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Risk Management

3. Risk Management

As one of the corporate policies approved by the board of directors, the Risk Control and Management Policy lays down the basic principles and general framework for control and management of the business risks to which the Company and other Group companies are exposed.

The structure of the Risk Management and Control System is explained below:

* The **Board of Directors,** as the body ultimately responsible, determines the risk control and management policy, including tax risks and control of financial reporting.
* The **Audit, Control and Sustainability Committee**, through the Risks Committee, supervises and monitors the financial reporting and risk control systems, regularly informing the Board of any material aspects occurring in these areas. It is also responsible for supervising and overseeing internal control of the Group and the Risk Management Systems, and for proposing to the Board the risk control and management policy and any measures for enhancing these areas.
* The **Risks Committee**, based on the policy established by the Board and supervised by and answering to the Audit Committee, is specifically responsible for coordinating and monitoring the risk control and management system, including the Group's financial reporting and tax risks. The analysis and assessment of risks associated with new investments also falls within the remit of the Risks Committee.
* The **Management Committees** of the different units, on which the Chairman of the Board and the Chief Operating Officer (COO) sit, assess the risks and determine the measures to be implemented.
* **Risk officers in the different units.** The Risks Committee appoints officers in the major subsidiaries to monitor the Risk Control and Management System, including tax risks and financial information, and reporting to the Committee.
* **Internal Audit Department.** Within the internal audits made of the different subsidiaries, the company's Internal Audit Department checks that the financial reporting and risk management testing and control have been conducted adequately, complying with the indications of the Risks Committee.

The Risk Control and Management System is dynamic, so the risks to be considered vary with the circumstances in which the Group operates.

Within this general framework, the integral, homogenous Risk Control and Management System is based on the preparation of a business risk map, where risks are identified and assessed and risk management capacity is graded to obtain a ranking of risks from greater to lesser impact for the Group and their probability of occurrence. The risk map also identifies the measures to mitigate or neutralise the risks identified.

In the process of classifying risks, a dynamic assessment is made of both inherent risk and the residual risk after applying the internal controls and protocols established to mitigate them. Those controls include preventive measures: an adequate segregation of duties, clear levels of authorisation and the definition of policies and procedures. These controls can in turn be grouped into manual and automatic, the latter being implemented by computer applications.

This model is both qualitative and quantitative and can be measured in the Group's earnings, so the risk level is considered acceptable or tolerable on a corporate level.

The risk universe is grouped into four main groups: compliance, operational, strategic and financial. The first three groups also include the principal non-financial risks related with the company's business. We describe these non-financial risks below:

COMPLIANCE RISKS

1. **Sector regulation.** The agro-industrial sector is subject to numerous regulations affecting export and import quotas, customs duties, intervention prices, etc., subject to the guidelines set down by the Common Agricultural Policy (CAP). The Group's activity may also be affected by changes in legislation in the countries where the Group sources raw material or sells its products.

   The Group deals with this risk by participating in or echoing the different legal and/or regulatory forums through a number of prestigious professionals who endeavour to secure adequacy and compliance.

   Within this group, the increasingly strict laws on the use of fungicides and pesticides on the basic crops for this industry, especially rice, are becoming more and more important and linked to other operational risks such as supply and food safety.

   To mitigate this risk, the Group has stepped up its quality controls and checks to detect this type of product, working on a selection of trusted suppliers, who are going to be asked to incorporate sustainability criteria in their policies, and providing more education for growers to seek natural alternatives for these products.

2. **General regulation.** This includes compliance risks concerning civil, mercantile, criminal and governance laws and regulations. To help deal with criminal risks, the Group has a Crime Prevention Model, which covers our Spanish companies. Our principal subsidiaries have similar structures, adapted to their respective local laws and regulations. The Compliance Unit monitors and controls them all.

   One specific part concerns respect for and compliance with Human Rights in accordance with the ethical standards promoted in the Group's Code of Conduct. To prevent and mitigate this risk, the Group has different SMETA audits made every year on its supply chain and implements internal awareness and training plans. In accordance with the EU 'Proposal for a Directive on corporate sustainability due diligence' published on 23 February 2022, the company has set itself the goal for 2023-2025 of developing a Due Diligence System inside and outside the perimeter. The first steps towards that goal were taken in 2023, as reported in Chapter 5 of this Report.

   Tax laws. Any change in the tax laws or their interpretation or application by the competent authorities in the countries in which the Group operates could affect our earnings.

   To mitigate this risk, the Group, directed by those responsible for taxation, monitors the tax laws and possible interpretations thereof, requesting specific reports from specialists to support its stand, guided at all times by a principle of prudence in this matter.

OPERATIONAL RISKS

1. **Food safety.** Given the nature of the business, aspects regarding food safety are a critical point to which the Group pays special attention, being bound by a large number of laws and standards in each of the countries in which our products are produced and sold.

   The Group's policy is based on the principles of compliance with the laws in force from time to time and guaranteeing food safety and quality.

   The food safety programmes are based on following protocols to identify and control certain critical points (Hazard Analysis and Critical Control Points –HACCP-), so that the residual risk is minimal.

   The main control points are grouped into:

   * **Physical points:** controls to detect foreign bodies or the presence of metals
   * **Chemical points:** detection of chemical elements or the presence of allergens
   * **Biological points:** presence of elements such as salmonella or any other kind of pathogens.

   Most of our handling processes have obtained IFS (International Food Safety), SQF (Safe Quality Food) and/or BRC (British Retail Consortium) certificates, recognised by the Global Food Safety Initiative (GFSI) as food product certification standards, as well as local and special product certificates (Kosher, gluten-free or Halal foods).

   The Group has also defined, developed and implemented a quality, environment and food safety management system compliant with the requirements of the standards UNE-EN-ISO 9001 (Quality management), UNE-EN-ISO 14001 (Environmental management) and ISO 22000 (Food safety management).

2. **Technological (trailing behind) risk.** One of the most important tools for standing up to competition is differentiation and product alignment, which is based on constant technological innovation and the endeavour to adapt to consumer desires. The R&D and innovation strategy is a fundamental part of the Group's general strategy. The R&D and innovation departments, in close collaboration with the Commercial and Marketing departments, work on reducing this risk.

3. **Cybersecurity.** The exponential growth of internet access exposes companies and users to different types of attack: identity theft, malware, attacks on websites, zero-day attacks, etc. The Group has an action plan contemplating: (i) the ongoing training of personnel on these threats, (ii) the definition of an adequate network infrastructure (firewalls, Wi-Fi access, network electronics, browsing possibilities and design of connected industrial networks), (iii) the correct definition of user points (antivirus, mobile device management systems, permissions, updates) and (iv) a programme for data preservation and management (back-ups, use of the cloud, shared information).

ENVIRONMENTAL AND STRATEGICAL RISKS

1. **Environment and natural risks.** These include risks associated with natural disasters and climate change. Drought and flooding in the commodity-producing countries can cause problems of availability and price instability. These natural risks can also affect consumers in the affected regions or even the Group's assets in those locations.

   The best way of mitigating this type of risks is to diversify both the sourcing of raw materials and the countries in which our products are sold. The Group also makes sure it has flexible production capacity with plants in four continents, which minimises possible local problems. In addition, the Group has taken out insurance policies covering all its plants and sites, which would mitigate any disaster that could jeopardise their value.

   - **Climate change.** Climate variables are a fundamental part of the environmental criteria that the Ebro Group contemplates in its management strategy. In this regard, in 2023 we analysed the climate risks and opportunities under the reference framework of the Task Force on Climate-related Financial Disclosures (TCFD), which provides guidelines for identifying, managing, reporting and monitoring the principal physical and transition risks to which the Organisation may be exposed as a result of climate change, as well as potential business and development opportunities.

     We covered the rice and wheat sectors in this analysis, including processing plants, the principal warehouses and the sourcing areas of these commodities in Spain and worldwide.

     We selected RCP 8.5 (pessimistic scenario) and RCP 4.5 (intermediate scenario), developed by the International Panel of Experts on Climate Change (IPCC), as reference climate scenarios and took the years 2030, 2040 and 2050 as time horizons, in line with national and international climate-related commitments.

     The transitional scenarios taken as reference were the conservative scenario STEPS (The Stated Policies Scenario) and the NZE (The Net Zero Emissions Scenario), which assumes that the global energy sector will reach zero net emissions by 2050 and is consistent with limiting the global rise in temperature to 1.5°C.

     A. STRATEGY

     The analysis of physical and transition risks was made through an analysis of the probability of occurrence of the hazards identified for different climate scenarios and the exposure and vulnerability of our facilities, sourcing areas and different sectors of operations. No risks were classified as critical or high.

     The variations in rainfall and temperature patterns are the most significant physical risks, but even so their risk level for our business is moderate.

     Crop performance would be directly affected by both risks, so also the producers' selling prices and other possible factors deriving from the fact of being the main source of nutrition in part of the sourcing regions, which could lead to an export ban or limitation in the event of a situation of shortage, especially in Southeast Asia.

     Of all the transition risks assessed, those most affecting our business are the obligation to calculate scope 3 emissions including sourcing areas and suppliers, the high costs associated with the energy transition required and possible changes in demand by end consumers. Nonetheless, these risks are still classified as "immaterial" because we are working on all of them.

Ebro Foods has also analysed a number of opportunities associated with climate change. We aim to take advantage of the more feasible opportunities and position ourselves adequately to face the major disruption of climate change. For each opportunity we have analysed its feasibility (technical and economic) and current development level. The most important opportunities are:

- Develop energy efficiency plans and increase the number of renewable energy facilities for self-supply at our production plants.
- Establish synergies to reach targets set for packaging, reducing emissions and reducing commodity consumption.
- Develop sustainable agriculture programmes with suppliers.

B. MANAGEMENT

Based on this initial analysis and the matrices developed for this purpose, the climate-related risks to which Ebro Foods is exposed have been included in the Group's Risk Management System. The matrices are supplemented with a risk map (rainfall, high temperatures, flooding, drought and wildfires) associated with our sourcing and industrial areas assessed and the heat maps developed, which are a key element in risk monitoring and the early detection of significant changes in any of the identified risks.

Quantification of the financial impact of the most important risks identified is extremely complex as it involves a large number of variables apart from climate variables, which are very difficult to isolate in the assessment. We have therefore made a detailed bibliographic study of the principal environmental variables that might affect the purchase prices of rice and durum wheat, since Ebro Foods buys agricultural raw materials from suppliers all over the world.

We indicate below the measures identified to mitigate the principal climate risks and develop the opportunities considered most important.

PHYSICAL RISK	MEASURES
Variations in rainfall and temperature patterns are the most significant risks identified for Ebro Foods, with a moderate risk level for our business	Ebro Foods has the following competitive advantages: • Sufficient stock, and stock forecast, of raw materials to solve one-off supply crises. • Well diversified supply chain. • It is able to change its rice and wheat sourcing areas. • When prices rise, one possible measure for mitigation is to pass on the increased cost in the final price of our products.

Since all transition risks have been classified as "immaterial", it is not considered necessary to develop specific measures to reduce their impact. Nevertheless, Ebro Foods is developing the following initiatives.

TRANSITION RISK	MEASURES
• Potential obligation to quantify indirect GHG emissions (sourcing areas and suppliers) • CSRD: double materiality • Scope 3: emissions related with sourcing areas and suppliers	Ebro Foods has already made a double materiality assessment and calculated its scope 1, 2 & 3 emissions. We also participate in initiatives to reduce emissions in the logistics sector, such as Lean & Green, and before the end of 2024 we will have completed our adherence to the Science Based Targets initiative (SBTi).
High costs associated with the transition to low-emission technologies	Owing to the nature of our activity, Ebro Foods is not strongly dependent on fossil fuels. At present, all the dryers in the Ebro Foods plants work on natural gas, which is also used for the instant rice plants in the USA. As regards electricity consumed, the Ebro Foods Group uses partly self-supplied energy at some of its processing plants and approximately 7% of the energy acquired has Guarantee of Origin of renewable sources.

TRANSITION RISK	MEASURES
Changes in end consumers' behaviour and demand (local products (zero emissions) / ecological / more sustainable products)	• The Ebro Group currently has products that meet these business assumptions in all its brands. It is not considered a particularly important risk because several specific studies of rice and pasta consumer trends indicate that there has not been a significant increase in the demand for these products. We maintain a state of permanent alert to anticipate any changes in consumer behaviour. • We strive to achieve differentiation and value creation for our brands through Innovation.

OPPORTUNITIES	MEASURES
Development of energy efficiency plans at production plants	The Group companies regularly invest in measures to increase their energy efficiency. Over the past three years they have invested a total of €2.2 million and the Company aims to continue developing actions in this respect.
Increase in renewable energy facilities (solar, biomass, cogeneration) at our production plants, according to the conditions of each country, and green energy purchases (certified as renewable energy)	In 2023, over 4% of the energy directly consumed by the Group was self-generated at our photovoltaic and cogeneration facilities at the following production plants: **Photovoltaic facilities** • Arotz: Navaleno • Bertagni: Avio and Vicenza • Ebro Frost Germany: Offingen • Ebro India: Taraori • Garofalo: Gragnano • Geovita: Bruno • Herba Bangkok: Nong Khae • Herba Ricemills: Rinconada and Algemesí • Mundiriso: Vercelli • Riviana Foods: Colusa • Transimpex: Lambsheim **Cogeneration facilitie**s • Bertagni: Avio and Vicenza • Ebro Frost Germany: Offingen • Garofalo: Gragnano • Geovita: Vilanova Monferrato This investment is expected to continue increasing over the next few years. More than 7% of the electricity purchased (indirect consumption) is guaranteed as generated from renewable sources.
Generation of synergies with targets for packaging: reduction of emissions and raw material consumption	The Group has defined the following targets for packaging in its Sustainability Plan RUMBO A 2030: • Increase in the use of recyclable and reusable materials • Reduction of the quantity of packaging materials • Use of paper and cardboard obtained from FSC / PFSC managed forests • Use of recycled cardboard • Reduction of the use of non-reusable plastics • Search for alternatives to plant-based plastic
Development of Sustainable Agriculture programmes in our principal sourcing areas Promotion of sustainable growing standards	Ebro is actively involved in the promotion and research of environmentally sustainable for rice and wheat crops in different growing areas, to contribute towards greater conservation of the environment, promote biodiversity and mitigation of the effects of climate change. This work is done through own initiatives and specific collaborations with stakeholders, as well as through our membership of the two principal international platforms in this matter: SAI Platform (SAI-P) y Sustainable Rice Platform (SRP).

C. METRICS AND GOALS

At the date of closing this Report, this work is still at the development stage. It is expected to be completed in the second quarter of 2024.

2. **Reputational risk.** This risk is associated with possible changes of opinion, giving rise to a negative perception of the Group, its brands or products by customers, shareholders, suppliers, market analysts, etc., which could have an adverse effect on the Group's ability to maintain relations (commercial, financial, labour, etc.) with its environment.

   To deal with this risk, the Group has approved a Code of Conduct to guarantee ethical, responsible conduct by the organisation, its employees and all persons and institutions with which it interacts in the course of its business activities.

   In this context, we have included as a significant risk unfounded negative comments or opinions that can so easily be posted in the social networks, owing to the very limited possibilities of controlling them other than close monitoring and specific communication actions to reverse their impact.

   The Group's brands and employees are our most valuable intangible assets, so they are submitted to continuous assessment, considering different aspects, such as management, marketing, health and food safety, compliance and legal defence of intellectual property.

3. **Changes in lifestyle.** The proliferation of low carbohydrate diets and other food trends can have a bearing on consumers' perception of our products.

   These risks can be mitigated by assessing consumption patterns and adapting the offer of products to the alternatives on the market, while participating actively in social forums to encourage healthy habits that are compatible with our products.

NB: *Further information on the description of risks and risk control and management system is available in section 4 of the Management Report and section E of the Annual Corporate Governance Report, both available on the corporate website.*