NATIONAL SECURITIES MARKET COMMISSION
Markets Department
Attn.: Paulino García Suárez

Madrid, 23 November 2012

Dear Sirs,

In response to your request dated 12 November 2012, outgoing register no. 2012159915, received on 16 November 2012, Ebro Foods, S.A. hereby answers the questions therein concerning its separate and consolidated annual financial statements for 2011 and the regular public reporting corresponding to the first half of 2012:

<u>Question 1 (1.1 to 1.3)</u>

Note 5.3 to the consolidated accounts, concerning corporate transactions made in 2011 and 2010, explains the acquisition, among others, of the Strom Products, Ltd. (No Yolks) business. The note indicates that the recognition and measurement of net assets acquired in this business combination were in progress at the date of authorisation for issue of the consolidated financial statements and, consequently, the recognition thereof was considered provisional. The table included in the note shows an abridged balance sheet in which the only item attributable to this business combination was one of intangible assets with a fair value of €38,645 thousand and a carrying amount of €2,500 thousand. The table in Note 9 to the consolidated accounts, Intangible Assets, also shows an increase in Intangibles in progress of €38,645 thousand.

Note 14 of the H1 2012 financial report highlights the reclassification (increase) of the goodwill generated in the acquisition of the Strom Products Ltd. business (effected as of 30 December 2011), of €10,668 thousand.

Paragraph 45 of IFRS 3, Business Combinations, provides that "During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date". Accordingly:

1.1 State whether the increases in intangible assets and property, plant and equipment produced in the business combinations of SOS and No Yolks when recording the fair value of the assets acquired are considered tax deductible. If not, please explain why you have not recorded a deferred tax liability for the difference between the carrying amount and the tax deductible amount and state the amount thereof.

1.2 Provide a qualitative description of the factors that make up the goodwill recognised, such as expected synergies, intangible assets that do not meet the conditions for separate recognition or other factors, pursuant to paragraph B64(e) of IFRS 3, Business Combinations. This description should include the goodwill of €10,668 thousand recognised in the acquisition of the No Yolks business in the first half of 2012.

1.3 Define the adjustments made to the provisional recognition of the No Yolks business, indicating which items have been altered in respect of the initial recognition at year-end 2011.

Finally, you are reminded that according to the above-quoted paragraph 45 of IFRS 3, the provisional amounts related with the Strom Products, Ltd business combination that were recognised at 31 December 2011 must be retrospectively adjusted at year-end 2012.

<u>Reply Question 1.1</u>:

As indicated in Note 5.3 to the 2011 consolidated accounts, the SOS business combination corresponds to the acquisition of the rice businesses from Deoleo, S.A. in Spain, USA, Saudi Arabia, the Netherlands and Portugal. In some cases, the acquisition was made directly in respect of assets (brands, plants, etc.), so the acquisition cost is tax deductible and, therefore, since their accounting base is equal to their tax base, no deferred tax is to be recognised. When the acquisition was made through the purchase of the legal entities owning the net assets, the corresponding deferred tax has been recorded. All the significant identifiable assets and liabilities have been measured at their fair value at the acquisition date and all the deferred tax resulting from that measurement has been recorded.

The acquisition of the No Yolks (USA) business combination was made directly in respect of assets (brands and goodwill), so its acquisition cost is tax deductible and, therefore, since the accounting base is equal to its tax base, no deferred tax is to be recognised.

<u>Reply Question 1.2</u>:

The goodwill generated in the business combinations produced in 2011 consists of the future economic gains expected to be obtained, mainly, from the synergies that the Ebro Group will be able to apply when these businesses are consolidated in its supplies, logistics, industrial, commercial and human resources structures.

<u>Reply Question 1.3</u>:

The No Yolks business combination was made as of 30 December 2011 and the recognition thereof was considered provisional. However, as indicated in Notes 9 and 14 to the Consolidated Condensed Interim Financial Statements at 30 June 2012 (H1), the only modifications made at that date were the reduction of intangible assets by

€12,601 thousand, the increase of goodwill by €10,668 thousand and the increase in inventories by €1,933 thousand. We do not expect any additional material modifications in the accounting of this business combination. When we close the 2012 consolidated annual accounts we will retrospectively adjust the provisional amounts from year-end 2011 related with this business combination.

<u>Reply Question 1 (1.4 to 1.5)</u>:

Note 5.3 to the consolidated accounts also informed on the acquisition in July 2011 of 50% of the Suntra Group, together with a purchase option over the remaining 50%. This group was incorporated with 100% control and the estimated cost of the option over the remaining 50% was recognised as a non-current financial liability.

1.4 According to paragraph 41(a) of IAS 27, Consolidated and Separate Financial Statements, explain why Ebro Foods (parent) considers that it controls the Suntra Group (subsidiary) even though it does not own more than half of the voting power.

Explain also why you have consolidated the Suntra Group at 100% since, although paragraph 14 of IAS 27 indicates that the existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity, this does not mean that non-controlling interests should not be recognised when those potential voting rights exist.

1.5 Describe the terms of the purchase option mentioned in the notes to the financial statements, indicating whether the shareholders of the Suntra Group that are not in Ebro Foods also have an option to sell their minority interests to Ebro Foods.

<u>Reply Question 1.4</u>:

The Ebro Group purchased 50% of the Suntra Group in 2011 from one of its two shareholders and signed an agreement with the other shareholder for the future purchases of the remaining 50% through a put option held by the shareholder (called "purchase option" in the notes to the consolidated financial statements 2011) whereby that shareholder could, should it so wish, oblige the Ebro Group to purchase the remaining 50% of the investment. A shareholders' agreement was also signed assigning the Ebro Group control over the Suntra Group.

The 50% owned by the other shareholder of the Suntra Group was recognised as a financial asset, rather than minority interest, because in our opinion this gives a more transparent, true and fair view of the economic reality of this transaction. Current accounting principles have not yet solved the conflict between the accounting treatment established in IAS 32 and 39 and in IAS 27. In fact, the IFRIC has recognised that there are, in practice, discrepancies regarding how minority, or non-controlling, interests should be presented in the financial statements.

A put option of a minority shareholder must be presented by recognising a financial asset, but that recognition can be achieved in two ways, both of which are permitted:

a) Derecognising the amount of minority interests and crediting financial liabilities.

b) Leaving the amount of minority interests recognised in equity and recognising the financial liability against reserves.

If a company opts for a), as in the case of the Ebro Group, it must be economically interpreted that the underlying financial instruments (shares of the minority shareholder) are presented on the balance sheet as a financial liability. Consequently, since those shares are no longer treated or classified as minority interests, the profit of the subsidiary is assigned in full to the parent, without assigning part to the minority shareholders as they do not exist for accounting purposes.

<u>Reply Question 1.5</u>:

The agreement with the other shareholder for the future purchase of the remaining 50% was formalized as a put option of the other shareholder to sell its shares to the Ebro Group. The Ebro Group also ensures that no third parties can acquire those shares by exercising a right of pre-emption. Finally, the Ebro Group has an irrevocable purchase option over those shares in the event of death or incapacity of the other shareholder.

<u>Question 2</u>:

Note 5.3 to the consolidated accounts mentions the sale to Grupo Lactalis Iberia of 17,252,157 shares representing 29.9% of the capital in Biosearch, S.A. for a total price of €8,281 thousand. The company indicates that since the shares were sold at their underlying carrying amount, the sale did not have any impact on the consolidated financial statements for 2011.

Ebro Foods retained a 21% interest, which the company recognised as an available-for-sale financial asset. According to paragraph 34 of IAS 27, if a parent loses control of a subsidiary, it must derecognise the assets and liabilities of the subsidiary, derecognise non-controlling interests in that subsidiary, recognise the fair value of the consideration received, recognise the investment retained in the former subsidiary at its fair value at the date when control is lost and reclassify to profit or loss, or transfer directly to retained earnings if required in accordance with other IFRSs, the amounts identified in paragraph 35 of IAS 27.

Any resulting difference must be recognised as a gain or loss in profit or loss attributable to the parent.

2.1 Break down the value at which the retained interest in Biosearch was recognised when control was lost and the calculations made by the company, pursuant to paragraph 34 of IAS 27, showing that no profit or loss was produced as a result of the loss of control.

Reply Question 2:

As regards the calculations proving that no profit or loss was made on the sale, as indicated in Note 5.3 to the Consolidated Annual Accounts 2011, the selling price of 29.9% of the capital of Biosearch, S.A. was 0.48 €/share, which was the amount at which the total net assets of that company were recognised when it was a subsidiary.

After the sale of 29.9% of Biosearch, S.A., all its net assets and minority interests were derecognised and the investment retained in the former subsidiary was recognised at its fair value when control was lost. The fair value at that date, according to its market price, was 0.693 €/share. Consequently, the value at which the remaining interest in Biosearch, S.A. was recognised at the date on which control was lost was €8,403 thousand and the difference in respect of its carrying amount (0.48 €/share) was carried to profit and loss for 2011 in a sum of €2,573 thousand.

Question 3:

Note 16 to the consolidated accounts, Trade and other receivables, does not contain all the information required by the IFRS in the analysis of age of those debts.

3.1 Pursuant to paragraph 37(a) of IFRS 7, Financial Instruments: Disclosures, you must present "an analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired".

Reply Question 3:

Note 16 to the consolidated annual accounts of Ebro Foods, S.A. and Subsidiaries contains a breakdown of the balance of trade receivables by maturities, indicating the provision made for each of the itemised debts.

At 31 December 2011, there were no "trade and other receivables" past due and not impaired in a material amount.

Question 4:

Kindly bear the following in mind when preparing the financial statements for 2012:

4.1 With regard to information on geographical areas, paragraph 33(a) of IFRS 8, Operating Segments, provides that if revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately.

4.2 Note 3.g to the consolidated accounts, on accounting policies for goodwill, mentions the acquisition of new investments with deferred payment and indicates that "When the definitive amount of the deferred price may be affected by future events, the amount of the deferred price is estimated at the date of acquisition and is recognised as a liability. Subsequent changes in the deferred price will give rise to an adjustment to the goodwill in the year in which the change in estimate is made, and the related liability is also adjusted".

In this regard, you should bear in mind that paragraph 58(c)(i) of IFRS 3 (2008) provides that "Contingent consideration classified as an asset or a liability that is a financial instrument and is within the scope of IAS 39 shall be measured at fair value, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income in accordance with that IFRS".

4.3 Section 229.2 of the Corporate Enterprises Act (recast) approved by Legislative Royal Decree 1/12010 of 2 July provides that not only directors but only the related persons contemplated in section 231 must disclose any direct or indirect interests they may hold in the capital of another company engaged in identical, similar or complementary activities to those comprising the objects of the company, and any positions or duties they may hold therein.

<u>Reply Question 4</u>:

We take note of the reminders set out in this point, which will be taken into account when drawing up the annual accounts for 2012.

We are at your disposal for any further clarification you may require.

Yours faithfully,

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Miguel Ángel Pérez Álvarez
Secretary of the Board