DEVELOPMENT
IN 2014

6.1 Analysis of 2014
6.2 Prospects
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ANALYSIS OF 2014

BUSINESS DEVELOPMENT

Backdrop

This was a disappointing year in the eurozone, with misgivings as to whether the economic recovery was here to stay, although the year ended with positive indicators. The GDP growth in the last two quarters of the year and the improvements in the economic activity and consumer confidence indicators at the end of the year reduce the risks of a third recession, but the scenario is not very bright, with recovery rather slower than anticipated, high unemployment levels and substantial differences between countries. Despite this, the lowering of oil prices, depreciation of the euro and reactivation of credit brought about by the expansionary monetary policies and policies to stimulate investment are encouraging indicators for 2015.

In contrast, the situation in the USA is clearly expansionary, with year-on-year GDP growth of 2.4%, growing business and consumer confidence indicators since the minimums hit in 2009 and unemployment levels close to frictional. Even so, surveys still show that a large proportion of citizens believe that the country is still in recession (70% according to the Nielsen Global Survey) and average household incomes are still below pre-crisis levels.

The years of uncertainty and high rates of unemployment prevailing in many developed countries have taken their toll in the form of changes in consumption patterns. On the whole, consumers have adapted their purchase habits, buying less, buying cheaper and shifting towards quality private-label products or the more economical brands.

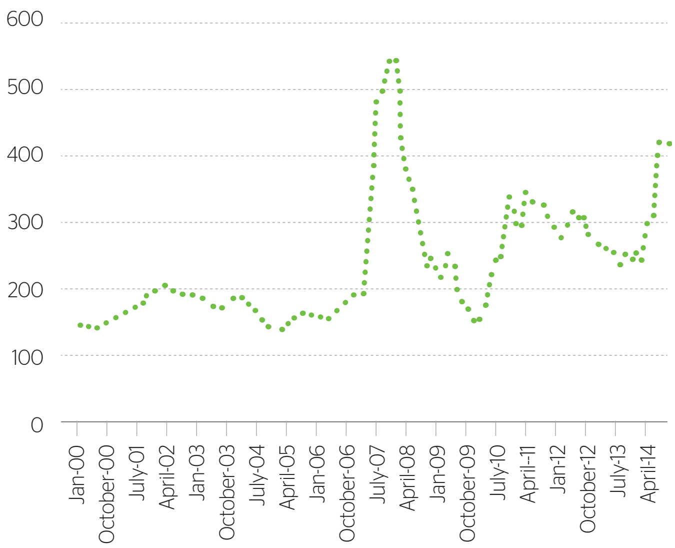
The worst of the crisis appears to be over, as observed in the new consumer trends, with a greater price/benefit analysis of purchases, leaving behind the price/sacrifice pattern that prevailed during the crisis. The changes have been especially beneficial for certain segments of the market, such as fresh products which are enjoyable without increasing household spending and in which there is a large growth margin in an otherwise flat market in the most developed economies, in terms of volume, with rather gloomy prospects in population trends.

The changes have also affected distribution, which must adapt to the new tastes. New options have appeared on the scene to compete with traditional distribution channels. These new channels include internet shopping (online supermarket), with very strong growth and where the positions of the leading players often differ from those they have through traditional distribution. This has led to mergers and amalgamations on some significant markets.

2014 was an unusual year on the grain markets. The situation was relatively calm for most crops, with stable prices and maximum stock forecasts. However, durum wheat was the exception. The new harvest was affected by a smaller area sown and lower quality of the grain, as the major producers (France and Canada) were affected by heavy rainfall in the summer, and prices hiked from around 250 €/tonne in June to 430 €/tonne in December. The durum wheat margin is particularly narrow so stocks are low at year end, there is no futures market and supply is highly concentrated, attracting speculation by financial operators. The price spread with soft wheat has reached unprecedented levels (around twice the average price) and it has become a cereal with high volatility. This trend can be seen clearly in its evolution over the past 15 years.

World rice stocks in the 2014/15 season are expected to be approximately 3% lower than in the previous crop year, when record levels were reached. This is the first reduction since 2007/2008. Even so, rice purchases by China, abundant supply (as the Thailand government continues releasing its accumulated stock) and falling prices herald all-time high trading levels, at around 41.6 million tonnes. Overall, the prices of long-grain varieties were stable owing to the abundant supply in the main exporting countries, while medium and short-grain varieties weren affected by the drought in California and Australia, which pushed prices up.

PRICE DURUM WHEAT €/TONNE



Source: Own compilation

GROUP EARNINGS

The most significant financial highlights of the Group are shown below:

CONSOLIDATED FIGURES	2012	2013	2013-2012	2014	2014-2013	CAGR 2014-2012
Net sales	1,981,130	1,956,647	(1.2%)	2,120,722	8.4%	3.5%
EBITDA	299,226	282,392	(5.6%)	287,251	1.7%	(2.0%)
% net sales	*15.1%*	*14.4%*		*13.5%*		
EBIT	244,319	226,356	(7.4%)	227,242	0.4%	(3.6%)
% net sales	*12.3%*	*11.6%*		*10.7%*		
Profit before tax	250,438	210,646	(15.9%)	215,749	2.4%	(7.2%)
% net sales	*12.6%*	*10.8%*		*10.2%*		
Income tax	(89,464)	(69,157)	22.7%	(64,407)	6.9%	(15.2%)
% net sales	*(4.5%)*	*(3.5%)*		*(3.0%)*		
Consol. profit for the year (continuing operations)	160,974	141,489	(12.1%)	151,342	7.0%	(3.0%)
% net sales	*8.1%*	*7.2%*		*7.1%*		
Net loss on discontinued operations	(2,523)	(7,507)	197.5%	(2,223)	(70.4%)	(6.1%)
% net sales	*(0,1%)*	*(0.4%)*		*(0.1%)*		
Net profit	158,592	132,759	(16.3%)	146,013	10.0%	(4.0%)
% net sales	*8.0%*	*6.8%*		*6.9%*		
Average working capital	402,403	420,517	(4.5%)	442,036	(5.1%)	
Capital employed	1,212,424	1,286.515	(6.1%)	1,363,346	(6.0%)	
ROCE **(1)**	20.0	17.7		16.7		
Capex **(2)**	52,930	61,308	15.8%	67,123	9.5%	
Average headcount	4,741	4,665	(1.6%)	5,189	11.2%	

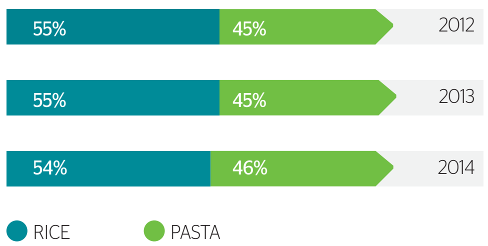
	31-12-12	31-12-13	2013-2012	31-12-14	2014-2013
Equity	1,.692,209	1,705,757	0.8%	1,849,485	8.4%
Net Debt	244,804	338,291	38.2%	405,617	19.9%
Average Debt	294,114	260,820	(11.3%)	333,178	27.7%
Leverage **(3)**	17.4%	15.3%		18.0%	
	2,731,812	2,772,680		3,162,068	

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

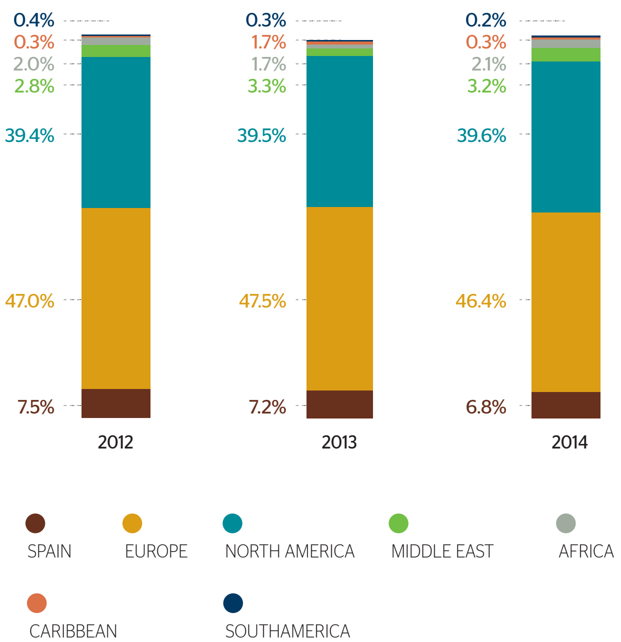
(2) *Capex as cash outflow from investing activities*

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

SALES BY BUSINESS LINES



SALES BY GEOGRAPHICAL AREAS



Turnover was up 8.4% year on year, thanks to a significant growth in volume and the contribution by new businesses (Olivieri and Garofalo) of €103 million.

The distribution and evolution by business lines and geographical areas is shown in the graphs represented to the right.

The generation of resources, EBITDA, rose by 1.7%, with a contribution by the new businesses of €9.4 million and with practically no impact caused by exchange rate variations. Performance was very positive in all segments except the US Pasta division, where a shrinking market (-1.8% in value, Nielsen XAOC 52 weeks), with abundant promotions and fierce price competition, made it impossible to pass on the entire increase in the cost of durum wheat. This, together with a worse product mix, led to a drop in EBITDA by €13 million.

The profitability measured by the EBITDA/Sales ratio was slightly down at 13.5%, due entirely to the performance of the Pasta Division in the USA and two factors:

a. The reduction in profitability mentioned above, caused by the squeeze on prices in a market with fierce price competition and rising commodity prices.

b. Smaller profitability of the Olivieri pasta business compared with the traditional dry pasta business of New World Pasta. The presence in the US fresh pasta segment is considered a strategic acquisition by the Group, but a growth and consolidation process needs to be completed before it produces the profit levels obtained in other divisions and/or in other markets.

The Net Earnings in Continuing Operations rose by 7% thanks to the improvement in recurrent earnings and a number of non-recurrent items, the most significant of which are: goodwill impairment of €11.1 million in the cash-generating unit ARI, €14 million from our divestment in Deoleo, recorded as financial income, and the variations in the corporate income tax expense (see Note 25 to the Annual Accounts).

The ROCE fell to 16.7% due entirely to the smaller yield on the US pasta business.

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

ANALYSIS OF THE GROUP BALANCE SHEET

The evolution of the balance sheet over the past three years reflects the incorporation of new businesses during this period: Olivieri (December 2013) and the Garofalo Group (June 2014). The principal movements are due to the accounting of the purchase of these businesses (tangibles and intangibles, goodwill, working capital and debt) and the impact of the evolution of the dollar exchange rate on the balance sheets of the subsidiaries whose accounts are denominated in that currency (2014). These effects were both in the same direction: increase in the balance sheet produced by the acquisition of assets and increase as a result of applying the year-end exchange rate, of 12% of the assets and liabilities denominated in dollars, which accounted for around 50% of the Group's balance sheet.

Other changes also occurred, such as changes in Investment Property following the sale of certain non-operative assets in the USA or in Financial Assets owing to the sale of the Deoleo shares held for sale (the market value of which rose year on year in 2013 and included the purchase of the financial interest in Scotti SpA for €18 million).

Other Funds under assets and liabilities mainly include deferred taxes, pension fund commitments and provisions for risks, in which there have been no significant changes.

ITEMS	BALANCE SHEET				
	2012	2013	2013-2012	2014	2014-2013
Intangible assets	373,993	373,544	(449)	433,974	60,430
Property, plant and equipment	496,045	509,673	13,628	612,771	103,098
Investment property	32,637	33,139	502	30,832	(2,307)
TANGIBLE AND INTANGIBLE ASSETS	902,675	916,356	13.681	1,077,577	161,221
Financial assets	62,756	108,141	45,385	67,732	(40,409)
Goodwill	823,207	851,617	28,410	932,596	80,979
Other Funds	53,024	55,455	2,431	55,871	416
Inventories	347,307	384,947	37,640	428,107	43,160
Trade & other receivables, Group companies	0	0	0	0	0
Trade receivables	317,261	302,994	(14.267)	349,117	46,123
Other debtors and other accounts receivable	51,708	58,721	7,013	56,556	(2,165)
Trade & other payables, Group companies	0	0	0	0	0
Trade payables	(234,079)	(236,156)	(2,077)	(285,970)	(49,814)
Other creditors and other accounts payable	(86,343)	(88,980)	(2,637)	(97,234)	(8,254)
WORKING CAPITAL	395,854	421,526	25,672	450,576	29,050
NET INVESTMENT	2.237,516	2,353,095	115,579	2,584,352	231,257
Capital	92,319	92,319	0	92,319	0
Reserves	1,441,298	1,480,679	39,381	1,611,430	130,751
Profit attributed to parent	158,592	132,759	(25,833)	146,013	13,254
Less: Interim dividends	0	0	0	0	0
Less: Own shares	0	0	0	(277)	(277)
EQUITY	1,692,209	1,705,757	13,548	1,849,485	143,728
Interest minority shareholders	1,028	22,506	21,478	24,320	1,814
Other equity	299,475	286,541	(12,934)	304,930	18,389
Loans Group comopanies & associates	0	0	0	0	0
Less: Loans to Group companies & associates	0	0	0	0	0
Bank loans & credit facilities	408,570	421,148	12,578	513,053	91,905
Special financing	9,974	11,457	1,483	84,843	73,386
Less: In cash and at banks	(156,724)	(94,014)	62,710	(191,477)	(97,463)
Less: Short-term financial investments	(17,016)	(300)	16,716	(802)	(502)
DEBT	244,804	338,291	93,487	405,617	67,326
TOTAL FUNDS	2,237,516	2,353,095	115,579	2,584,352	231,257

To enable adequate understanding of the working capital and debt, we should point out that the variable that most affects these items is the quantity and value of stocks, or inventories. The volume of stocks has a strong cyclical aspect, related with the rice and wheat harvests, especially the rice harvests in the northern hemisphere, which is where the company sources the largest volumes from farmers and cooperatives and where the stock cycle is longest. The smallest stock volumes coincide with the end of the rice season (end of summer) and the largest volumes are held at the end of the year.

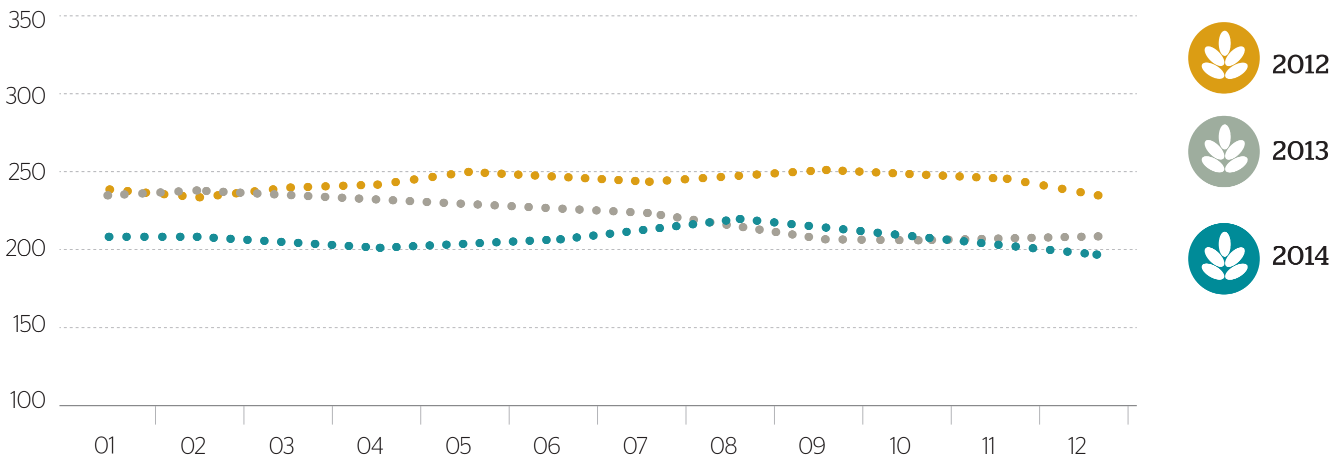
RICE DIVISION

RICE BUSINESS	2012	2013	2013-2012	2014	2014-2013	CAGR 2014-2012
Net sales	1,105,738	1,090,459	(1.4%)	1,139,697	4.5%	1.5%
EBITDA	161,035	137,627	(14.5%)	148,828	8.1%	(3.9%)
% net sales	*14.6%*	*12.6%*		*13.1%*		
EBIT	133,927	110,156	(17.7%)	121,789	10.6%	(4.6%)
% net sales	*12.1%*	*10.1%*		*10.7%*		
Average working capital	298,822	329,938	(10.4%)	339,882	(3.0%)	
Capital employed	729,320	751,292	(3.0%)	767,771	(2.2%)	
ROCE	18.3	14.8		15.9		
Capex	19,105	21,186	10.9%	32,440	53.1%	

Thousand of euros

As indicated in the comments regarding the backdrop, there was price stability practically throughout the market, with world output at record levels and stock levels also among the highest on record. Export prices of Asian varieties rose in the summer, then came down again when it was forecast that "El Niño" would not affect the monsoon and maximum year-end harvests were expected.

RICE IPO INDEX



The US season was very good with a bumper crop (+10% on 2013/14), reducing the difference between US prices and those of other sources while considerably increasing export possibilities, especially to South America.

US SEASON PRICES

$/CWT	14/15	13/14	12/13
Average price	14.25	16.3	14.9
Long grain	13.06	15.4	14.4
Medium grain	18.11	19.2	16.7

Source USDA // August - July

The medium-grain varieties grown mainly in California maintained their prices, increasing their spread over long-grain rice owing to shortages in other traditional sources (Egypt, Australia) and inflexible demand in North-East Asia. A reduction of the crop in this area was offset by increased sowing of these varieties in the southern states.

Among the aromatic varieties, the market prices of basmati rice varieties have returned to normal, slightly above 1,000 $/tonne.

SALES rose entirely through volume, as prices remained stable or were slightly down, in line with the prices paid at source. The increase in sales can be put down to:

- Growth in the business of some of the subsidiaries that had suffered in earlier years: Morocco, where a change of commercial strategy together with improved control of imports has led to a 106% increase in brand sales; Puerto Rico, where business has picked up after being hampered for years over a judicial competition dispute and where brand sales grew by 94%..

- Boosting of new businesses, such as that generated around ingredients. The future of this market is looking bright and offers an opportunity to replace the traditional offer with a small value added with a product at the top of the value chain. We are currently reorganising our industrial and commercial structure around ingredients..

- Replacement of the traditional products with products launched in recent years (extensive range of rice-in-the-cup, combos and mixes, Sabroz, specialties, etc.) with which market shares and value sales are maintained.

- Outstanding performance of Riviana in the United States in all its products, offsetting the poor performance of American Rice (ARI), which is suffering pressure on its lower value sales on the domestic market, while its flagship brand Abu Bint is buckling under the pressure from low-price Asian rice.

THE DIVISION EBITDA was up 8.1% year on year, which is greater than the rise in turnover, thus indicating an improvement in yield (13.1% margin compared with 12.6% in the previous year). Investment in advertising was reduced slightly, by €2 million, almost entirely in the United States.

Our subsidiary Riviana has made exceptionally good progress, with record earnings of USD 97 million. We maintain our leadership (21.7% in volume according to Nielsen XAOC scantrack 52 weeks) and are growing in value on a market with 3% growth in volume and value. The increase in turnover is accompanied by improved margins, taking advantage of a slightly bearish trend in prices with little pressure from competition within the domestic market.

In contrast, what is now considered an endemic problem in the Texas region (shortage of rainfall and low level in reservoirs, below 55% of their capacity, which rules out irrigation in certain traditional rice-producing areas) is causing serious supply problems at ARI's Freeport plant (Texas). Its ability to compete is curtailed throughout much of its market as it has to transport rice from the Mississippi Delta. This situation was further aggravated this year as Abu Bint exports were dented by tough competition from Asian rice, reducing its contribution to USD 3.2 million.

These circumstances force it to recognise an impairment in its goodwill, as described in Note 14 to the Annual Accounts. Performance was good in Europe and the rest of the world with the afore-mentioned recoveries in Morocco and Puerto Rico and a satisfactory competitive position in our Asian subsidiaries thanks to the extensive sourcing opportunities and competitive prices. On the contrary, the production of parboiled rice in Spain was hit by competition from those sources and declined. The return to normal of basmati rice also led to a substantial improvement in the eroded margins of this segment, which is especially significant in northern Europe.

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

	2014	%	2013	%
Spain	28,539	38.9	31,474	47.0
Europe	40,873	55.7	33,454	49.9
Others	3,916	5.3	2,100	3.1
TOTAL EBITDA	**73,328**	**100.0**	**67,028**	**100.0**

The division ROCE rose considerably thanks to the higher yield and average working capital, without major variations after absorbing the effect of the new plant in India. Despite this, it still compares unfavourably with 2011 owing to the sharp drop in profits at ARI.

The principal investments **(CAPEX)** made in this division correspond to a new line of frozen pasta nests (€3 million), new finished product silos in Italy (€1 million), new packaging line at the Antwerp plant (€0.6 million), enlargement and improvement of the Wormer plant (€1.6 million), enlargement and improvement of the Algemesí mill (€3.2 million), alterations to improve productivity at the Freeport plant (€2.4 million) and the installation of a new gluten-free production line in Memphis (€8.7 million)

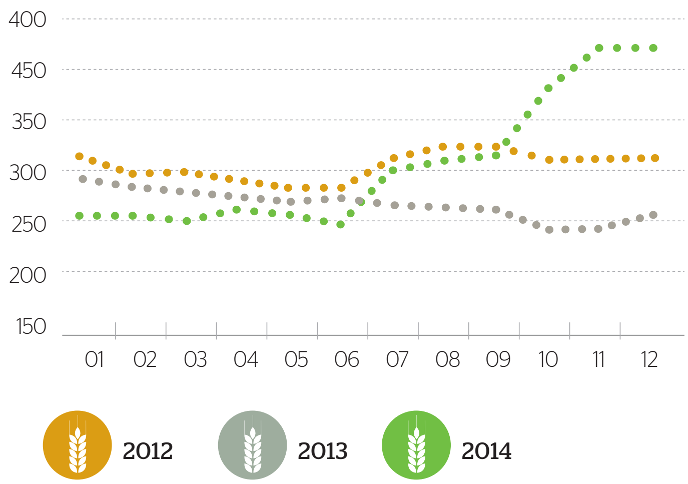
PASTA DIVISION

PASTA BUSINESS	2012	2013	2013-2012	2014	2014-2013	CAGR 2014-2012
Net sales	914,783	915,120	0.0%	1,029,294	12.5%	6.1%
EBITDA	146,132	152,955	4.7%	146,317	(4.3%)	0.1%
% net sales	*16.0%*	*16.7%*		*14.2%*		
EBIT	118,884	125,725	5.8%	114,397	(9.0%)	(1.9%)
% net sales	*13.0%*	*13.7%*		*11.1%*		
Average working capital	90,115	76,369	15.3%	94,810	(24.1%)	
Capital employed	520.948	508,429	2.4%	578,767	(13.8%)	
ROCE	22.4	25.7		20.5		
Capex	33,040	38,720	17.2%	34,249	(11.5%)	

Thousand of euros

As mentioned in the introduction to this chapter, durum wheat prices shot up as from June, coinciding with the new harvest, standing at over 400 €/tonne at year end. Heavy rainfall prior to harvesting in Canada and a smaller area sown in the European Union (especially in France, where the quality suffered again as a result of abundant rain in the summer months) caused a decline in world output, the smallest since 2002, and grain quality problems. As a result of the poor quality, markets have even been differentiated to separate those meeting the quality criteria for the preparation of pasta.

PRICE OF DURUM WHEAT IN EUR/TON



SALES grew thanks to the incorporation of Olivieri (included in the 2013 accounts for just one month) and Garofalo (since June). The impact of the new businesses was €103 million. Both companies are important in the Group's strategy and specific development has been established in each one to expand their distribution in markets we consider complementary.

The rest of the annual variation is due to new volume, but with a worse sales mix in USA and Canada and growth in volume in France. Despite the sharp increase in the cost of the raw material, this was only passed on to customers towards the end of the year and had a minor impact on the sales figures for the year.

By geographical markets:

- In France the dry and fresh pasta market grew in volume (+0.9% and 4.4%, respectively), with a growth in volume of the Panzani (+1.7% in volume of dry pasta) and Lustucru Frais brands (+7.2% in volume of fresh products), in spite of the complicated situation of distribution with a significant concentration of our principal customers as a result of aggressive competition. Even so, Panzani recorded record growth and enjoyed increased recognition (the brand ranked second in consumer preference in July 2014, according to the Toluna Panel). The price was overcome through innovation, especially in products with a lower value added, including a new category of potato and potato-based products (cubes, noisettes, chips and omelettes, up 19% over 2013) or repositioning the range of fresh products with the launching of Triglionis sold under the Lustucru Selection brand.

• Although only six months of sales are included, Garofalo had a very positive performance. It clearly leads the premium pasta market in Italy with 4.8% in volume and 6.8% in market value and has begun distribution in other markets in which we believe it may compliment our product range.

• United States. Market in mild recession (-0.5% in volume) with a great deal of promotional activity (-1.8% in value). Within this weak market, the recession is especially severe in the healthy foods segment, which includes low-calorie, gluten-free, vegetable-enriched, high-fibre and wholewheat pastas. Only gluten-free products are growing and we have stepped up our range with new varieties and a specific investment at the Memphis plant.

• Canada. The dry pasta market grew in volume (+1.4) but fell in value (-0.9%) as a result of the fierce price competition. Just as in the USA, a decline in healthy pasta consumption was observed, except for gluten-free products. Our subsidiary Catelli Foods still leads the market with a share of 31.9%. The fresh pasta market grew by 6.5% in volume and 4.6% in value and is still headed by Olivieri with a market share of 45.7%.

The division EBITDA was down 4.3% and remains practically on the same level over the three-year span, despite the positive contribution by the new businesses, especially Garofalo, which has contributed €7.4 million in six months. The investment in advertising was slightly down (-€2 million), after stripping out the part corresponding to the new incorporations.

France has reduced its contribution only slightly (-€0.8 million) despite the increased costs of supplies, thanks to an increase in the volume of sales, a powerful commercial leadership policy and continuous improvement of productivity at its plants (investment in the pasta and semolina plants) and structures (new logistics platform).

NWP is the other side of the coin, with a significant drop in profitability caused by the smaller volume of sales in the healthy pasta segment, leading to an impaired business mix and difficulties in passing wheat price rises due to the fierce price competition. The devaluation of the Canadian dollar was also unfavourable, since approximately 25% of the income of this sub-group is generated in that currency.

NWP umbrellas the fresh and dry pasta businesses in USA and Canada. The fresh pasta and sauces products sold under the Olivieri brand endured a major setback when part of its products were removed from the Costco shelves to make room for the latter's private label products and it has a long way to go to improve its processes, renovate its brands, rejuvenate and broaden its product ranges and make changes in its commercial policy. These changes are all contemplated in its 5-year Strategic Plan.

The division ROCE fell to 20.5% owing to the reduced profitability, since the increase in working capital and capital employed corresponds to the incorporation of the new businesses.

The CAPEX is concentrated in the facilities to improve the fresh product capacity and productivity in Communay, which put its first production lines into operation towards the end of the year (€6.8 million for an investment to date of €23 million), €2.2 million for new equipment for the semolina plants, €7.8 million for equipment to increase capacity at the dry pasta plants, €2 million for equipment for the couscous plant, €1.2 million for new packaging lines at Winchester, €2.1 million for a new short pasta line at St. Louis and €1.1 million to modernise the long pasta line at Winchester.