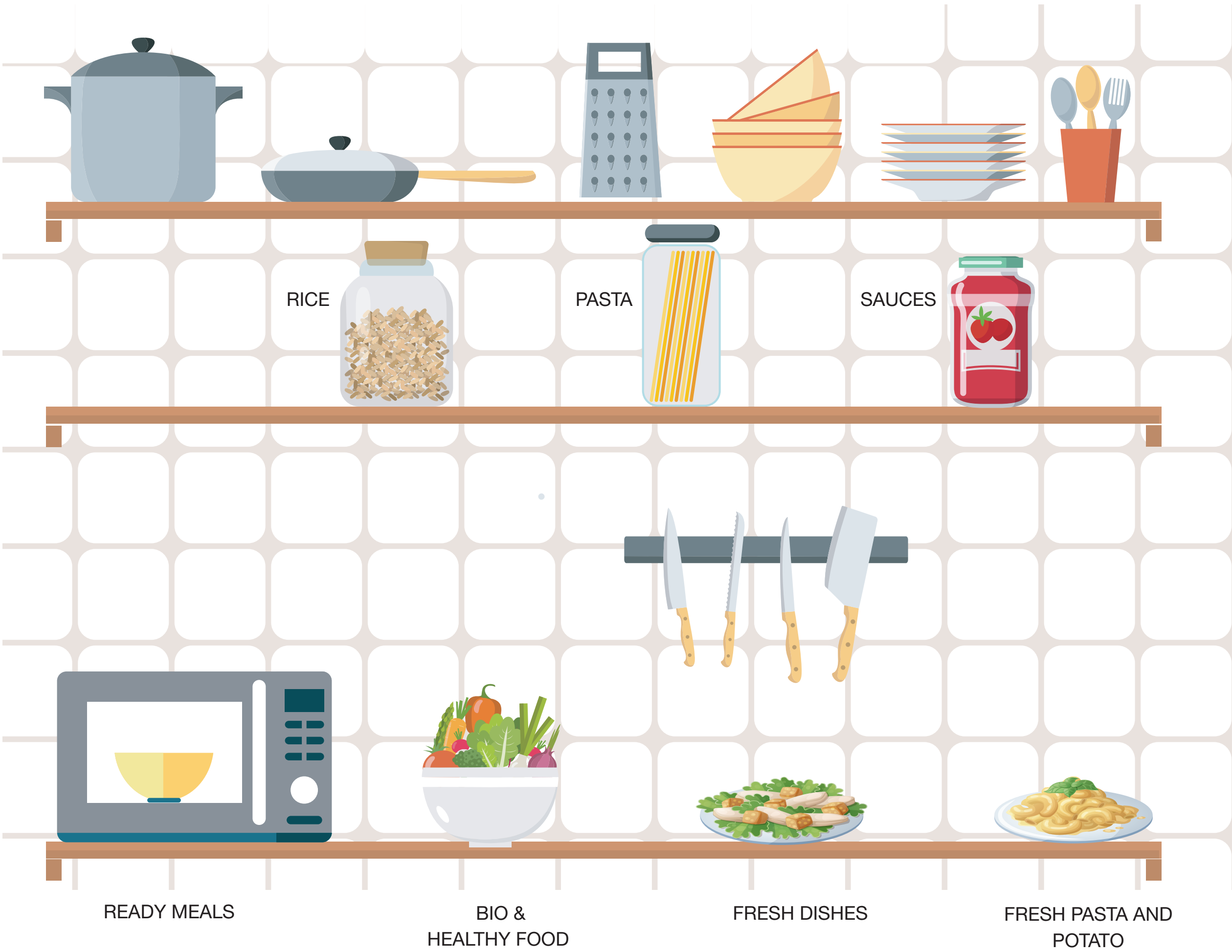
BUSINESS
Areas in 2018

BUSINESS AREAS

CONSOLIDATED GROUP	Pag 42
RICE	Pag 47
PASTA	Pag 52



GENERAL OVERVIEW

The global economy maintained throughout 2018 the expansion begun in previous years, closing the year with a GDP growth of 3.7%. Even so, as the year went on, more and more indicators suggested that the economic boom had passed its peak. The confidence indicators have fallen in many of the major world economies, reflecting the increased instability deriving from trade tensions, the tougher US monetary policy, Brexit negotiations and the focus of Italian tax policies.

Average GDP growth in the eurozone was 1.8% in 2018, compared to 2.4% in 2017. Economic activity, undermined by sluggish exports, was unable to maintain the strong growth recorded in 2017. Unemployment fell to 8%, showing good performance, although political tensions dampened the spirits of business and consumers as from the summer. Finally, after being pushed up by the energy effect, inflation slipped at the end of the year to 1.8% and the European Central Bank maintained an accommodative monetary policy.

In the United States, economic growth accelerated to 2.9% of the GDP in 2018, bolstered by the good performance of domestic demand, revitalisation of the labour market (with 3.7% unemployment at year-end and wage growth) and increased inflationary pressure, enabling the Federal Reserve to raise the benchmark interest rate in line with its monetary policy objectives.

OVERVIEW OF CONSUMPTION

The consumption patterns observed in previous years were maintained in 2018, shaped around:

MORE PERSONAL CONSUMER EXPERIENCE

Consumers now have greater decision-making capacity, more information and more shopping tools, and they are willing to pay more for products they can relate to. This is associated with:

- Demand for quality products that are easy to prepare and immediately satisfy their wishes.
- Preference for natural, healthy, organic products. The increased consumption of fresh products and the importance given to small companies and start-ups that make consumers feel in touch with nature are very much in tune with this sentiment.
- Search for sustainable products corresponding to the circular economy that include different players in their preparation and sale.
- Desire for a greater choice. Quality private label brands have broadened their customer base, spanning practically all social classes and segments of population.

SOCIAL CHANGES

- Aging of the population, increased power of older generations. The baby boomers have transformed this segment of the population, which have greater purchasing power and different needs and aspirations (activity and health) from those traditionally relating to this social group.
- Smaller families, with a constant growth in single-member households; new formats and customised goods and services.
- The younger generations are more concerned about social and environmental issues.
- Increased mobility and immigration in many developed countries, accompanied by new tastes and ways of cooking.

CONNECTIVITY

The relentless penetration of mobility in internet access (more than 4 billion people with access to internet at year-end 2018) makes shopping faster and more universal. This, together with growing automation (self-driving cars, drones, etc.) and interchange platforms that put consumers in touch with the producers of goods and services, herald a change in food consumption and shopping habits (customised promotions, access to all sorts of food delivery services, crossing the last mile barrier in distribution, etc.).

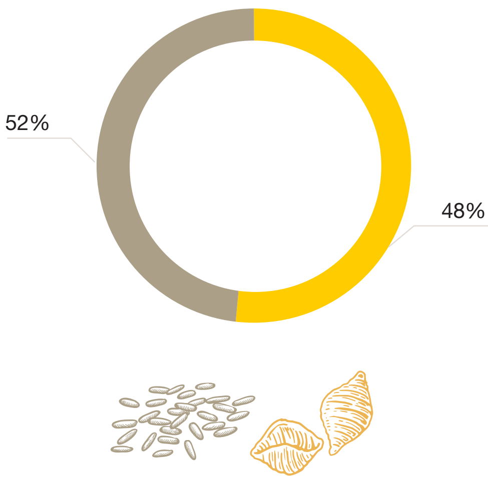
NEW CHANNELS AND SERVICES

- Growth of local supermarkets, with more frequent shopping and increased availability (24-hour opening, alliances with filling stations or other high-traffic points).
- Consolidation of virtual stores on the distribution market along with the new consumer trends and use of technology.

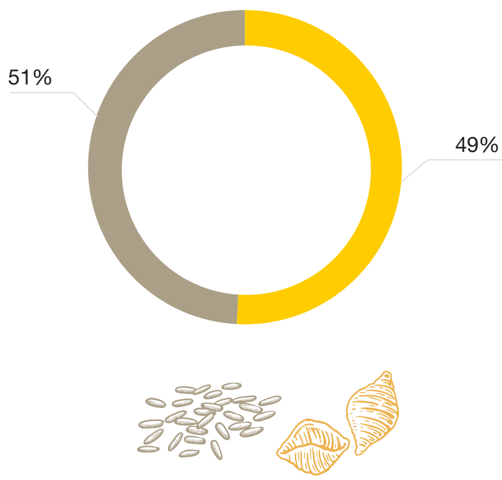
- New ways of cooking or consuming food (by order, through vending machines, snacks as meal substitutes, etc.).

All these changes have brought new challenges for distributors and producers, who are forced to use totally different marketing techniques from those prevailing up to a decade ago to reach consumers and achieve customer loyalty, and where the use of Big Data and the speed and customisation of marketing actions are becoming increasingly important.

CONSOLIDATED GROUP



SALES BY GEOGRAPHICAL AREAS

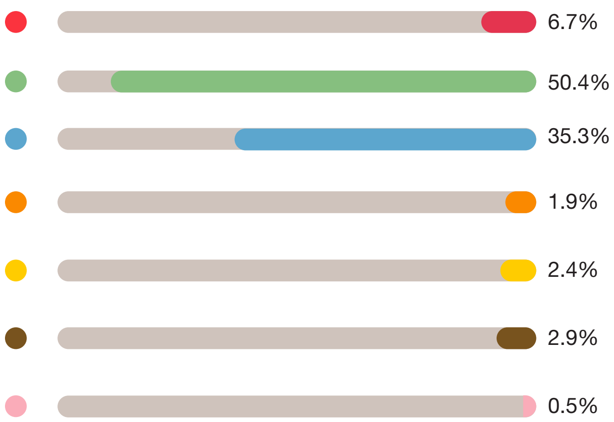


EBITDA BY GEOGRAPHICAL AREAS

7,189

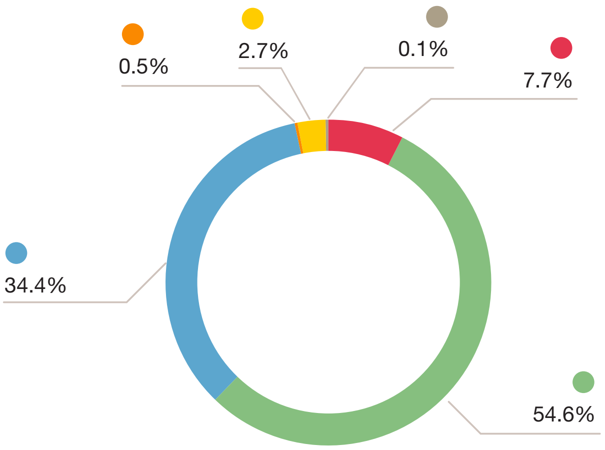
AVERAGE WORKFORCE

CONSOLIDATED GROUP



2,646.5 Mill€

SALES BY GEOGRAPHICAL AREAS



310.7 Mill€

EBITDA BY GEOGRAPHICAL AREAS

SPAIN | EUROPE | NORTH AMERICA | SOUTH AMERICA | AFRICA | ASIA | MIDDLE EAST | OTHERS

The financial highlights of the Group are set out below:

PROFIT AND LOSS	2016	2017	2017/2016	2018	2018/2017	CAGR 18-16
Net sales	2,459,246	2,506,969	1.9%	2,646,523	5.6%	3.7%
Advertising	(100,401)	(93,134)	(7.2%)	(89,694)	(3.7%)	(5.5%)
% net sales	(4.1%)	(3.7%)	(9.0%)	(3.4%)		
EBITDA	344,141	359,000	4.3%	310,763	(13.4%)	(5.0%)
% net sales	14.0%	14.3%		11.7%		
EBIT	267,308	279,314	4.5%	221,951	(20.5%)	(8.9%)
% net sales	10.9%	11.1%		8.4%		
Profit before tax	259,410	264,131	1.8%	212,950	(19.4%)	(9.4%)
% net sales	10.5%	10.5%		8.0%		
Income tax	(83,591)	(34,157)	(59.1%)	(63,639)	86.3%	(12.7%)
% net sales	(3.4%)	(1.4%)		(2.4%)		
Consol. profit for the year (continuing operations)	175,819	229,974	30.8%	149,311	(35.1%)	(7.8%)
% net sales	7.1%	9.2%		5.6%		
Net profit	169,724	220,600	30.0%	141,589	(35.8%)	(8.7%)
% net sales	6.9%	8.8%		5.4%		

BALANCE SHEET	31.12.16	31.12.17	2017/2016	31.12.18	2018/2017
Equity	2,079,326	2,074,637	(0.2%)	2,162,334	4.2%
Net Debt	443,206	517,185	16.7%	704,621	36.2%
Average Debt	404,137	426,042	5.4%	627,350	47.3%
Leverage (3)	19.4%	20.5%		29.0%	
TOTAL ASSETS	3,645,478	3,663,133	0.5%	3,832,425	4.6%

	31.12.16	31.12.17	2017/2016	31.12.18	2018/2017
Average working capital	461,991	506,803	9.7%	588,403	16.1%
Capital employed	1,611,272	1,678,670	4.2%	1,805,986	7.6%
ROCE (1)	16.6	16.6		12.3	
Capex (2)	107,725	120,671	12.0%	138,930	15.1%
AVERAGE HEADCOUNT	6,195	6,520	5.2%	7,153	9.7%

(1) ROCE = (Operating income MAT / (intangible assets - property, plant & equipment - working capital)
(2) Capex as cash outflow from investing activities
(3) Ratio of average debt with cost to equity (excluding minority interests)

Turnover rose by 5.6% year on year. The incorporation of Bertagni contributed €61 million in sales, while comparable growth was 2% after stripping out the exchange rate effect and changes in the scope of consolidation.

2018 was an especially complicated year for the **generation of cash** and our **EBITDA**, dropped 13.4% despite the incorporation of Bertagni, which was purchased at the end of the first quarter and contributed €9.5 million. The comparable figure is slightly better, since it includes a negative impact of €4.4 million caused by exchange rate variations. This decline can be attributed mainly to pressure from the inflation of certain costs, which we were unable to pass on in full until the last four months of the year, and production disorders in the United States, where an extremely buoyant economy has generated temporary tensions in production and the assignment of resources.

Positive aspects of the year included: (i) the constant growth of our European rice business, (ii) the measures taken to diversify our sourcing, with which we have achieved stable qualities and prices through internal growth (new investments in India, Thailand and Cambodia) and the purchase of assets (La Loma, Argentina) and (iii) the contribution by Garofalo, which has continued its international expansion as a premium dry pasta brand and has started developing the fresh pasta category, in which the acquisition of Bertagni will enable the Group to expand the international premium brand concept. This expansion was underpinned with heavy investment in advertising (55% more year on year), without which the excellent results of the previous year were matched on a like-for-like basis.

Average profitability measured by the EBITDA to Sales ratio fell to 11.7%, pulled down especially by the lower yield in the USA, which was down seven percentage points.

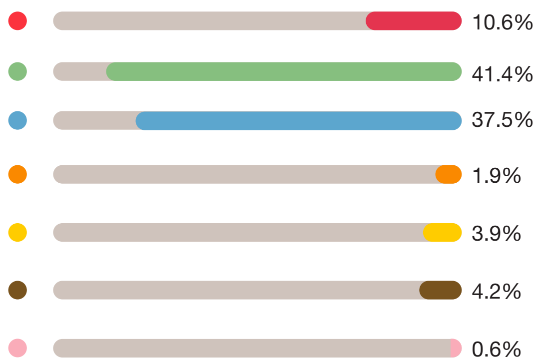
Profit before tax eased down, owing to greater depreciation/amortisation on the latest acquisitions and heavy investment in CAPEX in the past two years, in some cases partially put into operation in 2018, such as the frozen foods plant in the United States. Non-recurring earnings were slightly negative (-€4 million, compared to -€8 million in 2017 and -€3 million in 2016), including the sale of the SOS brand in Mexico and several expenses related with the most important investments and restructuring.

The tax expense rose considerably year on year, in spite of the lowering of tax rates in several countries in the previous year, because the 2017 tax charge was reduced by the impact of those reforms on the deferred tax liabilities recognised on the company's balance sheet.

Net profit fell by 35.8%, in line with the smaller profitability in our core businesses and the impact of the tax reform mentioned in the preceding paragraph on comparable figures.

The ROCE slid to 12.3% as a result of the smaller profitability and a rise in the average capital employed, including especially the increased average working capital associated with a higher cost of certain rice varieties.

RICE

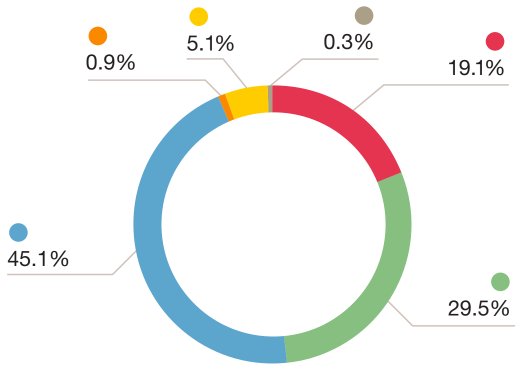


1,412.7 Mill€

NET SALES OF RICE DIVISION
BY GEOGRAPHICAL AREAS

161.9 Mill€

EBITDA OF RICE DIVISION
BY GEOGRAPHICAL AREAS



PROFIT AND LOSS	2016	2017	2017/2016	2018	2018/2017	CAGR 2018-2016
Net sales	1,283,853	1,345,026	4.8%	1,412,702	5.0%	4.9%
Advertising	(30,135)	(28,088)	(6.8%)	(26,969)	(4.0%)	(5.4%)
EBITDA	196,264	205,988	5.0%	162,065	(21.3%)	(9.1%)
EBIT	163,561	172,522	5.5%	123,989	(28.1%)	(12.9%)
Operating profit	169,240	174,027	2.8%	125,392	(27.9%)	(13.9%)
Capex	47,391	65,807	38.9%	64,583	(1.9%)	16.7%

From the point of view of rice purchases and prices, the year was divided into two clearly distinct parts marked by the new harvests: the upward trend that began towards the end of 2017 continued in the first half of 2018, while prices came down in the second half.

By geographical areas, in the European Union the year kicked off with prices rising under the threat of a drought in Spain, which was finally dispelled with a particularly wet spring, although this pushed up the purchase prices of carryover stock. After a few months of relative calm, the import tariffs on long-grain rice from Cambodia and Myanmar announced by the European Union at the end of the year have once again tightened the markets producing those varieties.

In the United States, the 17/18 harvest was significantly smaller than in previous years as a smaller area had been sown, leaving a smaller carryover stock than in the past five years. This pushed prices up at the end of 2017 and the higher prices prevailed until news on the sowing and harvesting of the 18/19 crop year (estimated at 23% more than in the previous year) eased supply tensions and prices came down in the last four months of 2018. Even so, the anticipation of a very small medium-grain rice harvest in Australia keeps the pressure on the prices of those varieties, which are mainly grown in California.

PRICES US CROP YEAR. AUGUST-JULY (SOURCE: USDA)

$/CWT	17/18 (*)	17/18	16/17	15/16	14/15
Average price	11.6-12.6	12.7	10.4	12.2	13.4
Long grain	10.2-11.2	11.5	9.64	11.2	11.9
Medium grain	16-17	16.2	12.9	15.3	18.3

(*) Estimated range

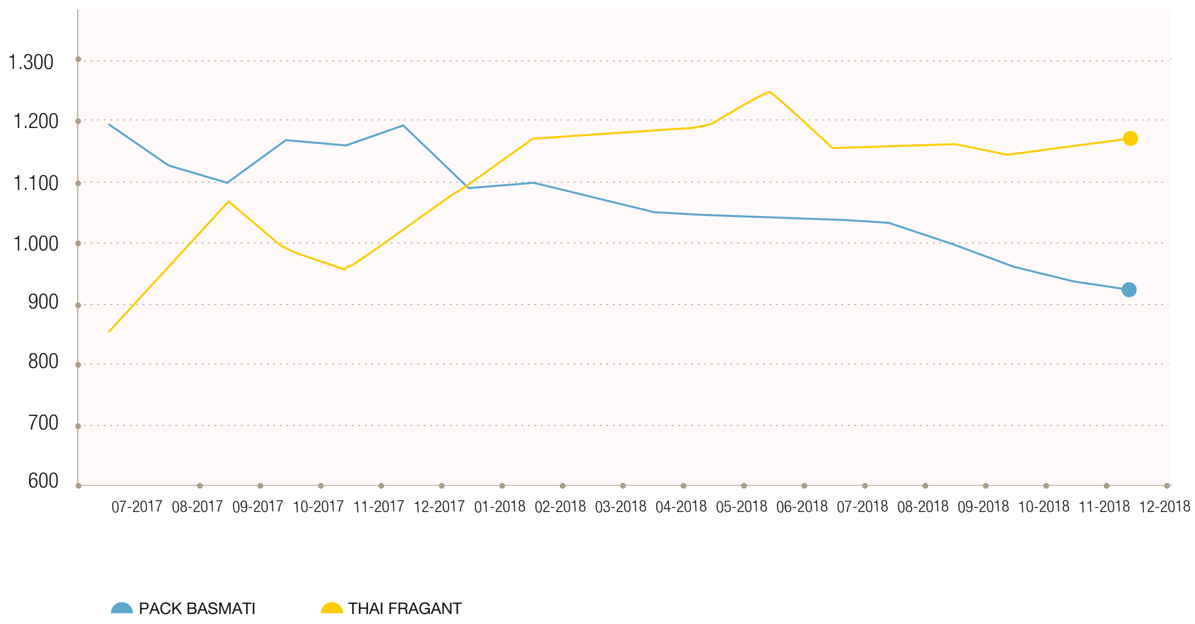
Other rice-growing regions of South East Asia that are very important for long-grain rice varieties (principal global exporters: India, Thailand, Vietnam, Cambodia, Pakistan and Myanmar) followed the general trend of the market: prices edged up at the beginning of the year and started coming down in the summer with generally abundant harvests.

With regard to aromatic rice varieties (basmati and Thai fragrant), whose performance has produced a significant impact on the Group earnings, the price hike in 2017 continued and even intensified to reach record levels of over 1,200 US$/t for fragrant rice varieties in June 2018, with growing demand while the areas sown remained stable.

Prices of basmati rice eased from the record highs at the beginning year, but the costs of purchase, analysis and traceability incurred in the wake of the EU restrictions on pesticides and fungicides have maintained the pressure on prices charged by growers.

The situation is shown very clearly in the following graph of export prices in US$:

EXPORT PRICE AROMATIC RICE VARIETIES (US$ / MT)



Strong growth was observed in the Division turnover, mainly due to the price rises consequential to the higher raw material prices in late-2017 early-2018, in spite of the adverse effect of exchange rate variations, quantified at €25 million (average rate of 1.18 vs 1.13 in previous year).

By geographical regions, sales made in the United States accounted for 40% of the rice division, the remaining sales being distributed among a large number of countries, mainly in the European Union.

With sales volumes in line with the previous year (growth in aromatic varieties and microwave cups and stagnant in instant rice varieties, which have been given less publicity), the evolution of sales in the United States (growth of US$ 14 million) was strongly affected by: (i) the rising prices of local long-grain rice towards the end of the previous year (up 10% on average, easing off with the new crop as from August) and imported fragrant rice varieties, and (ii) the rising costs of transport and auxiliary materials due to oil prices and the growth in domestic demand and business.

Several price rises were made to cope with this inflationary situation: (i) focusing on the aromatic varieties at the beginning of the year, as these price rises had been planned since the end of the previous year, and (ii) linked to the higher costs of logistics and auxiliary materials in the last part of the year, when the main players in the food sector were faced with the need to pass on these increased costs.

Although price tensions have favoured the positioning of private label brands, we maintained a market share of 23.5% in volume and 24.3% in value. The only sales that dropped in value were exports, which were hampered by the loss of competitiveness of American rice against rice from other sources.

In Europe, the Group maintained growth in most of its brands in a flat or falling market, with slight rebounds in value. The success of our microwave products, with double-digit growth, was behind the decision to undertake a major investment (€70m) to increase capacity, installing a large precooked foods plant at the former sugar factory in La Rinconada. This plant is expected to come on stream towards the end of 2020.

Division EBITDA was down 21.0% year on year, absorbing the negative impact of exchange rate variations in a sum of €3.5 million. The entire decline corresponds to our American business, which has endured an especially difficult year in respect of costs and supplies.

The main causes of this poor performance in our American business were:

1. Overall rise in rice prices, especially in aromatic varieties, in the last four months of 2017. The raw material costs rose by approximately US$ 20 million year on year. Although we had planned to raise the prices of our products in February, the magnitude of the sourcing costs meant that we were unable to pass it on fully to customers until the end of the year.

2. Rise in auxiliary material prices and logistics costs. Logistics costs rose by US$ 10 million on the back of fuel price hikes and increased demand for transport, which took transport costs to record levels in March and April. The costs of auxiliary packaging material (paper, cardboard, plastic, etc.) also shot up due to similar causes, producing an impact estimated at US$ 6 million.

3. The production disorders arising partly from the damage caused by Hurricane Harvey at our Freeport factory and partly from the shortage of manpower and huge labour turnover due to the situation of full employment and tough competition from the petrochemical industry for attracting skilled workers.

In an effort to offset these cost increases, we took several measures in respect of our selling prices, as mentioned earlier (selective increase of products and adjustment of channel marketing and promotion activities). We also put in place an integral plan to improve our supply chain and increase plant productivity, linked to processes already in progress for automation of packaging lines and adjusting production between plants. These actions started to bear fruit towards the end of the year with a slight pick-up in margins, which is expected to continue this year.

The contribution to EBITDA by our non-American business, by source, is as follows:

	2016	%	2017	%	2018	%
Spain	27,903	35.8%	28,382	32.6%	30,858	35.3%
Europe	40,261	51.6%	48,577	55.7%	46,302	53.0%
Others	9,845	12.6%	10,210	11.7%	10,142	11.6%
TOTAL EBITDA	78,009	100.0%	87,169	100.0%	87,302	100.0%

Year-on-year improvement in performance was strongest in Spain, with growth in industrial and retail channel sales volumes and smaller private label sales. In the retail channel, this growth was particularly strong in sales volumes of traditional microwave cups and those in the Benefit range. However, problems deriving from saturation, brought about by the growing demand and the need to meet orders from the United States, had a negative impact on margins.

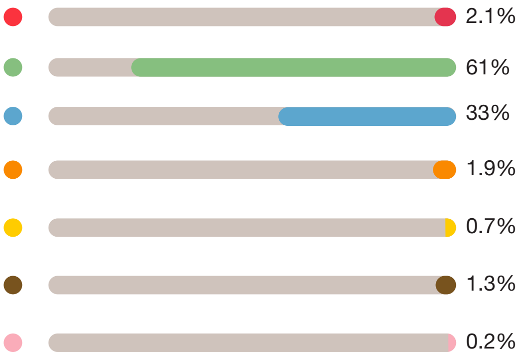
The impact of higher prices of aromatic rice varieties also hit in the rest of Europe, although since the consumption of basmati is greater than that of fragrant varieties, the effects had already been largely felt in the previous year.

Finally, La Loma Alimentos, S.A., a company established in Argentina engaged in the production and sale of rice, was incorporated in the Group during 2018. The contribution by this company was minimal this year, since it was only incorporated in the last quarter, but it is expected to be an important element in our sourcing diversification strategy this year, with a major contribution as a specialist in organic rice.

The Operating Profit was in line with other margins, with a slight increase in the depreciation and amortisation charge linked to investments made in the past two years. It includes the proceeds from the sale of the SOS brand for use in Mexico and other countries in the region (€7 million), more or less on a par with the proceeds recognised in the previous year from the sale of land in Houston, and other fixed asset expenses similar in amount to those of 2017.

Investment in fixed assets remained at very high levels, especially in business lines with a high growth potential. The principal investments (CAPEX) made in this division correspond to (i) enhancements at the new frozen foods factory, (ii) modernisation of freezing systems, (iii) new pasta facilities, (v) completion of new storage facilities, (vi) enlargement of one of our logistics hubs, (vii) enlargement of production capacity for instant rice, and (viii) project for automation of our export packaging lines.

PASTA

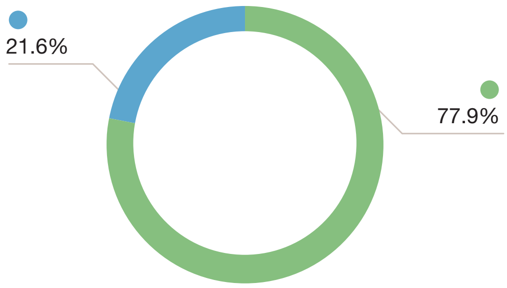


1,298.5 Mill€

NET SALES OF PASTA DIVISION BY GEOGRAPHICAL AREAS

156.5 Mill€

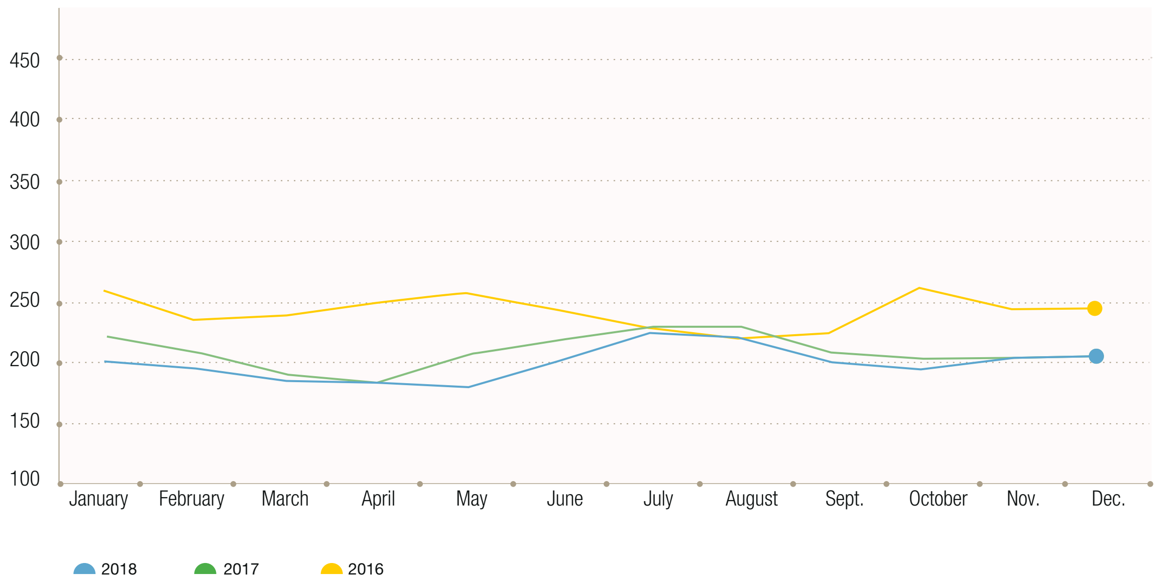
EBITDA OF PASTA DIVISION BY GEOGRAPHICAL AREAS



PROFIT AND LOSS	2016	2017	2017/2016	2018	2018/2017	CAGR 2018-2016
Net sales	1,236,227	1,218,285	(1.5%)	1,298,546	6.6%	2.5%
Advertising	(70,840)	(66,154)	(6.6%)	(63,368)	(4.2%)	(5.4%)
EBITDA	157,089	162,977	3.7%	156,451	(4.0%)	(0.2%)
EBIT	113,544	117,420	3.4%	106,352	(9.4%)	(3.2%)
Operating profit	93,294	102,032	9.4%	99,401	(2.6%)	3.2%
Capex	59,701	52,855	(11.5%)	73,946	39.9%	11.3%

Overall, durum wheat prices maintained in 2018 the line of stability announced in 2017, even a little lower than the prices of the previous crop year. The 18/19 harvest was slightly larger than the previous season, with a considerably larger area sown in the United States and Canada, which is the leading global producer. In contrast, European production was smaller in 2018 due to a smaller crop yield, affected by excessive rainfall in the spring. In any case, stock levels are still high, affording a high resilience to price volatility at least until next summer.

PRICE OF DURUM WHEAT IN EUR/TON



Source: Terre.net

Division **sales** rose 6.6%, boosted by the incorporation of Bertagni in a sum of €61 million, although this was partly offset by the -€11 million impact of the exchange rate on the American business.

The evolution by geographical markets was as follows:

- In France, the brand markets in which we operate (dry pasta, fresh pasta, sauces, cereals and pulses) maintained a healthy growth, apart from couscous and pulses, which declined by 3.4% and 0.8%, respectively.

  The volumes sold by Panzani's sales volumes rose steadily, especially in the fresh and dry pasta markets, in spite of the extraordinarily hot summer, which tended to dampen sales of those products. Dry pasta sales grew in volume to a 37.9% share of modern distribution. The performance of fresh pasta was outstanding, with a 43.4% growth in volume. Overall, like-for-like turnover grew in spite of fierce price competition, which forced our subsidiary to increase its promotional actions (-€11 million), although this was partly offset by the larger volume of branded (+€8 million) and other low value-added product sales.

Principal innovations included: (i) the launching of a new high quality traditional pasta line, produced in bronze moulds, (ii) expanding the range of dry pasta with fresh pasta quality and organic pasta products, and (iii) novelties in the sauces segment with new 'fresh quality' sauces and the launching of a new tomato pulp line. In the fresh pasta segment, there is continued double-digit growth of pan-fried gnocchi sales (+11.9%), with an even broader range, and "Lunch Box" fresh products for microwave, which include an entire category of snacks and full meals with special items for gourmets. This segment has a growth rate of 14.1%.

- Garofalo maintained its growth in turnover, up 1% year on year, particularly in sales volumes of its principal brand which rose by over 4%, partly counteracted by falling sales in other secondary brands with price positioning. It increased its share of the premium pasta market in Italy to 5.3% in volume, holding steady at 7.6% in value. In 2018 it maintained its distribution growth throughout Europe, in both dry pasta and its new premium quality fresh pasta range.

- The most significant events of the year include the group's acquisition of Bertagni 1882 Spa., a specialist that has been producing and selling top quality fresh pasta products for over 100 years. Within the pasta division the purchase was made by Panzani and Garofalo and is an important step forward in the international consolidation of the fresh pasta branch, especially in premium quality, which Garofalo leads in the dry pasta segment.

  Since its incorporation as of 1 April 2018, it has contributed some €61 million to the Group's earnings, which would be around €82 million for a full year. The company has two factories in Italy and sells its products in 42 countries. Over 90% of its sales are exports to markets that are important for the Group.

- United States: The sluggish trend of previous years has continued in this market, which lost 0.6% in volume and 0.3% in value, reflecting a slight downturn in penetration and the quantities of this product purchased by American households.

  The health and well-being segment has also declined, cushioned by the appearance of a larger segmentation of the category with products that have a higher value added and the resilience of gluten free and organic products, which are growing, albeit slowly. Riviana has lost some market share in pasta, now standing at 19.1% of the market, due to the slump in healthy products and despite the successful launch of Thick&Hearty (special pasta for sauces) and Homestyle (fresh quality dry pasta).

- Canada. The dry pasta market continued the trend of the previous year with a 3% drop in value, exactly the same figure as in 2017. An important factor in this downward pressure, which is a far cry from the evolution of durum wheat as key to pricing, was the importing of product from Turkey, especially for the private brand segment, which only began to be curtailed by a decision passed by the customs authorities imposing an import duty of 27.4% on these products. That measure is currently in place, although it is being appealed at the Federal Court of Canada. Even so, Catelli Foods still leads the market with a share of 28.8% in volume.

  The fresh pasta market grew by 8.4% in volume and 5.7% in value, and Olivieri maintains its leadership with a market share of 45.8%, underpinned by innovation and, especially, the gnocchi segment that leads growth in this category.

The division EBITDA fell by 4%, dragged down by the smaller contribution by Panzani and Garofalo, in spite of the contribution made by Bertagni of €9.5 million. The negative impact of exchange rates is calculated at €1 million.

France lowered its contribution to €101.2 million (€7 million less than the previous year on a like-for-like basis). The main reasons for this evolution were: (i) a worse net sales mix with branded products, in which sales volumes rose but the net value was considerably reduced by promotion activities (with an impact of -€2.5 million), (ii) the smaller contribution by Roland Monterrat products owing to tougher price competition in the sandwich market (-€2 million) and (iii) cost inflation of raw and auxiliary materials, especially in the case of fragrant varieties, meat for fillings and transport, in spite of a positive performance by durum wheat (-€4.5 million overall). All this has been cushioned by increased productivity and a small reduction of investment in advertising.

Garofalo contributed €20.5 million, €5 million less than the previous year, due to the increase in a similar amount in its investments in advertising and the expense of expanding the brand in new markets and introducing the recently launched range of fresh products. In other words, it replicated its excellent results of 2017, on a like-for-like basis.

As mentioned earlier, Bertagni joined our Group on 1 April and has contributed €9.5 million to the consolidated EBITDA. The incorporation of this company came up to expectations right from the outset, with year-on-year improvements in sales and margins even though one of its two production plants was started up in April and was not fully operational until October 2018.

The North American segment made a slightly smaller contribution than in 2017 (-€2.4 million after stripping out the impact of exchange rates), essentially due to the inflation on the American market, which we commented on in the section regarding the Rice division. In this case, the price of wheat remained stable, but the impact of logistics costs, the price of eggs and auxiliary materials (valued at -US$14 million) could not be fully offset by cutting down on promotion and channel marketing actions and raising the prices of our products containing egg protein (noodles). The situation especially affected the United States, which had a less profitable product mix, whereas Canada obtained similar profits to the previous year and even achieved growth in the fresh pasta segment, thanks to the success of the new gnocchi products.

The Operating Profit followed the trend of the above-mentioned margins, but it was comparatively better year on year, as the previous year's results included a non-recurrent expense incurred in making provisions for downturns in some of the North American brands.

CAPEX was concentrated in: (i) the acquisition of new headquarters for the pasta business in France, (ii) a new warehouse for fresh products, (iii) new dry pasta lines, (iv) the new gnocchi line, (v) a new fresh pasta line, (vi) a new couscous line, (vii) renovation of the long pasta and lasagne lines and (viii) replacement of a pasta packaging line.