Business Areas in 2020

BUSINESS AREAS IN 2020

General overview

Economic development during the year was affected by the COVID-19 pandemic that commenced towards the end of December 2019 in China and had spread to most of the countries in the world by mid-April 2020. Its rapid expansion, the death rate and the need for general lockdowns to prevent it from spreading further unleashed an unprecedented economic crisis, marked by how fast it was triggered and the speed of response by authorities around the world, injecting enormous sums of cash into the system and granting direct and indirect aids to affected companies and workers. World economies have evolved at the rate marked by the disease and its successive waves throughout the year: while some countries were relatively free from the virus as from the second quarter (China), others such as the United States, Europe and South American countries continued to suffer different waves as they reopened and closed businesses and borders.

The impact on the GDP has varied, down year on year in the USA (-3.5%), Europe (-5% Germany, -11% Spain) and slight growth in China (+2.2%), which is the exception within a widespread slump (-4.3% of the global GDP). A recovery that began in the second quarter was cut short by new waves of the coronavirus in the euro economies, where those most heavily dependent on the services and tourism sectors, like Spain, came off worst.

Prospects are uncertain, with several possible scenarios depending on how the pandemic evolves and how effective vaccination turns out to be. The base scenario contemplates a 4% upturn in global GDP in 2021, extensive and effective vaccination of the population in the developed countries and maintaining flexible monetary policies, with a significant impact on global debt levels.

Consumption

The crisis brought a sudden halt to the international exchange of goods and services, the former showing greater resilience, while services requiring interpersonal contact were in a weaker position. The different COVID waves and successive lockdowns led to a significant increase in home consumption, to the detriment of other channels, such as HORECA, which was hard hit by the continual closures of hospitality establishments.

In the initial stage of the pandemic, consumers were mainly concerned with stocking up their pantries with staple products, without paying much attention to differentiation. As the pandemic continued and the fear of empty shelves abated, they started including more value-added products (to make up for leisure time previously spent in hospitality establishments) and shopping in more normal quantities.

The pandemic also accelerated the change in certain patterns of consumption, with an extraordinary growth of virtual shopping, generation of new consumer experiences and consolidation of local supermarkets as consumer favourites for physical shopping.

The general trends are summarised below:

MORE PERSONAL CONSUMER EXPERIENCE, SUSTAINABILITY, HEALTH AND PLEASURE

Consumers now have greater decision-making capacity, more information and more shopping tools, and they are willing to pay more for products they can relate to.

a. Demand for quality products that are easy to prepare and immediately satisfy their wishes.
b. Preference for natural, healthy, organic products. The increased consumption of fresh products and the importance given to small companies and start-ups that make consumers feel in touch with nature are very much in tune with this sentiment.
c. Search for sustainable products corresponding to the circular economy that include different players in their preparation and sale.
d. Desire for a greater choice. Quality private label brands have broadened their customer base, spanning practically all social classes and segments of population.

SOCIAL CHANGES

a. Aging of the population, increased power of older generations. The “baby boomers” have transformed this segment of the population, having greater purchasing power and different needs and aspirations (activity and health) from those traditionally relating to this social group.
b. Smaller families, with a constant growth of single-member households; new formats and customised goods and services.
c. The younger generations are more concerned about sustainability and the environment.
d. Increased mobility and immigration in many developed countries, accompanied by new tastes and ways of cooking.

NEW CHANNELS AND SERVICES

a. Online shopping and connectivity (possibility of going through traditional operators who offer easy shopping, fast delivery, etc.).

b. Growth of local supermarkets, with more frequent shopping and increased availability (24-hour opening, alliances with filling stations or other high-traffic points).

c. Consolidation of new virtual players (such as Amazon) on the distribution market along with the new consumer trends and use of technology.

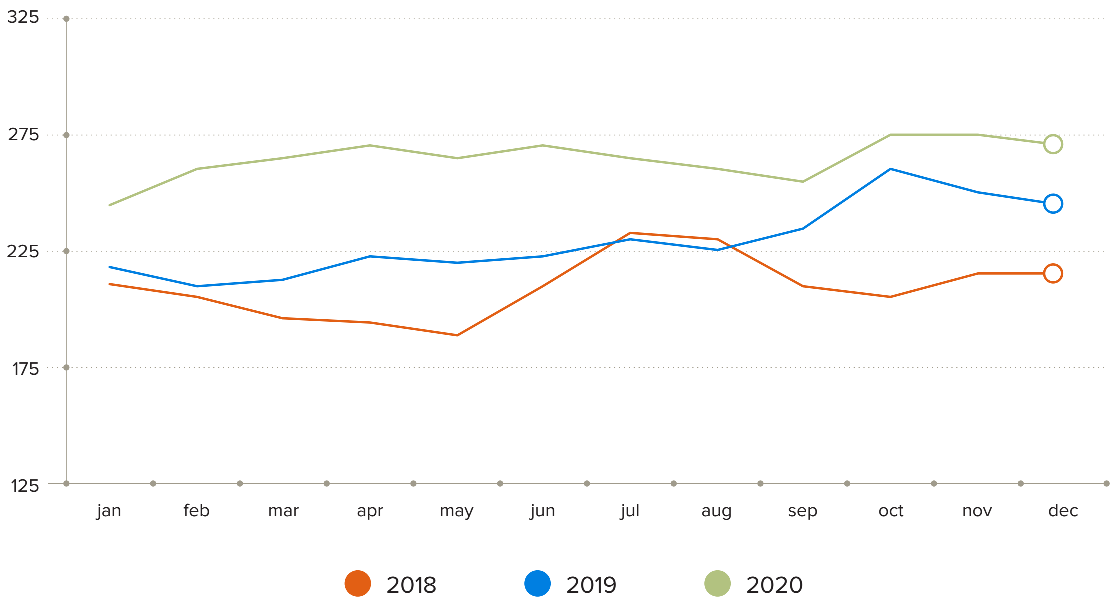
d. New ways of cooking or consuming food (by order, through vending machines, snacks as meal substitutes, etc.).

Commodity markets

Food commodity prices rose by 4% on average as the demand for staple food products rose in the first months of pandemic. People were even hoarding initially, causing certain temporary shortages.

Following the price hikes in durum wheat during the second half of 2019, the prices remained high, due mainly to sustained demand during the pandemic and a French harvest 27% below the 2015-19 average, owing to a smaller area sown and below-average yield.

DURUM WHEAT PRICES €/TM



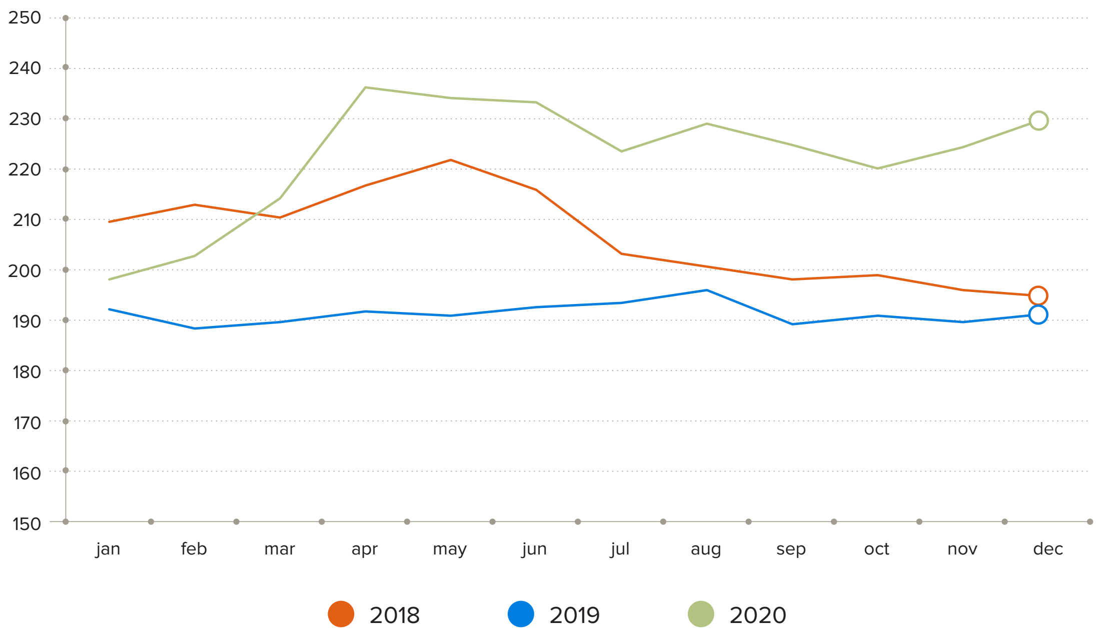
Source: Terre.net and own compilation

The 19/20 rice campaign remained at high levels. According to data published by the Food and Agriculture Organization (FAO), production of the campaign was estimated at 501 million tonnes of white rice equivalent, approximately 1% less than in the previous year.

However, the price index rose parallel to the pandemic-driven initial uncertainty regarding the availability and transport of rice, the fears in countries such as Thailand and Vietnam of insufficient water resources in the second harvest and the devaluation of the US dollar, in which the prices are set during the year.

The evolution of the international rice price index for the past three years can be seen in the following graph, which shows the average prices of the highest-consumption varieties:

IPO RICE PRICE INDEX



There was a generalised price rise, with world prices pushed up by some of the major exporting countries, such as Thailand, Vietnam and Myanmar. Only the aromatic varieties avoided this trend, their prices remaining stable or slightly lower than in the previous year.

COVID 19

As mentioned earlier, 2020 was marked by the outbreak of the pandemic in the first quarter. The effect was not negative in the Ebro Group, as it was in other businesses, but enormous efforts were required to handle this extraordinary situation.

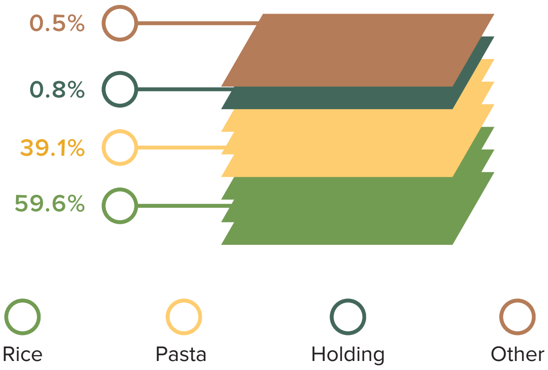
The Group reacted swiftly to the initial shock, taking measures and putting protection and prevention protocols in place for our employees, concentrating production in the products in highest demand, setting limits on orders in keeping with the quantities ordered in earlier years wherever they greatly exceeded production capacity, eliminating promotions that did not contribute value in the new situation.

During most of the year, the high consumption levels kept the plants at high utilisation rates, with the consequent increase in productivity and yield. Overall, dry products benefited most in terms of quantity demanded, while the performance of fresh products was more moderate. In any case, it represented a huge challenge in production and logistics management.

Numerous measures were taken to mitigate the risk. The most visible measures were those related with workplace safety, on which EUR 15.5 million had been spent by year-end. Other actions were also taken, such as commercial changes to adapt supply to market needs, an enormous production and logistics effort, changes in the platforms of systems used for homeworking, measures to enable employees to strike a good balance between work and home life in a scenario that was constantly changing as the pandemic developed, etc. This has been a huge effort, requiring us to adapt to and try to manage a changing playing field.

Consolidated Group

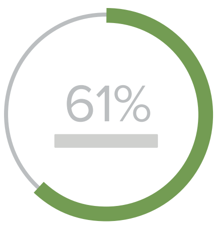
AVERAGE HEADCOUNT EMPLOYEES

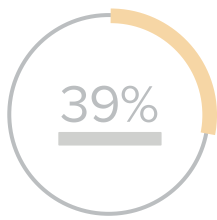


7,834

SALES BY BUSINESS AREAS

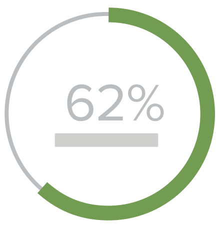
2,897.5
Mill. €

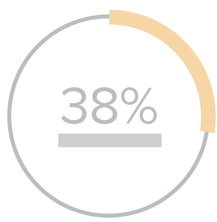




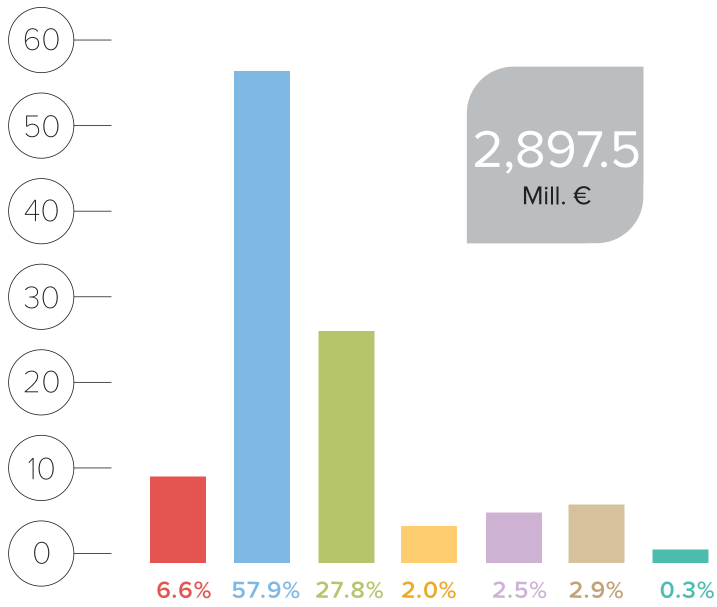
EBITDA-A BY BUSINESS AREAS

364.2
Mill. €

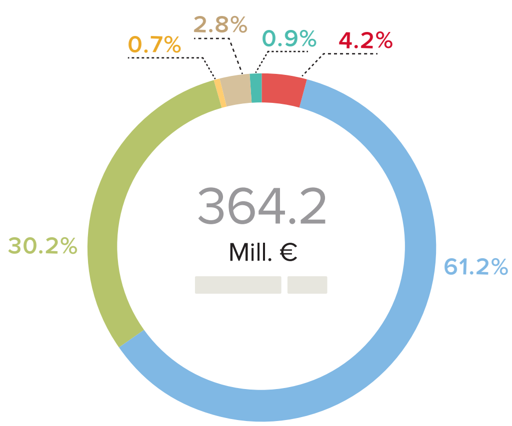


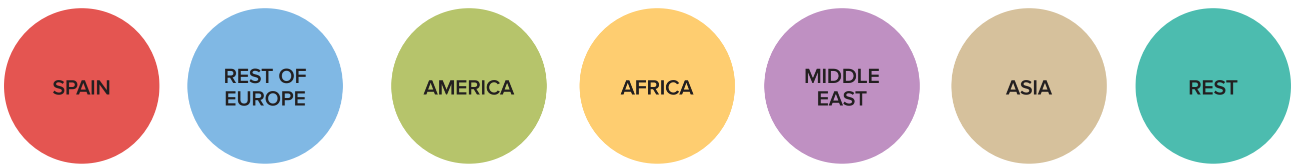


SALES BY GEOGRAPHICAL AREAS



EBITDA-A BY GEOGRAPHICAL AREAS





The most significant metrics of the Group are shown below:

'PROFIT AND LOSS	2018	2019	2019/2018	2020	2020/2019	TAMI 2020-2018
Revenue	2,297,882	2,510,381	*9.2%*	2,897,589	*15.4%*	***12.3%***
Advertising	(72,931)	(77,564)	*(6.4%)*	(88,605)	*14.2%*	***10.2%***
EBITDA-A	277,901	306,617	*10.3%*	364,224	*18.8%*	***14.5%***
EBIT-A	199,619	206,592	*3.5%*	252,022	*22.0%*	***12.4%***
Operating profit	196,796	191,142	*(2.9%)*	242,623	*26.9%*	***11.0%***
Consol profit for year (continuing operations)	133,283	118,299	*(11.2%)*	140,842	*19.1%*	***2.8%***
Net profit from discontinued operations	16,028	31,989	*99.6%*	65,809	*105.7%*	***102.6%***
Net profit of parent	141,589	141,752	*0.1%*	192,415	*35.7%*	***16.6%***

	31-12-18	31-12-19	2019/2018	31-12-20	2020/2019
Average working capital	588,403	643,139	*(9.3%)*	643,970	*(0.1%)*
Average capital employed	1,805,986	2,080,166	*(15.2%)*	2,191,813	*(5.4%)*
ROCE-A **(1)**	12.3	11.1		14.2	
Capex **(2)**	138,930	148,705	*7.0%*	117,600	*(20.9%)*
Average headcount	7,153	7,522	*5.2%*	7,664	*1.9%*

STATEMENT OF FINANCIAL POSITION	31-12-18	31-12-19	2019/2018	31-12-20	2020/2019
Equity	2,162,334	2,262,203	*4.6%*	1,927,351	*(14.8%)*
Net debt	704,621	999,849	*(41.9%)*	950,870	*4.9%*
Average debt	627,350	871,658	*(38.9%)*	917,583	*(5.3%)*
Leverage **(3)**	29.0%	38.5%		47.6%	
Total assets	3,834,069	4,381,004	*14.3%*	4,035,662	*(7.9%)*

STOCK MARKET	31-12-18	31-12-19	2019/2018	31-12-20	2020/2019
Number of shares	153,865,392	153,865,392	*0.0%*	153,865,392	*0.0%*
Market capitalisation at year-end	2,683,412	2,968,063	*10.6%*	2,914,211	*(1.8%)*
Earnings per share (EPS)	0.92	0.92	*0.1%*	1.25	*35.7%*
Dividend per share (DPS)	0.57	0.57	*0.0%*	2.51	*340.4%*
Underlying carrying amount per share	14.05	14.70	*4.6%*	12.53	*(14.8%)*

(1) ROCE-A = Average profit after D&A but before tax for the last 12 months (excluding extraordinary/non-recurring items) divided by average capital employed
(2) Capex = Cash outflows for investment purposes
(3) Leverage = Ratio of average net interest-bearing debt to equity (excluding non-controlling interests)

The profit/loss for the year, especially from discontinued activities, reflect the sale of dry pasta assets in the USA and Canada, described in Notes 5 and 25 to the accompanying Annual Accounts.

Under the International Financial Reporting Standards (IFRS), the revenue from the dry pasta business in North America up to the effective date of sale and the net proceeds from the sale are recognised as discontinued operations on the consolidated statement of profit or loss for the reporting period and earlier periods since its incorporation. In addition, the assets and liabilities associated with that business are included on a specific line on the balance sheet.

Sales revenue increased by 15.4% year on year. We witnessed strong sales growth in March and at the beginning of the second quarter as consumers feared shortages of basic necessities due to the pandemic. The impact varied as the first wave of the virus reached the different countries and the increase in demand was uneven (in some cases it was double that of a normal month). Tensions eased as from June and the stocks that had accumulated over the summer were consumed, so by the end of the year the situation was almost back to normal.

The **generation of resources, EBITDA-A,** grew by 18.8% and the sales margin improved in respect of earlier years. EBITDA-A, EUR 364.2 million, includes a negative exchange rate impact of EUR 3 million. The Tilda Group made a full-year contribution of EUR 24 million and the direct expenses deriving from the pandemic amounted to over EUR 15 million.

Profitability rose thanks to the increase in business, with high utilisation of the production capacity, cutting back promotions at the worst times of the pandemic and strong growth in the contributions of the Group's latest incorporations: Bertagni and Tilda.

Profits grew against a backdrop of rising raw material costs, with source price spikes in both rice and durum wheat, although it was possible to absorb them in the context of the pandemic.

Profit before tax rose by 9.6%, a smaller growth than EBITDA-A owing to the impairment of the goodwill of Canada fresh pasta (see Note 15 to the accompanying Annual Accounts) by EUR 35 million and a slightly higher interest expense due to the increase in average debt.

The **Net income from discontinued operations** includes the net income from discontinued operations and, in 2020 and 2019, the capital gain on the divestment in the North American dry pasta business and the organic business, respectively, as explained in the accompanying Annual Accounts.

ROCE-A rose sharply to 14.25 thanks to the improved profitability of our business.

Parameters of balance sheet, net debt and capital employed

The variations in debt and capital employed are mainly due to:

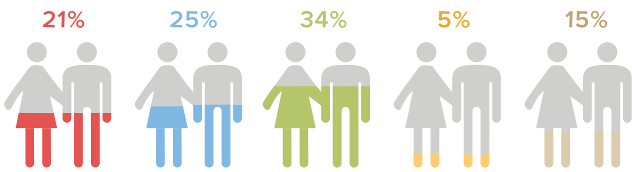
a. Accounting of the purchase of Bertagni and La Loma for EUR 143 million in 2018 and the Tilda Group in 2019, which contributed assets valued at EUR 292 million.
b. Significant increase in CAPEX in recent years.
c. Impact of the evolution of the USD exchange rate on the balance sheets of subsidiaries denominated in that currency (from 1.14 US$/€ in 2018 and 1.12 US$/€ at year-end 2019 to 1.23 US$/€ at year-end 2020).
d. Application of IFRS 16 (leases) in 2019, recognising rights to use and financial liabilities valued at EUR 88 and 90 million, respectively (see Note 10 to the Consolidated Annual Accounts).
e. Sale in 2020 of the dry pasta business in the United States and distribution of an extraordinary dividend of EUR 298.5 million.

To fully understand the working capital and the debt financing it, we must analyse the variable that has the greatest impact on these items: the quantity and value of the Group's stock. The volume of stock is strongly cyclical, linked to the rice and wheat harvests (especially rice, which has a longer stock cycle). The stock is smallest at the end of the rice campaign (end of summer), and largest at the end of each year and beginning of the next, after the purchase contracts for the new campaign have been made.

Rice Division

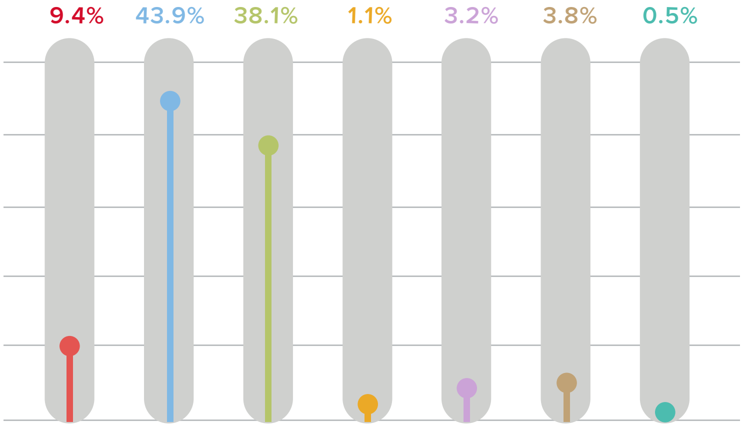
AVERAGE HEADCOUNT EMPLOYEES

4,672

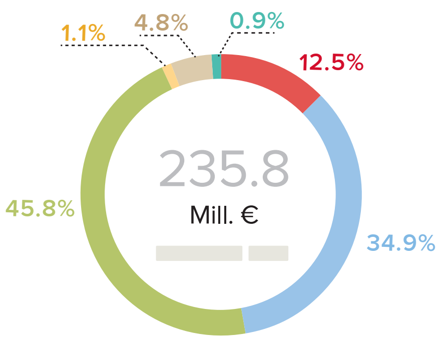


SALES BY GEOGRAPHICAL AREAS

1,817.7
Mill. €



EBITDA-A BY GEOGRAPHICAL AREAS



SPAIN | REST OF EUROPE | AMERICA | AFRICA | MIDDLE EAST | ASIA | REST

PROFIT AND LOSS (000€)						
	2018	2019	*2019/2018*	2020	*2020/2019*	CAGR 2020-2018
Revenue	1,412,702	1,566,239	*10.9%*	1,817,679	*16.1%*	***13.4%***
Advertising	(26,969)	(33,010)	*(22.4%)*	(36,789)	*11.4%*	***16.8%***
% Net profit	*(1.9%)*	*(2.1%)*		*(2.0%)*		
EBITDA-A	162,065	192,264	*18.6%*	235,809	*22.6%*	***20.6%***
% Net profit	*11.5%*	*12.3%*		*13.0%*		
EBIT-A	123,990	143,061	*15.4%*	178,503	*24.8%*	***20.0%***
% Net profit	*8.8%*	*9.1%*		*9.8%*		
Capex	64,583	75,160	*16.4%*	69,345	*(7.7%)*	***3.6%***

Prices rose at most sources during the year, especially for long grain rice from southeast Asia (Vietnam, Thailand, Myanmar), where a water shortage affecting the second harvest was feared at the beginning of the year. Prices also rose for the varieties grown in Spain, owing to the endemic problem of salinity in the Guadalquivir region.

Harvest prices for long grain varieties rose in the USA prior to harvesting, owing to a smaller area sown and the effects on yield of hurricanes such as Laura.

US HARVEST PRICES (Source: USDA)					
($-CWT)	20/21 (*)	19/20	18/19	17/18	16/17
Average price	13.68	13.5	12.6	12.9	10.4
Long grain	12.39	12	10.8	11.5	9.64
Medium grain	17.33	17.8	18.5	16.2	12.9

(*) Estimated range

Sales revenue grew considerably (+16.1%). Full-year earnings of the Tilda Group are included for the first time, contributing approximately EUR 110 million to net sales. Owing to the surge in demand in the first few months of the pandemic, orders doubled in some of our subsidiaries compared to previous years, so they had to prioritise the stock-keeping units (SKUs) with highest consumption levels and even limit the meeting of orders based on past orders and demand forecasts. This was successfully managed, with full utilisation of production capacity, meeting our commitments in due time and form and without any major stockouts (in spite of the lengthy supply chains in some of the SKUs).

Sales grew in practically all types of rice and distribution channels, except for the HORECA channel, which suffered the effects of closure of hospitality establishments for lengthy periods due to the pandemic. This sector represents a smaller proportion of our sales than other distribution channels, so other than the subsidiaries that produce frozen rice and, in part, those producing ingredients or niche products for the food service segment, sales grew significantly across the board.

The growth trend in microwave rice continued, although it slowed down in some countries owing to the accumulation of basic products. In Spain, for example, the sales volume of this product grew by 2%, clearly smaller than the growth in SOS short grain rice (+15% in volume), which is a traditional product and benefited from the increase in meals at home. However, in the USA, sales of microwave rice grew by 27% in volume.

EBITDA-A grew by 22.6% year on year, with a major contribution by the Tilda Group of EUR 30 million. The negative exchange rate effect is almost entirely concentrated in this segment (EUR 3 million), after discontinuing the dry pasta business in North America.

In spite of the tensions produced by the pandemic, the reorganisation carried out at the Freeport plant in earlier years and the investments made in the Memphis plant in the USA enabled us to maintain a high level of service. The growth of EBITDA-A in this region was in double digits and the sales margin was maintained.

The contribution to EBITDA-A by our non-American business, excluding the Tilda Group, which generates resources mainly in the UK, is distributed among the different regions as follows:

	2018	%	2019	%	2020	%
Spain	30,902	34.8%	25,471	28.7%	29,202	28.3%
Europe	47,779	53.8%	52,520	59.3%	58,934	57.2%
Other	10,143	11.4%	10,644	12.0%	14,916	14.5%
	88,824	**100.0%**	**88,635**	**100.0%**	**103,052**	**100.0%**

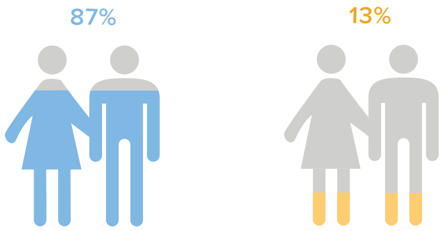
The distribution is similar to the previous year, with a slight reduction in the contribution by Europe, where most of the Group's business is concentrated in the HORECA channels.

The **Operating Profit** was in line with the previous margins, with a slight increase in the depreciation and amortisation charge linked to investments made in recent years.

Investment in fixed assets remained high, reflecting our investment in business lines with a high growth potential (microwave rice) and the improved productivity (packaging, storage and logistics), although the pandemic slowed down the work on the new microwave cup factory in Spain, which will be completed during 2021.

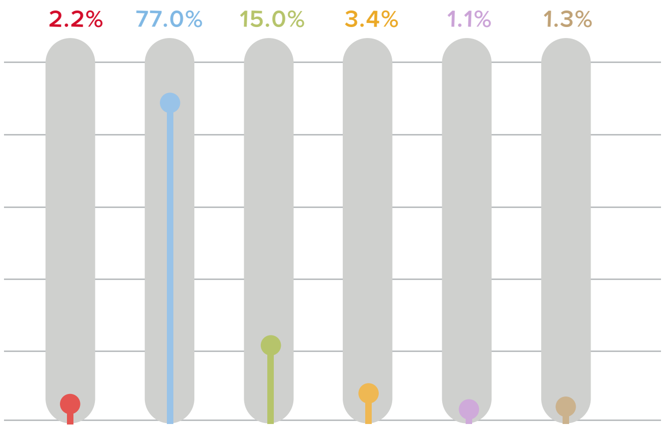
Pasta Division

AVERAGE HEADCOUNT EMPLOYEES



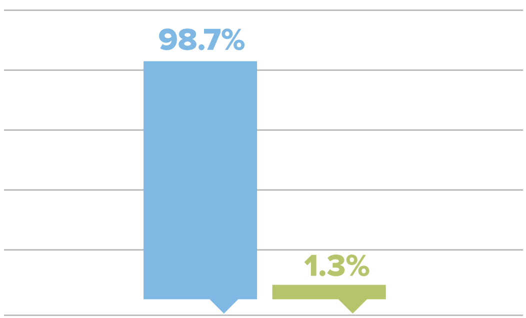
3,060

SALES BY GEOGRAPHICAL AREAS



1,162.4
Mill. €

EBITDA-A BY GEOGRAPHICAL AREAS



142.7
Mill. €

SPAIN | REST OF EUROPE | AMERICA | AFRICA | MIDDLE EAST | ASIA | REST

PROFIT AND LOSS (000€)						
	2018	2019	*2019/2018*	2020	*2020/2019*	CAGR 2020-2018
Revenue	949,905	1,009,007	*6.2%*	1,162,471	*15.2%*	***10.6%***
Advertising	(46,605)	(46,490)	*0.2%*	(53,176)	*14.4%*	***6.8%***
% Net profit	(4.9%)	(4.6%)		(4.6%)		
EBITDA-A	123,589	126,307	*2.2%*	142,708	*13.0%*	***7.5%***
% Net profit	13.0%	12.5%		12.3%		
EBIT-A	84,020	76,984	*(8.4%)*	89,330	*16.0%*	***3.1%***
% Net profit	8.8%	7.6%		7.7%		
Capex	73,946	71,772	*(2.9%)*	47,474	*(33.9%)*	***(19.9%)***

During 2020 the Group pulled out of the dry pasta business in North America, as described in Notes 5 and 25 to the Annual Accounts. The price of the businesses sold was equivalent to multiplying their value by more than 10 times Ebitda-A in a normal year. The sale is in keeping with the Group's leadership strategy, enabling us to concentrate our efforts on products with a high growth potential, such as premium dry pasta, leading brands on the respective markets and fresh pasta products. As mentioned earlier, all the figures in this report consider this business discontinued, unless otherwise expressly indicated.

Durum wheat prices rose generally, especially before the summer, with expectations of a smaller harvest in Spain and France due to a smaller area sown and a poor yield. After that the market stabilised, bolstered by a good harvest in Canada.

Sales grew by 15.2%, in line with the shock demand at the beginning of the pandemic mentioned earlier. The latest purchases by the Group are performing very well, with Bertagni in double-digit growth figures even though the pandemic has not had a material impact on the fresh products it sells (shorter shelf life, initial demand for basic, non-perishable products).

By markets:

a. In France, year-on-year growth of the brand markets was in double figures, except fresh pasta, with a year-on-year growth of 5.9% in volume. Panzani's market share in dry pasta slid to 35.5%, while increasing its share in fresh pasta to 45.1% (source: Nielsen 52 weeks).
b. Garofalo maintained its growth in sales revenue and volume. As its principal brand grew, it increased its share of the premium pasta market in Italy to 5.8% in volume, from 5.5% the previous year (source: Nielsen 52 weeks). It continued to grow in other markets such as Spain, where its volume of sales rose by 43%, far outstripping the market (9.6%), and it has become a benchmark in the premium pasta market.
c. Bertagni maintained its double-digit growth (+22% in value) in sales revenue to EUR 124 million, consolidating its customer portfolio, which includes the most important distribution chains in Europe and North America.
d. Dry pasta sales in Cana grew by 14.3% in volume and 11.7% in value. Olivieri increased its leadership with a 49.7% market share in volume and over 50% in value (source: Nielsen 52 weeks).

The division posted a strong growth in **EBITDA-A** (13% p.a., 7.5% CAGR), pushed up particularly by the contributions of Bertagni and Garofalo, of EUR 25 and 29 million, respectively.

France improved in all segments of business except its subsidiary Roland Monterrat, engaged mainly in the production and sale of sandwiches, which was particularly hard hit by the lockdowns imposed during the pandemic. Improved sales volumes, reassignment of promotional activities and a productivity plan more than offset the price hike in raw materials, which increased costs by EUR 17 million, mostly due to the rising prices of French durum wheat.

The fresh pasta business in Canada made a positive contribution, thanks to huge efforts to increase sales volumes and optimise productivity. The new gnocchi are doing especially well, with constantly growing sales and outperforming other categories. Even so, after reaching a deal to sell the dry pasta assets and discontinuing this business, impairment has been recognised of the goodwill arising from the purchase of Olivieri fresh pasta assets for EUR 35 million.

Both Bertagni and Garofalo completed an excellent year. They are both strongly committed to growth in the USA, where they make a significant portion of their sales (31% and 26%, respectively) and are a key element in our growth in that market, once the afore-mentioned sale of dry pasta assets was completed.

The **Operating Profit** followed the trend of the metrics mentioned above.

CAPEX was lower year on year, as the 2019 accounts had included the one-off acquisition of a logistics warehouse in France. Work continued during the year on enlargement of the facilities at the Garofalo plant and major refurbishment of the fresh pasta plant in Avio, scheduled for completion in 2021, which will enable Bertagni to increase its production capacity.