EBRO FOODS, S.A. GROUP

2016 MANAGEMENT REPORT (figures in thousands of euros)

1. COMPANY SITUATION

Organizational structure and business model

The Ebro Foods Group is Spain's largest food company. Through its subsidiaries, it commands a presence in the rice and pasta markets in Europe, North America and Southeast Asia, as well as a growing presence in other countries.

The Group has decentralized certain areas of management with a view to focusing on the business while maintaining a lean and dynamic structure that prioritizes performance, cohesion and market knowledge.

The Ebro Foods Group articulates its management around business segments that combine business activities and their geographic location. The core business lines are:

The rice business: the production and distribution of rice and its culinary derivatives and accompaniments. It consists of industrial and branding activities, with the Group pursuing a multi-brand model. Its geographic footprint extends to Europe, the Mediterranean basin, India and Thailand (via the Herba Group companies) and North and Central America, the Caribbean and Middle East (via the Riviana Group and its subsidiary, American Rice or ARI).

Pasta business: the production and marketing of dry and fresh pasta, sauces, semolina products, their culinary derivatives and accompaniments, carried out by the New World Pasta Group in the US, the Panzani Group and the Garofalo Group (rest of world).

Bio health food and organic food: this is the Group's newest business. It is being consolidated in the wake the recent acquisitions of Celnat and Vegetalia and the activities performed by all its subsidiaries in the bio and organic health food areas. It is included under the pasta business on account of its recent creation.

Decision-making is spearheaded by the Board of Directors, which is ultimately responsible for defining the Group's general strategy and management guidelines. The Board delegates certain tasks in its Executive Committee, including, notably, monitoring and oversight of delivery of the strategic and corporate development guidelines, while the Management Committee, on which the heads of the various business areas are represented, is tasked with monitoring and preparing the decisions taken at the management level.

The Annual Corporate Governance Report contains detailed information on the Group's ownership and governance structure.

Production of the products sold by the Group relies heavily on the use of rice and durum wheat, although new grains such as quinoa and other ancient grains are gradually being added to the mix.

Rice is the most widely-consumed grain in the world; however, as some of the world's largest producers consume more than they produce (China, Philippines and Indonesia), the global rice trade is smaller than that of other grains and cereals.

The sources of the rice sold by Ebro vary depending on the type of grain and quality/abundance of rice harvests. Supply sources can be grouped into three major regions which produce different varieties of rice: the US, southern Europe and Southeast Asia.

Pasta is produced from a variety of wheat that is high in protein called durum wheat. Durum wheat is produced in a far smaller geographic expanse and has a much smaller market than other varieties of wheat, essentially those used to make flour. Ebro mainly sources its durum wheat in the US, Canada and southern Europe (France, Spain and Italy).

It purchases from farmers, cooperatives and milling companies that provide the basic raw material used in the productive process, the required milling and/or transformation being carried out at the Group's factories. The processes performed differ depending on the product's end use and range from cleaning, milling, polishing and basic extrusion to more complex processes such as pre-cooking, cooking and freezing.

Note 6 to the consolidated financial statements (*Segment reporting*) overviews the key activities, brands and market shares of each reportable segment.

Strategic objectives

The Group's strategic objective is to be a benchmark player in the rice, pasta and healthy grains markets and in cross-cutting segments of relevance to all areas such as meal solutions. It also aims to achieve a meaningful position and to spearhead innovation in its leading geographies, these ambitions trickling over to related products such as value-added pulses and noodles.

In order to deliver these strategic objectives, the Group taps a series of growth levers it deems key to increasing the value of the business, as enshrined in the various three-year business plans:

- Organic and M&A-led growth in large and established markets and, in parallel, the search for opportunities in high-potential developing markets.

    - Penetration of new markets and product categories with a strategic focus on new fresh products (aperitifs, crisps, omelets, sandwiches, pizzas, ready meals) and new and more value-added ingredient ranges.

    - Development of products that offer a fuller culinary experience by adding new formats (maxi-cups, compact cups, etc.), flavors (dry pasta with the quality of fresh pasta, cup and sauce ranges) and meal solutions (pan-fried rice and pasta dishes, Banzai noodle cups, etc.)

    - Significant positioning in the health and organic food segments by leveraging new concepts based on ancient grains, gluten-free foods, quinoa, etc. Acquisition of CELNAT.

    - Leadership in mature markets by focusing strategically on product quality. Expansion and leadership of the premium products category. Development of the Garofalo brand.

- o Expanded geographic footprint and rounding out of the product/country matrix:

    - Search for business opportunities in mature markets with business profiles similar to that of the Group and specialist players in niche segments (Rice Select, Monterrat, CELNAT) that enable the Group take a qualitative step forward in its strategy of shifting away from its generalist positioning to positioning as a multi-specialist (individual solutions).

    - Entry into new business niches in existing markets (India, Middle East, Eastern Europe and Africa).

    - Expansion of successful formulae into markets in which Ebro is already present (fresh products).

- Product differentiation and innovation. The Ebro Foods Group's product development strategy is structured around two articulating lines of initiative:

    - o Research, development and innovation (R&D). The Group has four proprietary R&D centers. Its investment policy is designed to allow the crystallization of new ideas and consumer needs into tangible customer solutions.

    - o The Group aims to have the leading brands in its respective segments, to which end it supports them with the required advertising budgets.

- Low risk exposure. The business was marked by growing raw material price volatility in prior years, coupled with accelerating changes in consumer trends. The Ebro Group faces these challenges through firm strategic commitments to both change and sustainability. To this end it seeks balanced sources of recurring income (markets, currencies), low leverage in order to withstand financial turbulence, new sources of supply and the establishment of long-term relationships with its stakeholders (customers, suppliers, directors, employees, society).

2. BUSINESS PERFORMANCE AND RESULTS

Environment

2016 was marked by continuation of the recovery underway across the main developed economies, albeit not exempt from the odd surprise, particularly on the political front. On average, the eurozone registered GDP growth of 1.7%, fueled by domestic consumption and an ultra-lax monetary policy. The outlook is positive, shaped by a widespread rise in confidence, growth in global trade buoyed by a weak euro and less restrictive fiscal policies. Nevertheless, political risks linger, albeit dissipating somewhat of late.

US economic growth slowed a little over the course of the year: in 2016, it registered growth of 1.6%, below that of prior years. However, its key macroeconomic indicators paint an ideal picture: virtual full employment, inflation under control, growth in jobholder numbers and, at last, growth in average wages. This scenario has prompted a shift in monetary policy. Consumer confidence is growing, boosted by the fiscal stimuli promised by the new president.

Despite the fact that macroeconomic variables bode well for confidence, there are certain clouds hanging over the outlook for trade in light of the specter of protectionism and opportunistic policy-making. Although the outlook for cyclical products is promising, developments will have to be watched closely.

As for consumption patterns, certain anticipated trends are making inroads with consumers who are seeing their purchasing power rise. Meanwhile, the family unit (in developed economies) has changed significantly. The key trends:

- Preference for natural, healthy and organic foods. The need to go back to nature and for these classes of products to cease to be considered elitist or within the reach of the high-income few.

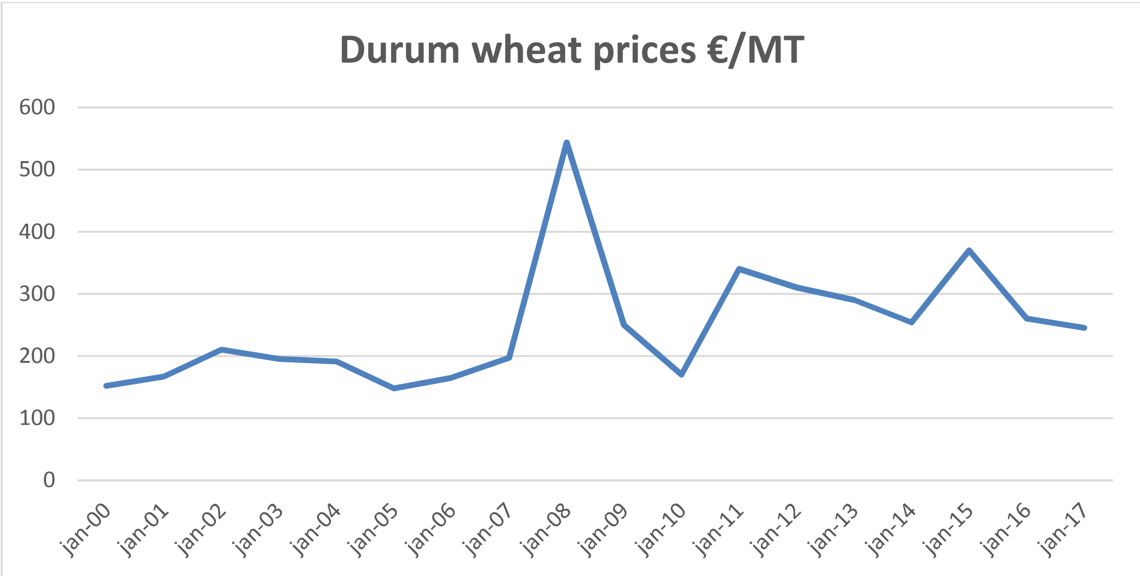
- Consumers have become more cautious: they are buying less, buying cheaper and have added high-quality private labels to their shopping baskets; however, they are willing to pay more for products that satisfy their demands for quality, convenience and immediate consumption.

- Growth in neighborhood supermarkets which are visited more frequently and the advent of new players (online) on the distribution side of the business.

Other factors driving consumption trends include population ageing in the developed economies, immigration that is bringing new eating habits, new generations of internet-proficient consumers (millennials, generation Z) and new ways of cooking and eating (to order, from vending machines, snacking instead of sitting down, etc.). Inevitably, food companies must also take stock of the unstoppable growth in internet penetration and capabilities; shoppers can readily compare prices and product characteristics and we are seeing a proliferation of robotic-style applications (driverless cars, drones, etc.) with the power to similarly change how we shop for and eat our food. All these changes imply challenges for the food retail segment and for producers in terms of reaching and retaining their customers with marketing techniques that have little or nothing to do with the rules of play that reined until a decade ago. Today the social networks and the 'authority' commanded by trend-setters are growing in importance.

The commodity markets in general and the grain markets (corn, wheat and rice) in particular were stable, with inventory levels at highs for recent years (see the IGC's reports).

The chart below depicts the trend in durum wheat prices, evidencing the stability observed last year relative to the volatility of prior years.



Source: Terre.net and Ebro data

Prices were steady at around €250/MT in 2016, falling slightly as the new harvest approached. The tightening customary around harvest time drove a fresh rebound in prices which ended the year slightly below the levels observed at the start of the year.

Rice stocks from the 2015-16 harvest were at record highs as a result of an abundant harvest and high end-of-season stocks in recent years. Against this backdrop, prices held steady or trended lower, other than the prices of certain regional varieties. The most recent harvest was magnificent, up 2% year-on-year, marking a new record of 481.5 million tonnes (of white rice equivalent) thanks to stronger harvests in regions hit by the *Niño* phenomenon the season before in South Asia (particularly India), Southeast Asia and South America.

2016 MANAGEMENT REPORT (figures in thousands of euros)

Group financial performance

The Group's key financial indicators are presented below:

CONSOLIDATED FIGURES (thousands of euros)	2014	2015	2015/2014	2016	2016/2015	CAGR 2016/14
Revenue	2,120,722	2,461,915	16.1%	2,459,246	-0.1%	**7.7%**
EBITDA	287,251	314,724	9.6%	344,141	9.3%	**9.5%**
EBITDA margin, %	*13.5%*	*12.8%*		*14.0%*		
EBIT	227,242	246,314	8.4%	267,308	8.5%	**8.5%**
EBIT margin, %	*10.7%*	*10.0%*		*10.9%*		
Profit before tax	215,749	229,722	6.5%	259,410	12.9%	**9.7%**
PBT margin, %	*10.2%*	*9.3%*		*10.5%*		
Tax	(64,407)	(79,034)	-22.7%	(83,591)	-5.8%	**13.9%**
Tax/revenue, %	*-3.0%*	*-3.2%*		*-3.4%*		
Profit for the year from continuing operations	151,342	150,688	-0.4%	175,819	16.7%	**7.8%**
As a % of revenue	*7.1%*	*6.1%*		*7.1%*		
Profit/(loss) after tax for the year from discontinued c	(2,223)		-100.0%			**-100.0%**
As a % of revenue	*-0.1%*					
Net profit	146,013	144,846	-0.8%	169,724	17.2%	**7.8%**
Net profit margin, %	*6.9%*	*5.9%*		*6.9%*		
Average working capital requirement	442,036	482,300	-9.1%	461,991	4.2%	
Capital employed	1,363,346	1,579,447	-15.9%	1,611,272	-2.0%	
ROCE (1)	16.7	15.6		16.6		
Capex (2)	67,123	81,466	21.4%	107,725	32.2%	
Average headcount	5,189	5,759	11.0%	6,195	7.6%	
	YE14	**YE15**	**2015/2014**	**YE16**	**2016/2015**	
Equity	1,849,485	1,966,259	6.3%	2,079,326	5.8%	
Net debt	405,617	426,280	5.1%	443,206	4.0%	
Average net debt	333,178	424,940	27.5%	404,137	-4.9%	
Leverage (3)	0.18	0.22		0.19		
Total assets	3,162,068	3,403,676		3,645,478		

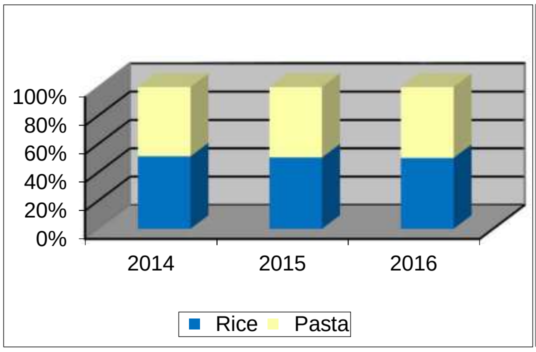
(1) ROCE = (trailing twelve months EBIT / (intangible assets - PP&E - working capital)

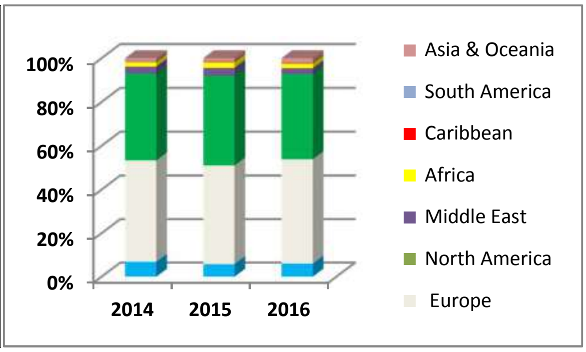
(2) Capex: cash outflows for investment purposes

(3) Ratio of average net interest-bearing debt to equity (excluding non-controlling interests)

Revenue was flat year-on-year due to lower prices on the back of a correction in commodity prices. Acquisitions accounted for a revenue boost of €52.5 million. Business volumes rose in all markets in the rice business but were uneven in the pasta business (growth in Europe, slight contraction in the US). The impact of exchange rate movements was not significant. The CACR of 7.7% reflects organic growth, driven by format and product innovation, and M&A-led growth.

The breakdown of revenue and the year-on-year trend by business line and geographic market is as follows:





EBITDA rose by 9.3%, shaped by a 7.2 million euro contribution by new businesses and relatively unmarked by exchange rate trends. The Group's earnings performance was particularly strong in the rice business, which recorded record levels of profitability; in the pasta business, 2016 was a good year in Europe and another tough year in US where price and promotion wars remained rife (the market contracted by 0.8% by value, despite having increased by the same amount in volume terms).

The EBITDA margin came in at 14.0%, expanding considerably across the European subsidiaries, while the US businesses' profitability continued to suffer the brunt of fierce price competition.

Profit for the year from continuing operations increased by 16.7% thanks to higher margins and non-recurring gains (from the sale of the business in Puerto Rico and an investment property in Spain), partially offset by non-recurring charges associated with provisions recognized for certain retirement benefit obligations in France.

The Group's **ROCE** increased to 16.6%, underpinned by the growth in profits relative to stable average capital employed.

Analysis of the Group's balance sheet

The trend in the Group's balance sheet in the last three years evidences the business combinations completed during this period: the Garofalo Group (June 2014), the RiceSelect assets (June 2015), Roland Monterrat (September 2015) and the Celnat assets (January 2016), and the sales and derecognition of the assets associated with the business in Puerto Rico (January 2016).

The main movements in Group assets:

- The accounting treatment of these business combinations (which affected property, plant and equipment, intangible assets, goodwill, net current assets and borrowings).

- The impact of the trend in the dollar rate on the dollar balances of the subsidiaries exposed to this currency (the exchange rate went from $/€1.21 in 2014 to 1.05 in 2016, the bulk of which movement concentrated in 2015) which represent roughly half of the Group's assets.

- A substantial increase in the working capital requirement at the end of 2016 due to a shift in the basmati rice procurement policy, namely the decision to centralize the purchase of this grain through the Group's subsidiary in India to the detriment of third parties.

2016 MANAGEMENT REPORT (figures in thousands of euros)

Other assets and other liabilities mainly comprise deferred taxes (this heading increased due to business combinations), provisions for pension obligations and provisions for charges (notes 10 and 19 of the consolidated financial statements).

	STATEMENT OF FINANCIAL POSITION				
ITEM	**2014**	**2015**	***2015/2014***	**2016**	***2016/2015***
Intangible assets	433,974	466,214	32,240	462,928	(3,286)
Property, plant and equipment	612,771	688,239	75,468	737,452	49,213
Investment properties	30,832	29,927	(905)	25,882	(4,045)
PP&E AND INTANGIBLE ASSETS	**1,077,577**	**1,184,380**	**106,803**	**1,226,262**	**41,882**
Financial assets	**67,732**	**62,309**	**(5,423)**	**71,399**	**9,090**
Goodwill	**932,596**	**990,885**	**58,289**	**1,029,715**	**38,830**
Other current assets and liabilities	**55,871**	**74,301**	**18,430**	**83,068**	**8,767**
Inventories	428,107	438,579	10,472	488,821	50,242
Trade receivables, Group companies	0	0	0	0	0
Trade receivables	349,117	372,823	23,706	369,808	(3,015)
Other accounts receivable	56,556	66,369	9,813	81,156	14,787
Trade payables, Group companies	0	0	0	0	0
Trade payables	(285,970)	(312,536)	(26,566)	(302,147)	10,389
Other accounts payable	(97,234)	(112,121)	(14,887)	(119,465)	(7,344)
NET CURRENT ASSETS (WORKING CAPITAL)	**450,576**	**453,114**	**2,538**	**518,173**	**65,059**
NET INVESTMENT	**2,584,352**	**2,764,989**	**180,637**	**2,928,617**	**163,628**
Capital	92,319	92,319	0	92,319	0
Reserves	1,611,430	1,729,094	117,664	1,817,283	88,189
Profit attributable to owners of the parent	146,013	144,846	(1,167)	169,724	24,878
Less: Interim dividend	0	0	0	0	0
Less: Own shares	(277)	0	277	0	0
CAPITAL AND RESERVES	**1,849,485**	**1,966,259**	**116,774**	**2,079,326**	**113,067**
Non-controlling interests	**24,320**	**26,657**	**2,337**	**27,075**	**418**
Other sources of funding	**304,930**	**345,793**	**40,863**	**379,010**	**33,217**
Loans from Group companies and associates: Re	0	0	0	0	0
Less: Loans from Group companies and associate	0	0	0	0	0
Bank borrowings	513,053	564,532	51,479	643,786	79,254
Special financing	84,843	73,386	(11,457)	90,760	17,374
Less: Cash on hand and at banks	(191,477)	(206,994)	(15,517)	(291,030)	(84,036)
Less: Short-term investments	(802)	(4,644)	(3,842)	(310)	4,334
NET BORROWINGS	**405,617**	**426,280**	**20,663**	**443,206**	**16,926**
TOTAL FUNDS	**2,584,352**	**2,764,989**	**180,637**	**2,928,617**	**163,628**

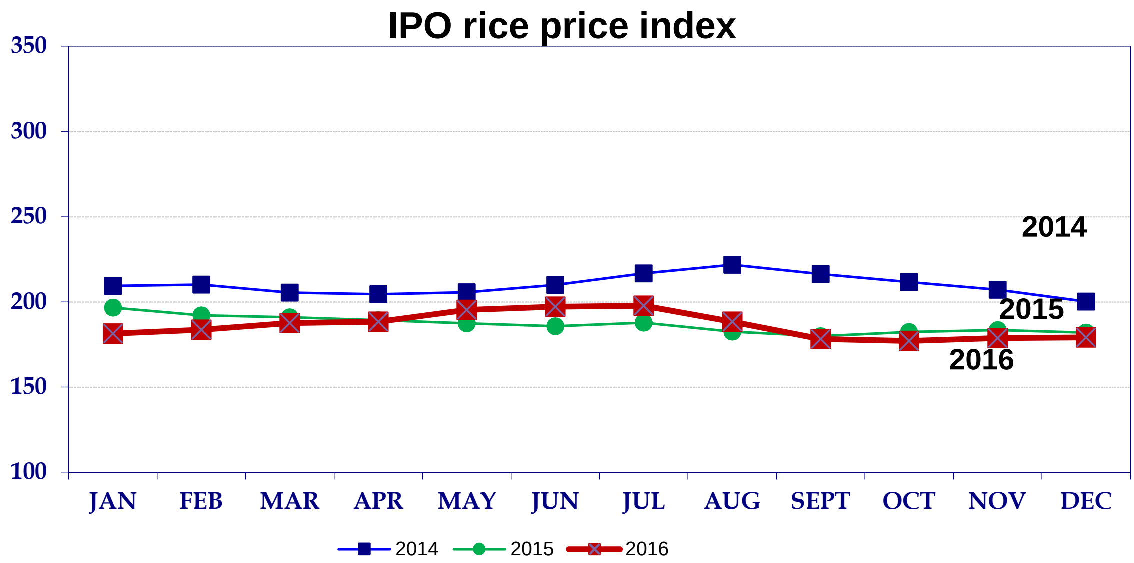
In order to properly understand the Group's working capital requirement and how it is funded, it is important to analyze the factor with the biggest impact on these headings: the volume and measurement of Group inventories. Inventory volumes are sharply cyclical, moving in tandem with rice and wheat harvests, particularly the rice harvest for which the inventory cycle is longest. More specifically, inventory volumes are at their lowest at the end of the rice season (end of summer) and at their highest at the end of the year and start of the next year, after the various purchase contracts have been arranged.

2016 MANAGEMENT REPORT (figures in thousands of euros)

Rice business

RICE BUSINESS (thousands of euros)	2014	2015	*2015/2014*	2016	*2016/2015*	*CAGR 2016/14*
Revenue	1,139,697	1,287,726	*13.0%*	1,283,853	*-0.3%*	***6.1%***
EBITDA	148,828	176,959	*18.9%*	196,264	*10.9%*	***14.8%***
EBITDA margin, %	*13.1%*	*13.7%*		*15.3%*		
EBIT	121,789	147,509	*21.1%*	163,561	*10.9%*	***15.9%***
EBIT margin, %	*10.7%*	*11.5%*		*12.7%*		
Average working capital requirement	339,882	360,709	*-6.1%*	362,483	*-0.5%*	
Capital employed	767,771	861,763	*-12.2%*	891,758	*-3.5%*	
ROCE	15.9	17.1		18.3		
Capex	32,440	39,555	*21.9%*	47,391	*19.8%*	

As indicated in the section addressing the business environment, the market was broadly stable in terms of prices, with global production and stock levels at historically high levels. The new 2016/17 harvest was also excellent, so that supply and prices remained stable until the end of the year.



By region, we would highlight the abundant sowing and harvesting of short-grain rice in Europe, where growers pared back the area devoted to long-grain rice which was proving uncompetitive relative to EBA producers. This development facilitated supply and local price stability relative to the tightening of recent years.

In the US, the 2015/16 season was somewhat shorter year-on-year but local stocks were high and low international prices kept a lid on prices throughout the first half.

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The 2016/17 season was stellar, marked by an increase in planted area of 22% due to a combination of headwinds (weather related, end of water restrictions in Texas, lack of more profitable alternatives) to yield the second-highest harvest in history. This situation drove prices lower.

US harvest prices (source: USDA)

August-July

$/cwt	16/17 (*)	15/16	14/15	13/14
Average price	10.1-10.9	12.2	13.4	16.3
Long grain	9.5-10.1	11.2	11.9	15.4
Medium grain	12.0-12.8	15.3	18.3	19.2

(*) Estimated range

Basmati rice was the exception: the planted area was smaller, resulting in a similarly smaller harvest (relative to other varieties that are more profitable for rice-growers and have put the country at the top of the global ranks of exporters) driving prices significantly higher and even triggering contract non-performance.

Revenue was flat, masked by slight growth in sales volumes offset by lower prices, in keeping with the prices paid to source the rice. The full-year contribution by Rice Select was offset by the derecognition of the Puerto Rican business. Highlights:

- A very productive year in terms of new product launches, particularly a high number of new products designed to tap into the health and convenience trends. Ranges developed and tested successfully in Spain were introduced in the Group's leading European markets, revitalizing the products experiencing competition from private-label brands.

- A new category was created within the “cups” format based on alternative grains (quinoa, chia seeds, etc.) and pulses, offering healthy and convenience in one. Some of these products are already best-sellers: the combination of white and red quinoa is the fourth best-selling product in this category in Spain.

- Growth in specialty, high value-added flours through Group subsidiary Herba Ingredients remained in the double digits (+25%).

- Consolidation of the Indian subsidiary which in addition to serving as a supply hub is also increasing its local business: revenue from sales of branded products jumped 25% to €28 million.

- In the US, the Group's market share was stable at 22.34% by volume (XAOC Nielsen) increasingly slightly in all segments other than the major traditional rice formats (which generate less added value).

- Sales in the Middle East narrowed on the back of a drop in the stocks held by the distributors of our Abu Bint brand. This should prove a temporary phenomenon.

EBITDA registered growth of 10.9%, implying margin expansion (margin: 15.3% in 2016 vs. 13.7% in 2015). This growth was purely organic as the exit of the Puerto Rican business was fully offset by the first full year's contribution by Rice Select).

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The advertising spend in this business increased by €1.5 million, which is a third higher than back in 2013 and 2014, in keeping with the sales and innovation impetus and thrust in this business.

Riviana hit a new profit record, generating 123 million US dollars of EBITDA (+14.7% YoY), of which only a small portion corresponds to the consolidation for the first full year of the Rice Select assets (contribution of 3.2 million US$) and despite the fact that the weak 2015/16 Texmati harvest prevented this unit from meetings its targeted earnings performance.

As for the other key markets, the branded business in Spain performed particularly well, while the other European countries are evolving at differing rates depending on the scheduled rollout of the new product ranges: profitability is up strongly in the Netherlands, while this process is still more nascent in Germany.

By market, the EBITDA contribution by the non-US rice business was as follows:

	2014	2015	%	2016	%
Spain	28,539	23,191	32.2%	27,903	35.8%
Europe	40,873	41,307	57.4%	40,261	51.6%
Other	3,916	7,522	10.4%	9,845	12.6%
Total EBITDA	**73,328**	**72,020**	**100.0%**	**78,009**	**100.0%**

The growth under rest of the world reflects the growth in the businesses in India and Thailand where the Group has shored up its presence in order to lock in the supply of long and aromatic grains at prices and quality standards that meet the Group's thresholds and to gradually make inroads into the local markets.

The **ROCE** in the rice business rose once again on the back of higher profitability relative to stable capital employed year-on-year.

Capital expenditure increased again in 2016 and was focused on the high-growth business lines. The most important investments undertaken in the rice business (capex) related to a new flour and ingredients production line (3.9 million euros), a new frozen goods factory in the UK (1.4 million euros), expansion of the facilities in India (2.2 million euros), new finished product warehouses in Antwerp (9.9 million euros) and Amsterdam (1 million euros), new facilities in Cambodia (1.9 million euros), expansion of instant rice production capacity in Memphis (1.8 million euros), completion of the gluten-free project in Memphis (2.2 million euros) and automation of the packaging lines at the Freeport factory (3.7 million euros).

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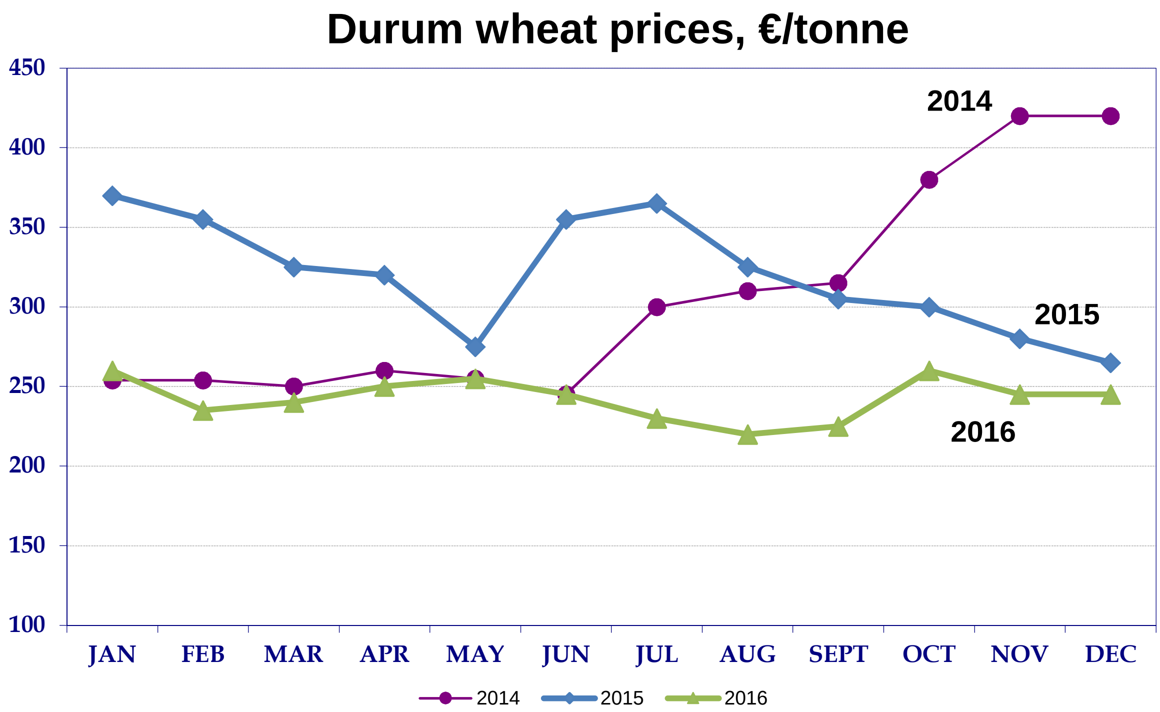
Pasta business

PASTA BUSINESS (thousands of euros)	2014	2015	2015/2014	2016	2016/2015	CAGR 2016/14
Revenue	1,029,294	1,224,491	*19.0%*	1,236,227	*1.0%*	***9.6%***
EBITDA	146,317	148,647	*1.6%*	157,089	*5.7%*	***3.6%***
EBITDA margin, %	*14.2%*	*12.1%*		*12.7%*		
EBIT	114,397	110,477	*-3.4%*	113,544	*2.8%*	***-0.4%***
EBIT margin, %	*11.1%*	*9.0%*		*9.2%*		
Average working capital requirement	94,810	107,261	*-13.1%*	97,015	*9.6%*	
Capital employed	578,767	691,071	*-19.4%*	709,253	*-2.6%*	
ROCE	20.5	16.1		16.2		
Capex	34,249	40,683	*18.8%*	59,701	*46.7%*	

Durum wheat prices were very stable throughout 2016. This cereal's harvests and yields varied significantly across the various producer regions however. The stocks left over from the 2015/16 harvest were abundant (albeit less than optimal quality-wise); the 2016/17 harvest was largely a repeat of this situation, with area and yields rising in the main producer countries (US, Canada and southern Europe) but of scant quality in northern France and Canada due to the late arrival of rains (low concentration in the grain of the protein that gives the pasta produced its quality). Nevertheless, cereal harvests are at all-time highs, injecting great stability into the market, as is evidenced in the trend in prices over the past three years.



Source: Terre.net

The series of prices paid to farmers in the US published by the US Department of Agriculture shows a clear-cut downward trend, ranging from 9.16 dollars per bushel in June 2015 to an average settlement price of 6.27 dollars/bushel in December 2016.

Revenue inched 1% higher thanks to the first-time consolidation of other businesses which added 64 million euros to the topline in 2016 (nine months more of Monterrat and the first year of Celnat); in contrast, prices exerted evident downward pressure on revenue.

By geography:

- ✓ In France, dry pasta sales rose by 1.7% by volume to put the Group's share of the retail sector at 37.6%; note that this sector contracted by 0.4% as a whole. The growth in sales and market share similarly extended to the fresh pasta segment, where the Group's share increased to 39.1% by volumes; however, the sauce segment was stagnant due to various customer negotiation issues in the first quarter of the year. Volume growth drove revenue 26 million euros higher. Prices had the opposite effect (detracting from revenue by 38 million euros) as the Group passed the contraction in durum wheat prices on to its customers.

  A significant portion of growth was underpinned by innovation, notable among which the new dry pasta products with the quality of fresh pasta (2,427 tonnes sold in 2016 vs. 1,247 tonnes in 2015), 811 tonnes of sales of new product ranges based on ancient grains and combinations with rice or pulses and growth of 35.9% in sales of gnocchi for pan-frying whose range was expanded further (total sales of 12,703 tonnes) making it the Group's flagship for innovation and the example to follow for the new ranges of Spanish *tortilla*, *croque monsieur* and pizza.

  It is worth singling out the integration of CELNAT, acquired in January 2016. CELNAT is a pioneer in the organic food business and one of France's most important organic cereal producers. It boasts a very strong position in the high-end organic food category and an excellent reputation in the specialist retail circles in which it makes 95% of its sales. Its integration went as planned and the plan is to convert it into the kernel for development of the new health food business.

- ✓ It was another great year for Garofalo, which reported growth in volumes and profits. Its share of the premium dry pasta segment in Italy increased to 5% by volume and 7.5% by value. Distribution of its products in Spain increased by 35%.

- ✓ United States. This is a highly complex market in which price competition is fierce and promotions are the norm. The Group's strategy last year was to fortify is top brands to shore up sales volumes and brand recognition and to position new product lines in the health and well-being segment (ancient grains, super-greens, gluten free and organic lines). To this end, it was very active marking its local brands (expanding the reach of American Beauty for examples), increasing promotions by 10% and the advertising spend by 64%. New World Pasta commands a market share by volume of 18.8%.

- ✓ Canada. As in the US, the downtrend in supply prices had a deflationary effect (volumes grew by 3.8% but sales value climbed only 2% higher) with a fair number of players deploying aggressive price tactics.

  The Group similarly responded with more promotions and advertising. Catelli Foods continues to lead the market with a share of 31.0% by volume. The fresh pasta segment registered growth by volume and value of 2.3% and 3.0%, respectively, and Olivieri defended its leadership with a market share of 45.1%, despite intensifying competition from manufacturer and retailer brands alike.

EBITDA growth was 5.7%. The contribution by Roland Monterrat amounted to €4.3 million (1.7 million in three months in 2015), while CELNAT's contribution (12 months) was 3.2 million euros.

France increased its contribution to €99.4 million, driven by organic growth of €4.2 million, despite growth of 10% in the advertising spend. The growth in profitability was driven by higher volumes and productivity gains along the entire value chain, despite the fact that the fresh sandwiches sold by Roland Monterrat encountered fierce competition, prompting the formulation of a profitability enhancement plan via gradual integration into Panzani's structure.

Garofalo contributed 20.1 million euros, up 16% from 2015, despite investing 10% more in advertising. This company so extended its impeccable track record in a deflated market in which it raised its profitability by extending its brand and managing its purchase of top-quality durum wheat nimbly.

New World Pasta fared less favorably in both the dry pasta segment in which it was obliged to undertake harsh price and promotion negotiations and in the fresh pasta business (the pasta and accompanying sauces sold under the Olivieri brand in Canada). This business's contribution to the Group declined by 5.8 million euros (having increased its advertising spend by 9.3 million euros); erosion of the Olivieri brand translated into the recognition of an impairment charge of 10 million Canadian dollars (go to note 9 of the financial statements).

The pasta business's **ROCE** was virtually flat at 16.2%.

Capex was concentrated at the factory level. Specifically, the Group added capacity and drove productivity gains in fresh products in Communay (4 million euros to put investment to date at 33.5 million euros), added a new long pasta production line (4 million euros), invested in a logistics warehouse in northern France (13.4 million euros), increased productivity at Roland Monterrat (3 million euros), added a new short pasta production line at Garofalo (2.4 million euros) and introduced productivity upgrades at the long pasta line in Winchester (2 million euros).

Staff matters and environmental disclosures

Employees

One of the most important sources of value creation at the Ebro Group is its more than 6,000 professionals. A close-knit team of talented professionals aligned with the organization's strategy. Through the various subsidiaries' HR departments, the Group strives to motivate them, offer them rewarding work and nurture their professional skills and knowledge.

The Group's ultimate objective on the labor front is to foster mutually-beneficial labor relations, make its employees feel vested in the organization, encourage their career development, promote equal opportunities and adopt and enforce a zero-tolerance stance on discrimination.

The Group's policy is to decentralize staff management as this enables close contract and familiarity with its people. There are HR managers for each of the Group's most important companies and each has the ability to implement policies tailored for the specific characteristics of their respective business markets. These policies not only include general guidelines for regulating company-employee relations but also encompass specific occupational health and safety, training and education, diversity and equal opportunities and equal pay guidelines and policies. The subsidiaries with reduced staff levels (predominantly sales companies with less than 10 employees) are governed by the labor laws in effect in the countries in which they work.

Above all of these guidelines, and notwithstanding the terms of the above-listed specific policies, is the Corporate Code of Conduct which stipulates not only ethical and responsible professional conduct on the part of the people working at of all of the Group's companies but also serves as a guide for defining minimum policy targets and job guarantees, specifically:

- Workplace health and safety.
- Training and career development for all employees.
- The Group's pledge to guarantee zero discrimination, diversity and equal job opportunities (this commitment includes aspects related to gender equality, the employment of people with differing abilities and promotion of different cultures).
- The freedom of association.
- Compliance with collective bargaining rights.

Note 8.4 of the consolidated financial statements breaks down the Group's headcount by job category. The following is a snapshot of the Group's workforce using diversity indicators prepared in accordance with the Global Reporting Initiative (the G4 Guidelines):

2016 MANAGEMENT REPORT (figures in thousands of euros)

% MEN	% WOMEN
72.04%	27.96%

Age range: 30 - 50 years old	Age range: 30 - 50 years old
53.22%	52.81%

Average years of service	Average years of service
12.35	**11.25**

Employees on permanent contracts (%) (including 'at will' hiring)	Employees on permanent contracts (%) (including 'at will' hiring)
90.91%	89.49%

% Executives and middle management	% Executives and middle management
13.46%	16.10%

Turnover index	Turnover index
6.01%	6.49%

New hires	New hires
64.76%	35.24%

% Training	% Training
68.05%	63.92%

No. of people with disabilities	No. of people with disabilities
82	**29**

The Group's commitment to **employment** is illustrated in the following staff hiring turnover tables which break the figures down by gender and reason for departure:

Job creation (net)	**325**
Turnover index	**6.14%**

Category	Men	Women
New hires	634	345
Voluntary departures	200	173
Layoffs	143	52
Retirement	53	19
Permanent disability	8	7
Death	9	5

The commitment to employee **training and career development** materialized in the provision of staff training courses at a cost of 1.9 million euros in which approximately 67% of the workforce participated (over 129,829 training hours). The main subjects covered by these training initiatives were quality and environmental management, languages, computer skills, health and safety, production and maintenance, sales and marketing skills development and finance. The average number of training hours provided by job category is broken down in the next table:

Job category	Men	Women
Executives	1,129.14	504.50
Middle management	9,620.50	3,604.14
Clerical staff	8,541.32	7,235.64
Support staff	3,031.00	806.00
Sales staff	1,493.00	1,002.75
Other	74,479.50	18,381.00
Total	**98,294.46**	**31,534.03**

Environmental disclosures

Regarding the Group's sustainability policies, one of the Ebro Foods Group's basic management commitments is to provide its companies with the tools and measures needed to strike the optimal balance between their business activities and environmental protection.

The productive processes used at the Group's various factories, in both the rice and the pasta divisions, are relatively simple agricultural food processes that do not have a major impact on the environment and entail minimum risk of accidental contamination. The most significant environmental aspects pertaining to the Group can be categorized as follows:

- Air emissions: essentially the emission of particles related to the manipulation of cereals (rice and wheat) and gases produced in the combustion processes used to produce vapor and dry raw materials. The fuel most widely used is natural gas.

- Greenhouse gas emissions (GHGs): the Group's GHG emissions derive from its energy consumption, use of fossil fuels and electricity usage.

- Productive processes: essentially mechanic and hydrothermal, these processes require the use of very few chemical products, and in very small amounts. Most of these products are used to clean equipment and sanitize raw materials and are relatively safe for the environment.

- Water consumption: the Group uses relatively little water in its manufacturing processes (most of its products are dry products), so that the volume of wastewater produced is also small. Moreover, the wastewater generated is relatively uncontaminated as the water consumed is used basically to produce vapor, as a refrigerant or as an ingredient in finished products.

- Waste generation and management: the Group generates minimum amounts of waste, including both non-hazardous (mainly ingredient and auxiliary material packaging) and hazardous (maintenance operations) waste.

Environmental performance

The figures presented below correspond to the performance in 2016 of the Group's most representative companies: Herba Ricemills Spain, Ebro North America and the Panzani Group. They were compiled in accordance with the Global Reporting Initiative (GRI) G4 Guidelines.

Raw materials used to make finished products:

Materials used	MT
Rice	1,084,490.57
Wheat	957,510.63
Ingredients	24,130.31

Energy consumption, total water consumption and energy intensity:

2016 MANAGEMENT REPORT (figures in thousands of euros)

Energy consumption	
Energy (GJ)	3,098,183.99
Water (m^3)	2,659,501.72
Energy intensity	1.477

Direct GHG emissions and GHG emission intensity:

GHG emissions (MT)	197,626.06
GHG intensity	0.094

The Group did not emit ozone-depleting substances (ODS).

The particle emissions reported are the result of the handling of agricultural commodities at our facilities. These figures are provided as a guide only; not all of the Group's facilities are tracking this information. However, work is underway to compute the business's footprint comprehensively.

Compliance and information about environmental protection expenditures and investments

All of the Group's facilities operate under the certifications, specifications and permits pertinent to their respective geographic markets and they manage their environmental aspects accordingly.

In 2016, the Group's environmental protection investments amounted to 1.2 million euros, while related expenditures totaled 253 thousand euros.

For a more exhaustive explanation of all environment-related matters, the reader is referred to the Ebro Group's Annual Sustainability Report.

3. LIQUIDITY AND FINANCING

The Group's finance department attempts to configure a capital structure that permits credit ratio stability while providing business flexibility in the short and long term.

The finance structure is articulated around long-term borrowings that fund the major investments and are generally denominated in the same currency as the investments in order to achieve a natural currency hedge. The rest of the Group's financing is arranged on a short-term basis and takes the form of credit facilities that cover shifting working capital requirements. All this financing is arranged in accordance with the Group's short- and long-term growth plans, which are crystallized in its annual budgets, budget revisions and multi-year business plans.

The breakdown of the Group's financial liabilities and the capital requirements embedded in certain long-term loan agreements are detailed in note 22 of the consolidated financial statements.

Investments | disposals

Acquisition-led growth (asset and business acquisitions)

The main investments made in 2016 were the acquisitions of CELNAT for 25.6 million euros, the purchase of 52% of Santa Rita Harinas for 5.8 million euros and the increase in the shareholding in Scotti, Spa. to 40% for 13.6 million euros. The acquisitions were financed using a mix of internally-generated funds and third-party credit lines.

2016 MANAGEMENT REPORT (figures in thousands of euros)

On the other side of the equation, the Group sold its Puerto Rican business, generating a cash inflow of 12 million US dollars.

Organic growth

The Group underpins its pursuit of growth and innovation with a capex policy that in recent years has entailed the overhaul of its instant rice and fresh pasta productive capacity. Capex (cash outflows) during the past three years:

Year	Amount (thousands of euros)
2014	67,123
2015	81,466
2016	107,724

In recent years, investment in innovation has been concentrated strategically around the Fresh Pasta Plan and physically around the Lyon region, the aim of which is to increase the capacity to produce these products. In the rice business, capital expenditure has been mainly earmarked to the rice-based ingredients project, capacity additions in frozen products and investment in a gluten-free pasta line between 2014 and 2016 (22 million US dollars in total) at the Memphis factory in order to cater to growth in this segment.

Lastly, in 2016, the Group invested significantly (24 million euros) in expanding and enhancing its logistics structure.

In terms of cash inflows from asset sales, it is worth highlighting the sale of a property in Madrid for 21.4 million euros.

Financial position

The Group is very satisfied with its leverage position.

	CONSOLIDATED				
NET DEBT (€, 000)	2014	2015	2015/2014	2016	2016/2015
Equity	1,849,485	1,966,259	6.3%	2,079,326	5.8%
Net debt	405,617	426,280	5.1%	443,206	4.0%
Average net debt	333,178	424,940	27.5%	404,137	-4.9%
Leverage	21.9%	21.7%	-1.1%	21.3%	-1.7%
Leverage (average net debt) ***(1)***	18.0%	21.6%	20.0%	19.4%	-10.1%
EBITDA	287,251	314,724	9.6%	344,141	9.3%
Coverage	1.41	1.35		1.29	

(1) Ratio of average net interest-bearing debt to equity (excluding non-controlling interests)

Despite a number of acquisitions and a significant capital expenditure effort, the Group's coverage and leverage ratios have improved, paving the way for continued investments and organic and M&A-led growth. Note that 80.5 million euros of borrowings relate to the recognition for accounting purposes of the call options over the outstanding interests in the Garofalo Group, Santa Rita Harinas and the Ingredients Group. For accounting purposes, these unexercised options have been recognized as an increase in Group borrowings. The changes in borrowings (without factoring in the debt assumed pursuant to acquisitions, those recognized in the process of accounting for the above call and put options and the impact of exchange rate movements) were shaped by the following sources and uses of cash:

2016 MANAGEMENT REPORT (figures in thousands of euros)

	CONSOLIDATED				
€, 000	2014	2015	2015/2014	2016	2016/2015
Cash from operating activities	211,275	254,140	*20.3%*	185,661	*-26.9%*
Cash used in investing activities	(60,193)	(146,847)	*144.0%*	(104,725)	*-28.7%*
Cash used in share-based transactions	(76,833)	(102,833)	*33.8%*	(86,181)	*-16.2%*
Free cash flow	**74,249**	**4,460**		**(5,245)**	

Cash flow from operations declined year-on-year due to a significant increase in the Group's working capital requirement (+€65 million year-on-year). Despite the growth in EBITDA derived from the income-statement impact of the widespread improvement in business momentum, certain long positions in the rice business (inventories built up mainly as a result of the change in supply strategy in India, compounded by a mismatch in the timing of rice contracts arranged in Europe year-over-year) had a significant impact on the current assets requiring financing. This factor, coupled with an increase in corporate income tax payments as a result of the above-mentioned earnings growth, is the main reason for the reduction in cash flow from operations.

The other major movements correspond to:

- Investments. Capital expenditure, as outlined above, and the purchase and/or sale of businesses in the various years (purchase of Garofalo and exit from Deoleo in 2014; the acquisitions of Rice Select and Roland Monterrat in 2015; and the acquisition of CELNAT offset by the sale of the Puerto Rican business and an investment property in 2016).

- Share-based transactions. Distribution of dividends (special dividend in 2015), including that paid to minority shareholders.

4. RISK MANAGEMENT TARGETS AND POLICIES AND USE OF FINANCIAL INSTRUMENTS

The Risk Control and Management Policy is a core component of the corporate policies approved by the Board of Directors. It establishes the basic principles and general framework governing control and management of the business risks, including tax-related risks and the framework for internal control over financial reporting, faced by the Company and its Group companies.

This general framework translates into a standardized enterprise risk control and management system which is inspired by the conceptual framework embodied in the Internal Control Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"); it is, accordingly, based on a business risk mapping process designed to identify, assess and score the Group's ability to manage the various risks, prioritizing them in terms of impact and probability of occurrence. The universe of risks is categorized into four main groups: compliance, operational, strategic and financial/reporting.

The risk categorization process assesses, dynamically, both inherent risks and residual risk after application of the internal controls and protocols put in place to mitigate them. Within these controls, it is worth highlighting the existence of preventative measures, the adequate segregation of duties, well-defined clearance limits and specific policies and procedures.

The enterprise risk model is qualitative and quantitative: the impact of the identified risks on the Group's results can be measured, to which end it is articulated around defined risk tolerance thresholds at the corporate level.

The main risks addressed in the model are:

Operational risks:

- Food safety. Given the nature of its business, food safety matters are a critical issue to which the Group pays the utmost attention; these issues are governed by a host of regulations and laws in the numerous countries in which its products are sold.

  The Group's policy is underpinned by compliance with prevailing legislation, to which end it has defined, developed and implemented a quality, environmental and food safety model which has been certified in accordance with the UNE-EN-ISO 9001:2000/8 (Food Safety System Certification), UNE-EN-ISO 14001:2004 (Environmental Management) and ISO 22000:2005 systems.

  The food safety programs are based on oversight of protocols designed to ensure identification of certain critical points (called Hazard Analysis and Critical Control Points or HACCP) in or order to minimize residual risk.

  The main control points are grouped as follows:

  - ✓ Physical points: controls to detect alien materials or the presence of metals.
  - ✓ Chemical points: detection of chemical substances or the presence of allergens.
  - ✓ Biological points: detection of the presence of salmonella and other pathogens.

  Most food handling processes are certified by the International Featured Standards (IFS) food safety standard and the pasta factories in the US have certified compliance with the Global Food Safety Initiative (GFSI).

- Raw material supply risk. The availability of raw materials in sufficient quantities and of the quality needed to satisfy the Group's commitments to its customers and continue to underpin brand positioning is a key business success factor.

  To mitigate this risk, the Group has opted to strategically diversify and lock in supply sources by means of agreements from season to season with some of the leading raw material suppliers (of rice and wheat durum); it has also opened branches in some of the main rice exporting nations (e.g. India and Thailand).

- Risk associated with commodity price volatility. Unexpected changes in raw material supply prices can have a material adverse impact on the profitability of the Group's business via its manufacturing operations and it brand retailing efforts. This risk is concentrated in the prices of the various varieties of rice and durum wheat, although the Group is also exposed to variability in the prices of packaging materials and oil derivatives.

This risk is managed via:

a) Early identification of potential supply problems or gluts in certain grains or varieties which could expose stocks to price variability. The buyer departments track the markets continually and issue alerts to the managers of the various businesses to enable them to manage the related risks.

b) The Group locks in volumes at fixed medium-term prices when the market is propitious to these kinds of agreements and sales transactions can be negotiated that will generate stable margins throughout the corresponding periods.

c) It also seeks disintermediation in the markets for local or exotic varieties, shortening the value chain.

d) Lastly, the Ebro Foods Group strategically differentiates its finished products and this helps it pass volatility in raw material costs efficiently through to the end consumer.

- Customer concentration risk. This risk factor affects the industrial and retail segments alike (although in the latter instance the end consumer of the products made by the Group are the individuals who eat its foods, the retailers are concentrating - boosting their purchase bargaining power - year after year). This risk factor can result in less favorable sales terms and conditions, heightened credit risk and even the loss of certain sales.

  The Group's geographic diversification helps to mitigate this risk factor as its customers vary by country and for now the retailers' attempts at international expansion have met with limited success.

  In parallel, each company has a sales risk committee which allocates risk tolerance thresholds and a strategy for enforcing these thresholds. These levels in turn reflect overall business strategy.

- The risk of falling behind on technology development. One of the Group's most important tools when it comes to tackling the competition is to differentiate and update its products, a strategy underpinned by constant technological innovation and an unwavering effort to adapt its range to consumer demands and wishes.

  As described further on in this report, the Group's R&D strategy is a cornerstone of its business strategy. Its R&D departments work in close collaboration with the sales & marketing departments to mitigate this risk.

Risks related to the environment and strategy:

- Environmental and natural risks. The effects of droughts and floods in the rice- and wheat-growing countries from which the Group sources its raw materials can cause availability issues and price volatility. These natural risks can also affect consumers in conflict areas and could even affect the Group's assets in these markets.

  Once again the key to mitigating these risks is to diversify raw material sourcing, as well as the markets the Group's products are targeted at. In addition, the Group has articulated a flexible manufacturing structure with facilities on four continents, minimizing the impact of potential local problems. The Group has current insurance policies covering all its factories and facilities which would mitigate the damages arising from any such incident.

- Competition risk. The Group does most of its business in developed and mature markets in which it competes with other multinational enterprises and a good number of local players. In addition, in these markets the retailers have developed their own private label brands which exert extra pressure on the Group's products.

  This risk is managed by means of:

  a) Comprehensive analysis of competitor moves and the fine-tuning of pricing and promotional policy in response to the prevailing market situation.

  b) Product differentiation by innovating on formats, range and quality, all with an unwavering customer focus.

  c) Repositioning in potential high-growth categories by means or organic business development or acquisitions which meet the criteria stipulated in the corporate investment policy.

- Reputation risk. The risk associated with a potential shift in opinion crystallizing in a negative perception of the Group, its brands or its products by customers, shareholders, suppliers, market analysts or other stakeholders with an adverse effect on the Group's ability to maintain its customary relations (commercial, financial, labor, etc.) with these stakeholders.

  To tackle this risk, the Group has established an internal code of conduct designed to guarantee ethical and responsible conduct throughout the organization by all its staff and the professionals or institutions it engages with in the course of its business activities.

  The Group's brands, along with its people, are its most valuable intangible asset, and are accordingly subjected to constant assessment in which different marketing management, food health and safety, compliance and IP protection considerations converge.

- Shifting lifestyles. New diets such as low-carb diets and other food habits could change how consumers perceive our products.

  The initiatives pursued to mitigate these risks entail assessment of consumer patterns, fine-tuning of the Group's product range in response to market trends, as well as active participation in forums propitious to disseminating the health virtues of its products.

- Country or market risk. The international nature of the Group's activities exposes its business operations to the political and economic circumstances prevailing in the various countries in which it does business, as well as other market variables, such as exchange rates, interest rates, production costs, etc. The fallout from Brexit falls under this category (go to note 28 and the outlook for the Group's business below).

Compliance risk

- Sector regulations. The food manufacturing industry is subject to multiple regulations, which affect export and import quotas and tariffs, intervention prices, etc., all framed by the European Common Agricultural Policy (CAP). In addition, the

Group's activities could be affected by regulatory changes in the countries from which it sources its raw materials or to which it sells its products.

To address this risk, the Group is represented in, voices its views in and follows a number of legal and regulatory forums via a team of prestigious professionals who work to ensure enforcement and compliance.

- General regulations. This category encompasses compliance risk with respect to civil law, company law, criminal law and good governance regulations and recommendations. In terms of the risk of corporate crime, the Group has a crime prevention model which is monitored and controlled by the Compliance Department.

- Tax risk. Potential changes in tax legislation or its interpretation or application by the competent authorities across the Group's business marks could have an adverse effect on its performance.

Financial risk

In the course of its ordinary business operations, the Group is exposed to certain financial risks associated with its financial assets and liabilities, particularly its bank loans, overdrafts, equity instruments, cash and cash equivalents. In addition, the Group has other financial assets and liabilities such as trade accounts receivable and payable.

These financial instruments expose the Group to market risk as a result of movements in interest rates (instruments carrying floating rates), exchange rates (those denominated in currencies other than the euro), changes in their fair value, liquidity risk (the inability to monetize assets within reasonable timeframes or at reasonable amounts) and credit risk (counterparty risk).

The Board of Directors, with the assistance of its advisory and decision-making committees, reviews and establishes the policies for managing each of these risks.

A description of these risks and the mitigating measures taken is provided in note 28 of the consolidated financial statements.

5. EVENTS AFTER THE REPORTING PERIOD

In December 2016, the Group merged several US-resident companies with the aim of simplifying and streamlining its structure in that market (Ebro North America) and reducing costs, reasons deemed valid from an economic and tax perspective. That reorganization, which culminated in the merger of the Group's two main North American subsidiaries (Riviana Foods, Inc. and New World Pasta, Inc., the latter merging into the former) was structured as a tax-free reorganization in the US; the equivalent tax-neutral regime will be availed of in Spain over the course of 2017 (specifically the regime provided for in Chapter VII of Title VII of Spain's Corporate Income Tax Act (Law 27/2014)). The merger is effective for legal and financial purposes from January 1, 2017.

The Group acquired 100% of the shares of Vegetalia, S.L. and Corporacio Alimentaria Satoki, S.L. (together, “Vegetalia”) on January 19, 2017. Vegetalia is devoted to the production and distribution of a broad range of organic products. It pioneered the manufacture of plant protein. Its product range includes fresh organic produce, dry organic foods, organic drinks and diet products. It generated revenue of 11.5 million in

2016. The Group acquired this business for 15 million euros.

Vegetalia is based in Castellcir (Barcelona) and it has a workforce of over 80. It also grows organic vegetables on around 70 hectares which it then consumes to make its products.

There have been no other significant events or developments between the end of the reporting period and the date of authorizing the accompanying financial statements for issue.

6. GROUP OUTLOOK

The outlook for the main economies in which the Ebro Group does business is reasonably bright in terms of confidence, growth, employment and disposable income. These factors bode well for the Group's business performance. Elsewhere, the dollar exchange rate is currently at a level that benefits entities such as the Group which have a significant presence in the US.

The downside, however, stems from prevailing political uncertainty, most notably the fallout from Brexit and the potential impact on the Group's businesses in the UK and the specter of greater protectionism, particularly in the US. However, until these threats materialize it is impossible to assess their consequences or say whether they can be turned into an opportunity. The Group's management and risk units are watching related developments closely, taking action insofar as possible to mitigate their consequences in the short term and weighing up possible scenarios over the medium and long term.

As noted earlier in this report, the last two rice harvests have been very abundant so that the outlook is for growth in global supply in 2016/17 (new harvest plus end-of-season stocks) of close to 2%, implying a new record of 598 million tonnes of white rice equivalent. The likely consequence is extended price stability outside of certain local varieties.

No major developments are anticipated on the durum wheat front: stocks remain high and this commodity was trading at under €220/MT in early March 2017. It would seem that the problems associated with the quality of the last harvest haven't impacted prices, although end-of-season stock will foreseeably present poor quality due to low protein content levels. The quality of these end-of-season stocks and the expected decline in the planted area could prompt price tightening in the second half of the year; for now, however, prices are stable.

✓ **Rice business**

The outlook for consumer trends in 2017 point to growth in the highest value-added product categories such as the cup range (+28%), with the quinoa line expected to spearhead this growth. Other lines related to the health segment are also expected to fare well: ancient grains combined with healthy grains, organic and wholegrain rice. The other product lines are expected to prove stable year-on-year. These 'innovation' categories are increasingly spearheading profit and volume growth, displacing more traditional and less-differentiated products.

While the outlook for most varieties of rice is for stability in terms of availability and prices, the cost of basmati rice purchases has increased by around 25% since the last harvest due to a smaller planted area. The prospect of this development prompted the Group to build up long positions at its Indian subsidiary, a strategy which should bear fruit in 2017.

In general, the idea in the US is to defend margins by letting certain low-margin SKUs go to the private labels due to the pressure being exerted by low prices on major cooperatives saddled with high stocks. Market growth should enable volume fine-tuning without reducing utilization. The improvement in the Texmati harvest should drive profit gains for Rice Select.

A wide range of new products is in the pipeline, including additions to the ready-to-serve cup line including three varieties of organic rice and three new kinds of of quinoa. A new range of instant rice products with new flavors is expected to go on sale in May 2017.

✓ **Pasta business**

The European pasta and sauce markets continue to register modest growth (we are expecting higher growth in fresh, cereal and pulse products, with the dry pasta market trending sideways). However, organic products are registering double-digit growth. Although still small, the Group is committing strongly to this segment. As already noted, in January 2017, the Group acquired Vegetalia, reinforcing the moves made in 2016 with the acquisition of CELNAT and the creation of the Alimentation Santé division. Another step in this direction was the launch in France of a new trademark under which this product range will be distributed: Happy Meal.

In parallel, the Group is executing an ambitious international expansion plan: the idea is to expand the presence of the fresh product range in countries in which it already commands a leadership position in the dry pasta segment such as the Czech Republic and Slovakia, gain a foothold in Southeast Asia and consolidate the pasta business's presence in northern Africa and other French-speaking African markets.

We expect the market to remain stagnant in the US: with durum wheat prices at historically low levels, private label prices may be cut further. In this market the strategy is to expand the range of products with more promising growth prospects within the organic, gluten-free, ancient grain and super-greens ranges.

Lastly, we are optimistic that Oliveri will begin to take off, underpinned by two drivers: (i) quality (launching a new range of fresh pasta made using traditional artisan techniques; a great effort has been put into enticing consumers and drawing them to the range with an attractive design and unique flavor and texture); and (ii) convenient formats leveraging the new gnocchi and pan-fry gnocchi ranges which have been one of the Group's most successful launches in other markets. In tandem, a targeted marketing plan is in the pipeline for rollout during the second quarter of this year.

7. R&D+i ACTIVITY

The Ebro Foods Group has always been a front-runner in terms of new consumer trends and an international benchmark in the research and development of products applied to the food sector. Aware that R&D+i is essential to the Group's quality and differentiation strategy, it remained unwaveringly committed to innovation in 2016.

In total, R&D+i expenditure totaled 4 million euros in 2016 (2.9 million euros of which funded internally and 1.1 million euros, externally).

Capitalized development costs amounted to 6.1 million euros, most of which corresponded to gluten-free products (2.2 million euros, bringing total investment to 21.6 million euros), with the rest earmarked to new manufacturing processes and/or product treatments.

The Group has articulated its R&D+i engine around research centers located in France, the US and Spain. These centers and their main projects in 2016 were:

1. CEREC, located in St. Genis Laval (France), with 10 employees, focuses on the fresh pasta, potato, ready-cooked fresh meals and sauce segments of the pasta business. In 2016, this center focused on expanding the range of sauces with a gourmet touch, sauces designed to facilitate the quick preparation of tasty meals and new sauces that present the features of fresh sauces along with a longer shelf life (without the need for refrigeration). It also worked on the launch of a new line of top chef stuffed fresh pasta and collaborated on the presentation of a new range of pizzas.

2. CRECERPAL, located in Marseilles with eight professionals at the raw material analytical laboratory plus an assistant PhD, centers its research effort on developments in the durum wheat category: dry pasta, couscous and new food transformation technology applied to the food industry. In 2016, it continued to work on new uses for durum wheat flour for batters, breads and baked goods; laying the foundations for a new range of pasta products made from other cereals (ancient grains) and organic pasta products made without using pesticides; expansion of the range of dry pastas with fresh pasta qualities; and new fast-cook rice products.

3. The US center, with five employees who work to develop new products, processes and technologies and adapt them for the US rice and pasta divisions. Their work focused on rounding out the development and launch of the super-greens range in which a portion of vegetables and fiber has been added to three pasta varieties. This center also worked on the development of products containing different root vegetables, pasta with protein supplements, pasta sourced organically and several productivity upgrades for the Memphis factory.

4. Centers associated with the Herba Group in Moncada (Valencia) and the San Juan de Aznalfarache plant, with 16 employees devoted to the development of new and/or improved product and technologies and to the provision of technical assistance with rice technology for the fast food and catering distribution channels. The most important project underway at this center is the research and development of new product formulae containing pulses, cereals, ancient grains and seeds and the development of new gluten-free dishes.

2016 MANAGEMENT REPORT (figures in thousands of euros)

8. OWN SHARE TRANSACTIONS

In 2016, the Company had the power to buy back and sell own shares under the scope of the authorization granted at the Annual General Meetings held on June 15, 2011 and June 3, 2015 for a period of five years (as duly notified to the CNMV in keeping with prevailing legislation). In 2016, the Company bought back 28,553 shares, sold 2,106 and delivered 26,447 own shares to employees. The Company did not hold any own shares as treasury stock at December 31, 2016.

9. OTHER RELEVANT DISCLOSURES

Average payment period

As required under the Spanish Corporate Enterprises Act, it is hereby noted that the average payment period of the companies domiciled in Spain was 28 days in 2016 and 25 days in 2015, within the deadlines stipulated in supplier payment legislation. Calculations made in accordance with the ICAC (Spanish Accounting and Audit Institute) Resolution.

	2016	2015
	Days	**Days**
Average supplier payment term	28.2	24.6
Paid transactions ratio	28.2	24.8
Outstanding transactions ratio	21.6	20.5
	Amount (thousands of euros)	**Amount (thousands of euros)**
Total amount of payments made	301,716	266,064
Total payments outstanding	5,717	43,452

Share price performance

The Company's shares outperformed the benchmark Spanish blue-chip index (the IBEX) and other comparable peers in the food sector in 2016.

2016 MANAGEMENT REPORT (figures in thousands of euros)

Dividend distribution

On June 1, 2016, it was resolved to pay a cash dividend against unrestricted reserves and 2015 profits of 0.54 euros per share over the course of 2016. This dividend was paid in three instalments on April 1, June 29 and October 3, 2016.

Alternative performance measures

In keeping with the guidelines provided by the European Securities and Markets Authority (ESMA), there follows a description of the main alternative performance measures used in this report.

These measures are used frequently and consistently by the Group to explain its business performance and their definitions have not changed.

EBITDA. Earnings before interest, tax, depreciation and amortization and before earnings considered extraordinary or non-recurring (essentially gains or losses deriving from transactions involving the Group's fixed assets, industrial restructuring charges, provisions for or settlements from lawsuits, etc.).

The reconciliation of EBITDA and operating profit is provided below:

	31/12/2016	31/12/2015	31/12/2014
EBITDA	**344,141**	**314,724**	**287,251**
Depreciation and amortization	(76,833)	(68,410)	(60,009)
Non-recurring income	25,598	8,110	13,759
Non-recurring expenses	(28,298)	(12,047)	(23,624)
OPERATING PROFIT	**264,608**	**242,377**	**217,377**

Net debt. Interest-bearing financial liabilities, financial derivatives at fair value, the amount of shareholdings subject to put/call options qualifying as financial liabilities and dividends accrued and pending payment, if any, less cash and cash equivalents.

Capital expenditure. Payments for investments in productive fixed assets. Go to the cash flow statement.

ROCE. A measure of the return on assets calculated as average earnings before interest, tax and non-recurring earnings for a given period divided by average capital employed during that same period.

Capital employed. The sum of intangible assets, property, plant and equipment and working capital (understood as current assets less current liabilities, excluding those of a financial nature).

Leverage. A measure of creditworthiness calculated as the ratio of net debt to equity.

Debt coverage ratio. A measure of the Group's ability to service its net debt from earnings measured as the ratio of net debt to EBITDA.