 2015 with a moderate rise in sales and decline in costs.

Among the factors which support this belief, the following stand out: with regard to income, the expected increase in sales of PVC, pentaerythritol and sterile fosfomicin, and in the case of the latter, due to the increased availability of product as a result of the start-up of the new plant over the course of the year; and, with regard to costs, a slight decrease in the cost of electricity, which would undoubtedly have a very positive impact on the group's margins, as well as the continued reduction in the price of its primary raw materials, mainly methanol and gas.

The main risks which could alter the group's outlook for the year are the evolution of the euro/dollar exchange rate, the devaluation of which in the first weeks of the year creates uncertainty regarding the near future and a possible deterioration of the global economic environment and, in particular, that of emerging countries.

The group's R&D activities are focused on developing new products with greater added value and seek superior and sustainable production processes in order to minimise the impact on the environment and obtain optimal energy efficiency with the best techniques available.

In 2015 the Ministry of Economy and Competitiveness presented the 2013 and 2014 report on compliance with scientific and technological requirements, related to the application and interpretation of tax deductions for research, development and technological innovation activities. Ercros certified 38 people dedicated exclusively to the aforementioned activities.

Last year, the group received a grant from the Nuclis d'Innovació Tecnològica programme of the Autonomous Community Government of Catalonia and participates in a RIS3CAT programme. Ercros has 14 patents in force.

The group operates in its own R&D centres in Aranjuez, Monzón, Sabiñánigo and Tortosa which serve the pharmaceuticals, plastics, basic chemicals and intermediate chemicals divisions, respectively, and establish collaboration agreements with universities and technological centres.

In 2015 investments and expenses related to innovation and technology amounted to EUR 4.22 million (EUR 4.6 million in 2014).

Key projects

As regards the development of new products, the following are worth highlighting:

- The development of new solid oxidising products in the pilot phase.
- The industrial tests have been carried out for the manufacture of TCCA tablets with new additives, a patent for which was applied in December 2014.
- The standardisation tests on the new products in the ErcrosFlex® range, in collaboration with the future customers and the approval of the patent for which an application was submitted in January 2013, are on hold. In the ErcrosBio® product range, three types of uses are being worked on: durable aesthetics, 3D printing and packaging.
- In collaboration with the Catalan Institute for Chemical Research ("ICIQ") and with assistance from the aforementioned Nuclis d'Innovació Tecnològica programme, completion of the second phase of project on new catalysts for the formaldehyde manufacturing process.
- In the pharmaceuticals division, the study on incorporating new fermentation products and new technologies to increase the productivity of the existing products.

As regards the processes for improving efficiency and new applications for existing products, the following are worth highlighting:

- Solidification of the 10% reduction in electricity consumption in the pilot cell for potassium chloride electrolysis thanks to the new gap zero technology.
- The reduction in the consumption of energy and raw materials in the production of EDC and the variable cost of secondary raw materials in the PVC process.
- The increase in the manufacturing capacity of fusidic acid.
- The improvement in the quality of the resins with regard to the free formaldehyde content and the expansion of its portfolio; the obtainment of new moulding powder qualities and the improvement in the yield of pentaerythritol production.

Ercros does not own any treasury shares, either directly or through third parties, nor has it acquired treasury shares in 2015.

The company does not have any stock options for its directors or employees, nor does it have any type of legal or bylaw restriction with regard to exercising voting rights or for the acquisition or transfer of shares.

Neither is it aware of the existence of any shareholder agreements that restrict or condition the free transferability of shares.

The shareholders at the general meeting held on 27 June 2014 approved an authorisation for the company to acquire treasury shares, directly or through companies from its group, for a period of 18 months within the limits and requirements called for under the law, pursuant to that set forth in article 146 and related provisions of the LSC. During the period in which this authorisation was in force, the board of directors did not exercise it.

1. Stock market information

a) Share capital performance

On 20 January 2015, the company increased its share capital as part of its agreement with Yorkville Advisors arranged by the board of directors on 11 December 2014. The aforementioned share capital increase amounted to EUR 0.75 million (with a nominal value of EUR 0.54 million and a share premium of EUR 0.21 million) and included the issue of 1.8 million new shares which were admitted to listing on 26 January 2015.

After this transaction, the share capital amounts to EUR 34.23 million and is represented by 114,086,471 shares.

b) Share performance

Ercros closed 2015 with a market capitalisation of EUR 70.28 million (EUR 44.12 million at 2014 year-end), its highest year-end market value in the last five years. At 31 December 2015, the company's share price reached EUR 0.62, representing a 56.7% revaluation with respect to 2014.

During the first quarter of the year, the share price remained close to the levels reached towards the end of 2014 (a range between EUR 0.39 and 0.45 euro/share), however, in July, it underwent a significant revaluation that at times was more than 120% of the 2014 year-end figure.

On 2 November it reached its maximum price for the year, 0.86 euro/share, and on 14 July a record was set for the most shares traded in a single day in the last 8 years, 5.92 million.

In 2015 the average share price was EUR 0.60, compared to EUR 0.49 in 2014. Over the course of the year Ercros' share capital rotated 0.81 times (0.57 times in 2014), the highest figure in the last five years.

Main share-related parameters

	31-12-15	31-12-14	31-12-13	31-12-12	31-12-11
Shares on the stock market (million)	114.09 ¹	112.23 ²	107.03 ³	101.50 ⁴	100.62
Capital value (EUR million)	70.28	44.12	50.27	40.60	68.42
Traded shares (million)					
In the course of the year	92.91	63.72	65.49	34.55	63.43
Maximum in one day	5.92	1.48	1.66	1.21	2.31
Minimum in one day	0.02	0.01	0.02	0.01	0.03
Daily average	0.36	0.25	0.26	0.13	0.25
Traded volume (EUR million)					
In the course of the year	55.99	31.35	32.13	18.62	56.81
Daily average	0.22	0.25	0.13	0.07	0.22
Share price (EUR)					
Highest	0.86	0.58	0.61	0.74	1.15
Lowest	0.39	0.37	0.35	0.36	0.66
Average	0.60	0.49	0.49	0.53	0.89
Last	0.62	0.39	0.47	0.40	0.68
Frequency ratio (%)	100	100	100	100	100
Liquidity rate (%)	81.43	56.76	61.89	34.04	63.04

¹ Yearly average 2015 = 113.99 million shares.

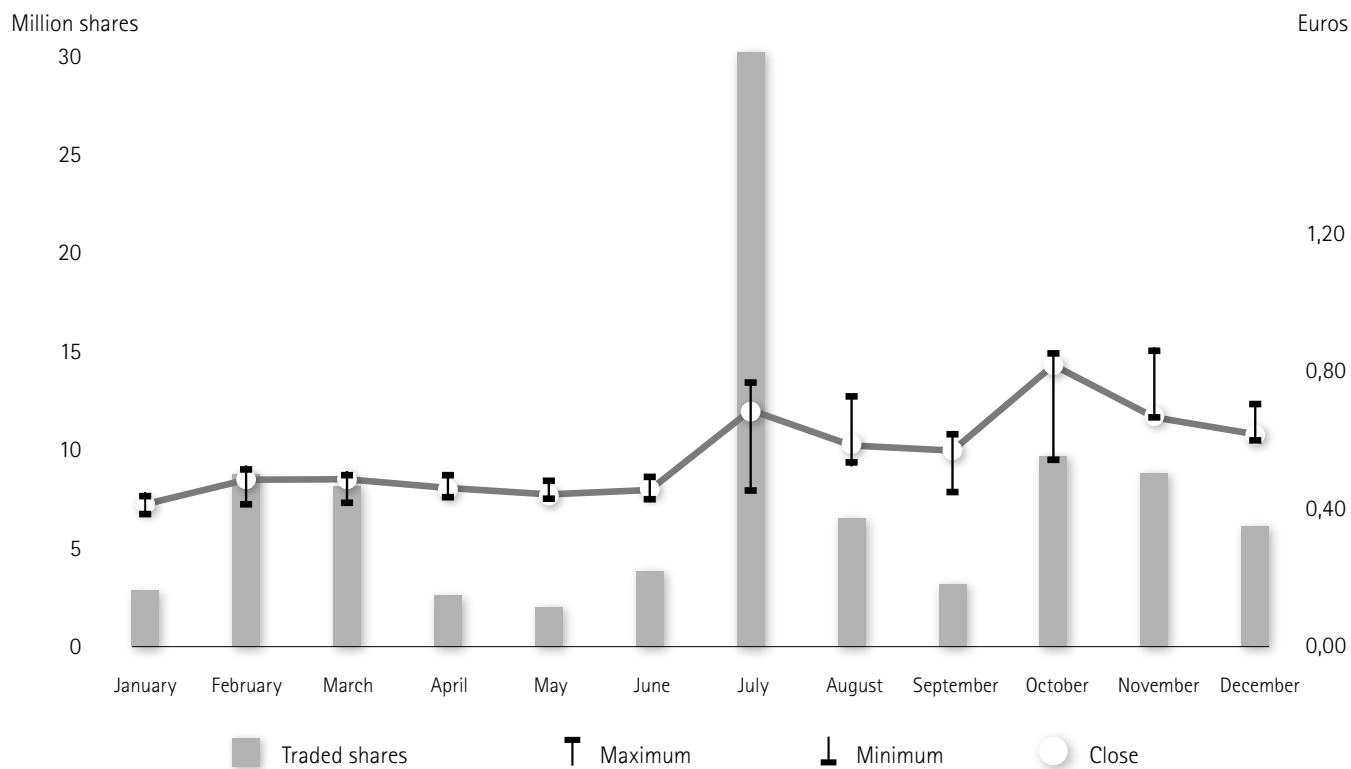
³ Yearly average 2013 = 103.52 million shares.

² Yearly average 2014 = 110.17 million shares.

⁴ Yearly average 2012 = 100.77 million shares.

Share price and traded volume evolution

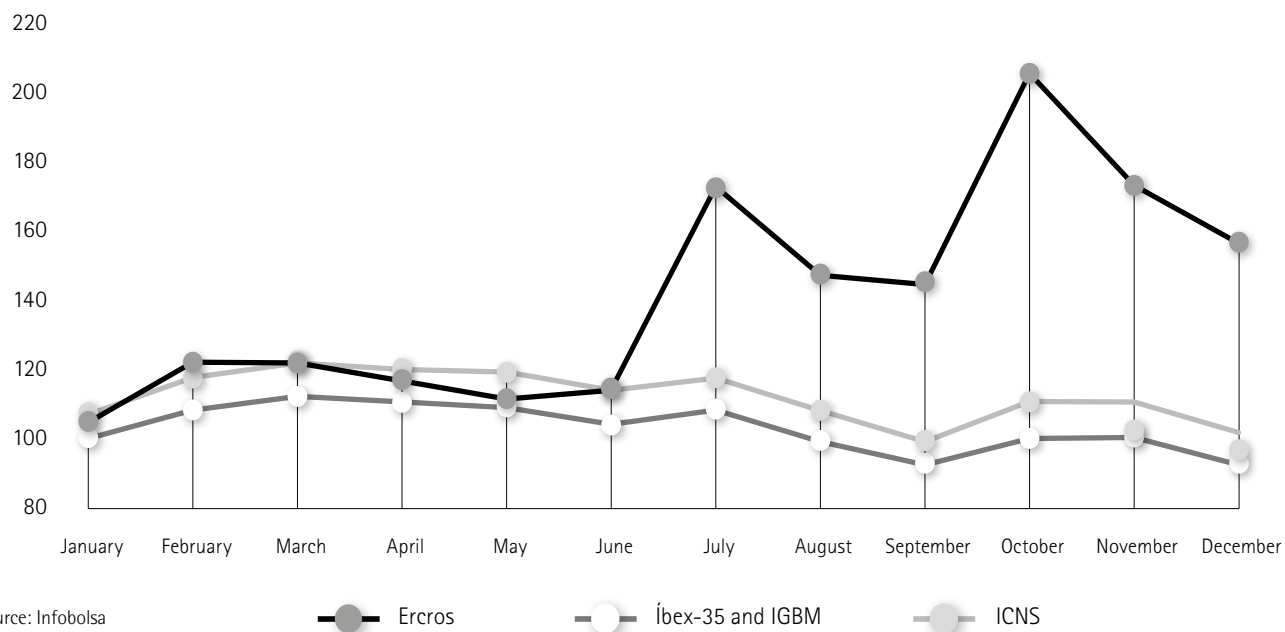
2015



Comparison between Ercros share price and major indexes

2015

BASE 100 = 31-12-14



Source: Infobolsa

● Ercros

○ Ibex-35 and IGBM

● ICNS

c) Performance of the stock market indices

Throughout 2015, Ercros' share remained well above the main stock market indices; such that at year end Ercros had revalued 56.7%, with respect to 2014, the Ibex-35 and the general index of the Madrid Stock Exchange ("IGBM") fell 7% and the industrial index for basic and construction materials ("ICNS") rose 2%.

d) Dividend policy

Ercros does not have a dividend policy. The company closed 2015 with a profit, however, the financing agreements currently in force prohibit the distribution of dividends.

e) Credit rating

Ercros has record of an unsolicited credit rating carried out by the agency Axesor in 2014.

2. Significant events in 2015**a) General shareholders' meetings**

In 2015 the company held two general shareholders' meeting, an extraordinary meeting and the required ordinary meeting. At both meetings, Ercros paid a gross premium of 0.003 euro/share to shareholders present or represented for attending.

(i) The extraordinary shareholders' meeting

On 6 March an extraordinary shareholders' meeting was convened at the request of the shareholders of 5.4% of the share capital.

At the aforementioned meeting, all of the proposals presented by the board of directors related to the adaptation of the company bylaws to the latest changes in the law were approved and the proposals presented by the aforementioned group of shareholders requesting that the revocation of the powers delegated to the board of directors to authorise share capital increases and issue securities be terminated, with the exclusion of the pre-emptive subscription right; that the number of board members be increased and that directors be appointed were rejected.

In attendance at the meeting were 10,708 shareholders of 69.99 million shares, representing 61.3% of the share capital with voting rights, of which 8.7% was present and the remaining 52.6% was represented.

(ii) The ordinary shareholders' meeting

On 30 June the ordinary shareholders' meeting was held, the agenda for which was supplemented with new items at the proposal of shareholders of 3.1% of the share capital.

At the aforementioned meeting, all of the proposals presented by the board of directors were approved, among which included, as well as other customary resolutions, the adaptation of the internal regulations to the latest changes in the law, the advisory vote on the remuneration for directors and the approval of the maximum amount of remuneration for the directors for 2015 and all of proposals presented by the aforementioned group of shareholders which requested the removal of the independent director Mr Ramón Blanco Balín; the approval of a general policy on the premium for attending the shareholders' meeting which would eliminate payment of the premium at extraordinary meetings and the reduction of the board of directors' annual remuneration.

In attendance at the meeting were 9,999 shareholders of 72.01 million shares, representing 63.1% of the share capital with voting rights, of which 8.8% was present and the remaining 54.3% was represented.

b) Share capital increases

On 20 January 2015, a share capital increase was registered which had been resolved by the board of directors on 11 December 2014, pursuant to the delegation of powers carried out by the shareholders at the ordinary general meeting held on 27 June 2014.

The increase was subscribed in full by the American fund YA Global Dutch, B.V. in accordance with the agreement entered into with the parent of the aforementioned fund, Yorkville Advisors, which was terminated in 2015.

In the share capital increase 1.80 million shares were issued for a total amount of EUR 0.75 million (with a nominal value of EUR 0.54 million and a share premium of EUR 0.21 million). The new shares were admitted to listing on 26 January 2015.

After this transaction, the share capital amounted to EUR 34.23 million and was represented by 114.09 million shares.

c) Sale of Electroquímica Onubense

On 2 June 2015, Ercros and Salinas del Odiel signed the sale and purchase of Electroquímica Onubense, an Ercros subsidiary and owner of the Palos de la Frontera factory, and holder of the concession of the Salina of Huelva.

The total amount of the transaction was EUR 3.95 million. The transaction did not generate any gains or losses.

Pursuant to the agreement reached between Ercros and Salinas del Odiel on 11 February 2015 and prior to the sale, on 1 May, Ercros transferred the chlorine-sodium hydroxide business and the concession to obtain the salt in Palos de la Frontera, as well as ownership of the facilities and concessions supporting said business to Electroquímica Onubense. The other land on the grounds of the factory remains under Ercros' ownership.

After this sale, the group continues to produce chlorine, sodium hydroxide and their derivatives in the other centres it owns dedicated to the manufacture of these products.

d) Environmental clean-up

In 2015 the group continued its characterisation and remediation work, where applicable, on the soil of the Flix, Vila-seca I, Vila-seca II and Palos de la Frontera (the last of which was sold on 2 June 2015) factories, and completed the remediation work on the soil of the plant it sold to Nitricomax in 2013 located in the Tarragona factory. The groundwater treatment plant at the Flix factory, launched in 2014, is functioning properly, in accordance with that set forth in the factory's subsoil and groundwater remediation project approved by the competent authorities.

On 10 November 2015, the group received authorisation from the regional authorities to carry out the project for the recovery and integration in the landscape of the land released by the Terrera Nova of Cardona waste tip.

The remediation project for the El Hondón lands, where the former Cartagena factory was located, is in the process of being reviewed by the local authorities.

The cost of the execution of these projects has been provisioned in full, together with the costs, for third-party liability, for contamination of the Flix reservoir.

e) Victims of the Aranjuez accident

On 25 June 2015, before the Getafe (Madrid) Criminal Court of the insurance company and Ercros signed a definitive economic agreement to compensate the families of the three people who died in the occupational accident which occurred in the Aranjuez factory on 10 April 2008.

3. Information on social responsibility

The principles of social responsibility form part of the group's value system. The group assumes these principles in its corporate social responsibility policy ("CSR"), which establishes the rules for acting in relation to sustainable development, equality between men and women, information and transparency and involvement in the surrounding social, employment, environmental and economic reality, among other matters.

In 2015 the group began work on establishing a model for organising, preventing, managing and controlling criminal risks and to prepare a criminal risk prevention manual in accordance with that envisaged in article 31 bis of the Spanish Penal Code.

The adaptation to said model and the legislative changes introduced into the LSC, the Securities Market Law and the new good governance code ("CBG"), approved by the Spanish National Securities Market Commission ("CNMV") on 18 February 2015, motivated the group to amend its internal regulations.

Specifically, throughout 2015 the company bylaws, board of directors regulations and regulations for the shareholders' meeting were adapted. Currently, the group is working on modifying the internal regulations on conduct in matters related to the securities market; the corporate social responsibility policy; the code of ethics and the procedures for the ethics channel, which establishes the mechanism through which complaints can be filed regarding alleged breaches of the rules included in the code of ethics, as well, as the preparation of new policies, such as the policy for communicating with shareholders and investors, the policy for selecting directors, etc.

Over the past year, implementation of the clause regarding compliance with the code of ethics was extended to orders made from local suppliers and to agreements with and orders from service providers.

On 26 January 2015, a complaint was submitted through the ethics channel which was processed and resolved in accordance with the procedure established.

Ercros has signed voluntary commitments with objectives that are more ambitious than those envisaged in the prevailing legislation, such as:

- The Responsible Care programme in the chemical industry. In 2015 the group's level of compliance with the 6 codes of management practices was 99.2% (99.7% in 2014).
- The Global Compact promoted by the UN. The 2014 report presented in 2015 was classified as advanced.
- Sustainability management systems (ISO 14001, ISO 14064, ISO 50001, ISO 9001 and OHSAS standards).

- The aforementioned CBG approved by the CNMV. Of the 64 recommendations contained in the aforementioned code, 12 are not applicable, and of the remaining 52 recommendations, the group complies with 48. Of the other four, it complies with two partially and explains non-compliance with the remaining two. Consequently, in 2015 the degree of compliance with the recommendations of the CBG was 92.3% compared with 98% in 2014. This deterioration is due to the increased requirements of the recommendations contained in the new code.
- The XVIII General Agreement for the Chemical Industry for 2015-2016.
- The guide for applying corporate social responsibility in the chemical and life sciences industry promoted by the Spanish Chemical Industry Business Federation ("Feique"), in collaboration with Forética. In 2015 the group prepared the third edition of the corporate social responsibility report corresponding to 2013-2014, in accordance with the instructions contained in this guide. The report was audited by Bureau Veritas which once again classified it as "excellent".
- The CDP questionnaire. This is a global independent organisation which evaluates the efforts made by businesses which seek solutions for and to mitigate the effects of global warming through disclosure and transparency. In 2015 the report issued by the group received a score of 87 points out of 100 for transparency of information. This score is 5 points higher than in 2014 and places the group three points above the average for its sector.
- The EcoVadis CSR rating, the goal of which is to improve businesses' environmental and social practices by taking advantage of the influence of global supply chains. In 2015 the Ercros group improved its gold classification by two points, receiving a score of 64 points out of 100 and placing it among the 2.5% of companies with the highest score out of all of the companies who participated.

Over the past year, the group carried out other social responsibility actions, such as: 1,189 meetings as part of the improved dialogue plan ("PMD") in which 4,760 people participated; two volunteer campaigns in which internal and external staff were involved, the first of which collected 3,369 kg of food that were distributed among social organisations and the second of which collected 1,368 kg of plastic caps in collaboration with solidarity projects through the Fundación Seur and 29 open days and visits to the factories in which 788 people participated.

4. Corporate governance report

The Ercros group's corporate governance report for 2015, which is part of the consolidated directors' report is available on the Ercros website (www.ercros.es) and on the CNMV website (www.cnmv.es).



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EUR MILLION

Assets	31-12-15	31-12-14
Non-current assets	284.72	292.57
Property, plant and equipment	235.29	245.69
Investment properties	30.92	30.92
Intangible assets	6.54	5.55
Investments in associated companies	6.34	6.35
Non-current financial assets	3.13	3.17
Deferred tax assets	2.50	0.89
Current assets	226.96	228.15
Inventories	57.85	55.53
Trade and other receivables	113.50	116.20
Other current assets	33.41	34.44
Current tax assets	0.58	0.29
Cash and cash equivalents	21.62	19.89
Non-current assets held for sale	–	1.80
Total assets	511.68	520.72

EUR MILLION

Equity and liabilities	31-12-15	31-12-14
Equity	175.88	168.19
Equity of the parent company	175.88	168.19
Total liabilities	335.80	352.53
Non-current liabilities	104.50	100.28
Non-current loans	42.77	42.33
Deferred taxes	26.86	27.20
Non-current provisions	30.79	25.92
Other non-current liabilities	4.08	4.83
Current liabilities	231.30	252.25
Current loans	88.60	85.53
Current portion of non-current loans	9.77	20.82
Trade and other payables	114.01	130.07
Current provisions	4.47	4.84
Other current liabilities	14.45	10.99
Total equity and liabilities	511.68	520.72

EUR MILLION

	Year 2015	Year 2014
CONTINUING OPERATIONS		
Income	627.21	606.80
Income from ordinary operations	618.27	603.67
Other operating income	6.37	3.62
Changes in inventory of finished goods and work in progress	2.57	-0.49
Expenses	-594.59	-592.36
Consumption of raw materials and other consumables	-301.22	-311.04
Personnel expenses	-79.86	-78.81
Other expenses	-213.51	-202.51
Gross operating profit (ebitda)	32.62	14.44
Depreciation/amortization expenses	-19.87	-18.89
Asset impairment loss	—	-0.56
Operating profit/loss (ebit)	12.75	-5.01
Finance income	0.18	0.79
Finance expenses	-8.06	-9.87
Exchange differences (net)	1.65	1.35
Share of gains from associated companies	0.23	0.23
Profit/loss before tax	6.75	-12.51
Taxes	0.49	5.41
Profit/loss for the year from continuing operations	7.24	-7.10
DISCONTINUED OPERATIONS		
Results of the year from discontinued operations	—	0.81
Profit/loss for the year	7.24	-6.29
Other comprehensive income net of tax effect	0.20	0.11
Captions to be reclassified to profit (loss) in subsequent periods:		
Cash flow hedges	0.29	0.14
Hedging deferred tax	-0.09	-0.03
Consolidated comprehensive income	7.44	-6.18
Profit/loss for the year attributable to:		
Non-controlling interests	—	—
Equity holders of the parent	7.24	-6.29
Other comprehensive income attributable to:		
Non-controlling interest	—	—
Equity holders of the parent	0.09	0.11
Profit/loss per basic and diluted share (EUR)	0.0635	-0.0564
From continuing operations	0.0635	-0.0637
From discontinued operations	—	0.0073

3

Consolidated statement of changes in equity

EUR MILLION

	Capital	Other reserves	Retained earnings	Non-controlling interests
Balance at 31-12-13	32.11	143.85	-3.75	172.21
Transfer of 2013 accumulated gains	–	-3.75	3.75	–
Comprehensive income for 2014	–	0.11	-6.29	-6.18
Transactions with shareholders and owners:				
Capital increase	1.57	0.68	–	2.25
Meeting attendance bonus	–	-0.34	–	-0.34
Other concepts	–	0.25	–	0.25
Balance at 31-12-14	33.68	140.80	-6.29	168.19
Transfer of 2014 accumulated gains	–	-6.29	6.29	–
Comprehensive income for 2015	–	0.20	7.24	7.44
Transactions with shareholders and owners:				
Capital increase	0.54	0.21	–	0.75
Meeting attendance bonus	–	-0.43	–	-0.43
Other concepts	–	-0.07	–	-0.07
Balance at 31-12-15	34.22	134.42	7.24	175.88

EUR MILLION

	31-12-15	31-12-14
A. Cash flow from operating activities (+/-1, +/-2, +/-3, +/-4)	14.00	9.82
1. Profit/(loss) before tax	6.75	-11.70
Continuing operations	6.75	-12.51
Discontinued operations	–	0.81
2. Adjustments to profit	30.87	26.92
Depreciation and amortization expense (+)	19.87	18.89
Impairment losses (+/-)	2.90	0.42
Changes in provisions (+/-)	4.50	2.85
Grants released to income (+/-)	-1.90	-1.41
Gains (losses) from derecognition and disposals of property, plant and equipment and intangible assets (+/-)	-0.75	0.04
Gains (losses) from derecognition and on disposals of discontinued operations (+/-)	–	-1.24
Finance income (-)	-0.18	-0.79
Finance costs (+)	8.06	9.87
Exchange gains (losses) (+/-)	-1.65	-1.35
Other income and expenses (-/+)	0.02	-0.36
3. Change in working capital	-15.45	1.38
Inventories (+/-)	-3.33	5.21
Trade and other receivables (+/-)	0.81	10.85
Other current assets (+/-)	0.35	-3.79
Trade and other payables (+/-)	-10.94	-9.70
Other current liabilities (+/-)	–	-2.16
Other non-current assets and liabilities (+/-)	-2.34	0.97
4. Other cash flows from operating activities	-8.17	-6.78
Interest paid (-)	-6.83	-7.15
Interest received (+)	0.19	0.59
Dividends received (+)	0.24	0.07
Income tax payments (+/-)	-1.77	-0.29
B. Cash flows from investing activities (6-5)	-5.20	15.62
5. Payments on investments (-)	-9.15	-6.19
Intangible assets	-1.78	-1.57
Property, plant and equipment	-7.37	-4.62
6. Proceeds from disposals (+)	3.95	21.81
Intangible assets	–	0.01
Property, plant and equipment	–	18.23
Divestment in discontinued operations	3.95	3.57

EUR MILLION

	31-12-15	31-12-14
C. Cash flows from financing activities (+/-7 +/-8 -9)	-7.07	-21.75
7. Proceeds from and payments on equity instruments	0.86	2.25
Proceeds from issuance of equity instruments	0.86	2.25
8. Proceeds from and payments of financial liabilities	-7.50	-23.66
Issues:		
Loans (+)	15.92	6.59
Repayment and redemption of:		
Loans (-)	-23.42	-30.25
9. Dividends paid and payments on other equity instruments	-0.43	-0.34
Shareholders meeting attendance bonus	-0.43	-0.34
D. Net increase/decrease in cash and cash equivalents	1.73	3.69
Cash and cash equivalents at 1 January	19.89	16.20
Cash and cash equivalents at 31 December	21.62	19.89





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ERCROS GROUP
FINANCIAL STATEMENTS
HISTORICAL DATA SERIES

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Consolidated statement of financial position

EUR MILLION

Assets	31-12-15	31-12-14	31-12-13	31-12-12	31-12-11
Non-current assets	284.72	292.57	309.43	331.21	334.77
Property, plant and equipment	235.29	245.69	264.37	277.14	279.71
Other non-current assets	49.43	46.88	45.06	54.07	55.06
Current assets	226.96	228.15	254.86	273.97	270.79
Inventories	57.85	55.53	60.51	75.88	73.46
Trade and other receivables	113.50	116.20	145.37	151.02	155.80
Other current assets and cash and cash equivalents	55.61	54.62	46.65	45.10	41.53
Non-current assets held for sale	—	1.80	2.33	1.97	—
Total assets	511.68	520.72	564.29	605.18	605.56
Equity and liabilities					
Equity	175.88	168.19	172.21	173.87	187.11
Non-current liabilities	104.50	100.28	123.91	128.81	144.08
Non-current loans	42.77	42.33	56.22	56.50	65.06
Provisions	30.79	25.92	27.57	30.45	35.33
Deferred taxes and other non-current liabilities	30.94	32.03	40.12	41.86	43.69
Current liabilities	231.30	252.25	268.17	302.50	274.37
Current loans	98.37	106.35	113.56	100.66	86.64
Trade and other payables	114.01	130.07	137.29	169.86	153.26
Provisions and other current liabilities	18.92	15.83	15.16	31.98	34.47
Liabilities associated with non-current assets held for sale	—	—	2.16	—	—
Total equity and liabilities	511.68	520.72	564.29	605.18	605.56

2

Consolidated statement of comprehensive income

EUR MILLION

Items	31-12-15	31-12-14	31-12-13	31-12-12	31-12-11
Income	627.21	606.80	624.21	699.08	700.51
Income from ordinary operations	618.27	603.67	624.97	677.53	686.04
Other operating income and changes in inventories	8.94	3.13	-0.76	21.55	14.47
Expenses	-594.59	-592.36	-595.76	-683.77	-673.71
Consumption of raw materials and other consumables	-301.22	-311.04	-319.66	-365.21	-370.32
Personnel expenses	-79.86	-78.81	-80.14	-86.10	-84.62
Other expenses	-213.51	-202.51	-195.96	-232.46	-218.77
Ebitda	32.62	14.44	28.45	15.31	26.80
Depreciation/ amortization expenses	-19.87	-18.89	-19.31	-18.19	-18.01
Asset impairment loss	–	-0.56	–	–	–
Ebit	12.75	-5.01	9.14	-2.88	8.79
Finance costs	-6.00	-7.50	-10.14	-11.06	-9.85
Profit/(loss) before tax	6.75	-12.51	-1.00	-13.94	-1.06
Profit/loss for the year from discontinued operations	0.00	0.81	-3.43	–	–
Corporate income tax and non-controlling interests	0.49	5.41	0.68	1.81	0.25
Equity holders of the parent	7.24	-6.29	-3.75	-12.13	-0.81

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Tarragona factory

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