

# 1 Auditor's Report Consolidated Annual Accounts



Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails.

## **AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR**

To the shareholders of Ebro Foods, S.A.:

### **Report on the consolidated financial statements**

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#### **Opinion**

We have audited the consolidated financial statements of Ebro Foods, S.A. (the parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2017, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2017 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain

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#### **Basis for opinion**

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

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### *Measurement of goodwill, other intangible assets, and property, plant and equipment*

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**Description** The Group has a significant amount of other intangible assets (primarily, brand names) and property, plant and equipment. Specifically, at December 31, 2017, the Group recognized goodwill, other intangible assets, and property, plant and equipment amounting to 1,037,889 thousand euros, 428,248 thousand euros and 758,739 thousand euros, respectively.

At least once a year, the Group's Management analyzes the recoverable amounts of each significant cash-generating unit (CGU). The goal of this analysis is to determine whether it is necessary to recognize an impairment loss against the goodwill associated with these CGUs or against any other intangible asset or item of property, plant, and equipment belonging to them. For purposes of this analysis, the Group determines, in collaboration with an independent expert, the impairment tests using the cash flow method at a risk-free rate. We have considered this issue to be a key audit matter because the analysis performed by Group management requires the use of complex estimates and judgments regarding the future earnings performances of the CGUs to which the aforementioned assets belong.

The description of the amounts, the movements, and the analysis of the recoverable amounts of the CGUs to which the aforementioned goodwill has been allocated are provided in Note 14 to the accompanying consolidated financial statements. Elsewhere, the corresponding disclosures for other intangible assets and property, plant and equipment are provided in Notes 9 and 10, respectively, to the accompanying consolidated financial statements.

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### Our response

In this regard, our audit procedures included:

- ▶ Reviewing, in collaboration with our valuation specialists, the reasonableness of the methodology used by management and the independent expert in constructing the cash flows discounted from each significant CGU, focusing particularly on the discount rate and long-term growth rate applied.
- ▶ Reviewing the projected financial information for each CGU's business plan by analyzing:
  - ▶ Historical and budgetary financial information
  - ▶ Current market conditions and our own expectations of their future performance
  - ▶ Public information provided by other companies in the sector

- ▶ Reviewing the disclosures included in the notes to the consolidated financial statements related to the analysis of the recoverability of goodwill, other intangible assets, and property, plant, and equipment in accordance with IAS 36.

The procedures described above are performed on all the assets that do not generate cash flows irrespective of the CGU to which they belong. However, for assets no longer in use, we perform specific procedures in order to conclude on their recoverable amounts. In addition, the aforementioned analysis is likewise carried out for CGUs having assets which require annual impairment testing (good will and intangible assets with indefinite useful lives). With regard to other intangible assets and property, plant, and equipment, we analyzed the internal and external factors taken into account by the Group in order to conclude on the existence of objective indications of impairment, carrying out procedures to conclude on the recoverable amounts of those items for which indications of impairment did exist following our analysis.

### *Revenue recognition*

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**Description** Revenue is recognized in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), net of discounts, incentives, and rebates accrued by the Group's customers based on sales. In certain markets, the estimate associated with these discounts, incentives, and rebates is significant and is likewise based on complex, highly subjective judgments. Consequently, there is a risk that the contractual terms that give rise to these adjustments to sales are incorrectly recorded and thus, revenue recognized in the consolidated financial statements may be incorrectly measured.

We determined this matter to be a key audit issue due to the variety of discounts and incentives offered, as well as the complexity associated with the estimates that management must make to record some of them at year end.

Therefore, we consider the abovementioned issues to be a key audit matter. The disclosures related to recognition of revenue by the Group as well as the information relating to revenue by business segments are provided in Notes 3 s) and 6, respectively, to the accompanying consolidated financial statements.

### **Our response**

In this regard, our audit procedures included:

- ▶ Understanding the policies and procedures applied to revenue recognition, as well as compliance therewith, including an analysis of the effectiveness of controls related to revenue recognition processes employed by the Group's key components.
- ▶ Carrying out substantive analytical procedures for the Group's key components, analyzing the actual performance of revenue and cost of sales related to discounts, incentives, rebates, and margins, as compared with budgeted data.

- ▶ Analyzing and discussing with management significant contracts including contractual terms and conditions related to discounts, incentives, and rebates, as well as the hypotheses used in the related estimates.
- ▶ Reviewing the most relevant estimates made in connection with discounts, incentives, and rebates at years end via customer confirmation letters and alternative procedures.
- ▶ Performing operations cut-off procedures for a sample of revenue transactions at year end in order to conclude on whether they were recognized at the moment the related goods or services actually took place.
- ▶ Analyzing other adjustments and credit notes issued after the reporting date.
- ▶ Performing analytical procedures on entries in the daily ledger related to revenue made by the Group's key components. These procedures were carried out paying special attention to accounting entries recorded close to the year-end closing or subsequently, as well as those deemed unusual due, among other reasons, to their nature, amount, date of occurrence, user, the item itself or its balancing entry.
- ▶ Reviewing disclosures included in the notes to the accompanying consolidated financial statements.

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#### **Other information: Consolidated management report**

Other information refers exclusively to the 2017 consolidated management report, the preparation of which is the responsibility of the parent company's directors and is not an integral part of the financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. In conformity with prevailing audit regulations in Spain, our responsibility in terms of the consolidated management report is to assess and report on the consistency of the management report with the consolidated financial statements based on the knowledge of the Group we obtained while auditing the consolidated financial statements, and not including any information not obtained as evidence during the course of the audit:

- a. A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report and if not, disclose this fact.
- b. a general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on knowledge of the Group obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, we have verified that the specific information referred to in paragraph a) above has been provided in the consolidated management report, and that the remaining the information contained therein is consistent with that provided in the 2017 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

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### **Responsibilities of the parent company's directors and the audit committee for the consolidated financial statements**

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the parent company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process. Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We are solely responsible for our audit opinion.

We communicate with the audit committee of the parent company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee of the parent company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## **Report on other legal and regulatory requirements**

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### **Additional report to the parent's audit committee**

The opinion expressed in this report is coherent with that reflected in our additional report prepared for the parent's Audit Committee dated April 03, 2018.

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**Term of engagement**

During the Ordinary General Shareholders' Meeting held on June 1, 2015, we were appointed auditors for a period of three years, commencing the year ended December 31, 2017.

Previously, we were appointed as auditors by the shareholders for three years and we have been carrying out the audit of the financial statements continuously since the year ended December 31, 2014.

ERNST & YOUNG, S.L.  
(Registered in Spain's Official Register of Auditors  
under # S0530)

(Signed on the original in Spanish)

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David Ruiz-Roso Moyano  
(Registered in the Official Register  
of Auditors under entry no. 18336)

April 3, 2018