04. Business areas

General overview

2022 was a particularly turbulent year. The Russian Federation's invasion of Ukraine on February 24, unleashed a succession of waves of inflation which engulfed the prices of multiple commodities, including energy products. That supply shock came on the heels of recovery from the COVID-19 pandemic, which had already tightened several commodity markets and transportation. The result was double-digit inflation in many developed economies.

Global growth in 2022 is estimated at 2.9%, with the US growing by 1.9% compared to 5.9% in 2021 and the European Union registering growth of 3.3%, down from 5.3% in 2021. The economic slowdown was ushered in by the rollback of expansionary monetary policies as the authorities moved to mop up liquidity and increase the cost of money, eroding consumer confidence.

The pace of rate tightening across the main economies varied depending on the central banks' room for manoeuvre in tackling inflation. In the US, strong employment figures and a lower dependence on imported energy enabled more restrictive monetary policy, while the European Central Bank reacted to international events as they unfolded.

Growth is expected to hit its lowest level in three decades in 2023, with only the 2009 (financial crisis) and 2020 (pandemic) levels lower. Nevertheless, the most recent growth, inflation, employment and housing sales reports provide some grounds for optimism with most of the world's economies now expected to side step a technical recession.

Consumer trends

From the consumption standpoint, the pandemic can be considered a thing of the past. Some of the consumer trends that came along with the pandemic are here to stay but the pace of change is slowing and moving back to the level seen before 2020.

Growth in e-commerce is easing and neighbourhood supermarkets have come to dominate bricks-and-mortar retailing. Inflation and signs of crisis have given the hard discounters a bigger share of the retail pie, marked by a growing number of sales outlets.

Elsewhere, hospitality consumption has fully recovered. Despite rampant inflation, it seems as if post-pandemic habits are enduring, with the need to socialise winning out over the need to tighten budgets.
The general trends pivot around:

PERSONALISATION OF THE CONSUMER EXPERIENCE, SUSTAINABILITY, HEALTH, PLEASURE AND PRICE

Consumer decision-making power has increased. Consumers have more information at their fingertips, more comparison tools and they are willing to pay to feel identified with products that satisfy their desires. This is translating into:

a. Demand for quality products, ease of preparation and immediate satisfaction of their desires..

b. Preference for natural, healthy and organic foods. Closely related to this sentiment is the growth in the consumption of fresh products and the importance being given to small producers and start-ups that make the consumer feel closer to nature.

c. Search for products that form part of the circular economy, are seen as sustainable and involve stakeholders in their design, production and sale. Ethics are also increasingly driving purchase decisions.

d. Consumers want a wider range of choices. The higher-quality, private-label brands have been making inroads in virtually every social strata and segment of the population. Inflation is only driving the private-label brands' share higher.

SOCIAL CHANGES

a. Population ageing, older people with more say. The 'baby boomers' have transformed this segment of the population, which currently has greater purchasing power and different aspirations and needs (exercise and health) from those traditionally associated with this age group.

b. Reduction in the number of household members and constant growth in single-person households; new formats and product and service personalisation.

c. The new generations are paying more attention to their surroundings, sustainability and the environment.

d. Increased mobility and migration in many developed countries, which is introducing new tastes and ways of cooking.

NEW CHANNELS AND SERVICES

a. Online shopping and connectivity (possibility of shopping with traditional players that can offer user-friendly service, short delivery times, etc.).

b. Growth in the use of neighbourhood supermarkets, where consumers shop more frequently, and specifically the use of convenience stores (24-7, alliances with petrol stations and other places of transit).

c. Consolidation of virtual players such as Amazon and the emergence of new players in the retail market driven by the latest trends in consumption and the use of technology.

d. New ways of cooking and eating (ordering in, vending machines, snacking instead of sitting down to eat, etc.).

All these changes imply challenges for the retail sector and food producers: it is vital to elevate the point of sale, whether physical or digital, to the heart of strategy. Correct visibility and assortment are key success factors.

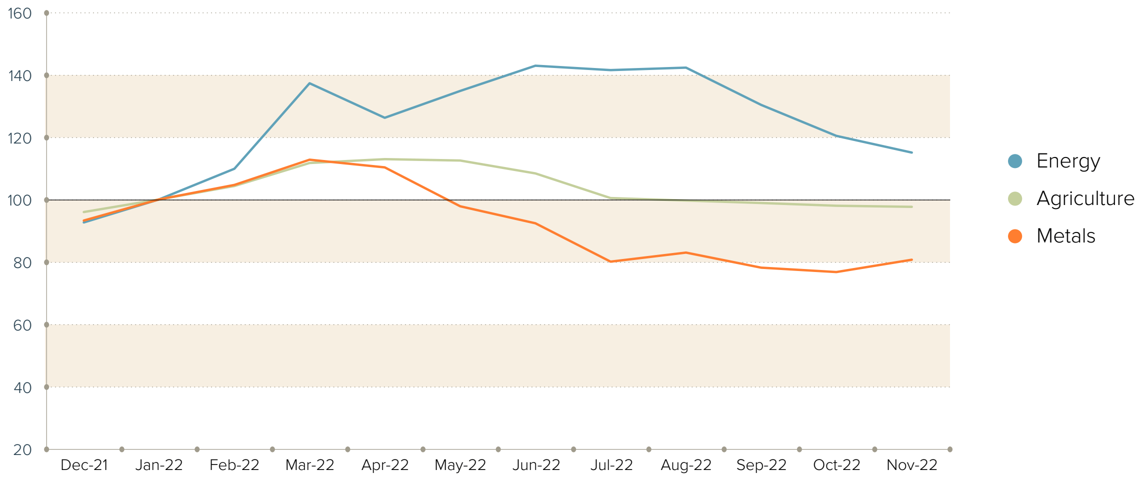
The technological revolution, coupled with the fact that the digital natives are now a target audience, has radically changed how brands are communicated. From the message to the medium. The emergence of influencers as a channel and of recommendations as a strategy have also changed how brands are managed. Advertising budgets are moving online, which now account for more than 50% of the Group's campaigns. Online advertising is characterised by its agility and constant consumer listening throughout product development and launch, compressing those timeframes and enabling faster responses.

Lastly, the commitment to end-to-end sustainability is fundamental: Convenience + Health + Sustainability are the drivers of innovation.

COMMODITY MARKETS AND TRANSPORTATION

The upward trend in the prices of the Group's key raw materials observed at the end of 2021 continued throughout the first half of 2022. Weak global demand as a result of softer growth and fresh Covid restrictions in China (affecting demand in the world's largest commodity consumer) kept a lid on prices during the second half of the year.

Commodity prices. Rebased 100 = January 2022



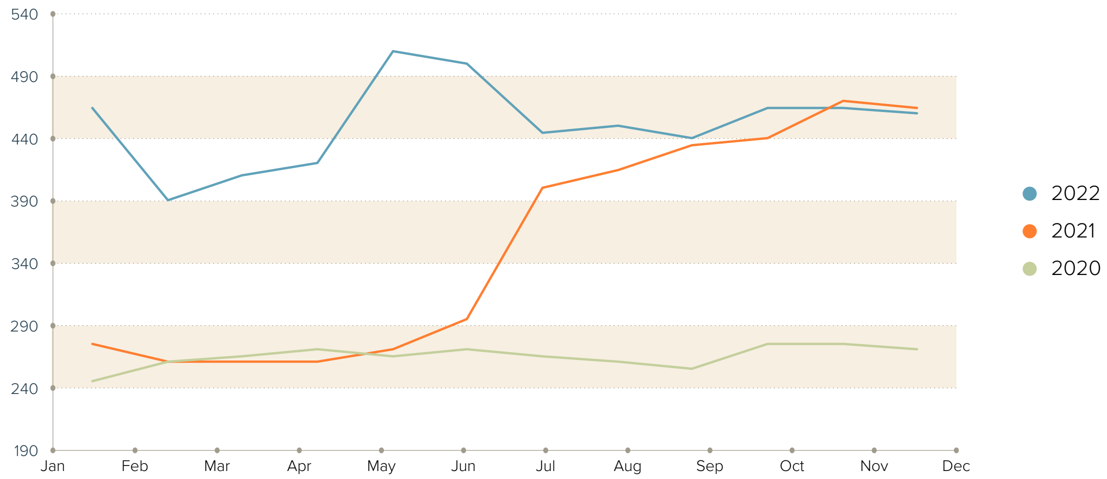
Source: *World Bank*

Fuelled by instability and restrictions on Russian exports, Brent oil prices surged to US$ 129/barrel in June, then dipping to end the year at US$ 80 (fairly flat year-on-year). Gas prices in the European Union likewise reached record levels during the summer before gradually easing throughout the rest of the year.

As for agricultural commodities, prices continued to rise during the first half of the year, with tension increasing further in the wake of the conflict in Ukraine. After the summer, the trend changed as common wheat and oil seed prices eased (thanks to an agreement to allow exports from Ukraine), the shipping panorama improved and harvests came in stronger than expected.

After extraordinary price increases in 2021, durum wheat prices were expected to come down in 2022 due to the prospect of more abundant harvests. The onset of war tightened prices for durum wheat, however, out of fear that the war and blockade of the Black Sea ports would hit the region's common wheat output. The market has been stable since the summer, with prices above the average of recent years. The 2022/23 harvest in the US and Canada is looking good, offsetting the weak outlook for the rest of producers. However, total output is still expected to come in below the trailing five-year average, with carryover stocks well below historical averages.

Durum wheat prices, €/MT



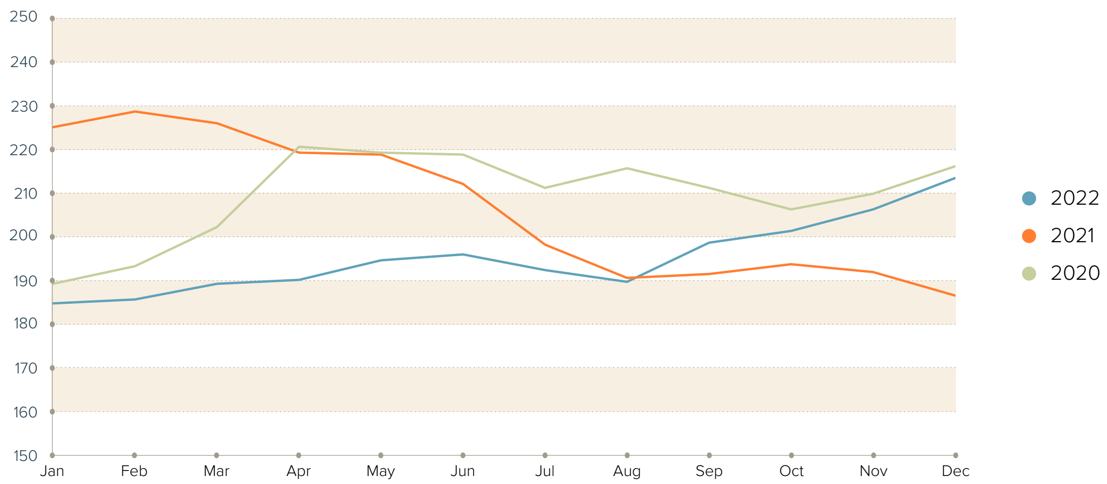
Source: *Terre.net and Ebro data*

The 2021/22 rice harvest was again strong. According to data published by the Food and Agriculture Organisation (FAO), production was an estimated 526 million tonnes of white rice equivalent, above the previous harvest. The outlook is for a slightly smaller 2022/23 harvest of around 512 million tonnes, virtually identical to that of 2020/21.

It is worth highlighting two factors of particular importance to the Ebro Group: (i) the reduced size of the rice harvest in the US in the last two years; and (ii) the ongoing reduction in the size of the sown area in Spain due to the lack of water for irrigation.

The chart below depicts the trend in the IPO international farmgate rice price index for the last three years, showing an average for the most popular varieties of this grain.

IPO rice price index

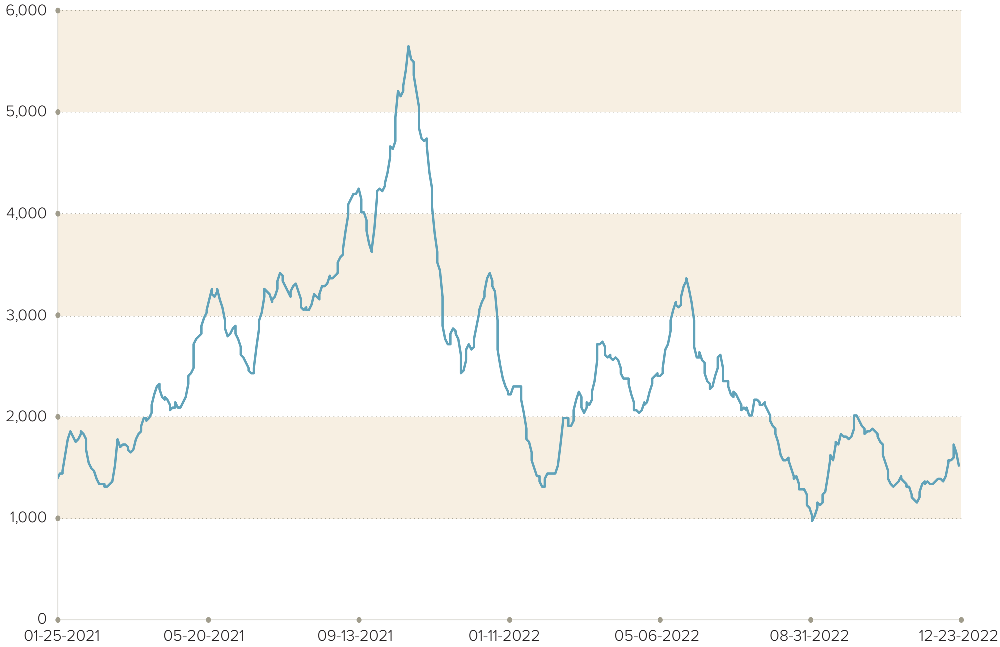


Source: *Infoarroz*

The price stability observed at the start of the year gradually gave way to a run-up in farmgate prices shaped by: (i) the flooding in Pakistan; (ii) protectionist measures introduced in several producing countries to contain prices in the midst of the inflationary spiral; (iii) the surge in oil and oil derivative prices; and (iv) the prospect of a smaller harvest.

Lastly, shipping prices, which have a significant impact on the cost of rice sourced in Southeast Asia, eased. Despite the peaks caused by the geopolitical uncertainty and the death throes of the pandemic, both supply and prices have improved, as shown in the following index tracking shipping prices during the last two years. Nevertheless, average prices remained clearly above those of previous years.

Baltic Dry Index 2021-2022



Source: *Baltic Dry INdex*

THE PANDEMIC AND THE WAR IN UKRAINE

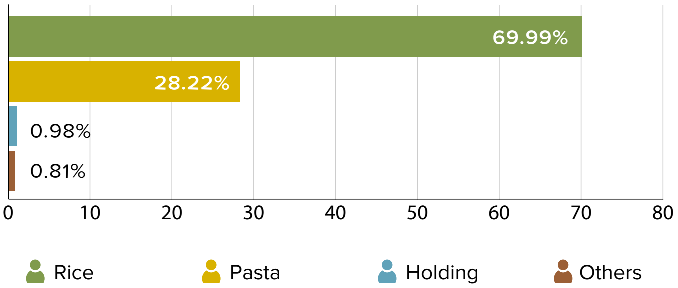
As outlined in the section addressing the economic environment, the global economy continues to recover from the pandemic. After successive waves and variants between March 2020 and well into 2022, it is safe to say that by the end of 2022 things were virtually back to the way they were before it all started.

The war in Ukraine, following military invasion by the Russian Federation on February 24, 2022, has created significant global uncertainty. The international community reacted swiftly, with many countries (including the European Union and United States) imposing sanctions on Russia and its people.

The difficulty in predicting how the conflict will end and its obvious geopolitical implications mean that it is not currently possible to reliably estimate what potential impact the conflict and the international response to it could have on the Group's businesses. The situation is affecting the availability and prices of certain commodities (those in which Russia and Ukraine are leading global producers and exporters, such as wheat and sunflower oil), energy prices and exchange rates. All of which has unleashed a bout of high inflation in nearly every country in Europe and the Americas, prompting the modification of monetary and fiscal policies in those countries. However, it is hard to estimate how these variables will evolve in the coming months.

It is worth pointing out that the Ebro Group has proven particularly resilient in the face of such dramatic events. Thanks to the characteristics of the products it makes and sells and its geographic footprint, neither the value of its assets nor its ability to generate free cash flow have suffered a material impact beyond the effects of the general economic situation

Consolidated Group

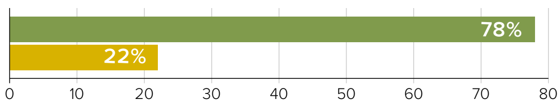


Average headcount employees

6,414 Employees

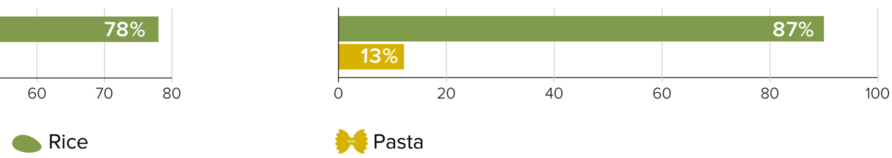
Sales by business areas

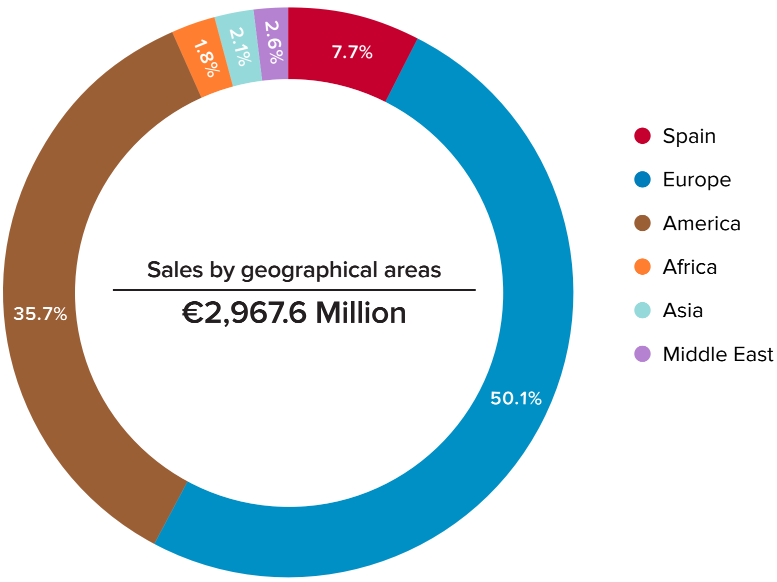
€2,967.6 Million



EBITDA-A by business areas

€334.6 Million





The Group's key financial indicators are presented below:

PROFIT AND LOSS		2020	2021	2021/2020	2022	2022/2021	CAGR 2022/2020
Revenue		2,430,310	2,427,068	-0.1%	2,967,672	22.3%	**10.5%**
Advertising		(67,408)	(75,474)	-12.0%	(77,161)	2.2%	**7.0%**
	As a % of revenue	-2.8%	-3.1%	-12.0%	-2.6%		
EBITDA-A		305,132	301,860	-1.1%	334,622	10.9%	**4.7%**
	As a % of revenue	12.6%	12.4%		11.3%		
EBIT-A		211,711	207,295	-2.1%	233,599	12.7%	**5.0%**
	As a % of revenue	8.7%	8.5%		7.9%		
Profit before tex		159,869	198,731	24.3%	185,807	-6.5%	**7.8%**
	As a % of revenue	6.6%	8.2%		6.3%		
Income tax		(42,642)	(53,512)	-25.5%	(50,242)	-6.1%	**8.5%**
	As a % of revenue	-1.8%	-2.2%		-1.7%		
Profit for the year from continuing operations		117,227	145,219	23.9%	135,565	-6.6%	**7.5%**
	As a % of revenue	4.8%	6.0%		4.6%		
Profit after tax from discontinued operations		89,424	105,027	17.4%	(917)	-100.9%	
	As a % of revenue	3.7%	4.3%		0.0%		
Profit attributable to equity holders of parent		192,415	238,629	24.0%	122,059	-48.8%	**-20.4%**
	As a % of revenue	7.9%	9.8%		4.1%		

STATEMENT OF FINANCIAL POSITION	31.12.20	31.12.21	2021/2020	31.12.22	2022/2021
Equity	1,927,351	2,101,627	9.0%	2,164,438	3.0%
Net debt	950,757	504,723	46.9%	762,635	-51.1%
Average net debt	917,574	865,418	5.7%	645,809	25.4%
Leverage (3)	47.6%	41.2%		29.8%	
Total assets	4,035,662	3,938,622	-2.4%	3,900,216	-1.0%

(000€)	31.12.20	31.12.21	2021/2020	31.12.22	2022/2021
Average working capital	642,535	662,058	-3.0%	925,501	-39.8%
Average capital employed	2,183,209	2,060,319	5.6%	2,228,932	-8.2%
ROCE-A (1)	9.7	10.1		10.5	
CAPEX (2)	117,602	120,035	2.1%	118,808	-1.0%
Average headcount	7,664	6,440	-16.0%	6,293	-2.3%

(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

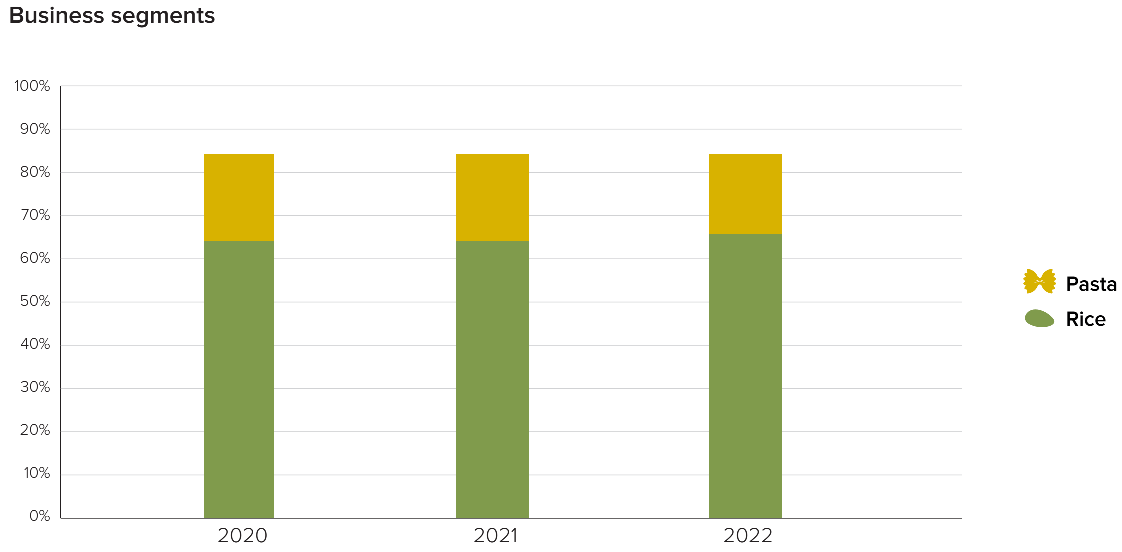
(2) CAPEX : cash outflow for investment purposes, of which 18 (2020) and 11 (2021) million correspond to discontinued operations

(3) Leverage = Ratio of average net interest-bearing debt to equity (excluding non-controlling interests)

In keeping with the International Financial Reporting Standards, the results of the dry pasta businesses in North America and France until their sales closed in 2020 and 2021 and the net gain recognized on those disposals were presented within discontinued activities on the consolidated statement of profit or loss for those and the prior reporting periods. The information provided in this management report reflects that circumstance, unless expressly stated otherwise.

Group **revenue** increased by 22.3% from 2022, implying average annual growth over the last three years of 10.5%. That growth was attributable to: (i) the trend in the US$ exchange rate, which accounts for approximately 15% of the total increase; (ii) the growth in prices derived from inflation across the main raw materials, auxiliary materials and energy products, which accounts for over 50% of the change; and (iii) volume growth, particularly in the US and UK. M&A activity had no major impact as the first-time consolidation of the business associated with the InHarvest brand offset the deconsolidation of Roland Monterrat (Note 5 of the accompanying financial statements).

The breakdown of revenue and the year-on-year trend by business line is as follows:



The weight of the rice business neared 75% of the total (like-for-like, reclassifying the North American and French dry pasta businesses as discontinued operations in all periods). By destination, approximately 35% of sales were generated in North America with the UK and Italy commanding growing shares thanks to momentum around the Tilda (rice) and Garofalo (pasta) brands.

EBITDA-A increased by 10.9% in 2022 (accumulated annual average growth remains at 4.7%), while the margin declined slightly year-on-year due to the impact of higher prices, which made it impossible to defend unit margins. EBITDA-A includes 13.6 million euros of positive exchange rate effects.

Earnings momentum was very positive across all line items, clearly outperforming recent years despite the tremendous market turbulence induced by widespread inflation.

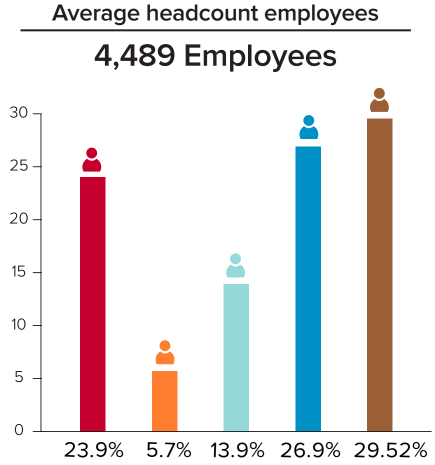
The Group's continued earnings momentum was underpinned by: (i) astute supply chain management marked by the search for alternative sources of supply and transport; and (ii) the leadership commanded by its brands, which enabled management of the commercial problems posed by the widespread increase in prices (in many instances, product prices had to be increased twice during the year).

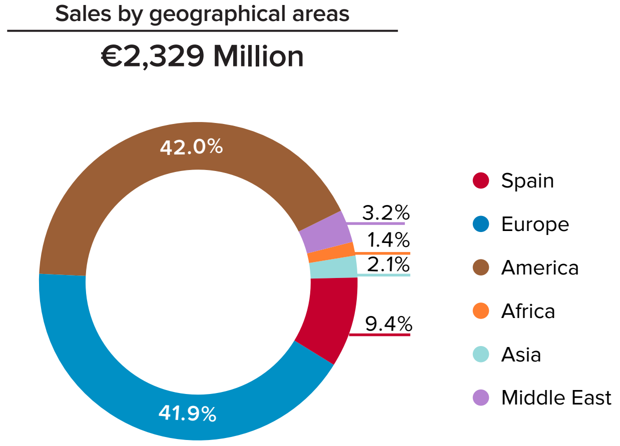
Profit before tax decreased by 6.5% due to the impact of the sale of Roland Monterrat (Note 5 of the accompanying financial statements) and the impact of currency market volatility. However, the compound average growth rate between 2020 and 2022 remains a healthy 7.8%.

Profit after tax from discontinued operations includes the net profit of the activities classified as discontinued and the gains recognized on the sale of the dry pasta businesses in North America and France, as explained in the accompanying consolidated financial statements.

The Group's **ROCE-A** (not restated) improved by comparison with recent years thanks to earnings growth, which more than offset the impact of the higher working capital requirement caused by raw material and auxiliary material friction and inflation.

Rice Area





PROFIT AND LOSS	2020	2021	2021/2020	2022	2022/2021	CAGR 2022/2020
Revenue(*)	1,893,924	1,858,919	-1.8%	2,329,486	25.3%	**10.9%**
Advertising(*)	(43,120)	(43,789)	-1.6%	(53,898)	23.1%	**11.8%**
As a % of revenue	-2.3%	-2.4%		-2.3%		
EBITDA-A(*)	252,614	247,680	-2.0%	289,830	17.0%	**7.1%**
As a % of revenue	13.3%	13.3%		12.4%		
EBIT-A(*)	195,210	189,087	-3.1%	222,664	17.8%	**6.8%**
As a % of revenue	10.3%	10.2%		9.6%		
CAPEX(*)	69,345	74,246	7.1%	71,152	-4.2%	**1.3%**

(*) Having sold the dry pasta business in France, the operations and earnings of the rice business in that country, which had been included under the pasta segment until 2021, have been reclassified to the rice business for all reporting periods covered.

The global harvest was abundant, with the harvests in India and Thailand standing out. However, farmgate prices tightened during the year on account of certain events: (i) restrictions on the export of certain rice varieties in India to ensure internal supplies; (ii) flooding in Pakistan, affecting that country's harvest; (iii) a scant short-grain rice harvest in Italy; (iv) continued restrictions on rice planting in southern Spain due to the shortage of water; and (v) a below-average harvest in North America by comparison with recent years.

In the US, prices continued their upward trajectory on the back of a smaller sown area in long-grain planting areas and the effects of the terrible drought affecting California, where medium-grain rice predominates.

US harvest prices

August/July ($/cwt)	22/23(*)	21/22	20/21	19/20	18/19
Average price	19.2	16.1	14.4	13.6	12.6
Long grain	16.7	13.6	12.6	12	10.8
Medium grain	29.2	24.8	20.1	17.8	18.5

Source: *USDA*
(*) *Estimate*

Revenue registered double-digit growth (+25.0%), thanks largely to higher prices. The inflation sustained since the second half of 2021 across all raw materials and auxiliary materials, transport and energy forced successive price increases in all products, rice products being no exception.

The volume trend was very positive in branded products and also in sales of rice for industrial uses. A significant portion of the growth eked out is attributable to good logistics and industrial management, which unlocked source availability and excellent service standards at the times of greatest difficulty (lack of containers, shortage of transport and strikes). All of the value-added rice varieties performed particularly well, as did the instant, ready-to-serve and aromatic rice products.

The InHarvest assets contributed 38.9 million euros of revenue since their consolidation in April 2022. The InHarvest business is focused on the sale of premium rice and grains in the US.

The new San José de la Rinconada factory gradually increased its capacity to cater to growing demand for higher value-added rice, with further capacity additions in the pipeline in that market as a result.

EBITDA-A increased by 17% from 2021, a little less than the topline growth, including positive exchange rate effects of 13.7 million euros. Profitability was hurt by the impossibility of defending unit margins in the midst of rampant inflation. In absolute terms, however, profits were driven by the growth in sales volumes and a more favourable sales mix.

Investment in advertising recovered in tandem with the market rebound, although the equilibrium between spending on channel marketing and promotions was constantly fine-tuned in response to the impact of prices on consumers.

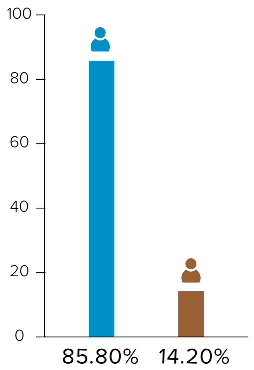
The business's higher contribution to EBITDA-A was concentrated, in order, in the US, UK, Spain and the rest of the EU, although the weight of developing markets is growing.

CAPEX remained at high levels, framed by the strategic commitment to higher growth business lines (microwaveable rice in the US and Spain) and to using renewable sources of energy (new photovoltaic plants) and alternative sources of supply (expansion of the Argentine facilities).

Pasta area

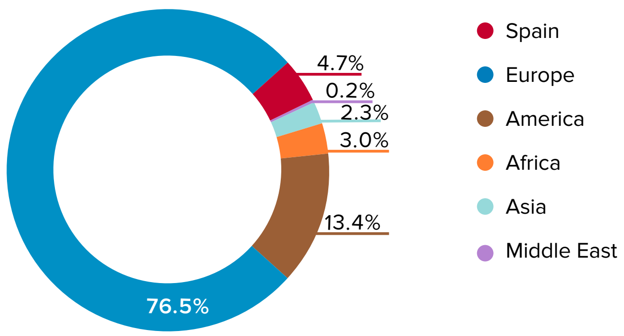
Average headcount employees

1,810 Employees



Sales by geographical areas

€651 Million



PROFIT AND LOSS	2020	2021	2021/2020	2022	2022/2021	CAGR 2022/2020
Revenue(*)	581,460	590,781	1.6%	651,545	10.3%	**5.9%**
Advertising(*)	(25,648)	(33,181)	-29.4%	(24,904)	-24.9%	**-1.5%**
As a % of revenue	-4.4%	-5.6%		-3.5%		
EBITDA-A(*)	66,811	68,825	3.0%	58,478	-15.0%	**-6.4%**
As a % of revenue	11.5%	11.6%		9.0%		
EBIT-A(*)	32,312	34,447	6.6%	26,330	-23.6%	**-9.7%**
As a % of revenue	5.6%	5.8%		4.0%		
CAPEX(*)	47,474	45,266	-4.7%	46,222	2.1%	**-1.3%**

(*) Having sold the dry pasta business in France, the operations and earnings of the rice business in that country, which had been included under the pasta segment until 2021, have been reclassified to the rice business for all reporting periods covered for enhanced comparability.

Durum wheat prices started the year lower, underpinned by the prospect of a better harvest than the year before (which was particularly poor). However, the war in Ukraine tightened prices, which headed rapidly back to year-end 2021 levels. Since the summer, farmgate prices have been steady at over 400 euros per tonne. The 2022/23 harvest in the US and Canada is expected to be better, offsetting the poor outlook for the rest of producers. However, total output is still expected to be below the trailing five-year average, with carryover stocks well below historical averages.

2022 **revenue** increased by 10.3%, driven by higher prices and volume growth in the premium pasta segment. In general, the fresh pasta businesses experienced a tough year as this segment is more price sensitive than the Group's other products.

By market:

a. In France, the fresh pasta market contracted by 3.1% by volume but grew by 2.3% by value. The Group's brands increased their market share to 48.8% by volume (Nielsen 52-week tracker). The pan-fry gnocchi range, in which the Group commands a clear leadership position, remains the key market growth driver.

b. Growth at Bertagni continued (revenue: +18%); volumes rose despite the difficulties faced by the sector. In Spain, the Group launched the sale of a high-quality Garofalo-branded fresh pasta range made by Bertagni.

c. In Canada, the market grew by 16% by volume and by 21.2% by value. Olivieri expanded its leadership grip with a share of 65% by value (Nielsen 52-week tracker). The ongoing success of the pan-fry gnocchi ranges (volumes have tripled in four years) has led to plans to add capacity.

d. The Italian dry pasta market was totally flat in volume terms in 2022, expanding by 21.6% by value on the pack of price increases. The Garofalo brand performed excellently: it increased its share (by volume) of the Italian premium pasta segment to 6.6% from 6.1% (Nielsen 52-week tracker). In Spain, it cemented its position as the leading Italian pasta brand and a benchmark in the premium segment.

EBITDA-A decreased by 15%. That weaker performance is mainly attributable to the fresh pasta business due to the increased cost of wheat, transport, energy and, ultimately, all of the products used to fill the pasta (meat, mozzarella, etc.). Garofalo improved its offering and was able to pass the initial durum wheat price shock through thanks to its leadership in the premium segment.

As already noted, price elasticity is higher in the fresh pasta products and the characteristics of the products (shorter shelf life and need for refrigeration) make it harder to eke out supply chain savings, leaving it more exposed to budget tightening in response to higher prices.

One of the Group's biggest transactions last year was the sale of the French subsidiary, Roland Monterrat, for 22 million euros, generating a loss at the consolidated level of 23.3 million euros in 2022 (of which 3.7 million was recognized as an operating loss and the remaining 19.6 million euros as a non-recurring loss). Roland Monterrat, specialized in the production and sale of sandwiches, pate en croute and croque-monsieur, has not added value to the Group since its acquisition in 2015. In May 2021, the Ebro Group presented a claim for damages before the subsidiary's former shareholders (i.e., the vendors). At the date of publishing this Management Report it is impossible to say with reasonable certainty when that case will be settled or how much the Group can expect to receive. Nevertheless, the Ebro Group believes it has strong chances of being handed a favourable ruling that will enable it to receive a sum close to the amount invested in this business.

CAPEX (not restated, with 48 and 11 million euros corresponding to discontinued operations in 2020 and 2021, respectively) was relatively stable, with the investment thrust concentrated on the expansion of capacity at the gnocchi factories.