



CHAIRMAN'S STATEMENT

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DEAR STAKEHOLDERS,

The expansion of the world economy that had begun in earlier years continued in 2018, with a GDP growth of 3.7% at year-end. Even so, as the year went on, more and more indicators suggested that the economic boom had passed its peak. The confidence indicators have fallen in many of the major world economies, reflecting the increased instability deriving from trade tensions, the tougher US monetary policy, Brexit negotiations and the focus of Italian tax policies.

Average GDP growth in the eurozone was 1.8% in 2018, compared to 2.4% in 2017. Economic activity, undermined by sluggish exports, was unable to maintain the strong growth recorded in 2017. Unemployment fell to 8%, showing good performance, although political tensions dampened the spirits of business and consumers as from the summer. In the United States, economic growth accelerated to 2.9% of the GDP in 2018, bolstered by the good performance of domestic demand, revitalisation of the labour market and increased inflationary pressure, enabling the Federal Reserve to raise the benchmark interest rate in line with its monetary policy objectives.

Consumption patterns in 2018 followed the trends of previous years, shaped around making consumer experience more personal and the social changes brought about by the aging population, smaller families and new generations, who are more concerned about social and environmental issues. At the same time, increasingly large sectors of the population have access to Internet, as a result of which consumers are much better informed, multi-channelled and hyperconnected, searching and comparing on internet before they buy.

All these changes present challenges for distributors and producers, who have to use entirely different marketing techniques to reach their customers and win over their loyalty from those employed over the past ten years. The use of big data and fast, personalised marketing campaigns are becoming more and more important.

The raw material prices set out in the World Bank Commodity Price Index were clearly affected by the evolution of Brent crude oil prices, which fluctuated between 60 and 80 dollars per barrel, pushing up prices of oil by-products and transport costs.

There was an upturn at the beginning of the year in international rice prices, owing to a smaller stock on the American market, despite the excellent world harvests in the previous crop year. Once it had been





confirmed that the 18/19 harvest was also abundant and sowing in the United States picked up, prices started to come down. In contrast, the prices of aromatic rice varieties maintained the high levels at which they have traded since mid-2017, although with certain differences: while basmati prices moved in line with general market trends, other fragrant varieties continued at record highs.

Grain price indexes (corn, wheat, barley and rice) eased somewhat, with a gentle overall price rise that was rather steeper in soft wheat, owing to the adverse weather conditions in Europe. Durum wheat prices remained stable, as in previous years, with a slight upturn prior to harvesting but without the fluctuations we have seen in earlier years.

Focusing now on the Group's evolution, 2018 was a difficult year for the company from the point of view of generating cash, and our EBITDA fell 13.4%. The comparable figure is slightly better, as it includes a negative impact of €4.4 million caused by variation in exchange rates. This decline can be put down to several unfavourable circumstances that simultaneously affected our North American rice subsidiary, including: rising prices of auxiliary raw materials (packaging) and agricultural raw materials (mainly jasmine rice from Thailand, although also basmati and American rice); the extraordinary hike in logistics costs in the USA owing to the shortage of hauliers and rising fuel prices; and the situation of full employment in the USA, with the resulting shortage of manpower throughout the country and an upturn in salary costs. Our Freeport plant in Texas suffered keenly the effects of the last factor, owing to the strong growth of the petrochemical industry in the region.

But there were also several very positive landmarks in 2018, namely: 1) the incorporation of the Italian fresh pasta manufacturer Bertagni, with which we have become the second global fresh pasta manufacturer; 2) the strength of our European rice business, which repeated the success achieved in the previous year but in a much more complex scenario; 3) the sound performance of our principal brands, which have maintained their leadership and increased their market shares, demonstrating consumer recognition of the quality and differentiation of our products; and 4) confirmation of the good health of the Group's core businesses, with which we have been able to mitigate the impact of the difficulties endured by our subsidiary Riviana.

This healthy state of affairs, together with a judicious raw material sourcing policy to guarantee stability during the first part of 2019, the ambitious cost restructuring plan that we have started to implement in the United States, the returns we will obtain on our investments in CAPEX over the past three years and the positive effects of the measures implemented throughout the year, which we have begun to see in the third quarter, suggest that we have a good starting position once again in 2019.

On the stock market, the price of our share fell by 7.9% over the year. Ibex 35 closed the year down 15.3%, Ibex Med down 13.9%, Ibex Small down 9% and Eurostoxx Food and Beverage down 17.9%. At the date of this Report (31 March 2019), the Ebro share had appreciated by 10%, while Ibex 35 was up 11.2%, Ibex Med 6.6% and Ibex Small 9.8%.

2018 was a very important year for defining the Ebro Group's CSR strategy for the coming years. We studied the expectations of our stakeholders, made a detailed analysis of our impacts and established the Sustainable Development Goals to which we can make the greatest contributions. Based on the information thus obtained, during the first half of 2019 we will announce our Global Sustainability Plan "Heading for 2030", an action plan through which we will make further progress in respect of the 10 Principles of the Global Compact, focusing on three fundamental pillars: People, Planet and Health & Well Being. We have designed a number of actions and targets around these pillars for the next 12 years to ensure that sustainability is integrated in the business management and decision-making processes of the Ebro Group and, therefore, the company's sustainable growth.

Antonio Hernández Callejas

EBRO FOODS CHAIRMAN