



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

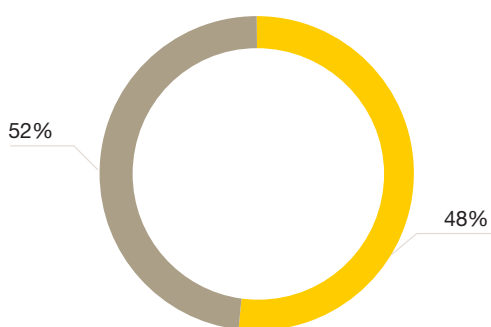
- ▶ Growth of local supermarkets, with more frequent shopping and increased availability (24-hour opening, alliances with filling stations or other high-traffic points).
- ▶ Consolidation of virtual stores on the distribution market along with the new consumer trends and use of technology.



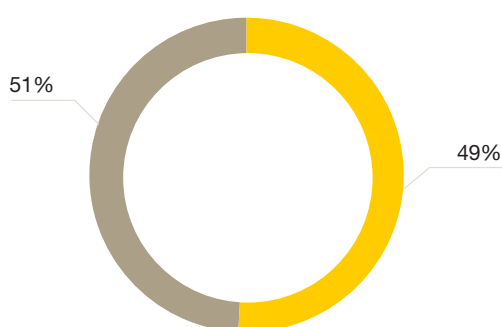
- ▶ New ways of cooking or consuming food (by order, through vending machines, snacks as meal substitutes, etc.).

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



SPAIN



EUROPE



NORTH AMERICA



SOUTH AMERICA



AFRICA



ASIA



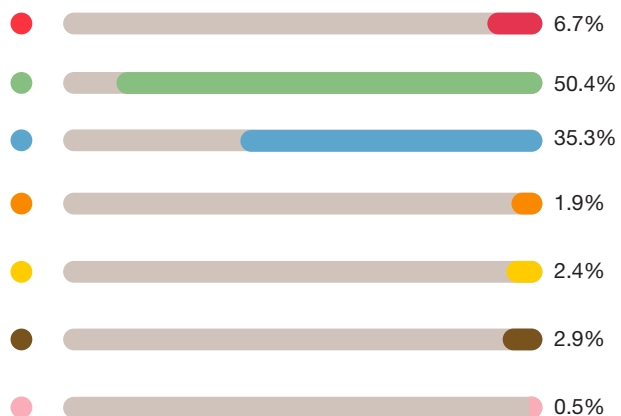
MIDDLE EAST



OTHERS

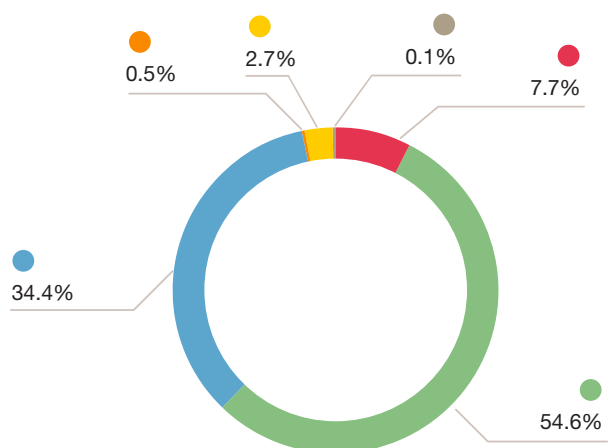


CONSOLIDATED GROUP



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%)
<i>% net sales</i>	(4.1%)	(3.7%)	(9.0%)	(3.4%)		
EBITDA	344,141	359,000	4.3%	310,763	(13.4%)	(5.0%)
<i>% net sales</i>	14.0%	14.3%		11.7%		
EBIT	267,308	279,314	4.5%	221,951	(20.5%)	(8.9%)
<i>% net sales</i>	10.9%	11.1%		8.4%		
Profit before tax	259,410	264,131	1.8%	212,950	(19.4%)	(9.4%)
<i>% net sales</i>	10.5%	10.5%		8.0%		
Income tax	(83,591)	(34,157)	(59.1%)	(63,639)	86.3%	(12.7%)
<i>% net sales</i>	(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%)
<i>% net sales</i>	7.1%	9.2%		5.6%		
Net profit	169,724	220,600	30.0%	141,589	(35.8%)	(8.7%)
<i>% net sales</i>	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.

