

# **REPORT BY THE DIRECTORS OF EBRO FOODS, S.A. TO THE ANNUAL GENERAL MEETING CALLED FOR 31 MAY 2016 ON FIRST CALL AND 1 JUNE 2016 ON SECOND CALL, JUSTIFYING THE MOTION TO AUTHORISE THE BOARD OF DIRECTORS TO INCREASE THE CAPITAL, WITH THE POWER TO SUPPRESS SHAREHOLDERS' PREFERENTIAL SUBSCRIPTION RIGHTS, INCLUDED IN ITEM NINE ON THE AGENDA**

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## **1. Purpose of the Report**

Among other requirements for altering the Articles of Association established in section 286 of the Corporate Enterprises Act, company directors are required to publish the full text of the alteration proposed and a written report justifying it. Under section 297.1(b) of that Act, the General Meeting may, subject to the conditions stipulated for altering the Articles of Association, delegate to the Board of Directors the power to increase the capital. Finally, section 506 of the Corporate Enterprises Act, on delegation to the directors of the power to suppress the right of preferential subscription in issues of new shares, provides that the directors must issue a report for shareholders, as from the date of calling the general meeting, justifying the motion to delegate that power.

Furthermore, the Good Governance Code for Listed Companies recommends the Board not to table a motion at the General Meeting to delegate powers to issue shares or convertible securities excluding preferential subscription rights in a sum exceeding 20% of the capital at the time of making the delegation (Recommendation 5).

This report (the “**Report**”), drafted and approved by the Board of Directors of Ebro Foods, S.A. (the “**Company**”) on 27 April 2016, is issued in compliance with the aforesaid legal provisions and follows Recommendation 5 of the Good Governance Code, for delegation to the Board of the power to increase the capital together with the power to suppress shareholders’ preferential subscription rights, according to the motion tabled under item nine on the agenda for the Annual General Meeting (“**AGM**”) called by the Board for 31 May 2016 on first call and 1 June 2016 on second call. If this proposed resolution is approved, the relevant resolution adopted at the AGM on 3 June 2015 would be rendered null and void.

## **2. Justification of the proposal to authorise the Board to increase the capital**

The proposed resolution submitted to the AGM is justified by the convenience of the Board having a mechanism, permitted by prevailing company laws, enabling it to make one or several capital increases without having to call and hold another general meeting, provided it respects the limits, terms and conditions established at the AGM.

Section 297.1(b) of the Corporate Enterprises Act allows the General Meeting to delegate to the Board of Directors the power to make such capital increases as it may deem fit in view of the Company’s needs and the situation of the markets in which the company operates from time to time, within the limits authorised by the General Meeting and provided such increases do not exceed half the capital at the time of the authorisation, without holding a prior general meeting, thus providing a flexible, agile,

effective instrument to obtain additional funds whenever this is considered necessary in the company's best interests.

In this regard, since it is impossible to establish in advance how much capital the Company is going to need, it is recommended that the Board should be able to use the authorised capital mechanism provided in Spanish law, to avoid the delays and increased costs incurred in having to appeal to the General Meeting to increase the capital.

It is thus proposed, in the terms permitted by section 297.1(b) of the Corporate Enterprises Act, that the General Meeting make a broad authorisation enabling the Board to decide from time to time on the conditions for increasing the capital best suited to any specific needs that may arise in the future, since it is impossible to determine the most appropriate conditions at the time of delegating this power.

This authorisation is, moreover, a resolution commonly included among the proposals that the General Meeting has traditionally passed and similar authorisations can be found among the proposed resolutions submitted to the general meetings of other listed companies.

In view of the foregoing, a motion is proposed to the AGM to authorise the Board to increase the capital on the terms set out in the proposed resolution included at the end of this report.

### **3. Justification of the proposed authorisation to suppress the preferential subscription right**

Section 506 of the Corporate Enterprises Act allows the General Meeting to delegate to the Board the power to suppress shareholders' preferential subscription rights when it authorises that body to increase the capital. This does not necessarily mean that shareholders' preferential subscription rights must be suppressed for each capital increase made under this delegation; it is perfectly possible to make capital increases with or without preferential subscription rights.

This power to suppress preferential subscription rights may only be exercised when so required in the company's interests and provided the par value of the shares to be issued plus the share premium, if any, coincides with the fair value established in a report issued by an auditor (other than the company's auditors) appointed by the competent Trade Registry.

For this purpose, the Board of Directors may assess on each occasion whether the measure of suppressing the preferential subscription right is proportionate to the benefits to be obtained by the company and, therefore, whether it is made because corporate interests so require. The Board must in any case comply with the substantive requirements stipulated by law in this regard.

The proposal submitted at the AGM regarding suppression of the preferential subscription right is limited, in accordance with the current recommendations on good governance, to 20% of the company's capital at the date on which the General Meeting approves the authorisation. In other words, if the Board decides to exercise the

delegated power to increase the capital excluding the preferential subscription rights, the maximum amount of capital that could be issued in that increase would be limited to 20% of the company's capital on the date of the Annual General Meeting 2016.

#### **4. Proposed resolution**

The full text of the proposed resolution to authorise the Board of Directors to increase the capital and suppress shareholders' preferential subscription rights, pursuant to sections 297.1(b) and 506 of the Corporate Enterprises Act, submitted to the AGM under item nine on the agenda, is set out below:

*“Authorisation of the board of directors of Ebro Foods, S.A. to increase the capital, within a period of five years, up to the maximum amount stipulated in law, on one or several occasions, by such amount as the board may decide each time up to the legal limit, through the issuance of new voting or non-voting shares, ordinary or preference, including redeemable shares or shares of whatsoever other nature permitted by law, contemplating the possibility of issues not being fully subscribed. Further authorisation to suppress shareholders' preferential subscription rights in those issues, pursuant to section 506 of the Corporate Enterprises Act, in this case capping the power to increase capital at 20% of the capital. Consequently, render null and void, as appropriate, the authorisation of the board granted at the Annual General Meeting held on 3 June 2015.*

To authorise the board of directors, as extensively as may be required by law, to increase the capital in pursuance of section 297.1(b) of the Corporate Enterprises Act, within a period of five years from the date of this General Meeting and up to the maximum amount, corresponding to 50% of the company's capital at the date of this authorisation. The capital may be increased on one or several occasions, in such amount as the board may decide, through the issuance of new voting or non-voting shares, ordinary or preference, including redeemable shares or shares of whatsoever other nature permitted by law, with or without a share premium, consisting of the value of those shares, in monetary contributions. The Board may also set the terms and conditions of the capital increase, establishing among others the par value of the shares to be issued, their properties and any privileges they may confer upon their holders, the right to redemption and conditions thereof, and exercise thereof by the company.

To authorise the Board to suppress the right of preferential subscription pursuant to section 506 of the Corporate Enterprises Act for any share issues made hereunder, although if that power to eliminate the preferential subscription right is exercised, the authorisation to increase the capital will be limited to 20% of the company's capital on the date of this authorisation, as per the good governance recommendations.

To further authorise the Board to freely offer any shares not subscribed within the period(s) of preferential subscription, when granted, and to establish that, in the event of incomplete subscription, the capital will be increased by the amount of the shares actually subscribed, pursuant to section 311 of the Corporate Enterprises Act, and redraft Articles 6 (“Capital”) and 7 (“Shares”) of the Articles of Association accordingly.

To apply for admission to listing of any shares issued hereunder on the stock exchanges on which the company's shares are listed at the time of making each capital increase, subject to compliance with any applicable rules and regulations. For this purpose the Board is expressly authorised to delegate to one or several Board members to execute such documents and complete such actions as may be necessary for this purpose, including any action, statement or formality with any competent authority.

To further authorise the Board to delegate the powers it has been granted by the Board in respect of the foregoing resolutions, in favour of one or several members of the Board.

Approval of this resolution revokes and renders null and void the authorisation granted at the General Meeting held on 3 June 2015 under Item Thirteen on the agenda, which has not been exercised.

This resolution is adopted following a written report by the directors justifying the proposed resolution, approved at the board meeting held on 27 April 2016 in pursuance of sections 286 and 506 of the Corporate Enterprises Act. The report has been available for consultation by shareholders from the date of publication of the notice of call.”

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Madrid, 27 April 2016