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## **The year of transition**

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# 1. Introduction

2003 was a difficult year, in which several circumstances affected the rice business.

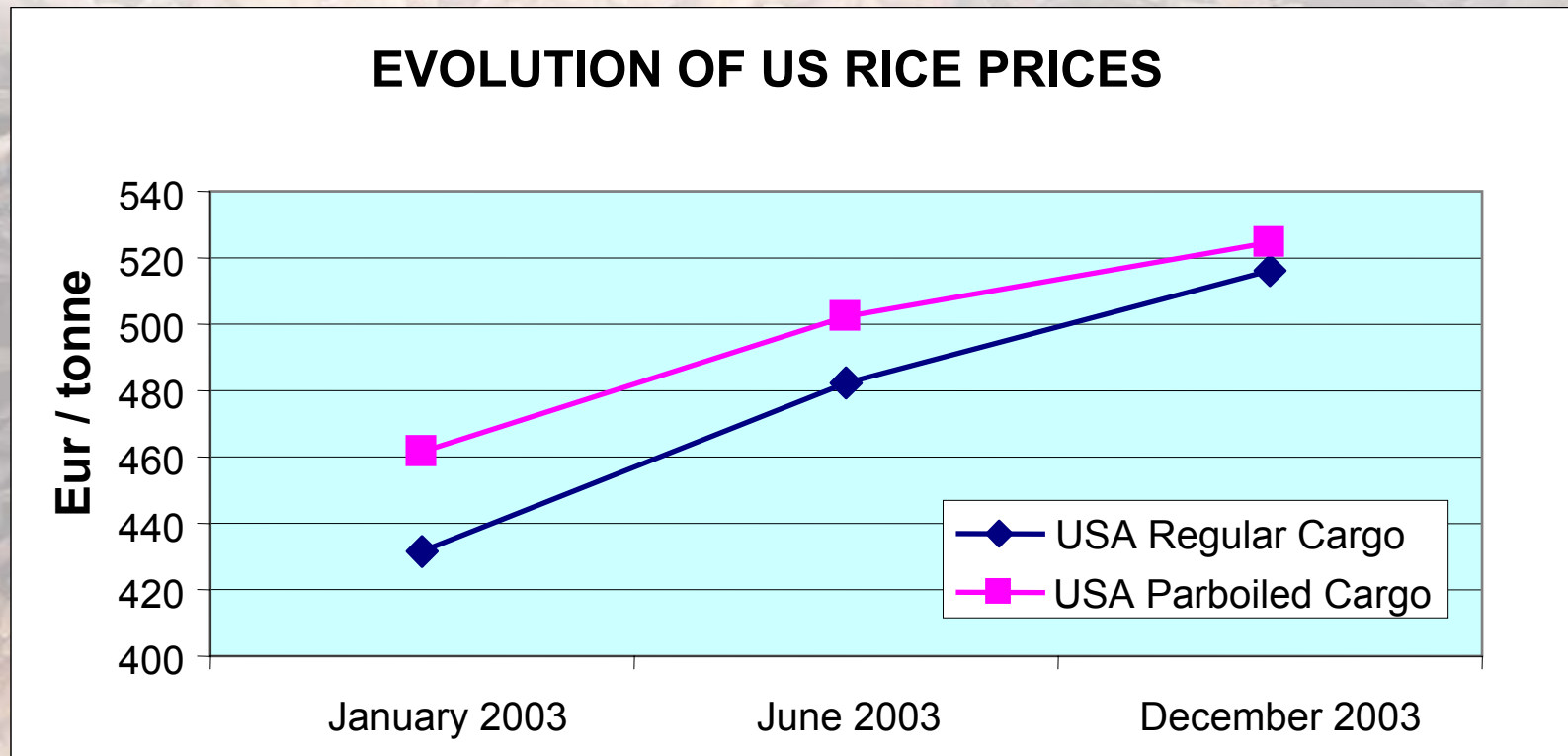
On the one hand, during the year just ended, the end was announced of the current regulatory framework of the sector, which helped to dispel uncertainties, opening up to new business prospects.

On the other hand, two extraordinary factors were present on the international rice market:

- a) very low prices of US rice throughout the first half of 2003; and
- b) falling parity of the USD against the EUR.

Both these factors have contributed towards making imported rice much more competitive than the rice produced in Europe, with the consequent shrinking of profit margins for European producers.

# 1. Introduction (...)



# 1. Introduction (...)

This situation adversely affected the results of the Herba Group during the first three quarters of 2003, particularly in the operations of the industrial business, and was only remedied with the arrival of the new crop harvested in October and the upturn in US rice prices in the second half of the year.

Consequently, the results of the Group were unevenly distributed over the year, as can be seen in the following table:

	Jan/Sept. 2003		Oct/Dec 2003		2003	
	Thous €	% sales	Thous €	% sales	Thous €	% sales
Sales / operating income	314,273		116,888		431,161	
Cost of sales	<u>-244,980</u>		<u>-87,689</u>		<u>-332,669</u>	
<b>GROSS MARGIN</b>	<b>69,293</b>	<b>22%</b>	<b>29,199</b>	<b>25%</b>	<b>98,492</b>	<b>23%</b>
<b>PROFIT MARGIN</b>	<b>25,233</b>	<b>8%</b>	<b>12,246</b>	<b>10%</b>	<b>37,479</b>	<b>9%</b>
<b>OPERATING PROFIT (EBIT)</b>	<b>16,622</b>	<b>5%</b>	<b>7,854</b>	<b>7%</b>	<b>24,476</b>	<b>6%</b>
<i>EBITDA</i>	24,041	8%	10,995	9%	35,036	8%
<b>PRE-TAX PROFIT</b>	<b>14,222</b>	<b>5%</b>	<b>7,359</b>	<b>6%</b>	<b>21,581</b>	<b>5%</b>

# 2. New regulatory framework

## 2.1 DESCRIPTION AND COMPARISON WITH PREVIOUS SYSTEM

The long-awaited reform of the CAP was passed in June 2003, with a new CMO for the rice sector. The main principles of the new CMO are:

- ◆ The intervention price for paddy rice is lowered from 300 €/t under the previous regulations to 150 €/t.
- ◆ Recourse to Intervention is limited to a maximum of 75,000 tonnes of paddy rice, which represents less than 4% of the estimated European production. There was no limit under the previous regulations.
- ◆ To compensate growers for the measures described above, generous direct aids to production have been established, of up to 177 €/tonne.
- ◆ An undertaking has been made to renegotiate a new, more open and flexible import system (the present system is complex and inflexible).

## 2. New regulatory framework (...)

This new regulatory framework introduces important new elements, making the sector more competitive and improving its future prospects. For example:

- ◆ European rice is made more competitive on an international level, especially in view of the threat of the EBA treaties, which now cease to be a threat.
- ◆ European rice is made more competitive against alternative products (pasta, pulses, ...).
- ◆ New uses of rice are promoted, as an ingredient for other food industries (flours, beer, breakfasts, ...).
- ◆ Growers are given incentive and protection, with significant direct aids, which guarantees survival of the sector.

The new framework for imports has not yet been defined. The European Union has proposed an import quota of 450,000 tonnes of paddy rice, with a fixed import duty of 65 €/t, but no agreement has been reached so far with the non-EU rice-producing countries.

## 2. New regulatory framework (...)

### 2.2 SITUATION OF PURCHASE PRICES FOR 2003/2004 CAMPAIGN

- ◆ Considering the imminent entry into force of the new regulatory framework (as from the 2004 harvest), the market has anticipated a certain easing of prices for the 2003/2004 rice campaign, especially in the major production areas (particularly Italy).
- ◆ As a result of this situation, Indica paddy rice prices have come down in Spain, being around 6% lower than those paid in the last campaign, which will help to improve the industrial margins in 2004 (the expected savings on purchases is calculated at around €5.5m).



## 2. New regulatory framework (...)

### 2.3 PROSPECTS FOR 2004

The prospects for the rice business for this year, 2004, are reasonably optimistic:

- ◆ To start with, the problems of competition from rice imported from the USA have lessened considerably, despite the low USD/EUR exchange rates prevailing at present.
- ◆ The rice in the 2003/2004 campaign has been purchased 6% cheaper than in the previous campaign, which brings costs down by around €5.5m in annual terms, most of which will benefit the profit margin.
- ◆ The rice in the 2004/2005 campaign will be cut drastically, as a result of the entry into force of the new CMO for the sector, which will benefit our interests in the last quarter of 2004.

# 3. Strategic acquisitions

- ◆ Herba's strategic plan contemplates a desire to increase its presence on the most important European markets. In this respect, Herba has followed closely the evolution of several purchase opportunities.
- ◆ Herba operates in two different areas:
  - ✓ Brands, which we have been working on throughout 2003, with the takeover of Reis Fit, and the merger of S&B and Riceland.
  - ✓ Industrial, supplying rice to our clients for them to complete the processing of the end product. In this case, Herba has been in the vanguard at all times, first with parboiled rice, special blends, ecological rices, and now, with the acquisition of Danrice, in the segment of frozen rice. This operation also opens the door to the pasta industry, very closely related to the rice business.

# Description

- ◆ Purchase of the rice trademarks of Kraft Foods in Germany, Denmark and Austria. The trademarks purchased are Reis-Fit®, sold in Germany and Austria, and Ris-Fix®, sold in Denmark. The sales of both brands totalled some 21 million euro in 2002.
- ◆ The combination of Reis Fit® and the brand Oryza®, already present on this market, has made Euryza leader on the rice brand market in Germany, with a 22% market share. By purchasing the Ris-Fix® trademark, it has also been able to penetrate the Danish rice brand market.
- ◆ Reis Fit & Ris Fix sell some 8,000 tonnes.

# Logic of the operation

- ◆ Through this operation, we have strengthened our position on the rice market in northern Europe.
- ◆ Substantial synergies are achieved from combining the Reis-Fit® and Oryza® brands: Oryza® is leader in rice specialties, the fastest growing segment, while Reis-Fit® is leader in the category of 'boil-in-the-bag' rices, the rice segment with the largest value added.
- ◆ The rice will be supplied from our Seville factories, with a further industrial contribution.

# Significant ratios

- ◆ The margins obtained are satisfactory: 27% EBITDA/sales.
- ◆ There are no fixed assets or debt.

(000 euro)	2003
<b>Sales</b>	17,000
<b>Ebitda</b>	4,719
<b>Ebitda/Sales</b>	27.8%
<b>EV/Ebitda</b>	4.5
<b>P/Sales</b>	1.2
<b>PER</b>	9.7

# Description

- ◆ **JOSEPH HEAP & SONS:** Wholly-owned by the Ebro Puleva group. Long-standing tradition in UK (founded in 1781) with leading positions in the ethnic and industrial sector.
  - ✓ JH currently operates at 2 plants:
  - ✓ Wapping Mill: rice and rice flour mill with a production capacity of 72 tonnes flour/day and 200 tonnes of rice a day (cargo base).
  - ✓ Bankfield Plant: rice cleaning/reprocessing plant, with two independent lines with capacities of 200 tonnes/day each.
  - ✓ Important position in sales in the ethnic sector in England and absolute leader in Scotland through our brand names (Peacock and Horseshoe) and key supplier of the principal industrial client in England (Kellogg's, Heinz, Mars, etc).
  - ✓ Leading ground rice and rice flour producer in England, with sales volumes of the order of 11,000 tonnes/year.

# Description

- ◆ STEVENS & BROTHERTON: Subsidiary of Riviana Foods, selling food products to large chains, distributors and producers in the UK.
  - ✓ Its business is divided into three areas:
    - Retail
    - Ingredients / Industrial
    - Ethnic market
  - ✓ S&B specialises in the sale of rice, pasta, frozen fruit, dried fruit and nuts, canned fruit and vegetables as industrial ingredients. On the ethnic market, its brand name "Phoenix" has been on the market for the past 40 years, making it one of the most well-known, prestigious brand names for rice in the United Kingdom. "Phoenix" is probably the most popular brand used in Chinese restaurants and take-aways and is also on sale in all ethnic "cash & carry" stores in UK and Ireland.

# Logic of the operation

- ◆ We consider the Heap - S&B tandem a winning project, since it combines the strength of one of the most important producers in the country with one of the largest rice sellers in the UK. This would make the joint venture (S&B Herba) the most important rice company in the UK on the ethnic and industrial markets, with leading positions in all segments. The new company has budgeted the following volumes of sales for 2004:

Rice products	T / Year
"Peacock" brand	5,060
"Phoenix" brand	11,000
"Horseshoe" / "Chinatown" brands	2,400
Other brand names (ethnic)	5,400
Basmati / Fragante	1,100
Industrial Rice	11,100
Medium grain industrial rice	28,000
Rice flour	11,000
Retail rice	1,735
Others	3,250
<b>TOTAL RICE PRODUCTS</b>	<b>80,045</b>

Other products	T/Year
Pastas	1,600
Canned products	3,900
Industrial dried fruit	7,900

- ◆ S&B Herba Foods will also be the exclusive distributor of several products in the United Kingdom, including well-known brand names such as Sunmaid (leader worldwide in raisin production and sales).



# Significant ratios

- ◆ The following table shows the 2003 results Joseph Heap, Stevens & Brotherton and the budgets of the joint venture for 2004, when the beneficial effect of the merger is already visible, even though insufficient time has passed to establish the different synergies.

<i>Figures in '000 Euro</i>	<b><i>HEAP 03</i></b>	<b><i>S&amp;B 03</i></b>	<b><i>S&amp;B HERBA 04</i></b>	<b><i>Incr(%)</i></b>
Sales / Operating Income	31,299	50,098	83,727	
Cost of sales	-25,568	-44,131	-68,342	
<b>GROSS MARGIN</b>	<b>5,731</b>	<b>5,968</b>	<b>15,386</b>	31.51
Amortisation	-434	-59	-601	
Marketing expenses & overheads	-3,816	-4,496	-11,109	
<b>NET OPERATING INCOME</b>	<b>1,481</b>	<b>1,412</b>	<b>3,676</b>	26.97
Net financial income/expense	-27	45	-163	
Extraordinary items	0	-106	0	
<b>PRE-TAX PROFIT</b>	<b>1,454</b>	<b>1,351</b>	<b>3,512</b>	25.12
Taxes	-361	-335	-1,035	
Minoritary interests	-29	0	-43	
<b>NET PROFIT</b>	<b>1,064</b>	<b>1,016</b>	<b>2,434</b>	16.97

# Significant ratios

- ◆ Apart from this improvement on the overall budgeted profits as a mere consequence of the merger, profits are expected to improve in subsequent years as synergies as applied and overheads are substantially cut. A general improvement in efficiency is anticipated, as a result of several factors:
  - ✓ Complementary nature of the activity, combining Heap's production capacity with the selling power of S&B, with the consequent benefit deriving from economies of scale.
  - ✓ Savings on fixed costs and transport costs, for both finished goods and raw materials.
  - ✓ Increase in market share and development of the ethnic market through a multibrand strategy, combining the leading brand in England with the leading brand in Scotland.
  - ✓ More efficient use of complementary resources (synergies) in different areas of the company, such as logistics, administration, quality control and marketing, leading to a significant cut in overheads.

# Description

- ◆ Hungary is one of the soundest and largest economies in East Europe, with a 3.3% growth in GNP and a per capita GNP of 9,930 \$US in 2002. Its accession to the EU will be effective as from 1 May 2004. However, it will not change its currency to euro until a later date, yet to be defined.
- ◆ Per capita rice consumption moderately high (4.5 kg/inhabitant) and growing: +6% in value over the past year (consumer market).
- ◆ Riceland sells 12,000 tonnes of rice and is the leading brand on the Hungarian rice market: 26.5% in volume and 32% in value. It accounts for 46% in volume of the cardboard box segment, which has the highest value added. Its brand name is the premium brand.
- ◆ Purely commercial company with a very light structure: 5 employees and no industrial installations.

# Logic of the operation

- ◆ Opportunities for creating value by:
  - ✓ Extending the Riceland range with high value-added products of EP (microwave, Basmati, boil-in-the-bag).
  - ✓ Promoting larger volume brands, using our raw material purchasing capacity.
  - ✓ Developing the industrial sales segment.
  - ✓ Transferring the processing and packaging (12,000 tonnes) of these rices to a Group plant, probably Mundiriso, largely saturating that plant.
- ◆ Enter the Slovak market.

# Significant ratios

- ◆ The margins obtained are satisfactory: 12.5% EBITDA/sales.
- ◆ No fixed assets or debt.
- ◆ The results posted were better than those estimated when closing the deal.

(000 euro)	2003	2002
<b>Sales</b>	6,729	6,983
<b>Ebitda</b>	858	872
<b>Ebitda/Sales</b>	12.8%	12.5%
<b>P/Sales</b>	0,4	
<b>PER</b>	4.6	

# Description

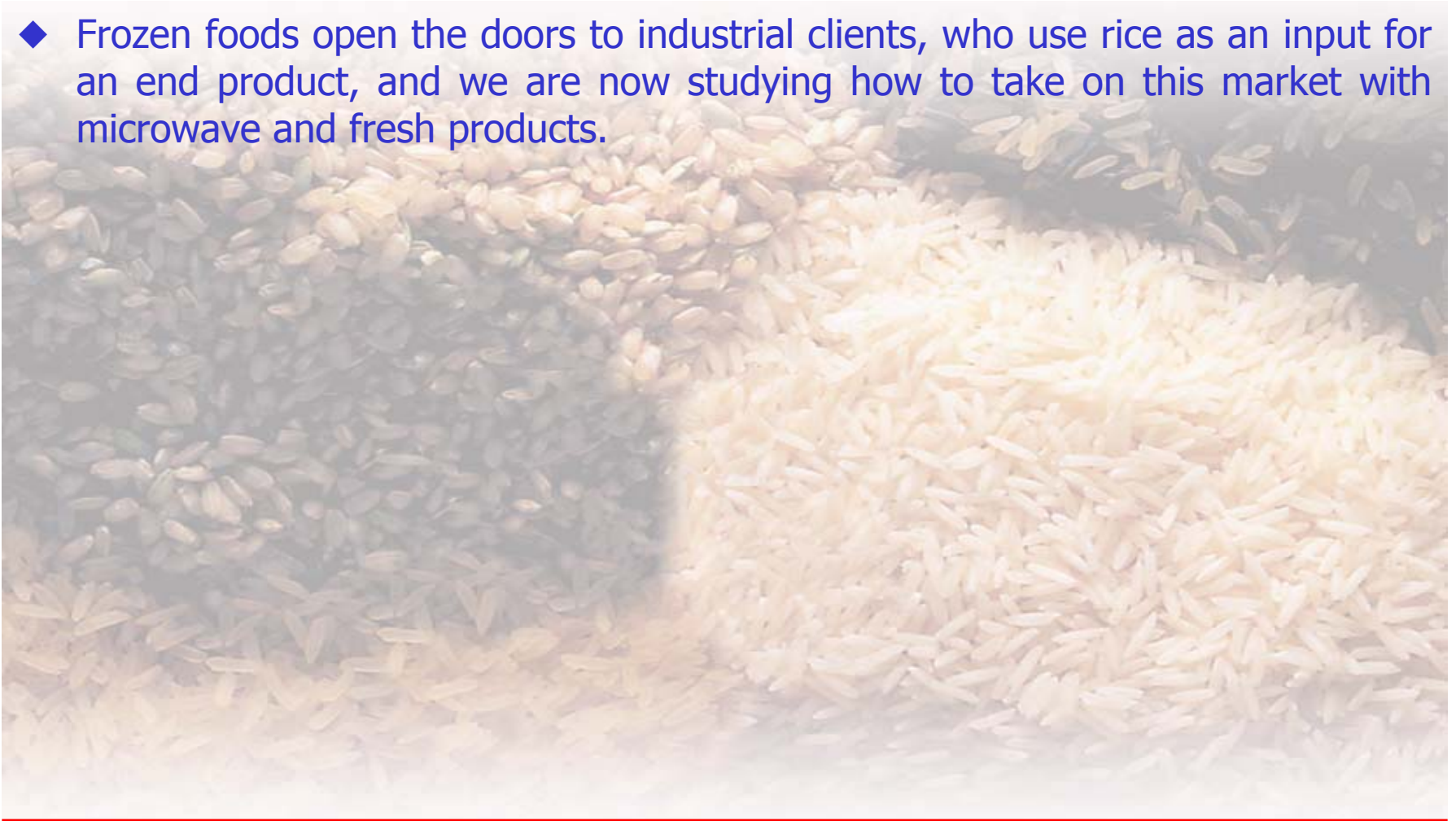
- ◆ This is a group of two companies engaged in the production of frozen rice and pasta. They operate as suppliers of a processed, frozen product to producers of precooked foods. Their clients are big names in the processed foods sector (Frosta, Unilever, Nestle, Findus, Marie Surgele, etc.).
- ◆ Scope of operation: Denmark, Germany, Scandinavian countries and northern France.
- ◆ They sell 22,800 tonnes of rice, purchasing approximately 8,500 tonnes of rice, which they cook and freeze. They also sell 5,400 tonnes of pasta, which they produce (not purchased).
- ◆ Frozen rice and pasta are high-margin products (in Danrice technology), thanks to the water absorption factor (ratio 1 / 2.8).
- ◆ They have a total workforce of 27 people for a turnover of 16 million euro and EBITDA of 3.8 million euro.

# Logic of the operation

- ◆ This product completes the range of goods we offer existing customers and gives us access to others who purchase (frozen) white rice for processing.
- ◆ We hope to reach a significant position both in supplying to manufacturers who purchase frozen rice and proposing to integral producers that they assign that part of their value chain to us. With our know-how and hold over the raw material, we could produce this product more efficiently than them.
- ◆ The project includes studying a second plant in the Calais-Amberes region, which would supply to French and English producers of precooked foods.
- ◆ The project is part of a more global approach, which requires us to progress in processes with a growing value added, thus acquiring a competitive edge.

# Logic of the operation

- ◆ Frozen foods open the doors to industrial clients, who use rice as an input for an end product, and we are now studying how to take on this market with microwave and fresh products.





# Significant ratios

- ◆ The value obtained is based on a concept of 4 x average Ebitda 2002+2003, after eliminating non-recurring effects.
- ◆ The results actually posted were better than those estimated when closing the deal.

(000 euro)	2003	2002
<b>Sales</b>	15,476	15,669
<b>Ebitda</b>	4,052	3,928
<b>Ebitda/Sales</b>	26.2%	25.1%
<b>EV/Ebitda</b>	4.64	
<b>P/Sales</b>	1.32	
<b>PER</b>	11.57	

## 3.2. OPERATING ENHANCEMENTS

In view of the difficult business situation in early 2003, HERBA opened a period of reflection and analysis of the entire operating structure (organisation, industrial processes, management processes, ...), with the aim of cutting costs and increasing efficiency. Initially, some important measures were adopted throughout 2003, with immediate effects, including especially:

- ◆ Reduction of management teams, restructuring departments and duties, laying off employees who represented an expense of 600,000 €/year on the profit and loss account.
- ◆ Optimisation of energy processes (substitution rice husk for natural gas as fuel), achieving savings of the order of 500,000 €/year.
- ◆ Modernisation of plant and streamlining of processes in the packaging area, increasing productivity while saving on MOD costs, to the tune of 550,000 €/year.

## 3.2. OPERATING ENHANCEMENTS (...)

We plan to develop these actions further in 2004, with a view to increasing the competitiveness of the Group in Spain, and have major projects currently under study:

- ◆ Industrial restructuring project, which could entail the development of certain production plants while eliminating others.
- ◆ Project for restructuring the commercial networks in Spain, concentrating resources and taking advantage of the inherent synergies, with a view to establishing a single powerful structure, facilitating launching of the new range of products.

## 3.3. NEW PRODUCTS

Another of the mainstays of the Group's strategic actions for 2004 is the boosting and consolidation of new products, including vacuum-cooked rices.

In Europe, the new products are being introduced through the network of subsidiaries established on the principal European markets, mostly using their own brand names: "Gourmet House" in the UK, "A tavola" in Italy, "Bosto" in Belgium, "Oryza" and "Reisfit" in Germany, "Cigala Brajma" in Portugal, ...

Although significant marketing and commercial operations have been effected in Spain during 2003 to launch the new line of cooked rice products, the greatest promotional campaigns will be run in 2004, after confirming acceptance of the product.

## 3.3. NEW PRODUCTS (...)

In Spain, the effectiveness and penetration of a campaign of a similar intensity run by our rival SOS in summer / autumn 2003 to launch its pre-cooked rices led to a sixfold increase in its sales of this product:

### SALES OF NEW RICE PRODUCTS

Source: Nielsen Escaner Península

SPAIN	WEEK 43-03	WEEK 44-03	WEEK 45-03	WEEK 46-03	WEEK 47-03	WEEK 48-03	WEEK 49-03	WEEK 50-03	WEEK 51-03
<b>BRILLANTE</b>	6.45 23,973	9.37 35,480	6.73 25,067	6.92 25,907	6.19 23,093	7.29 27,413	6.54 24,587	6.29 23,400	6.56 24,507
<b>Others</b>	1.6 5,818	1.32 4,800	1.18 4,291	1.16 4,218	1.04 3,782	1.15 4,182	0.94 3,418	0.85 3,091	0.94 3,418

This new line of products has been so successful that the production plant, initially designed for a much slower start, has had to be enlarged.

## 4. Forecast of 2004 results

- ◆ The impact of the businesses acquired on the 2004 results, when they will contribute the full year, has been estimated at an increase of 95.3 million euro in turnover and 10.4 million euro in EBITDA.

# Disclaimer

To the best of our knowledge, the estimates contained in this presentation on the future growth of the different business lines and the overall business, market share, financial results and other aspects of the operations and position of the company are accurate at the date hereof.

The contents of this presentation are no guarantee of our future actions and entail certain risks and uncertainties. Owing to the influence of several factors, the real results obtained may differ considerably from those indicated in our estimates.

Analysts and investors should not rely exclusively on these estimates, which are valid only at the date of this presentation. Ebro Puleva is under no obligation to publish the results of any subsequent review of these estimates made to reflect events and circumstances occurring after the date of this presentation, including, though by no means limited to, changes in the businesses of Ebro Puleva or in its acquisitions strategy, or to reflect unforeseeable events. We recommend analysts and investors to consult the company's Annual Report and the documents we submit to the Authorities, especially the National Securities Market Commission (CNMV).



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**Thank you**

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Antonio Hernández Callejas