



Business areas

4. Business areas

GENERAL BACKDROP

The economy performed better than initially expected in 2023. Growth did slow and there are still significant spots of inflation but the global economy avoided the dreaded stagflation and proved more resilient than anticipated. Existing geopolitical tensions (war in Ukraine) continued and were joined by new conflicts in the Middle East. Nevertheless, the job markets held up better than expected and the last savings buffers set aside by consumers during the pandemic, coupled with elimination of the bottlenecks created by the latter, gave global GDP growth a small boost.

The global economy is estimated to have expanded by 2.6% in 2023, performing unevenly from one economy to the next. The US beat all forecasts, delivering growth of 2.5%, compared to 1.9% in 2022, whereas growth in the European Union fell to 0.4% (2022: 3.4%), dragged down by the German economy, which contracted by 0.3%.

The slowdown in growth qualified as the sought-after “soft landing”, having controlled the worst of the surge in inflation in 2022. The main central banks, led by the Fed, persisted in raising rates until the summer, at which point they decided to pause their tightening for fear of provoking a recession.

The indicators out so far for 2024 suggest that the advanced economies continue to move at different speeds: production data, consumer confidence and employment point to hesitation in the eurozone, in contrast with strong momentum in the US, in line with the trend observed towards the end of 2023.

CONSUMER TRENDS

With the pandemic behind us, some of the consumer trends it sparked (surge in e-commerce) remain with us, although the pace of transformation is slowing. Nevertheless, new events continued to shake the market - war in Ukraine, rampant inflation, the crisis in the Middle East - creating a sense of instability.

Inflation gave the hard discounters and private label brands a bigger share of the retail pie, marked by a growing number of sales outlets and increasing market share. This trend makes it virtually impossible to aspire to a presence at 100% of the retailers and current market sentiment makes it hard to defend prices.

Hospitality consumption has fully recovered. Despite inflation, the need to socialise, a hedonistic spirit and a taste for convenience continue to surmount budget restrictions.

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.

A number of desires are coming into play when shopping: products need to be healthy but also convenient and high quality. In parallel, demand for sustainable products is growing, little by little.

Social changes

Although we are seeing many changes, price remains the key driver of spending decisions.

- a.** Demographic changes. The older generations have more power. 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. At the same time, the younger generations (Gen Z) feed themselves very differently than their elders.
- 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, but they are not willing to pay a lot more for those attributes.
- 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 technology revolution 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, currently accounting for more than 50% of the Group’s campaigns. Lastly, the advent of artificial intelligence is set to imply a new revolution across the board.

Geopolitical situation: conflict in the Middle East and war in Ukraine

More than two years on from the invasion of Ukraine by the Russian Federation on February 24, 2022, global uncertainty remains high. Since October 2023, the conflict between Israel and some of the regions around it has further undermined geopolitical stability and added more uncertainty to the financial and energy markets.

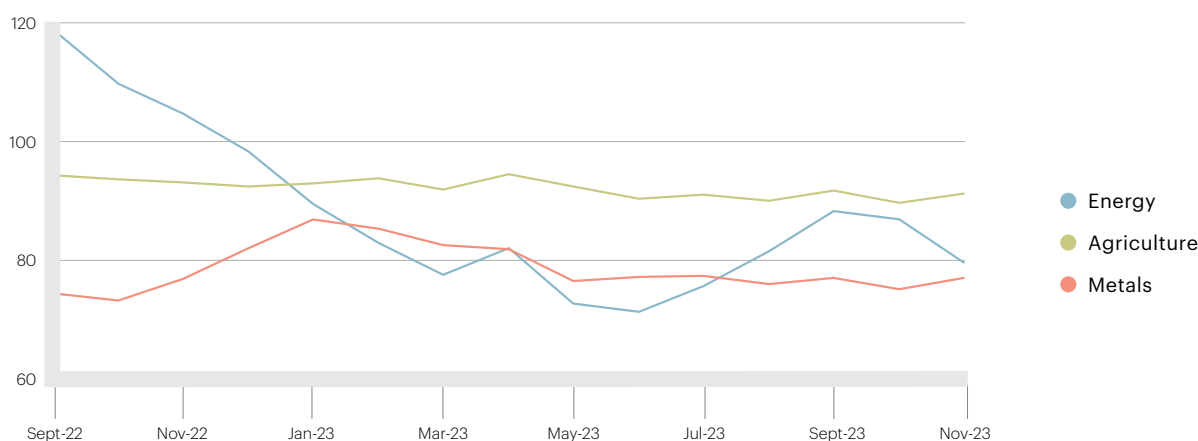
The difficulty in predicting how these conflicts will play out and their obvious geopolitical implications mean that it is not currently possible to reliably estimate what potential impact the denouement of the conflicts and the international response to them could have on the Group's businesses. These situations continue to affect 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), the price of energy and other essential products and exchange rates.

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 suffered a material impact beyond the effects of the general economic situation.

Commodity markets and transportation

Despite the geopolitical conflicts commented on above, the prices of the main commodities continued to trend lower in 2023 due to a drop in demand, albeit remaining above pre-pandemic levels.

Commodity prices. Rebased 100 = February 2022

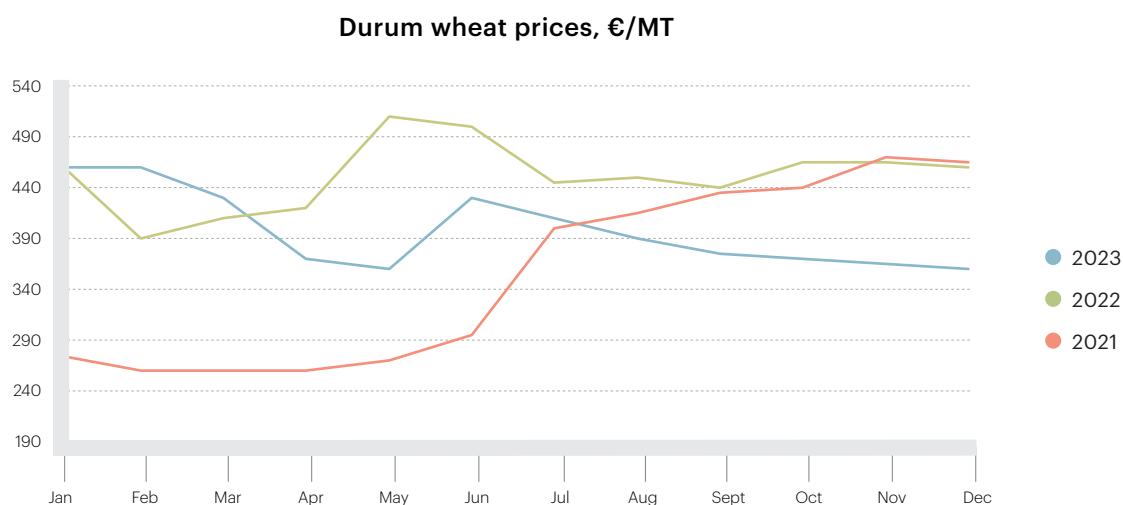


Source: World Bank

Energy prices, particularly oil prices, corrected considerably as demand in the main developed economies and China slumped on the back of lower growth. As a result, those economies were able to keep their gas reserves at over 90% of capacity. From the second half of the year on, oil prices were highly volatile as a result of announced production cuts by OPEC+ and the tensions unleashed in the Middle East.

Agricultural commodity prices trended lower in general, easing 9% for the year thanks to strong harvests and a modicum of stability around the conflict in Ukraine, which involves some of the world's largest producers. That downward trend contributed to a slight let-up in the food price index, although prices remained at historically high levels. Inflation, and the efforts made to curb it, triggered conflicts among the main market players (producers, industry and retailers) and governments, concerned about the higher cost of food staples.

Following an abundant and good quality 2022/23 harvest, durum wheat prices trended lower in 2023, ticking slightly higher for a time at the start of the 2023/24 out of fear of a poor harvest in Canada (the world's top exporter). Weakness across the main producer countries was partially offset by an abundant crop in Turkey, which has emerged as the world's second-largest exporter of durum wheat. Nevertheless, prices remain significantly above the average for the last 10 years and carryover stocks remain at record lows.

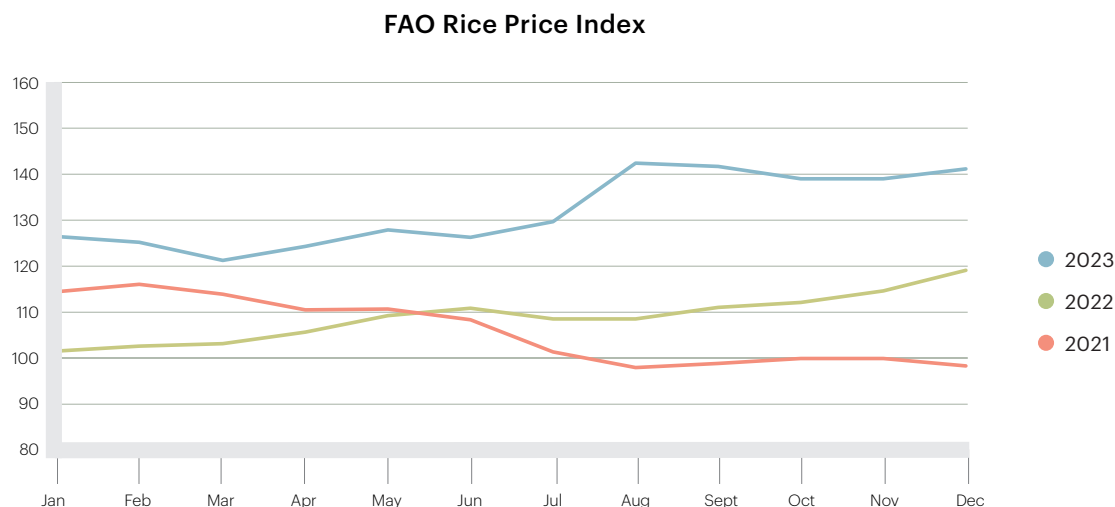


Source: Terre.net and Ebro data

In contrast to the generalised downtrend in the prices of the agricultural commodities of greatest importance to global trade, and specifically within the grains category, rice prices increased by an average of 21% in 2023, even though the global harvest was as strong as in recent years. The main catalyst for the price increases were the restrictions placed on exports by certain producers in Southeast Asia driven by: i) fears about the effects of El Niño on the new harvests; ii) inflationary pressures on inputs; and iii) the alarm caused by the growth in the prices of staple foods in less developed economies.



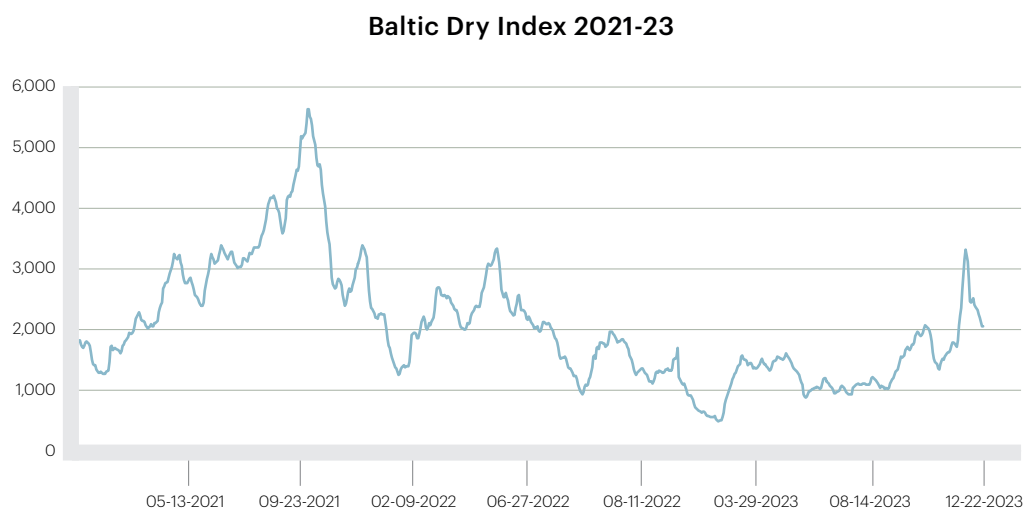
The chart below depicts the trend in the FAO international farm-gate rice price index for the last three years, showing an average for the most popular varieties of this grain.



Source: FAO

The 2022/23 rice harvest was strong once again. According to data published by the Food and Agriculture Organisation (FAO), production was an estimated 521 million tonnes of white rice equivalent, slightly below the previous harvest (526 million tonnes). The forecast for 2023/24 is for a further increase to 525 million tonnes but prices remain tight, albeit varying by variety: Indica rice prices have been trending higher and fragrant and long-grain American rice prices have been trending lower in recent months.

Lastly, shipping costs, which have a significant impact on the cost of rice sourced from Southeast Asia, were pretty volatile, having hit lows in early 2023 (refer to the chart below), as a result of two developments: i) the drought affecting the area around the Panama Canal, forcing a reduction in traffic via this route; and ii) conflict in the Persian Gulf, forcing route changes at the end of the year.



Source: Baltic Dry Index

CONSOLIDATED GROUP

Average headcount employees

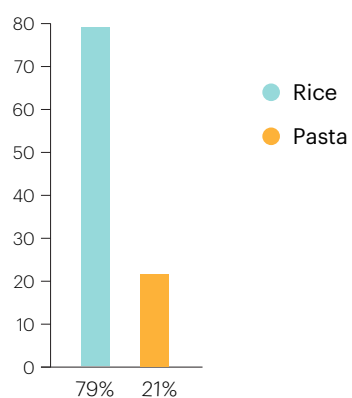
6,457



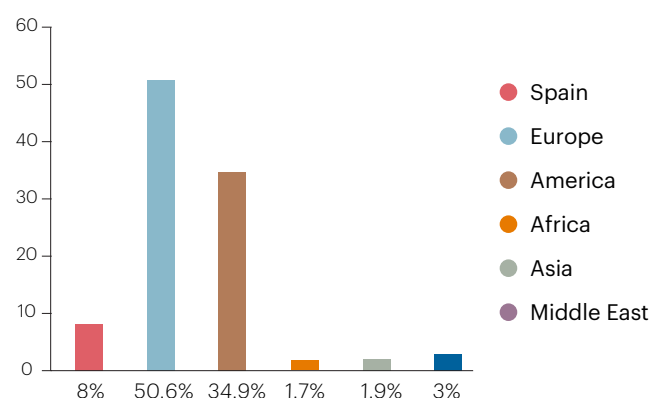
Sales

€3,084.5 mill.

By business areas



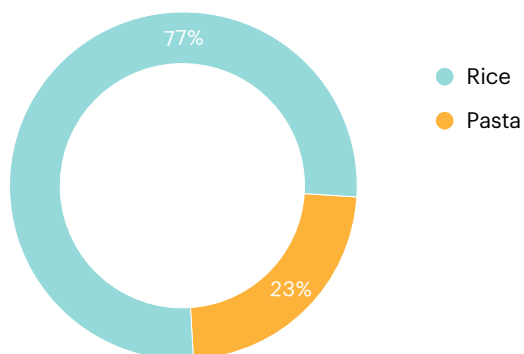
By geographical areas



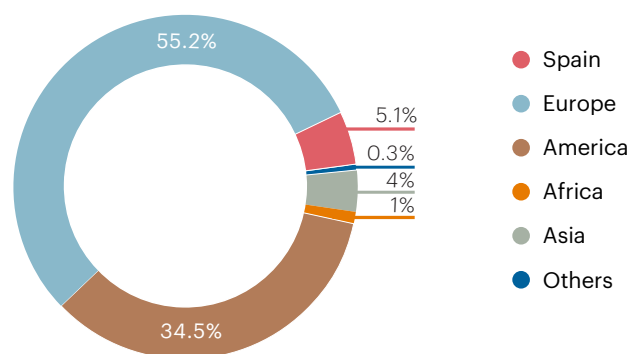
EBITDA-A

€387,1 mill.

By business areas



By geographical areas



The Group's key financial indicators are presented below:

STATEMENT OF PROFIT OR LOSS	2021	2022	2022/2021	2023	2023/2022	CAGR 2021-2023
Revenue	2,427,068	2,967,672	22.3%	3,084,457	3.9%	12.7%
Advertising	(75,474)	(77,161)	(2.2%)	(86,314)	11.9%	6.9%
<i>As a % of revenue</i>	(3.1%)	(2.6%)	(2.2%)	(2.8%)		
EBITDA-A	301,860	334,622	10.9%	387,171	15.7%	13.3%
<i>As a % of revenue</i>	12.4%	11.3%		12.6%		
EBIT-A	207,295	233,599	12.7%	284,297	21.7%	17.1%
<i>As a % of revenue</i>	8.5%	7.9%		9.2%		
Profit before tax	198,731	185,807	(6.5%)	273,857	47.4%	17.4%
<i>As a % of revenue</i>	8.2%	6.3%		8.9%		
Income tax	(53,512)	(50,242)	6.1%	(68,846)	37.0%	13.4%
<i>As a % of revenue</i>	(2.2%)	(1.7%)		(2.2%)		
Profit for the year from continuing operations	145,219	135,565	(6.6%)	205,011	51.2%	18.8%
<i>As a % of revenue</i>	6.0%	4.6%		6.6%		
Profit after tax from discontinued operations	105,027	(917)	(100.9%)		(100.0%)	(100.0%)
<i>As a % of revenue</i>	4.3%	0.0%				
Profit attributable to equity holders of parent	238,629	122,059	(48.8%)	186,964	53.2%	(11.5%)
<i>As a % of revenue</i>	9.8%	4.1%		6.1%		

STATEMENT OF FINANCIAL POSITION	31.12.21	31.12.22	2022/2021	31.12.23	2023/2022
Equity	2,101,627	2,164,438	3.0%	2,185,159	1.0%
Net debt	504,723	762,635	(51.1%)	570,404	25.2%
Average net debt	865,418	645,809	25.4%	657,683	(1.8%)
Leverage (3)	41.2%	29.8%		30.1%	
Total Assets	3,938,622	3,900,216	(1.0%)	3,871,565	(0.7%)

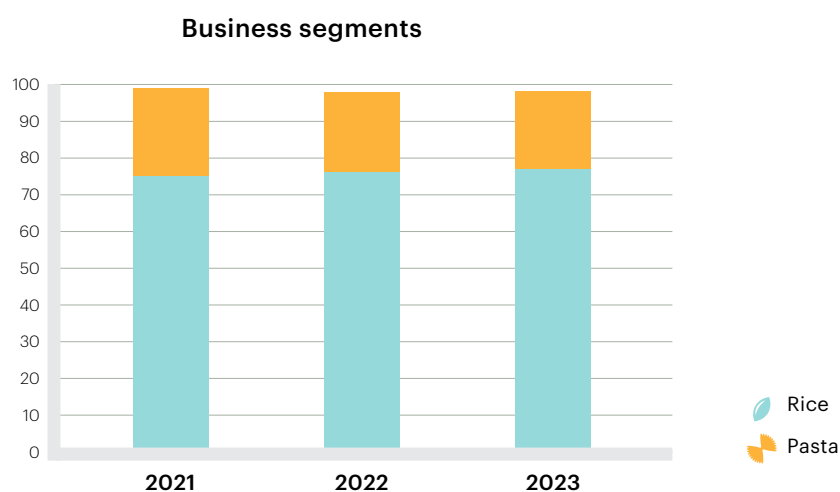
	31.12.21	31.12.22	2022/2021	31.12.23	2023/2022
Average working capital	662,058	925,501	(39.8%)	942,499	(1.8%)
Average capital employed	2,060,319	2,228,932	(8.2%)	2,255,729	(1.2%)
ROCE (1)	10.1	10.5		12.6	
Capex (2)	120,035	118,808	(1.0%)	141,670	19.2%
Average headcount	6,440	6,293	(2.3%)	6,323	0.5%

- (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 purpose, of which 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 business in France until the sale of that business closed in 2021 and the net gain recognized on that sale were presented within discontinued activities on the consolidated statement of profit or loss for that year and the prior reporting period. The information provided in this management report reflects that circumstance, unless expressly stated otherwise.

Group **revenue** increased by 3.9% from 2022, implying average annual growth over the last three years of 12.7%. That growth was driven mainly by the gradual price increases pushed through in 2022 in response to the increased cost of the Group's main raw materials. The new prices, subject to slight adjustments in the form of promotions and discounts, benefitted revenue for all of 2023. The sale of Roland Monterrat in June 2022 reduced revenue by approximately 28 million euros, while exchange rate trends reduced the topline by 30 million euros.

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



The split by business segment was stable. The rice business accounted for 77% of the total. By destination, approximately 34% 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 15.7% in 2023 (average annual growth of 13.3%) and the margin recovered on the back of the price increases. EBITDA-A includes 4.7 million euros of negative exchange rate effects.

Earnings momentum was very positive across all line items, clearly outperforming recent years. 2023 marked a year of record earnings in all business lines on a like-for-like basis (without considering the net profits of discontinued operations).

That earnings record came despite the run-up in the price of rice and other relevant materials such as potato flakes and dairy derivatives (mitigated in part by the easing in durum wheat prices) and in other major cost categories, including energy and logistics.

Profit before tax registered annual growth of 47.4%. 2022 earnings were negatively affected by the sale of Roland Monterrat (refer to note 5 of the accompanying consolidated financial statements) and exchange losses.

Profit after tax from discontinued operations includes the net profit of the activities classified as discontinued and the gains recognized (in 2021) on the sale of the dry pasta businesses in North America and France.

ROCE-A (not restated) improved from prior years thanks to the growth in earnings. The reduction in the working capital requirement sustained in the second half of 2023 has still to fully impact the averages used in this calculation.

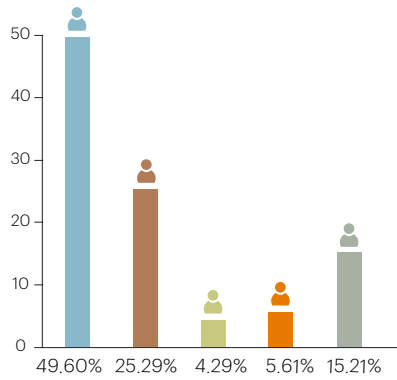
RICE AREA

Average headcount employees

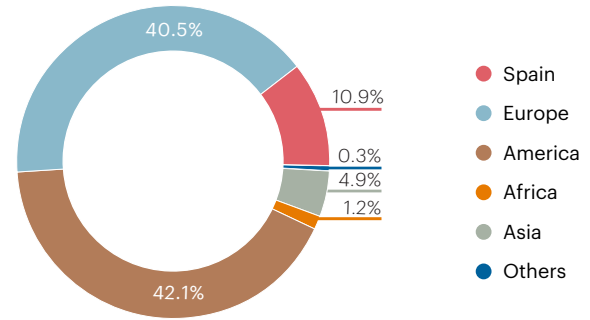
4,524

EBITDA by geographical areas

€311 mill.



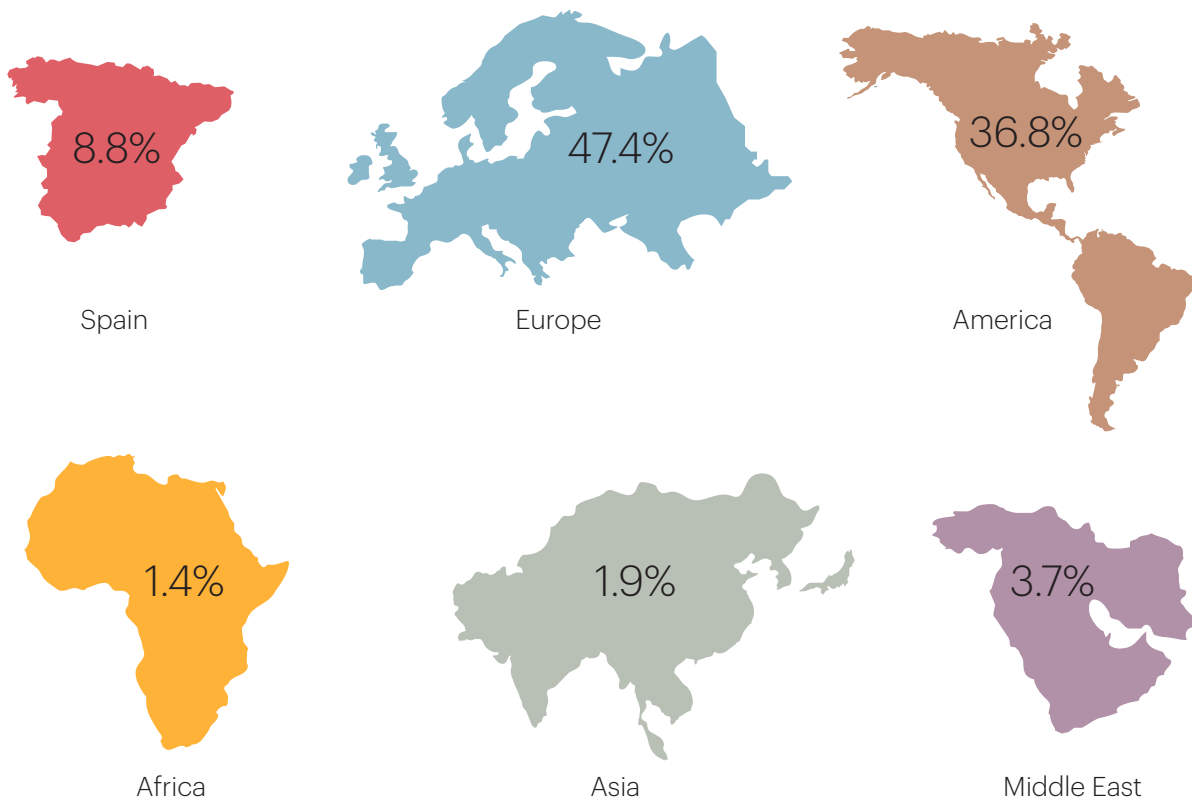
- Europe
- North America
- South America
- Africa
- Asia



- Spain
- Europe
- America
- Africa
- Asia
- Others

Sales by geographical areas

€2,443.7 mill.



STATEMENT OF PROFIT OR LOSS (000€)	2021	2022	2022/2021	2023	2023/2022	CAGR 2021-2023
Revenue (*)	1,858,919	2,329,486	25.3%	2,443,719	4.9%	14.7%
Advertising (*)	(43,789)	(53,898)	(23.1%)	(56,890)	5.6%	14.0%
	<i>As a % of revenue</i>	<i>(2.4%)</i>	<i>(2.3%)</i>	<i>(2.3%)</i>		
EBITDA-A (*)	247,680	289,830	17.0%	310,988	7.3%	12.1%
	<i>As a % of revenue</i>	<i>13.3%</i>	<i>12.4%</i>	<i>12.7%</i>		
EBIT-A (*)	189,087	222,664	17.8%	242,950	9.1%	13.4%
	<i>As a % of revenue</i>	<i>10.2%</i>	<i>9.6%</i>	<i>9.9%</i>		
Capex (*)	74,246	71,152	(4.2%)	100,122	40.7%	16.1%

(*) Having sold the dry pasta business in France, the operations and the 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.

Despite the fact that the rice harvest remained generous, the prices of the Indica varieties increased successively due to the export restrictions imposed by India, which in recent years has been the largest exporter of rice. Those restrictions, which remain in place, affect non-basmati white and broken rice. India also levied a minimum price on basmati rice exports to prevent a loophole around the restrictions on the other varieties.

Spanish production continued to be affected by the drought and watering restrictions on rice-growing in the Guadalquivir basin, which the Group circumvented by increasing procurement from other parts of Spain and other international rice markets, very notably from Argentina.

In the US, the trend shifted, with the planted acreage increasing after years of shrinkage. That increase was particularly noteworthy in Arkansas and California (where the Group has a presence since it acquired InHarvest), where production increased by 30% and 101%, respectively, from 2022.



US harvest prices

\$/CWT	23/24 (*)	22/23	21/22	20/21	19/20
Average price	17.8	19.2	16.1	14.4	13.6
Long grain	16	16.7	13.6	12.6	12
Medium grain	23.3	29.4	24.8	20.1	17.8

(*) Estimate
August-July
(Source: USDA)

Revenue from sales increased by 4.9%, thanks to the full-year effect of the price increases, which have since been adjusted slightly in some products where farm-gate prices have eased. Volumes were flat, losing a small amount of share to private-label brands in the less sophisticated products. The healthy trend in sales volumes reflects an astute pricing policy as a result of individual product / customer analysis.

Elsewhere, the Group continues to focus strategically on the products that are leading the market's growth: quality fragrant varieties and quick-to-prepare formats, by: i) adding production capacity in the US and Europe; ii) constant product and recipe innovation; and iii) service excellence.

EBITDA-A increased by 7.3% from 2022, despite negative exchange rate effects of 4.1 million euros. That growth came about despite a significant increase in advertising and channel marketing expenditure designed to fine-tune the price increases.

In addition to the pass-through of higher rice costs to end sales prices, profits also benefitted from a more favourable trend in other inputs, including energy and logistics costs, the latter of growing importance with respect to a considerable portion of the volume of rice sold.

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 increased, reflecting: (i) the strategic commitment to higher-growth business lines (microwaveable rice in the US and Spain); (ii) productivity gains in packaging; and (iii) the commitment to using renewable sources of energy (new photovoltaic plants) and alternative sources of supply (expansion of the Argentine facilities).



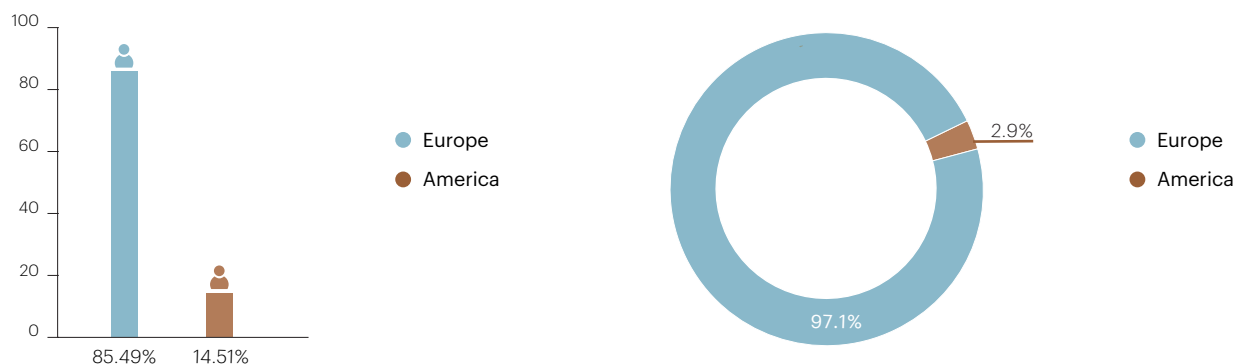
PASTA AREA

Average headcount employees

1,813

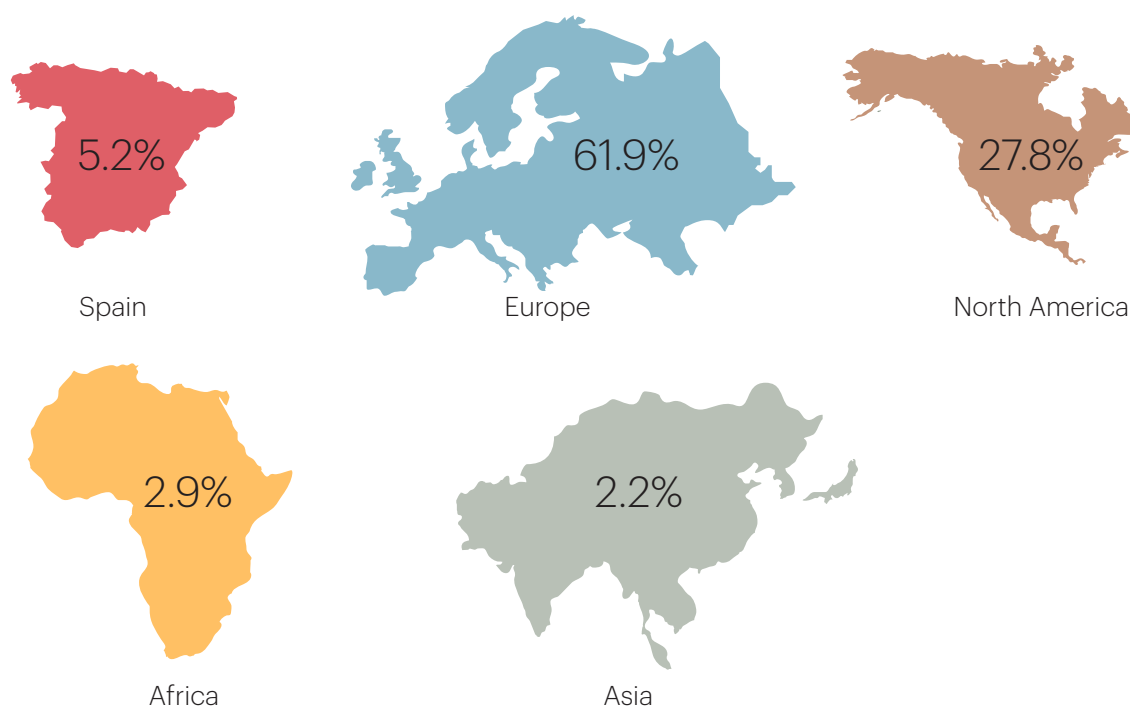
EBITDA by geographical areas

€90.4 mill.



Sales by geographical areas

€652.2 mill.



STATEMENT OF PROFIT OR LOSS (000€)	2021	2022	2022/2021	2023	2023/2022	CAGR 2021-2023
Revenue (*)	590,781	651,545	10.3%	652,220	0.1%	5.1%
Advertising (*)	(33,181)	(24,904)	24.9%	(31,521)	26.6%	(2.5%)
	<i>As a % of revenue</i>	<i>(5.6%)</i>	<i>(3.8%)</i>	<i>(4.8%)</i>		
EBITDA-A (*)	68,825	58,478	(15.0%)	90,435	54.6%	14.6%
	<i>As a % of revenue</i>	<i>11.6%</i>	<i>9.0%</i>	<i>13.9%</i>		
EBIT-A (*)	34,447	26,330	(23.6%)	57,261	117.5%	28.9%
	<i>As a % of revenue</i>	<i>5.8%</i>	<i>4.0%</i>	<i>8.8%</i>		
Capex (*)	45,266	46,222	2.1%	40,416	(12.6%)	(5.5%)

(*) Having sold the dry pasta business in France, the operations and the 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.

Durum wheat prices trended lower all year long, shaped by a better 2022/23 harvest. The improvement in the cost of this business's main raw material (which remains at the high end of the historic range) contrasts with the increase in the cost of the other two materials of growing importance in this business: (i) potato flakes, which are used to make gnocchi; and (ii) dairy derivatives, used in the production of filled fresh pasta.

In 2023, revenue increased by just 0.1%. Note, however, that in 2022, the business sold by the Group that year, Roland Monterrat, contributed 28 million euros to the pasta business's topline. Prices were kept flat in 2023, having priced in the impact of higher costs in 2022, enabling the Group to defend its business volumes and restore the margins lost the year before.



By market:

- a. In France, the fresh pasta market grew by 5.0% by volume and 13.9% by value. The Group's brands increased their market share to 51.8% 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, with business volumes increasing by 10% from 2022.
- b. Growth continued at Bertagni: +7% by value and +4% by volume year-on-year. Prices were adjusted definitively at the start of the year, which had a small negative impact in the first half, which was made up for in the second half of the year.
- c. In Canada, the market contracted by 5.6% by volume but grew by 2.1% by value, buoyed by the sharp increase in prices since 2022. Olivieri held onto its leadership grip with a market share of 54.5% by value (Nielsen FDM 52-week tracker). Pan-fry gnocchis continued to spearhead the growth (sales volumes have tripled in four years) so that the Group continued to add new capacity in this product category.
- d. The Italian dry pasta market was flat in terms of volumes in 2023, expanding by 8.5% by value. The Garofalo brand followed the market, defending its share of 6.6% by volume (Nielsen 52-week tracker), withstanding a complex price scenario.

EBITDA-A jumped by 54.6%. A marked return to profitability. Cost stabilisation meant that the price adjustments made in 2022 restored the profitability lost. Note that profitability improved in both the fresh and dry pasta segments.

Capex (not restated, with 11 million euros corresponding to discontinued operations in 2021) was relatively stable, with the investment thrust concentrated on the expansion of capacity at the gnocchi factories and improvements in packaging and energy efficiency.