

CHAIRMAN'S STATEMENT

DEAR STAKEHOLDERS,

As you will have noticed, the recovery of the eurozone was consolidated in 2015, even though the year-on-year growth rate remained at a modest 1.5% of the GDP. This recovery rests on growth of domestic demand, underpinned by an expansive monetary policy with interest rates close to zero and oil prices at their lowest level in the past decade. The improvement brought higher levels of employment and consumer confidence, although several political uncertainties such as Brexit and social issues such as the refugee crisis might check growth.

The United States has maintained its positive trend of the past two years. With a year-on-year GDP growth of 2.5% (the highest since the crisis set in) and unemployment at around 5%, its economy is still growing at a faster rate than most other developed countries. Domestic demand has been the main driving force behind this growth, as consumers have overcome their earlier distrust. The raising of rates by Federal Reserve leads the way to stabilisation and should not have a negative impact, except on the exports affected by the appreciation of the dollar and the weakness of emerging economies.

In the food sector, as I have announced in earlier reports, the after-effects of the crisis are being felt by all of us in the food industry. Society has changed and so has its scale of values when choosing a product. Loyalties have evaporated and consumers have begun to adjust their needs and expectations to a new food model offering true quality at good prices.

Consumers have become more cautious: they buy less, go for cheaper goods and have shifted towards quality private-label products or the more economical brands, and fresh, gourmet and ecological products with good value for money.

They are also more wary. Food crises such as those involving horsemeat, pork, antibiotics in animal feed or pesticides have led them to believe that the food industry is not transparent. The new scenario that has emerged is a major challenge for brands, as we must find a way to build new links with consumers and generate new loyalties. Other trends include the growth of local supermarkets and the appearance of virtual stores on the distribution market, which show that consumers are looking for healthy, enjoyable shopping experience.

Our starting point within this new competitive framework is very good, because although we are a global enterprise, the local factor has always prevailed over multinational in our business philosophy. We have preserved the DNA of each of our brands and respected their regional attributes and idiosyncrasies, maintaining a very close bond with consumers. Consequently, we still have emotional ties with our customers. Moreover, we have always been pioneers and drivers in the categories in which we operate and I am sure that our vocation to consumers and our permanent innovation policy will enable us to continue leading the market needs and anticipating the preferences of our customers and consumers.

In the area of commodities, the grain markets recorded maximum stock forecasts and stable or falling prices during the year. The Commodity Agricultural Raw Materials Index fell for the fourth year in succession since its record levels in 2011 and world ratios measuring stock as a percentage of annual consumption of the principal grains (corn, wheat and rice) were clearly above the average of the past 10 years.



Antonio Hernández Callejas

Chairman
Ebro Foods

In rice, the overall market trend was one of stable prices with world output and stock levels down slightly but still at the top end of the scale of those on record. There was a bumper crop in the United States in 14/15 (+10% on 2013/14), which reduced the US price spread over other long grain rice sources and enabled it to increase its exports. However, the long grain harvests this year are smaller (and of poorer quality), owing to the smaller area sown and the smaller yield, hence costs rose in the last quarter of the year. Another important aspect was the increase in imports of Asian rice in Europe. This, together with low yields and high prices in the last two crop years in Europe, has made European rice uncompetitive.

Against this backdrop, the rice division closed a very satisfactory year, underpinned by the continuous launching of new products and strong support in advertising. Our businesses grew in countries such as the Netherlands, Belgium, Finland, Spain, USA and Canada. The innovations of Brillante® and SOS® had an excellent performance in Spain, with Sabroz, brown rice and quinoa and specialty rice. In North America, record growth was achieved by brands such as Mahatma®, Carolina® and Minute® in their varieties of Instant Rice, Minute Ready-To-Serve or the wild rice business.

In durum wheat, prices started to come down as the harvesting of the new crop drew near, from levels of around 400 €/tonne to 280 €/t. In June, the rumours of a lower crop yield in Europe unleashed a new price hike, but as this was not confirmed, prices eased to 265 €/t by year-end.

In this scenario of rising prices, our pasta division faced an increase in costs of €54 million and its performance varied in the different geographical areas in which it operates.

In Europe, specifically in France, in a market that declined by 1.5%, the Panzani Group grew by 3.8%. Garofalo® also completed an excellent year and its penetration of different markets, such as Spain, Portugal, France, Germany and the Netherlands, progressed at a good rate. In contrast, the North American business was hard hit by the price tension and falling consumption, owing to the new trends in low carb diets. The Group managed to revert this trend towards the end of the year by investing in gluten free, quinoa, ancient grains and 150-cal categories.

On an international level, we concluded two major inorganic projects during the year, namely the acquisition of RiceSelect®, a North American business specialising in organic and specialty rice varieties, and the purchase of Roland Monrerrat, a prominent player on the French snacks and fresh ready meals market. Through these operations, we have boosted and diversified the fresh products business, while bolstering our positioning in the organic foods category, in which we had already begun to operate by developing organic products and products based on quinoa, ancient grains or supergreens under the Netherlands, Spanish and North American brands.

On the stock market, the value of the Ebro Foods share rose by 37% in 2015. Over the same period, the Ibex 35 dropped 8%, the Ibex Med rose 12.7%, the Ibex Small was up 5% and the Eurostoxx Food and Beverage, benchmark for European food sector shares, rose 22.7%. The share performance has remained very positive during the first quarter of 2016. The value of the share rose 6.8%, while Ibex 35 dropped 12%, Ibex Med 11.5%, Ibex Small 2.8% and Eurostoxx Food and Beverage by 2.9%.

In Social Responsibility, we have had the honour of being elected members of the Private Sector Advisory Group working with the United Nations Sustainable Development Goals Fund (SDGF) to define working plans to progress in the achievement of the sustainable development goals. We have approved a new Corporate Code of Conduct, which expands on and develops the commitments acquired by the Ebro Group with its different stakeholders, and a specific Supplier Code of Conduct; within the Ebro Foods Foundation we have created a Sustainable Agriculture working line, focusing on the sustainable production of our agricultural raw materials; and we have worked on the development of a product portfolio positioned in the health segment with the aim of broadening our offer of healthy, differentiated food, etc. In short, we have made considerable progress in our goal of sustainable growth and I invite you to consult our Sustainability Report for further information on this.

I would like to round off by saying that in 2015 we closed a Strategic Plan in which the company achieved a highly satisfactory development. We improved our key financial metrics; we consolidated our rice and pasta businesses; we entered the most premium segment of our core business with Garofalo® and RiceSelect®; and we created value for all of you, our shareholders, and for everyone who interacts with us in the development of our business activity.