



ANALYSIS OF 2013

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ENVIRONMENT

The recession is slowly remitting in the eurozone. After six consecutive quarters of contraction, there was finally an upturn in the GDP in the second quarter of 2013, with a quarter-on-quarter growth of 0.3%. Moreover, the consumer confidence and industrial production indexes closed the year in positive figures, so although growth is still weak, because in some cases the “real economy” (employment and available income) has not yet been reached and the different countries have varying growth capacities, the climate is positive.

The situation is favourable in the USA. On the one hand there has been a clear improvement in the economic figures (+1.9 % annual GDP), including employment, confidence and housing sales, but on the other hand the average household income dropped and the number of homes receiving food vouchers rose, reflecting certain imbalances in the recovery, which were just starting to be smoothed out by the end of the year.

In spite of the improvements observed, the years of uncertainty and the high unemployment rates still sustained in many developed countries have taken their toll in the form of changes in consumer habits. In general, consumers have adapted their purchase habits, buying less and cheaper and going more for quality private label products or the more economical brands. At the same time, new options have appeared on the scene competing with traditional distribution channels, such as internet shopping, while the search has stepped up for fresh products producing pleasure without increasing household spending.

In the commodity area, there was an upturn on the grain markets as from July. The announcement of a surplus corn market and a good soft wheat harvest pushed prices down until the end of the year. Durum wheat, which has a particularly narrow market, accompanied this trend with a good harvest and stock levels in Canada, which produces approximately 60% of the world trade of this cereal. With a stable position in the other sources, durum wheat prices fell in Europe from 300 €/t to 250 €/t at year end. Rice prices remained low with record world harvests and abundant world stock, attentive to the new attempts by Thailand to reduce its government stock. Within this global scenario there are a few especially important exceptions which have represented greater challenges for the Ebro Group during the year, namely the devastating drought in Texas, pressure on domestic prices in the USA, Basmati prices and the shortage of rice at competitive prices from Spain.

GROUP RESULTS

The Net Earnings in Continuing Operations fell by 12.1% due to the smaller contribution of positive non-recurring income, because in the previous year the proceeds from the sale of the Nomen brand had been received and major reversals had been made of over-provisions for legal disputes related with the Group’s former sugar and dairy businesses.

Turnover slid 1.2% year on year due to passing on to consumers the lower supply costs and the evolution of the exchange rate in companies whose functional currency is the dollar. These factors outweighed the positive evolution in sales volumes.

The generation of resources, EBITDA, dropped 5.6% year on year, entirely in the rice division, owing to problems encountered with the supplies of certain sources of rice, which pushed prices up and squeezed margins with no possibility of recovery in the short term. Moreover, the foreign exchange effect on 2012 earnings was negative to the tune of € 5.1 million.

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

CONSOLIDATED FIGURES	2011	2012	2012-2011	2013	2013-2012	CAGR 2013-2011
Net turnover	1,736,686	1,981,130	14.1%	1,956,647	(1.2%)	6.1%
EBITDA	273,642	299,226	9.3%	282,392	(5.6%)	1.6%
% Turnover	15.8%	15.1%		14.4%		
EBIT	226,914	244,319	7.7%	226,356	(7.4%)	(0.1%)
% Turnover	13.1%	12.3%		11.6%		
Operating profit	233,829	250,438	7.1%	210,646	(15.9%)	(5.1%)
% Turnover	13.5%	12.6%		10.8%		
Tax	(72,163)	(89,464)	(24.0%)	(69,157)	22.7%	(2.1%)
% Turnover	(4.2%)	(4.5%)		(3.5%)		
Consolidated earnings (Continuing operations)	161,666	160,974	(0.4%)	141,489	(12.1%)	(6.4%)
% Turnover	9.3%	8.1%		7.2%		
Net earnings on discontinued operations	(10,023)	(2,523)	(74.8%)	(7,507)	197.5%	(13.5%)
% Turnover	(0.6%)	(0.1%)		(0.4%)		
Net profit	151,542	158,592	4.7%	132,759	(16.3%)	(6.4%)
% Turnover	8.7%	8.0%		6.8%		
Average working capital	315,694	402,403	(27.5%)	420,517	(4.5%)	
Capital employed	1,007,686	1,212,424	(20.3%)	1,286,515	(6.1%)	
ROCE (1)	22.2	20.0		17.7		
Capex (2)	66,596	52,930	(20.5%)	61,308	15.8%	
Average headcount	4,743	4,741	0.0%	4,665	(1.6%)	

>> Thousand of euro

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

(2) Capex as cash out flow from investing activities

	31-12-11	31-12-12	2012-2011	31-12-13	2013-2012
Equity	1,587,298	1,692,209	6.6%	1,705,757	0.8%
Net Debt	390,073	244,804	(37.2%)	338,291	38.2%
Average Debt	139,157	294,114	111.4%	260,820	(11.3%)
Leverage (3)	8.8%	17.4		15.3%	
Total Assets	2,710,608	2,731,812	0.8%	2,772,680	1.5%

>> Thousand of euro

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

The profitability measured by the EBITDA/Sales ratio is slightly down at 14.4% largely due to the smaller yield of the rice business and the increased investment in advertising to consolidate the aforesaid improvements in sales volumes. Further details are given on the Rice Business section of this report.

The ROCE has fallen to 17.7%, due to the squeeze on margins, the increased average working capital required to cope with the supply difficulties, outweighing the lower costs of supply, and the incorporation of Ebro India, which has been collecting the new harvest in recent months but does not yet contribute to earnings.

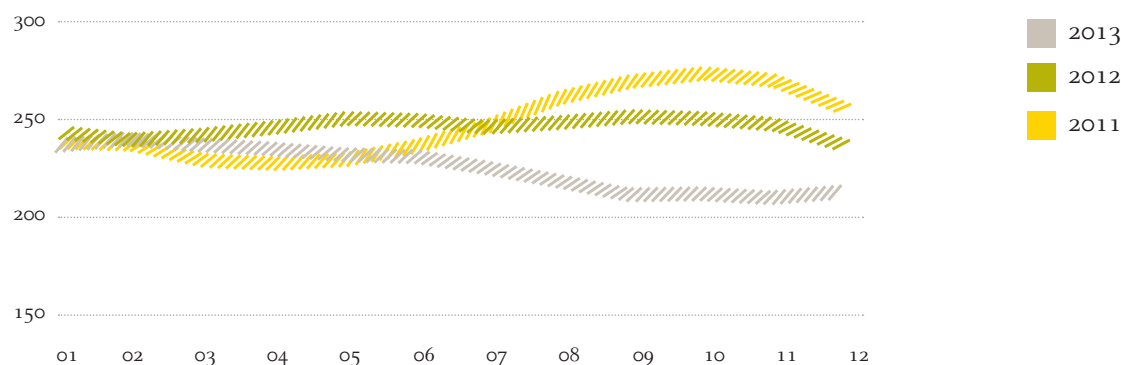
RICE DIVISION

RICE BUSINESS	2011	2012	2012-2011	2013	2013-2012	CAGR 2013-2011
Net turnover	920,752	1,105,738	20.1%	1,090,459	(1.4%)	8.8%
EBITDA	135,953	161,035	18.4%	137,627	(14.5%)	0.6%
% Turnover	14.8%	14.6%		12.6%		
EBIT	113,698	133,927	17.8%	110,156	(17.7%)	(1.6%)
% Turnover	12.3%	12.1%		10.1%		
Average current assets	231,686	298,822	(29.0%)	329,938	(10.4%)	
Capital employed	582,158	729,320	(25.3%)	751,292	(3.0%)	
ROCE	18.8	18.3		14.8		
Capex	26,950	19,105	(29.1%)	21,186	10.9%	

>> Thousand of euro

As indicated in the comments on the environment, the general market trend was a lowering of prices with record production worldwide and stocks also at one of the highest levels on record. The Thai government maintains its subsidiaries and despite new attempts to put its stock on the market through bilateral agreements, it is estimated that they may have approximately 16 million tonnes of white rice equivalent supporting the world market.

RICE IPO INDEX



However, supplies from certain sources have been distorted with a material impact on the results of this division. In particular, prices have continued rising in the USA owing to the drought in the rice-growing area of Texas and a smaller harvest than in recent years (on a level similar to the 2003/04 crop year).

PRICE US CROP YEAR (SOURCE USDA)

Average price	15.62	14.9	14.5
Long-grain rice	15.34	14.4	13.4
Medium-grain rice	16.76	16.7	16.5

>> August - July

Moreover, the prices of Basmati (an aromatic variety with official guarantee of origin, limited to certain areas in India and

Pakistan) have hiked since December 2012, pushing up the prices of traditional varieties from around 1,200 \$/cwt FOB white equivalent to 2,000 \$/cwt at the end of the year.

Sales grew in volume and price, but the impact of the exchange rate on sales made in dollars neutralised that growth. The improvement in sales volumes was especially impressive in the USA, with a year-on-year growth of 13% in ready-to-serve (RTS) products and the Abu Bint brand, distributed in the Middle East.

The division EBITDA fell by 14.5% year on year. Despite the positive evolution in sales and without considering the foreign exchange impact, certain external factors were responsible for this impairment:

- a) The drought in Texas and the spread of US long-grain rice prices over other sources.
 - ❖ The ARI plant in Freeport normally uses local rice and owing to the drought they have had to purchase a large proportion of their supplies from other states, with the increased cost this entails. ARI sells private label and industrial rice to maximise its installed capacity, a highly competitive business in which supply costs are an extremely important factor.
 - ❖ The price spread with other sources has curtailed exports, part of the product of large cooperatives shifting to the domestic market, with a direct effect on the profits of less brand-oriented businesses and the Food Service.
- b) The entry of large volumes of rice from dubious origins in Morocco has made the Group's brands uncompetitive, with the consequent decline in the Moroccan subsidiary's yield.
- c) Default of the prices agreed with Basmati rice growers has forced the Group to negotiate higher prices, which it has been unable to pass on in full to customers. The plant purchased in February in one of the best Basmati-growing areas of the country will guarantee supplies and enable better price planning of this product.
- d) The shortage of Spanish rice at competitive prices has led to a reduction of this source of supply and, therefore, the Group's industrial activity in the area, shrinking the spread of overheads with adverse effects on yield.

In spite of the problems mentioned above, investment in advertising was stepped up by €1.6 million (€3 million more than in 2011) while efforts were maintained in innovation, with new varieties of RTS rice in the United States (fried, rice with black beans) and in boosting the category Brillante (**Mix and Go**, **Brillante Sabroz**, **Brillante sartén [for frying]**) and **pleasure (SOS para [SOS for ...])**. Finally, the foreign exchange effect on the division EBITDA generated in dollars reduced its margin by €3.2 million.

The division ROCE slumped due to the combined effect of the smaller yield and the increased working capital needed to accumulate stock in view of the price fluctuations indicated above, the industrial concentration process in northern Europe (described below) and the purchases made in India for the new plant, which is not yet generating resources.

The principal investments made in the division correspond to equipment purchased to improve productivity at the parboiling plant in Carlisle (\$2.7 million), the ingredients project in the Netherlands (€2.8 million) and the increased capacity in frozen products with new individual formats (€2.5 million). The latter two, together with the agreement to purchase the rice and frozen pasta business of Keck Spezializaten, GmbH in Germany, are part of the strategy to boost innovation as the division's value lever in forthcoming years.

The industrial concentration process began this year in northern Europe. In the first quarter the Hamburg plant was dismantled and its production progressively transferred to Antwerp. The process was complex, entailing certain supplementary costs (duplicity, outsourcing of processes and increase of security stock) that were necessary to maintain the supply chain and guarantee being able to serve our customers, but it was completed successfully with sale of unwanted plant for €3.15 million.

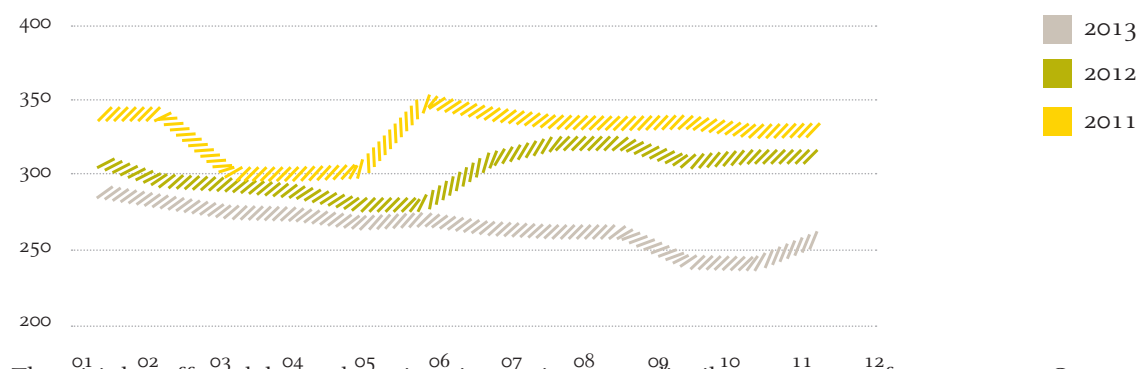
PASTA DIVISION

PASTA BUSINESS	2011	2012	2012-2011	2013	2013-2012	CAGR 2013-2011
Net turnover	860,872	920,693	6.9%	915,120	(0.6%)	3.1%
EBITDA	144,993	145,246	0.2%	152,955	5.3%	2.7%
% Turnover	16.8%	15.8%		16.7%		
EBIT	121,956	118,884	(2.5%)	125,725	5.8%	1.5%
% Turnover	14.2%	12.9%		13.7%		
Average current assets	69,173	90,115	(30.3%)	76,369	15.3%	
Capital employed	456,917	520,948	(14.0%)	508,429	2.4%	
ROCE	26.7	22.4		25.7		
Capex	37,093	33,040	(10.9%)	38,720	17.2%	

>> Thousand of euro

Despite a smaller French durum wheat harvest, the Spanish harvest returned to normal and, as a result, European production 2013/2014 remained at a similar level to the previous year. This, together with the good prospects in the United States and Canada (dominating the world export market) and the good crop year for other cereals, led to a progressive lowering of prices and a significant drop following the summer.

DURUM WHEAT PRICES EUR / TON



The crisis has affected the market, triggering a price war as distributors compete for consumers. Consequently, Hard Discount has lost its leadership in prices, falling victim to the slashing of margins in traditional distribution channels. Consumption has become polarised, increasing in the segments of low-price pasta and top-of-the-range products which give consumers greater pleasure, to the detriment of those manufactures who are not in either of these positions.

In this context, sales have remained stable, but with significant differences among the Group's major markets:

- ❖ On the one hand, the French dry and fresh pasta market grew in volume (+2.4% and 2.3%, respectively), with increased sales volumes of the Panzani (+1.4% in dry pasta) and Lustucru Frais (+7% in fresh products) brands, despite the fierce competition in prices (discounts and promotions in a growing percentage of sales), which considerably damaged the market. We have survived the falling prices, especially in products with a smaller value added, thanks to brand recognition and innovation. Our entry in the category of potato-based products and by-products (cubes, noisettes, chips and omelettes) is going well, with year-on-year growth rates of over 100% in sales.
- ❖ In the USA, the change in commercial policy announced in 2012 enabled the company to recover market share on a

stagnant market in which all the other rivals except Barilla have lost ground. Nevertheless, the clear improvement in sales volumes was neutralised by the falling reference prices and the foreign exchange effect.

The division EBITDA rose 5.3% in spite of the negative contribution of the dollar, calculated at €2.5 million, and the increase of €3.5 million in advertising. This growth was achieved thanks to the increase in sales volumes, which offset the lowering of prices.

The reduced cost of durum wheat supplies had a greater effect in the United States, while in Europe episodes such as the “horsemeat crisis” (forcing us to buy certified meat at a higher price to restore consumer confidence) counteracted that effect.

The fresh pasta and fresh sauces business of Olivieri Foods was purchased in December for €83 million. Olivieri is the leading brand of fresh pasta and sauces in Canada and is also present in the USA. Through this acquisition, the Ebro Group will enter the Canadian fresh pasta and sauce segment with its leading brand and will thus consolidate our position as number one in all the categories in which we operate, broadening the growth vector of fresh products.

The figures presented include the divestment in the pasta business in Germany, which is recognised as discontinued operations on the profit and loss account. Although the business was finally turning a profit after five years of industrial and commercial restructuring, the special difficulty of that market (fragmenting of brands and rivals, proximity to the surplus Italian market) hampered the possibilities of growth and improving its contribution, so we opted to sell the business for €21.3 million.

CAPEX is concentrated in plant to improve the capacity and productivity of fresh products (€14 million) where a new factory is being built in Communay (near Lyon), packaging lines are being modernised in La Montre (€2.4 million) and investments are being made to improve the productivity of milling and pasta production (€8.4 million).