04

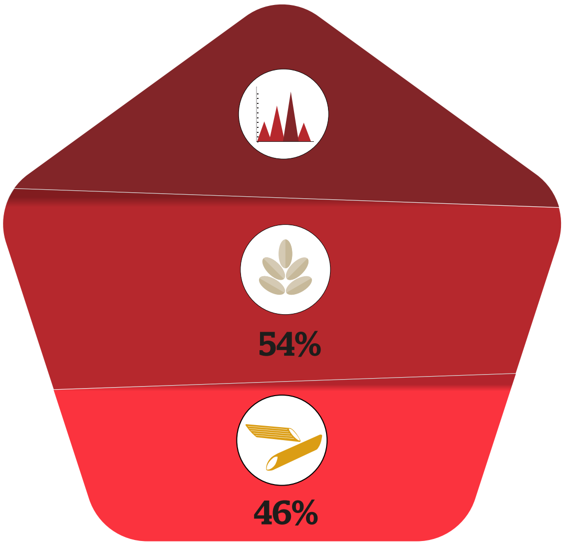
BUSINESS AREAS

BUSINESS AREAS AND DEVELOPMENT IN 2015

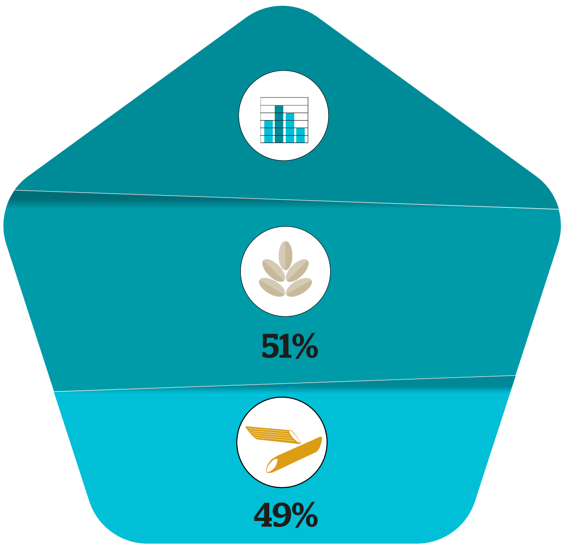
The core businesses of Ebro Foods are rice and pasta.

Within these areas, Ebro develops its business model with the different technologies: dry, fresh, pre-cooked and frozen.

Apart from rice and pasta, the Group also produces and puts on the market high value added products in the following areas: sauces, ready meals, fresh potato and other related foods.

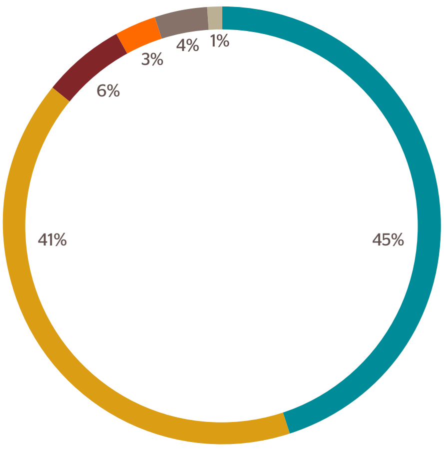


BREAKDOWN OF GROUP EBITDA BY BUSINESS AREA

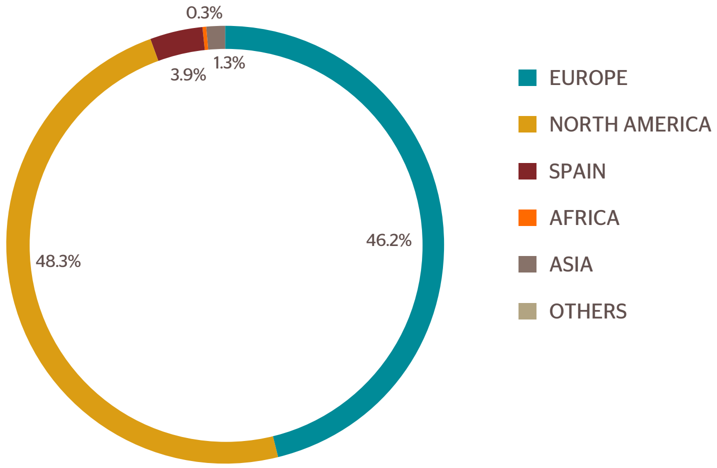


BREAKDOWN OF GROUP SALES BY BUSINESS AREA

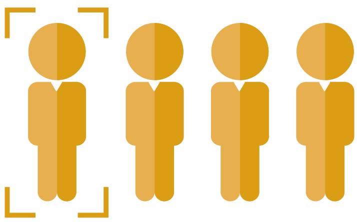
BREAKDOWN OF GROUP
SALES BY GEOGRAPHICAL AREAS



BREAKDOWN OF GROUP
EBITDA BY GEOGRAPHICAL AREAS



BREAKDOWN OF GROUP WORKFORCE BY BUSINESS AREAS	
Rice	48.97%
Pasta	50.00%
Holding	1.03%



EBRO FOODS AVERAGE WORKFORCE:
5,808 Workers

THE GROUP'S BUSINESS DEVELOPMENT IN 2015

BACKDROP

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 (11% growth in vehicle registrations), underpinned by an expansive monetary policy with interest rates close to zero, which has eased the pressure somewhat on the funding capacity of small and medium-sized enterprises, and oil prices at their lowest level in the past decade, which releases consumer and company funds. But despite this improvement, which has been reflected in higher levels of employment and consumer confidence, several political uncertainties (Brexit and the political instability in some of the EU member states) and social issues (refugee crisis, aging of the population), together with the problems facing emerging economies, may halt growth at the end of the year.
The United States has maintained its positive trend of the past two years. With a year-on-year growth of GDP of 2.5% (the highest since the crisis set in) and unemployment at around 5%, its economy is still growing at a faster rate

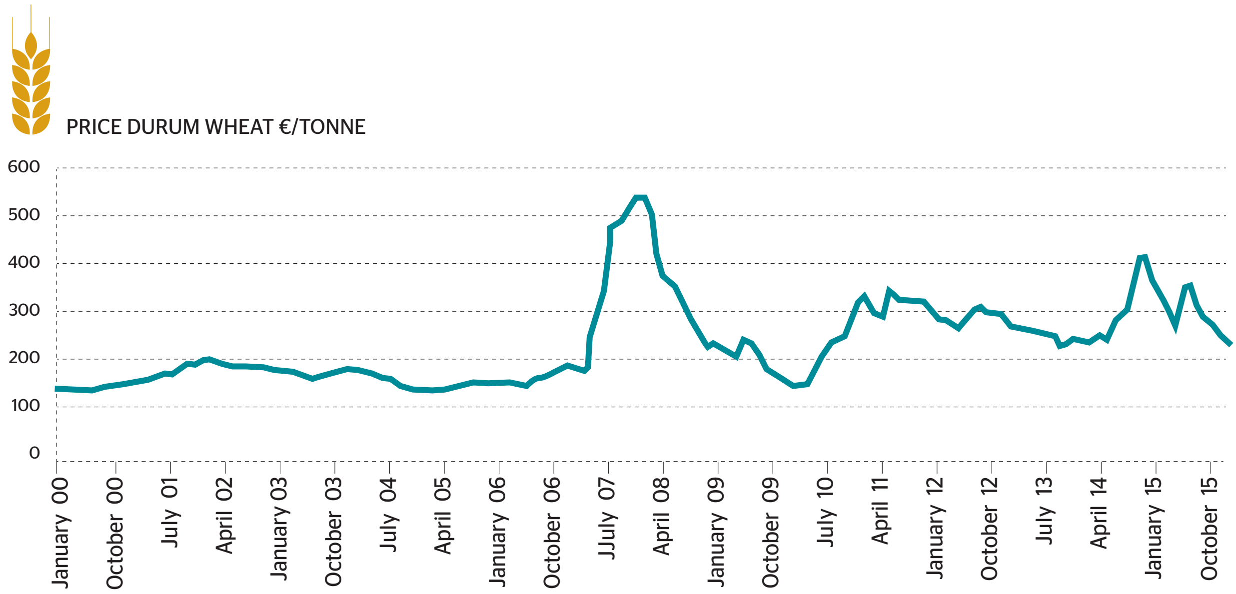
than most other developed countries. Domestic demand has been the main driving force behind this growth, as consumers have overcome their earlier distrust and perceive a progressive increase in available income, although there is still some tension regarding its distribution. The Federal Reserve put the rates up, leading the way to stabilisation. This should not have a negative impact, except on those exports affected by the appreciation of the dollar and the weakness of emerging economies.

As we said last year, the years of uncertainty and the high rates of unemployment have taken their toll in the form of changes in consumption patterns. On the whole, 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. Other trends include the growth of local supermarkets and the appearance of new players (virtual stores) on the distribution market. All these trends reveal consumers' search for healthy, enjoyable shopping experience while keeping within a tight budget.

Finally, we should not overlook factors with a bearing on consumer patterns, such as aging of the population in developed economies, smaller families, new ways of cooking or consuming foods (to order, at vending terminals, snacks substituting meals, etc.), the relentless progress of Internet, which enables consumers to compare prices and features, and the growing number of automated options, which are set to change habits in the purchase and consumption of food (self-driving cars, drones...). While traditional consumers still predominate, producers must progressively adapt and specialise their offer and distributors must offer a different shopping experience.

Just like all raw materials, 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.

Last year we published the following graph of the evolution of durum wheat prices, showing the increasing volatility of a particularly narrow market.



Source: own compilation

In 2015, prices fell from the beginning of the year, from around 400 €/tonne to 280 €/tonne as the new harvest drew near. In June, a new price hike was triggered by rumours of a possibly smaller yield in Europe due to the shortage of rain in the spring, although when those rumours were not confirmed, prices deflated again to 265 €/tonne by year-end.

World rice production dropped 0.5% overall in 2015, affected by adverse weather conditions (the effects of El Niño) and discouraged by the low prices in general. World trade also declined (2%) in 2015 from the record levels recorded in the previous year, as demand receded. World rice prices gradually fell over the year, especially in certain varieties of aromatic rice.

North America had a bumper crop in 14/15 and prices remained low. However, the quality and volume of the new 15/16 crop are lower, pushing costs up in the last quarter of the year.

GROUP EARNINGS

The principal financial highlights of the Group are shown below:

CONSOLIDATED FIGURES	2013	2014	2014-2013	2015	2015-2014	CAGR 2015-2013
Net sales	1,956,647	2,120,722	8.4%	2,461,915	16.1%	12.2%
EBITDA	282,392	287,251	1.7%	314,724	9.6%	5.6%
% net sales	*14.4%*	*13.5%*		*12.8%*		
EBIT	226,356	227,242	0.4%	246,314	8.4%	4.3%
% net sales	*11.6%*	*10.7%*		*10.0%*		
Profit before tax	210,646	215,749	2.4%	229,722	6.5%	4.4%
% net sales	*10.8%*	*10.2%*		*9.3%*		
Income tax	(69,157)	(64,407)	6.9%	(79,034)	(22.7%)	6.9%
% net sales	*(3.5%)*	*(3.0%)*		*(3.2%)*		
Consol. profit for the year (continuing operations)	141,489	151,342	7.0%	150,688	(0.4%)	3.2%
% net sales	*7.2%*	*7.1%*		*6.1%*		
Net loss on discontinued operations	(7,507)	(2,223)	(70.4%)		(100.0%)	(100.0%)
% net sales	*(0.4%)*	*(0.1%)*				
Net profit	132,759	146,013	10.0%	144,846	(0.8%)	4.5%
% net sales	*6.8%*	*6.9%*		*5.9%*		
Average working capital	420,517	442,036	(5.1%)	482,300	(9.1%)	
Capital employed	1,286,515	1,363,346	(6.0%)	1,579,447	(15.9%)	
ROCE **(1)**	17.7	16.7		15.6		
Capex **(2)**	61,308	67,123	9.5%	81,466	21.4%	
Average headcount	4,665	5,189	11.2%	5,759	11.0%	

	31-12-13	31-12-14	2014-2013	31-12-15	2015-2014
Equity	1,705,757	1,849,485	8.4%	1,966,259	6.3%
Net Debt	338,291	405,617	19.9%	426,280	5.1%
Average Debt	260,820	333,178	27.7%	424,940	27.5%
Leverage **(3)**	0.15	0.18		0.22	
TOTAL ASSETS	**2,772,680**	**3,162,068**		**3,403,676**	

(1) *ROCE = (Operating income CAGR last 12 months / (intangible assets - property, plant & equipment - working capital)*

(2) *Capex as cash outflow from investing activities*

(3) *Ratio of average net financial debt with cost to equity (excluding minority interests)*

Turnover was up 16.1% year on year, thanks to a significant increase in volumes, the exchange rate effect deriving from the evolution of the dollar, estimated at €181 million, and the effect of changes in the scope of consolidation, calculated at €105 million.

The **generation of resources, EBITDA**, rose by 9.6%, with a contribution of €8.3 million by the new businesses and an estimated impact of €23 million caused by exchange rate variations. Performance was especially positive in the rice segment, with record yields, whereas the pasta business had another tough year struggling with the volatile durum wheat prices and the need to pass on the additional supply costs in the first half of the year (estimated at €54 million year on year).

The average profitability measured by the EBITDA to sales ratio fell to 12.8%, due entirely to the performance of the pasta division as margins were narrowed by the rising cost of the raw material (partly offset by larger volumes of sales) and the still negative impact of fresh pasta in Canada and the United States, which is being relaunched with a lower profitability than the average in other business sectors.

The **Net Earnings in Continuing Operations** slid 0.4%, despite the improvement in recurring income owing to a combination of effects stemming from the previous year: positive impact by a smaller non-recurring expense (recognition in 2014 of the impairment loss in Goodwill corresponding to the cash-generating unit ARI - American Rice - in a sum of €11.1 million); negative effect of the absence in this year's accounts of the financial income from the sale of our interest in Deoleo (€14.0 million) and the variations in the corporate income tax expense (see Note 25 to the Annual Accounts).

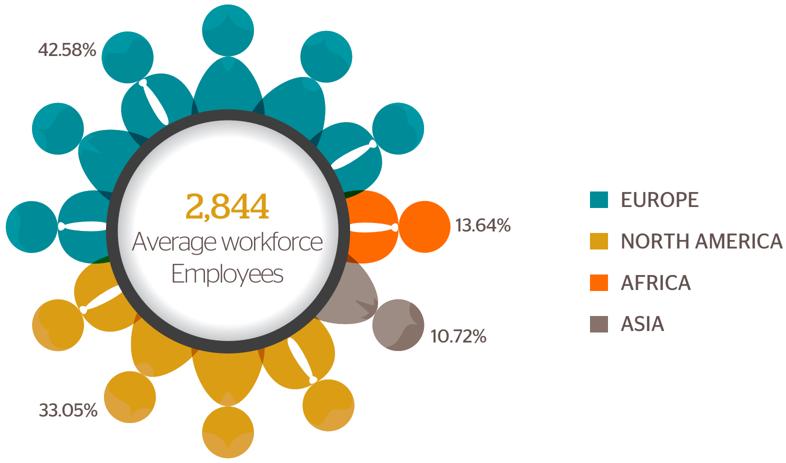
The **ROCE** fell to 15.6% due entirely to the smaller yield on the pasta business in the United States and Canada.

The **Earnings from Discontinued Operations** include the net proceeds from divestments and net earnings on their operations up to the date of sale. In this case the earnings shown in the previous years correspond to divestment in the pasta business in Germany and proceeds from the sale described in Note 7 to the consolidated annual accounts.

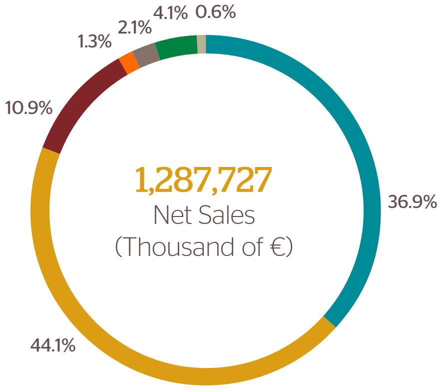
Rice

The group is world leader in this business area. Its origins in Spain date back to 1950 and it began its international expansion in 1986 with the purchase of leading brands and companies in Europe, United States and Canada. Now present also on the African and Asian continents, the division operates through a broad portfolio of leading brands and products in their category. This business area accounts for 51% of Ebro's total sales.

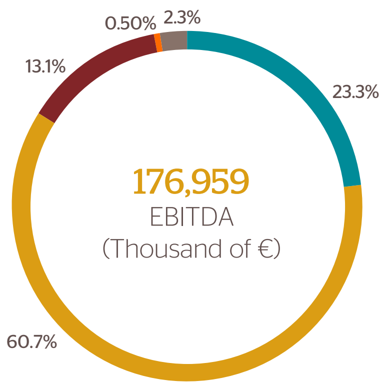
BREAKDOWN OF RICE DIVISION WORKFORCE BY GEOGRAPHICAL AREA



BREAKDOWN OF NET SALES OF
RICE DIVISION BY GEOGRAPHICAL AREA



BREAKDOWN OF EBITDA OF
RICE DIVISION BY GEOGRAPHICAL AREA



EUROPE
NORTH AMERICA
SPAIN
AFRICA
ASIA
MIDDLE EAST
OTHERS

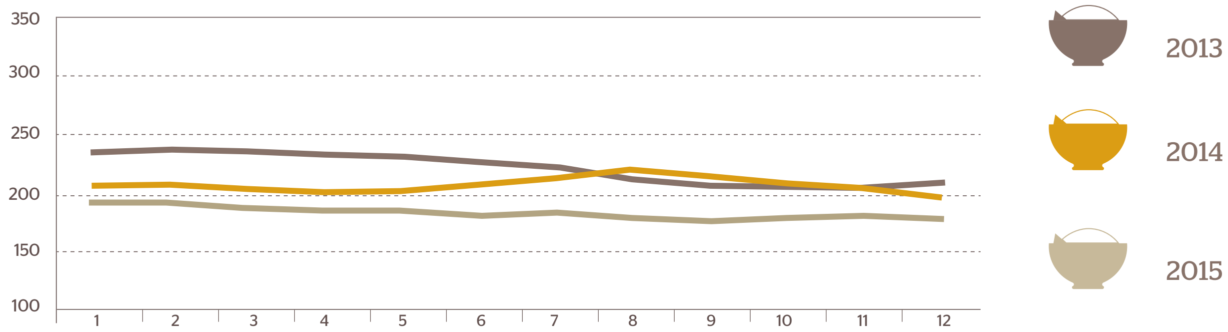
DEVELOPMENT OF THE RICE BUSINESS IN 2015

RICE BUSINESS	2013	2014	2014-2013	2015	2015-2014	CAGR 2015-2013
Net sales	1,090,459	1,139,697	4.5%	1,287,726	13.0%	8.7%
EBITDA	137,627	148,828	8.1%	176,959	18.9%	13.4%
% net sales	*12.6%*	*13.1%*		*13.7%*		
EBIT	110,156	121,789	10.6%	147,509	21.1%	15.7%
% net sales	*10.1%*	*10.7%*		*11.5%*		
Average working capital	329,938	339,882	(3.0%)	360,709	(6.1%)	
Capital employed	751,292	767,771	(2.2%)	861,763	(12.2%)	
ROCE	14.8	15.9		17.1		
Capex	21,186	32,440	53.1%	39,555	21.9%	

Thousand of euros

As indicated in the comments on the general situation, 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.

RICE IPO INDEX



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, which brings an element of uncertainty in prices. There have been no significant changes in the short and medium grain varieties, so with an ample excess of stock over use prices are kept fairly low.

CAMPAIGN PRICE USA

AUGUST -JULY

$/CWT	15/16*	14/15	13/14	12/13
Average price	12,5-13,3	13.4	16.3	14.9
Long grain	11-11,6	11.9	15.4	14.4
Medium grain	16,1-16,9	18.3	19.2	16.7

Source USDA

*** Estimated range**

There were no material changes in respect of other sources, with stable or falling prices in long-grain Asian rice varieties and stable markets in the aromatic varieties. In this case, too, the current 15/16 harvest means production will be smaller in Thailand and India, the major Asian exporters, although Thailand has a huge intervention stock from at least three crop years, with questionable quality but which nevertheless provides a buffer for establishing prices of the rice sourced there. With the falling prices of Asian rice and the last two European crop years with below-average yields and high prices, this area is not very competitive at present.

Sales rose entirely through volume and evolution of the dollar, because prices remained stable or were slightly down, in line with the prices paid at source. The increase in sales can be put down mainly to:

- Consolidation of the ingredients business, replacing a traditional offer of little value added with a product at the high end of the value chain, with a 15% growth.

- Progressive replacement of the traditional products with products launched in recent years, especially Sabroz and Vasitos, which have achieved year-on-year growth in volume of 11.6% and 19.6% in Spain, maintaining market shares and the value of sales.

- Outstanding performance of Riviana in all its listings and brands in the United States. They are market leaders with a 22.3% share in volume in a market that is growing at 2.9% p.a. (*Nielsen XAOC scantrack 52 weeks*).

- Good progress by ARI – American Rice – which, with the relative improvement in American long grain rice prices and despite the shortage of Texan rice, has competed in better conditions with its brand Abu Bint in the Middle East.

The division **EBITDA** was up 18.9% year on year, which is greater than the rise in turnover, indicating an improvement in yield (13.7% margin, up from 13.1% in the previous year). Apart from the good performance of sales, an adequate procurement policy has enabled a slight improvement in profitability. Investment in advertising was raised significantly by €9 million, almost entirely in the United States, taking advantage of the group's excellent position on the market.

Riviana maintained its excellent progression with a new record in earnings of USD 107 million. Just a small part of that increase corresponds to the incorporation of the Rice Select assets (USD 1.4 million), with which we have added some local aromatic, organic, ancient grains and couscous varieties to our catalogue. ARI also improved its earnings, despite the continued problems with Texan rice, which dampen the productivity of its Freeport plant.

The situation is much more complicated in Europe. The business concentration process continues in distribution (3 distributors are merging in France, Ahold & Delhaize in Belgium-Netherlands, and in Germany the process is under way between Edeka and Rewe) and although the market appears to be starting to relax, there is still a lot of promotion activity going on and very large price spreads between the private label and manufacturers' brands. To cope with this situation, we have maintained our firm commitment to innovation and supporting our brands, which has enabled us to grow in the Netherlands, Portugal and Finland and hold our position in Belgium and Germany. Despite the difficulties, we have kept our earnings on an even keel with a slight increase in investment in advertising (+€1.7 million).

By source, the contribution to the EBITDA of the non-American business is as follows:

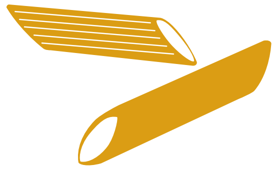
	2013	2014	%	2015	%
Spain	31,474	28,539	38.9	23,191	32.2
Europe	33,454	40,873	55.7	41,307	57.4
Others	2,100	3,916	5.3	7,522	10.4
TOTAL EBITDA	**67,028**	**73,328**	**100**	**72,020**	**100**

There was a significant growth from other sources, as business stepped up in India and we recovered the full value of our business in Puerto Rico, which, after several years' work to enhance its value, was sold in January 2016. The Spanish market has defended its positions by replacing traditional segments flooded with private label brands) with the range of new products. However, its profits have fallen as the national crop has become less competitive over the past two years in comparison with other sources.

The division **ROCE** rose considerably thanks to the greater profitability of the US business, including the correction of the valuation of ARI assets made in the previous year.

The principal investments (**CAPEX**) made in this division correspond to a new frozen products warehouse (€1.6 million), a new flour and ingredients production line (€2.9 million), enlargement of the facilities in India (€1.8 million), enlargement of the plants in Amsterdam and Antwerp (€2 million), completion of the Algemesí mill enlargement (€2.5 million) and continuation of the work to install a new gluten-free pasta production line in Memphis for €7.3 million (built at this plant, but for use by the pasta division).

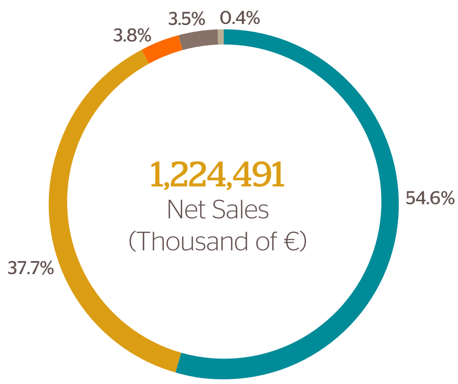
Pasta, sauces and others



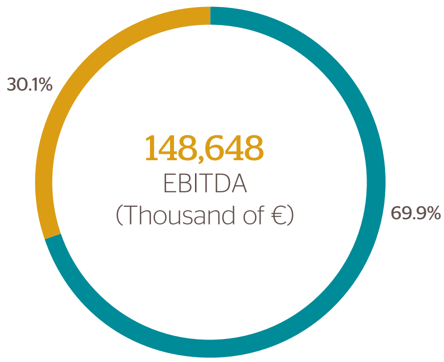
This division is represented by the companies New World Pasta (leader in the United States and Canada), Panzani (no. 1 in France in the dry and fresh pasta, sauces, couscous and semolina sectors) and Pastificio Lucio Garofalo (Italy). Apart from these countries, the group's brands are also present in Belgium, Hungary, United Kingdom, Algeria, United Arab Emirates, Czech Republic and Russia, so in just ten years, Ebro has positioned itself as second pasta manufacturer in the world. The division overall now accounts for 49% of the Group's business.

BREAKDOWN OF PASTA DIVISION WORKFORCE BY GEOGRAPHICAL AREA

BREAKDOWN OF NET SALES OF PASTA DIVISION BY GEOGRAPHICAL AREA



BREAKDOWN OF EBITDA OF PASTA DIVISION BY GEOGRAPHICAL AREA



EUROPE NORTH AMERICA AFRICA ASIA OTHERS

DEVELOPMENT OF THE PASTA AND SAUCES BUSINESS IN 2015

PASTA BUSINESS	2013	2014	2014-2013	2015	2015-2014	CAGR 2015-2013
Net sales	915,120	1,029,294	12.5%	1,224,491	19,0%	15,7%
EBITDA	152,955	146,317	(4.3%)	148,647	1,6%	(1,4%)
% net sales	*16.7%*	*14.2%*		*12.1%*		
EBIT	125,725	114,397	(9.0%)	110,477	(3,4%)	(6,3%)
% net sales	*13.7%*	*11.1%*		*9.0%*		
Average working capital	76,369	94,810	(24.1%)	107,261	(13,1%)	
Capital employed	508,429	578,767	(13.8%)	691,071	(19,4%)	
ROCE	25.7	20.5		16.1		
Capex	38,720	34,249	(11.5%)	40,683	18,8%	

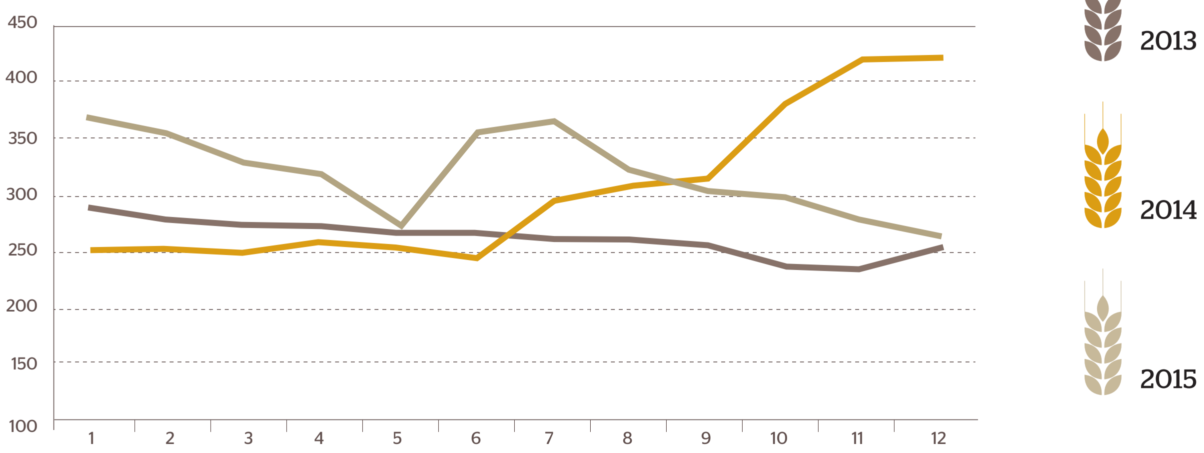
Thousand of euros

Durum wheat prices rallied in the second half of 2014, peaking in November at over 400 €/tonne. After that, with the 2015/16 harvest in sight and good prospects of the producing countries, moderation was recovered and prices started to come down, ending 2015 at 265 €/tonne), after showing signs of the volatility that has prevailed in this market in recent years.

The warm spring in the producing countries sparked fears of insufficient irrigation and, as a result, a second year of poor quality crop. However, these fears turned out to be unfounded, the French harvest was good (+18%) and prices started falling again until the end of the year, with adequate stock levels.

SALES grew by 19%, mostly as the increased cost of the raw material was passed on in sale prices and due to the impact of

PRICE OF DURUM WHEAT IN EUR/TON



the dollar appreciation on our American business and the incorporation of a full year of Garofalo (€72 million) and three months of the Roland Monterrat business (€19 million).

By geographical markets:

- In France, the dry and fresh pasta market grew by 4.6% to take a 37.1% share in volume of modern distribution, in a category that is declining at a rate of 1.5%. The growth in sales and market share was extended to fresh pasta (+2.3% with a market share of 39.4%). A significant part of this growth is underpinned by innovations, especially in the new dry pasta with the quality of fresh product (1,300 tonnes sold) and the 22% growth of pan-fried gnocchi sales, which further broadened its range.

- Garofalo had an excellent performance. It clearly leads the premium pasta market in Italy (a segment in growth, while the overall market declined by 4.5%) with a 4.8% share in volume and 7.3% in market value. It now distributes in France, Germany and the Netherlands through our commercial network.

- United States: Apart from a declining market (-2.0% in volume), the division had a bad start to the year, as the rising price of the raw materials heightened the pressure on a market that was already tense as a result of the price war and abundant promotion activities. This unfavourable situation was further depressed by the downward trend in the healthy foods segment, comprising wholewheat, high fibre and vegetable, low calorie and gluten-free pastas, in which we have a prominent position. Thanks to the determination to renovate the health category with the launching of new gluten-free products and others based on quinoa and other ancient grains, there was an upturn in sales at the end of the year, giving New World Pasta a 19.4% share in volume of the market.

- Canada: The dry pasta market shrank in volume (-4%) but grew in value (9%) as the higher wheat costs were adequately passed on in prices. Just as in the United States, there was a decline in the consumption of healthy pastas, except for the gluten-free listings. Our subsidiary Catelli Foods still leads the market with a 34.0% share in volume. The fresh pasta market grew by 3.2% in volume and 4.3% in value, and Olivieri maintains its leadership with a 45.9% share, despite the competition between private label and manufacturers' brands.

The division **EBITDA** was up 1.6% and has remained practically on the same level over a three-year span, despite the positive contribution by Garofalo of €17.4 million (€7.4 million in six months of the previous year). The increase in raw material costs was estimated at €54 million and seriously hampered the profitability of this business, especially in the United States. Investment in advertising was raised by €6.2 million to support Garofalo for a full year.

France increased its contribution slightly to €87.8 million (Roland Monterrat contributed €1.7 million from October), in spite of the pressure from procurement costs, thanks to an increase in the volume sold and a powerful commercial leadership policy, which minimised the negative impact of the higher costs of the product.

New World Pasta was not so lucky, suffering a drop in profits due to the smaller volume of sales in the healthy pasta segment and the difficulties it experienced in passing on the higher wheat costs, owing to the tough price competition. Another factor in the loss of profit was the 23% devaluation of the Canadian dollar, since approximately 25% of the income of this sub-group is generated in that currency (Catelli).

The fresh pasta and sauces sold under the Olivieri brand continued to suffer under the extremely aggressive commercial strategy developed by the competition, deriving from an increased production capacity. As a consequence of that strategy, Olivieri lost some of its business with one of our clients in two provinces of Canada, while promotion pressure heightened in that segment. In response to this challenge, Olivieri increased its exclusive distribution and private label production agreements to guarantee an adequate volume of production in the medium term. This will enable it to secure its medium and long-term profitability and recover positions based on innovation, enhancement of its processes and renovation of its brands. These objectives are all contemplated in its 5-year Strategic Plan.

The division **ROCE** fell to 16.1% owing to the lower profitability of pasta in the United States and Canada.

CAPEX was concentrated in the facilities to improve the fresh product capacity and productivity at Communay (near Lyon, €8.5 million for an investment to date of €31.5 million), equipment to increase capacity at the dry pasta plants (€5.5 million in Europe), implementation of the SAP production module for fresh products (€1 million), productivity enhancement at the semolina plants (€2.4 million), a new short pasta packaging line at St. Louis (USA) (€1.4 million), a new packaging machine at Winchester (USA) (€1 million) and a new fresh pasta line at Hamilton (Canada) (€1.9 million).