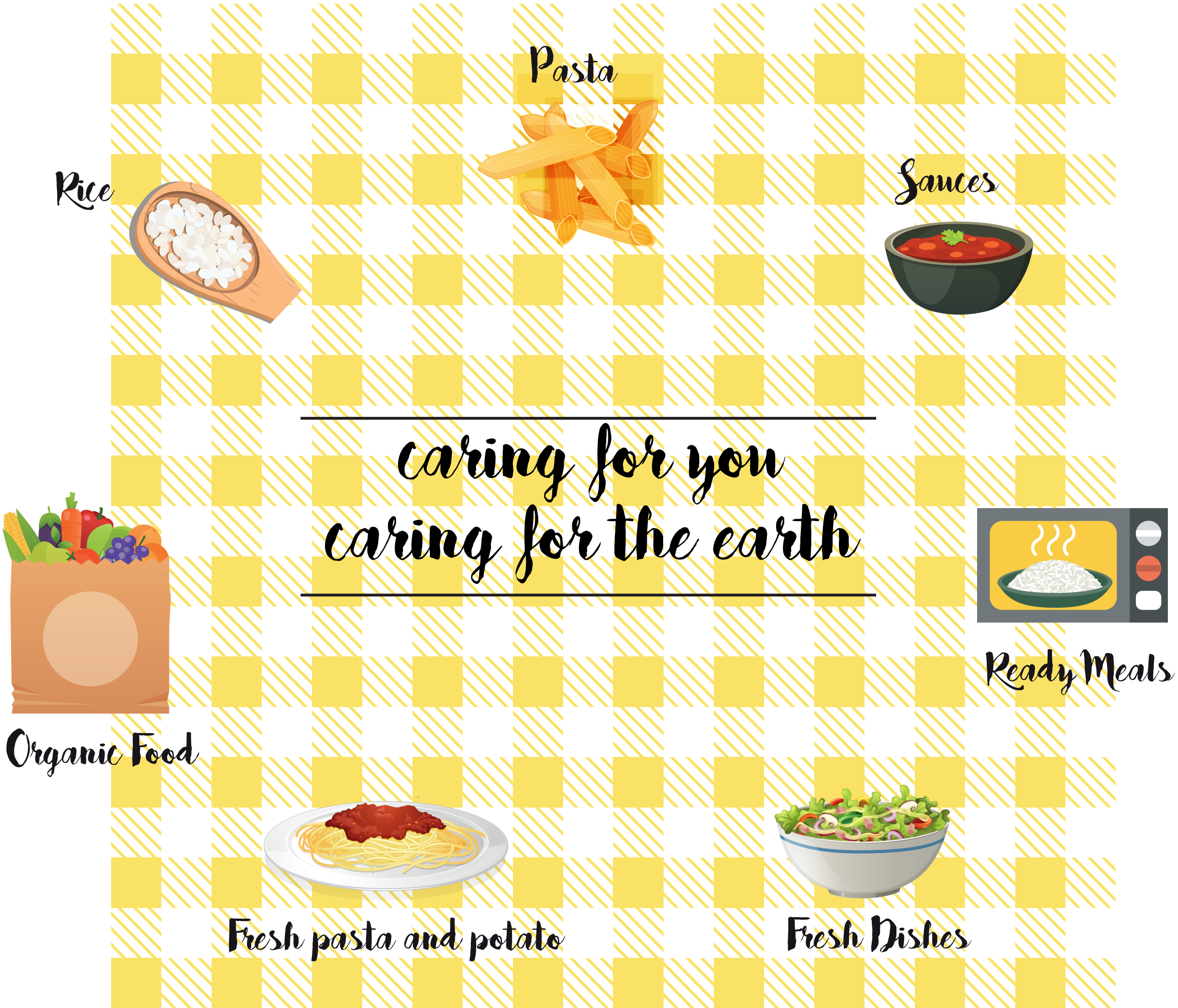
Business Areas
in 2017

1 Consolidated Group



General overview

The year was marked by optimism, with a global economic recovery underpinned by an upturn in investment and world trade that is expected to continue at least over the next two years. The overall feeling is favourable, as reflected by the confidence indicators, easing (although not eliminating) the geopolitical and financial uncertainties.

Average GDP growth in the eurozone was 2.4%, 0.7% more than expected, with a more homogenous distribution of growth and good performance of the emerging economies (Poland, Czech Republic, Hungary, Romania). Prices have remained slightly below the target levels, so an accommodative monetary policy has been maintained, although market incentives are being gradually withdrawn. The labour market is responding to the growth in economic activity with good signs in all countries, which are starting to result in better pay.

The annual GDP growth of the United States (by 2.5%) exceeded expectations, proving the strength of an economy that is at an advanced stage of the business cycle and where a major tax reform was recently passed to maintain that growth. The Federal Reserve gave impetus to the situation (close to full employment and with restrained prices) by approving three times a rise in the benchmark interest index and downsizing its balance sheet (as announced a year earlier).

Overview of consumption

The trends in consumption patterns announced last year were repeated this year:

- Preference for natural, healthy, organic food. The increased consumption of fresh products is closely connected to this feeling.
- Quality private label brands have broadened their customer base, spanning practically all social classes and segments of population.
- Consumers are willing to pay more for products that satisfy them, because of their quality or because they are quick and easy to prepare.
- Growth of local supermarkets with a higher shopping frequency and increased availability (24-hour opening, alliances with filling stations or other high-traffic points).
- Aging of the population and smaller families; new formats and customised products and services.
- Consolidation of new players (virtual stores such as Amazon) on the distribution market along with the new consumer trends and use of technology.

These would be the general patterns, while differential factors are found in each specific market, such as immigration (which introduces new eating habits), the new generations of digital natives or the new ways of cooking or consuming food (by order, through vending machines, snacks as meal substitutes, etc.).

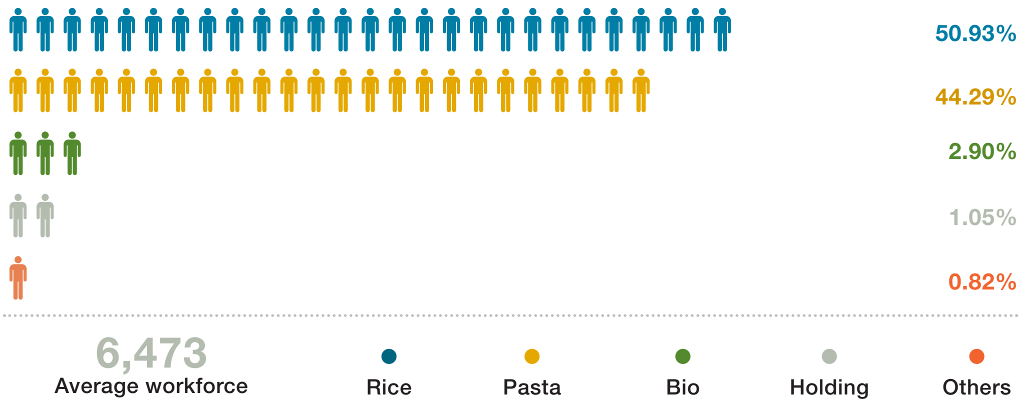
The relentless penetration of mobility in internet access (with smartphones or tablets) makes shopping faster and more universal.

This situation, together with growing automation (self-driving cars, drones, etc.) and interchange platforms that put consumers in touch with the producers of goods and services, herald a change in food consumption and shopping habits (customised promotions, access to all sorts of food delivery services, crossing the last mile barrier in distribution, etc).

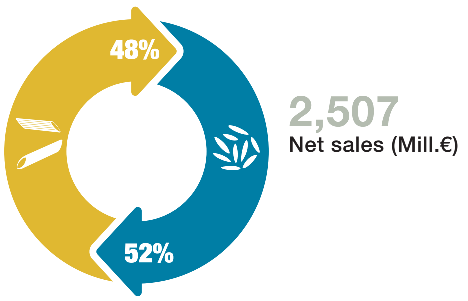
All these changes have brought a new scenario of challenges for distributors and producers, who are forced to use totally different marketing techniques from those prevailing up to a decade ago to reach consumers and achieve customer loyalty, and where the use of Big Data and the speed and customisation of marketing actions are becoming increasingly important.

Consolidated group

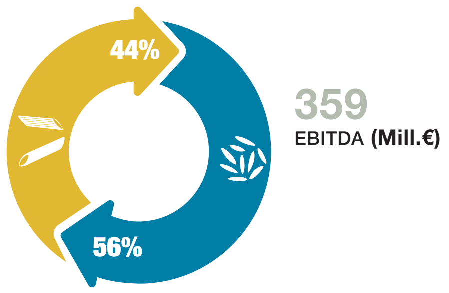
BREAKDOWN OF GROUP WORKFORCE BY BUSINESS AREAS



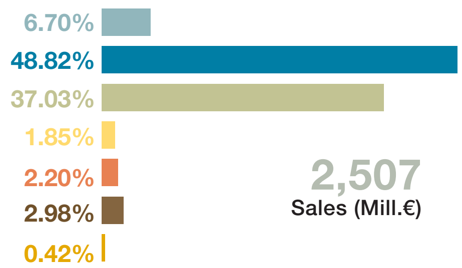
BREAKDOWN GROUP SALES



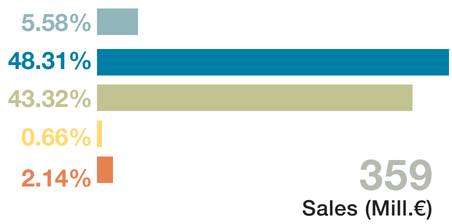
BREAKDOWN OF GROUP EBITDA



BREAKDOWN OF GROUP SALES BY GEOGRAPHICAL AREAS



BREAKDOWN OF GROUP EBITDA BY GEOGRAPHICAL AREAS



Spain Europe North America Africa Asia Middle east Others

Profit and Loss

	2015	2016	*2016-2015*	2017	*2017-2016*	CAGR 17-15
Net sales	2,461,915	2,459,246	*(0.1%)*	2,506,969	*1.9%*	*0.9%*
Advertising	(87,017)	(100,401)	*(15.4%)*	(93,134)	7.2%	3.5%
% Net sales	*(3.5%)*	*(4.1%)*	*(15.4%)*	*(3.7%)*		
EBITDA	314,724	344,141	*9.3%*	359,000	*4.3%*	*6.8%*
% Net sales	*12.8%*	*14.0%*		*14.3%*		
EBIT	246,314	267,308	*8.5%*	279,314	*4.5%*	*6.5%*
% Net sales	*10.0%*	*10.9%*		*11.1%*		
Profit before tax	229,722	259,410	*12.9%*	264,131	*1.8%*	*7.2%*
% Net sales	*9.3%*	*10.5%*		*10.5%*		
Income tax	(79,034)	(83,591)	*(5.8%)*	(34,157)	*59.1%*	*(34.3%)*
% Net sales	*(3.2%)*	*(3.4%)*		*(1.4%)*		
Consol. profit for the year (continuing operations)	150,688	175,819	*16.7%*	229,974	*30.8%*	*23.5%*
% Net sales	*6.1%*	*7.1%*		*9.2%*		
Net loss on discontinued operations						
% Net sales						
Net profit	144,846	169,724	*17.2%*	220,600	*30.0%*	*23.4%*
% Net sales	*5.9%*	*6.9%*		*8.8%*		

Balance Sheet

	31-12-15	31-12-16	*2016-2015*	31-12-17	*2017-2016*
Equity	1,966,259	2,079,326	*5.8%*	2,074,637	*(0.2%)*
Net Debt	426,280	443,206	*(4.0%)*	517,185	*(16.7%)*
Average Debt	424,940	404,137		426,042	*(5.4%)*
Leverage **(3)**	0.22	0.19		0.21	
Total Assets	**3,403,676**	**3,645,478**		**3,660,700**	***0.4%***

	31-12-15	31-12-16	*2016-2015*	31-12-17	*2017-2016*
Average working capital	482,300	461,991	*4.2%*	506,803	*(9.7%)*
Capital employed	1,579,447	1,611,272	*(2.0%)*	1,678,670	*(4.2%)*
ROCE **(1)**	15.6	16.6		16.6	
Capex **(2)**	81,466	107,725	*32.2%*	120,671	*12.0%*
Average headcount	5,759	6,195	*7.6%*	6,521	*5.3%*

(1) ROCE = (Operating income MAT / (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)

Turnover rose by 1.9% year on year. The incorporation of new companies in the group, which contributed €43 million in sales and an increased volume of products sold, offset the negative impact of the dollar exchange rates (sales down €17 million) and the slight drop in net prices during the second half of the year (continuing the trend of the previous year).

The weight of rice and Europe in total turnover improved slightly as a result of the latest acquisitions in this area.

The **generation of resources, EBITDA**, rose by 4.3%, with a contribution of €4.4 million by the new businesses and a negative impact of €3.4 million caused by exchange rate variations. Prominent aspects of the year included: (i) the especially positive performance of the rice segment in Europe and (ii) the performance by Garofalo in the Premium segment, which continued expanding along with the Group, with growing penetration in different European markets. In contrast, the performance of the pasta division declined in the United States, where the market is dominated by promotion and price wars (the market dropped 2.3% in value and 1.2% in volume, according to the average market information for the past 52 weeks as at 30 December 2017), and where the unexpected upturn in the price of American durum wheat in the summer pushed the cost of supplies up by US$ 4.2 million, which we were unable to pass on to customers.

The average profitability measured by the **EBITDA to Sales** ratio rose to 14.3%, with a clear improvement in European subsidiaries, remaining lower in the USA owing to the fierce price competition.

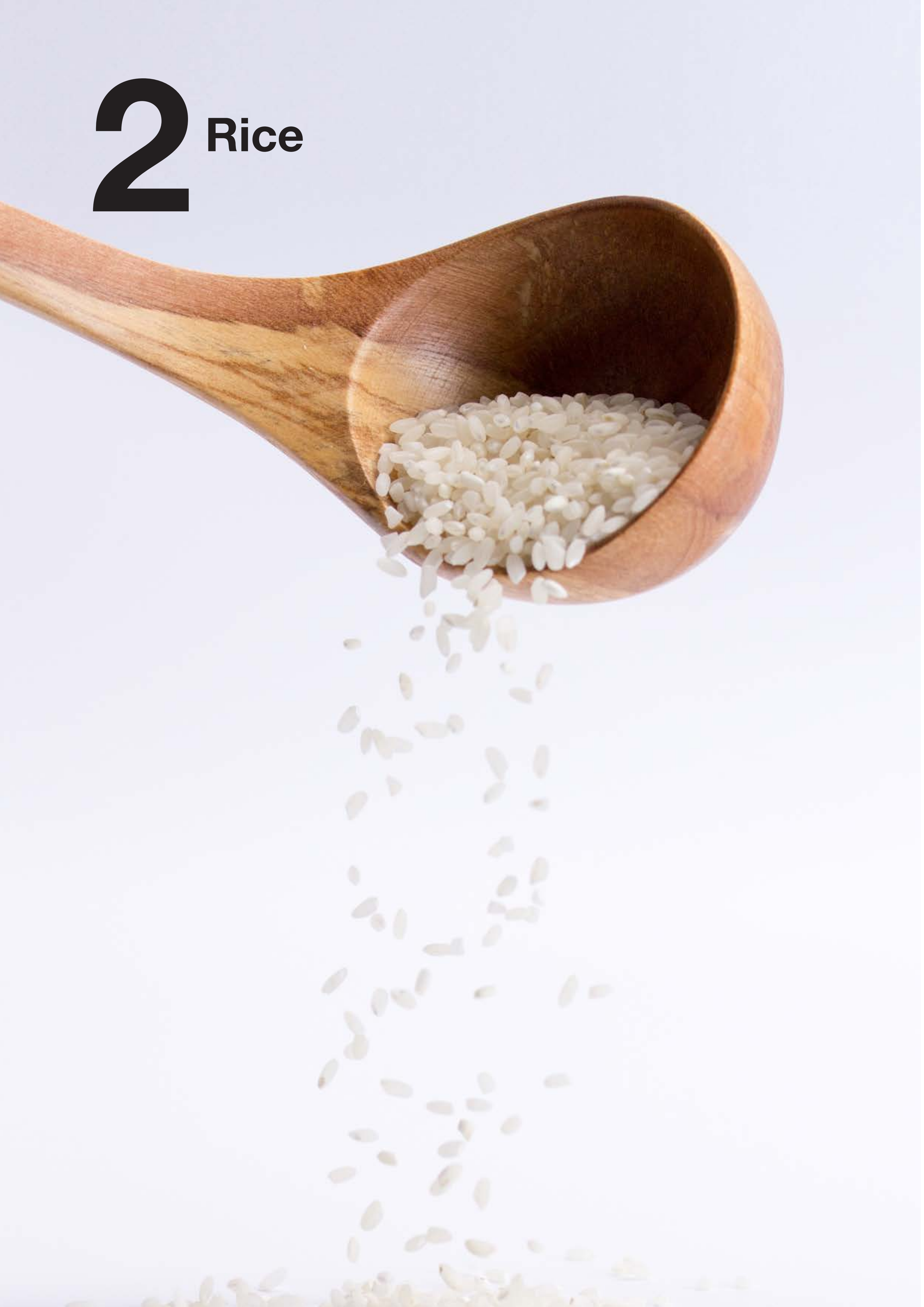
The profit before tax grew at a slower rate than the above-mentioned margins, due to: (i) the higher interest expense associated with the extremely volatile US$ exchange rate during the year (the Group makes a significant portion of its purchases in US$) and (ii) the worse evolution of **non-recurring earnings**, with a smaller generation of proceeds from the sale of assets than those received in 2016 (mainly from the sale of properties and sale of the Puerto Rico business).

The **tax expense** has been reduced considerably due to the tax reforms made in several countries within the general trend to lower tax rates in an effort to increase competitiveness. The tax reform in the United States was particularly important: although the new federal tax rate (down to 21% from 35%) will be applicable as from 2018, the effect of the reduction on deferred tax liabilities is already visible in the 2017 profit and loss account.

The **Net Earnings in Continuing Operations** rose by 30.8% thanks to the growth in profitability and the effect of the tax reform mentioned in the preceding paragraph.

The **ROCE** held steady at 16.6%, balancing the increase in profitability with a rise in the average capital employed.

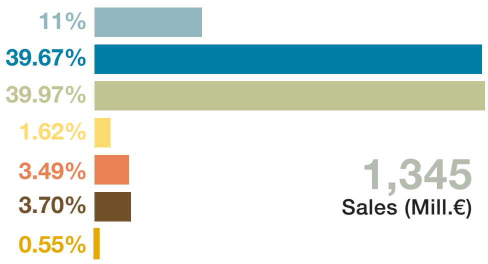
2 Rice



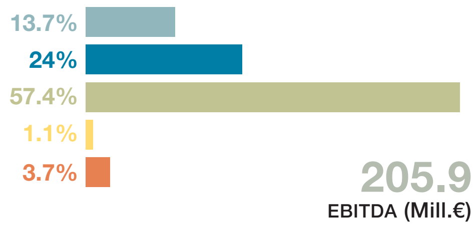
Rice

BREAKDOWN OF RICE DIVISION WORKFORCE BY GEOGRAPHICAL AREAS

BREAKDOWN OF RICE DIVISION SALES BY GEOGRAPHICAL AREAS



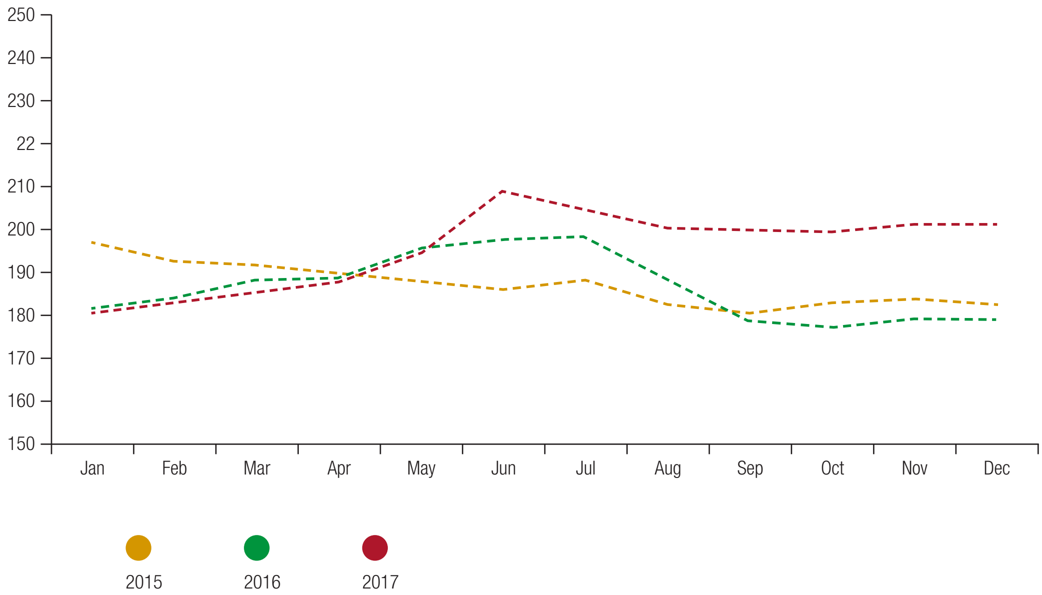
BREAKDOWN OF RICE DIVISION EBITDA BY GEOGRAPHICAL AREAS



PROFIT AND LOSS	2015	2016	*2016-2015*	2017	*2017-2016*	CAGR 2017-2015
Net sales	1,287,726	1,283,853	*(0.3%)*	1,345,026	*4.8%*	***2.2%***
Advertising	(28,988)	(30,135)	*(4.0%)*	(33,466)	*(11.1%)*	***7.4%***
EBITDA	176,959	196,264	*10.9%*	205,988	*5.0%*	***7.9%***
EBIT	147,509	163,561	*10.9%*	172,522	*5.5%*	***8.1%***
Operating profit	148,600	169,240	*13.9%*	174,027	*2.8%*	***8.2%***
Capex	39,555	47,391	*19.8%*	65,807	*38.9%*	***29.0%***

Thousand of euros

Rice Price Index (IPO)



As from the first quarter of the year, rice prices rose generally, even though world production and stock levels were already close to record levels. The devaluation of the US$ clearly affected this trend, and prices varied considerably for different sources and varieties.

By geographical regions, the trend of the previous year was maintained in the European Union, with abundant sowing and harvesting of short-grain rice and a certain reduction in the area sown with long-grain rice varieties (which are not very competitive against the long-grain rice from EBA countries). Overall, an abundant harvest and relatively low prices.

In the United States, the 16/17 harvest was excellent, with 30% more land sown with long-grain rice, taking the quantity of rice available up to almost record levels. Consequently, prices remained low for the first half of the year.

However, as from the summer, hurricanes caused flooding in the rice-growing areas and this, together with the smaller growing area (owing to the unfavourable price expectations in the sowing season), pushed prices up, as shown in the following table of prices paid to growers (the 17/18 crop year is still in progress, so the prices for this season were estimated in December 2017):

Price US crop year
August-July

$/CWT	17/18 (*)	16/17	15/16	14/15	13/14
Average price	12.3-13.3	10.4	12.2	13.4	16.3
Long grain	11.6-12.6	9.64	11.2	11.9	15.4
Medium grain	14.2-15.2	12.9	15.3	18.3	19.2

(*) Estimated range

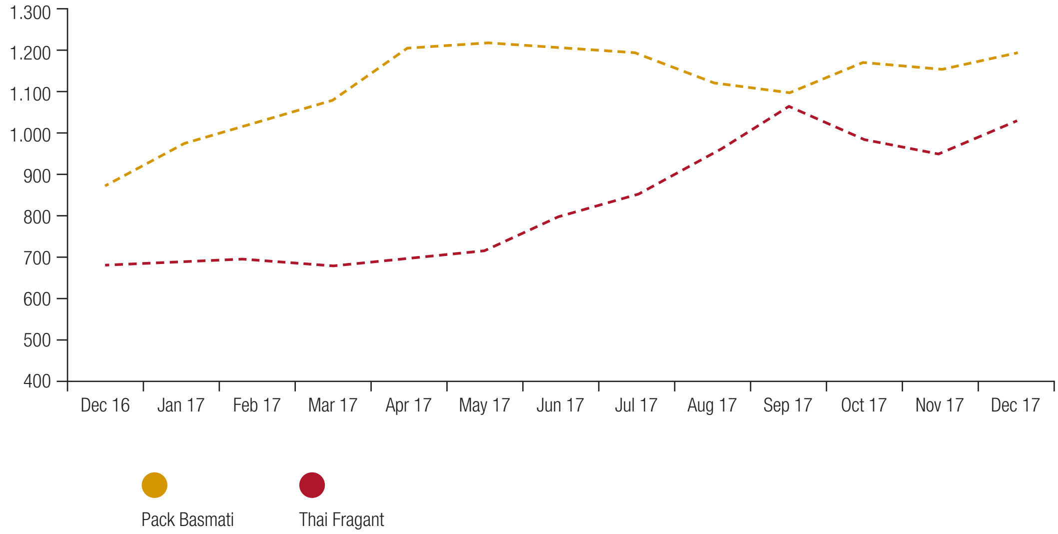
(Source: USDA)

Finally, in the rice-growing regions of South East Asia (principal global exporters: India, Thailand, Vietnam, Pakistan and Myanmar), prices were hit by the devaluation of the dollar and the benchmark of American long-grain rice, with export prices rising as from May-June with an average increase of 5-10% year on year.

The evolution of aromatic rice varieties (basmati and Thai fragrant) is worthy of separate consideration. During the last crop year, the smaller yield on these crops led growers to sow a smaller area with basmati rice. A water shortage in certain growing areas also affected the crop and the carryover stock and these circumstances led to a hike in the prices of this variety.

As from mid-year, the hike in basmati rice prices extended to the Thai fragrant rice, which was to a certain extent substituted for basmati in some markets importing these varieties. The situation is shown very clearly in the following graph of export prices in US$:

Export Price Aromatic Rice Varieties



This trend has obviously affected profit margins and will also affect prices.

Sales grew again in both absolute terms (+2.2%) and on a like-for-like basis (€30 million increase in sales due to incorporation of businesses; exchange rate effect -€12 million). Net prices in the United States declined over the first half of the year, while they remained generally stable in Europe.

By geographical regions, sales made in the United States accounted for 40% of the rice division. The remaining sales were distributed among a large number of countries, mainly in the European Union.

The highlights of the year are set out below:

- The volume of sales by the US rice unit increased in both the domestic market (even though sales of the category fell by 0.6%) and exports, where the Group benefited from very competitive American long-grain rice prices in the first half of the year.
- The solid growth of cups continued in both the United States (+15% in volume) and other countries (+35% in volume in Spain).
- Strong development in Europe of the "Benefit" range, based on grain, vegetable and pulse mixes, which combine health and convenience and provide a full, healthy, natural menu. In the United States, production of the organic cup range is commencing now, after obtaining accreditation of our facilities.
- Real explosion of products based on or mixed with quinoa and ancient grains, both in cups (quinoa has consolidated its position as the third product in the category, behind white and brown rice) and in traditional preparations (Vidasania, Bosto grains, Lassie Zilvervlies and Reis-fit Knormix).
- Growth in organic rice and pulses, included in the healthy products line. The acquisition of Geovita, for its product range in this category, is considered the perfect complement for its development.

The division **EBITDA** was up 5.0% year on year. A small portion of this growth corresponds to the integration of new businesses (€2.7 million), offsetting the decline due to the exchange rate effect on the US rice business (-€2.4 million).

The performance of margins is especially worth mentioning, considering the above-mentioned price increase of aromatic rice. A hike in the cost of the raw material directly hits margins, since it is difficult to pass such a sharp rise on to customers, requiring lengthy negotiations with distributors. In this case, the direct impact reflected in the 2017 accounts has been estimated at €2.6 million, concentrated in the costs of basmati (which especially affects the European market) as the prices of other varieties of fragrant rice rose at the end of the year with a higher alert level and, in any case, they will be negotiated with distributors in 2018.

Investment in advertising remained more or less stable, with an increase of €3.2 million in our European businesses and a reduction of €5.2 million in the United States (to adjust the step-up in promotions in the first three quarters of the year to mark-to-market).

The American business registered a new record contribution of US$ 134 million, with an outstanding performance by the principal brands (Mahatma, Carolina, Minute and Success) despite the impact of the hurricanes (which caused a toll difficult to quantify in extraordinary maintenance and repair work, change in production schemes and enormous logistics problems).

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

	2015	2016	%	2017	%
Spain	23,191	27,903	38.7%	28,382	32.6%
Europe	41,307	40,261	55.9%	48,577	55.7%
Others	7,522	9,845	13.7%	10,210	11.7%
Total Ebitda	**72,020**	**78,009**	**100.0%**	**87,169**	**100.0%**

The business development is especially satisfactory: (i) in Germany, where a new commercial team has renovated the product portfolio, incorporating the range already existing in other countries, but adapting it to local consumers, thus increasing revenue through mixes; (ii) in the Netherlands, where the market has proved receptive to the idea of healthy food; and (iii) in our frozen foods business, which has furthered its international expansion with the UK plant, now operational, and a large project in the USA, where a latest-generation plant has been built, fully automated, expected to come on stream in 2018.

Growth from other sources is due to the increased business in India and Thailand, where the Group has reinforced its presence both to guarantee its supply of long-grain and aromatic rice varieties at prices and with qualities meeting the Group's internal requirements and with a view to progressively establishing itself in the local market.

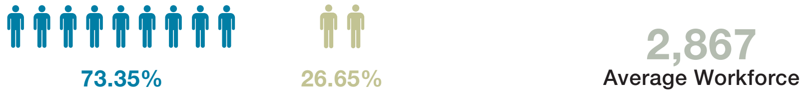
The **Operating Profit** was smaller than other margins on the profit and loss account, due to the smaller non-recurring earnings, since in the previous year it had included the sale of the business in Puerto Rico and major properties.

Investment in fixed assets grew again, especially in business lines with a high growth potential. The principal investments **(CAPEX)** made in this division correspond to (i) the new frozen foods factory in the United States (€17.5 million), (ii) the new pasta facilities in India (€4.5 million), (iii) the conclusion of investments in a new finished product warehouse in Antwerp (€1.7 million) and Amsterdam (€1.2 million), (iv) the new storage facilities in Cambodia (€3 million), (v) the enlargement of the ingredients plant (€3.2 million), (vi) the increased capacity of instant rice at the Memphis plant (€3 million), (vi) the automation of the packaging lines at the Freeport plant (€4.2 million) and (vii) the enlargement of the microwave cups plant in Jerez de la Frontera (€1.3 million).

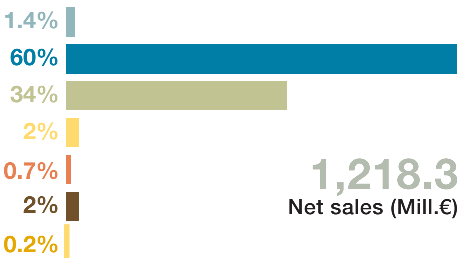
3 Pasta, Sauces and Others

Pasta, Sauces and Others

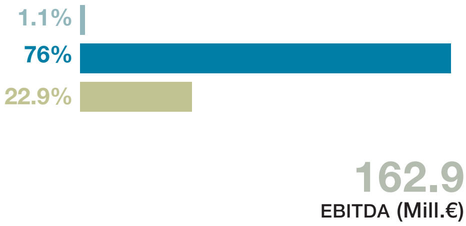
BREAKDOWN OF PASTA DIVISION WORKFORCE BY GEOGRAPHICAL AREAS



BREAKDOWN OF PASTA DIVISION SALES BY GEOGRAPHICAL AREAS



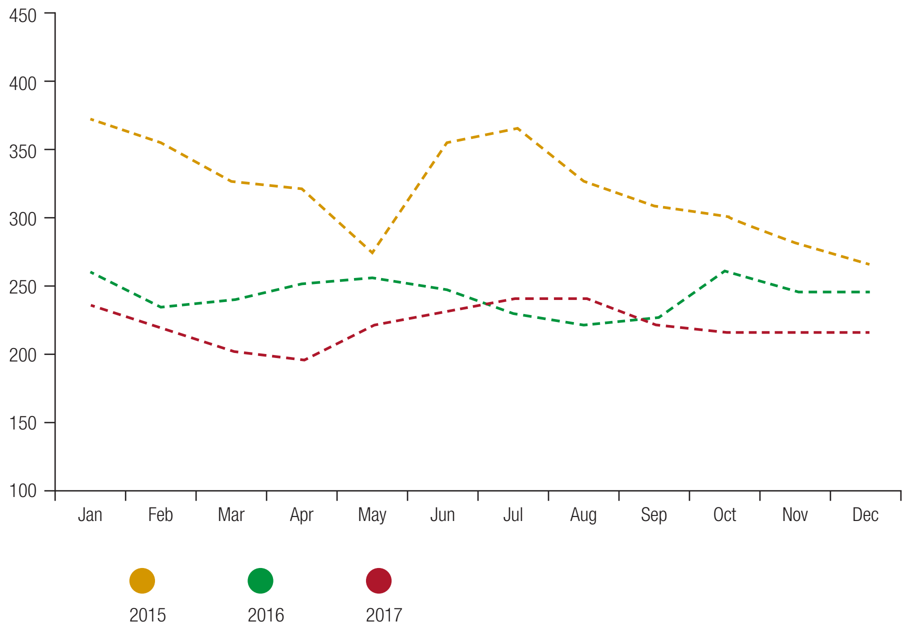
BREAKDOWN OF PASTA DIVISION EBITDA BY GEOGRAPHICAL AREAS



PROFIT AND LOSS	2015	2016	*2016-2015*	2017	*2017-2016*	CAGR 2017-2015
Net sales	1,224,491	1,236,227	*1.0%*	1,218,285	*(1.5%)*	***(0.3%)***
Advertising	(58,231)	(70,840)	*(21.7%)*	(66,154)	*6.6%*	***6.6%***
EBITDA	148,647	157,089	*5.7%*	162,977	*3.7%*	***4.7%***
EBIT	110,477	113,544	*2.8%*	117,420	*3.4%*	***3.1%***
Operating profit	104,957	93,294	*(11.1%)*	102,032	*9.4%*	***(1.4%)***
Capex	40,683	59,701	*46.7%*	52,855	*(11.5%)*	***14.0%***

Thousand of euros

Price of Durum Wheat in EUR/TON



Source: Terre.net

Overall, durum wheat prices maintained in 2017 the line of stability announced in 2016, except the price hike in the USA in the summer, as mentioned earlier. A larger area was sown in the 16/17 season and the harvest rose in the main producers (North America and southern Europe), but owing to the late rains, the quality in the major production areas of the USA and Canada was rather poor. Even so, the abundance of wheat in Europe, where excellent harvests were reaped, guaranteed falling prices up to the new spring-summer harvest, as reflected on the price evolution graph (European prices).

With the new harvest, the announcement of a smaller sowing area (in the previous two seasons the price spread between durum wheat and common wheat had favoured the former) and the low quality of the carryover stock made markets uneasy and prices rose, especially in North America, where the problems were more acute. Although a smaller output is expected in the 2017/18 season (down approximately 36% year on year in Canada and 47% in the USA), the reduction is expected to be offset with a larger production in the rest of the world and improved quality, so prices returned to normal after the summer.

The prices paid to growers in the USA, published by USDA, follow the pattern described in the preceding paragraph, ranging from an average price of 6.50 US$/bushel in June 2016, lows of 5.71 US$/bushel in February/March 2017, an upturn to 6.69 US$/bushel in June 2018, then stabilising as from September with a price of 6.41 US$/bushel in December 2018.

Sales dropped by 1.5%, boosted by the incorporation of Vegetalia with a contribution of €12 million, partly counteracted by the impact of the exchange rate on the American business, of -€5 million. Sale prices were accompanied by the lowering of wheat prices in the first half of the year, especially in the non-brand markets, and when the prices at source went up (especially in the United States), they were corrected by reducing the number of promotions to absorb the impact.

By geographical markets:

- In France, the brand markets in which we operate (dry pasta, fresh pasta, sauces, cereals and pulses) maintained a healthy growth, apart from dry pasta, which remained stable. However, non-brand (or price) sales fell, mainly due to the lowering of net prices in response to competition from countries in which the raw material was cheaper (such as Italy).

  Panzani dry pasta sales fell slightly in volume to a 36.7% share of modern distribution, owing to a fierce promotion campaign by competition. In other categories, the performance was excellent, increasing to 42.9% in volume in fresh pasta and 21.6% in cereals and pulses. Overall, the like-for-like turnover fell due to the price effect (down €12million), partly offset by a large volume of sales (up €7 million).

  Principal innovations included: (i) a new pasta+cereals line, (ii) the new sauces with fresh quality, (iii) the performance of dry pasta with fresh pasta quality (+23% in volume year on year), which continues broadening its range, and (iv) the new range of mixes, of semolina, rice, ancient grains and pulses (+73%). In the fresh pasta segment, there is continued growth of pan-fried gnocchi sales (+18%), expanding the range, with annual sales of 14,966 tonnes.

- Garofalo brand sales grew in volume and profitability, in a practically flat market. Total sales remained stable as the sales of other secondary brands with price positioning fell. It increased share of the premium pasta market in Italy to 5.1% in volume and 7.6% in value. In 2017 its distribution grew throughout Europe, and towards the end of the year it launched a new premium quality fresh pasta range.

- United States. As mentioned last year, this market is sluggish, shrinking by 1.2% in volume and 2.3% in value, owing to fierce price competition (accompanied by the trend in durum wheat prices in the first half of the year). The health and well being segment plummeted (down 4.4%, with only the gluten free line maintaining any growth), which hit our oldest brands (Healthy Harvest, Garden Delight, Smart Taste) harder. Gluten free and organic products grew, but slowly. Riviana's market share in volume remained at 18.5% in pasta, offsetting the drop in the health segment with growth in traditional products of the Ronzoni and American Beauty brands.

- Canada. The dry pasta market reproduced the trends witnessed in its southern neighbour (the Canadian durum wheat market practically mirrors the US market, subject to the evolution of the exchange rate between their currencies) but even more aggressively, growing 1.2% in volume, but dropping 3% in value. Some of the largest distributors in the country have developed price competition strategies which are reflected in this trend.

  This price competition led one of our brands used in the low-price strategy to be taken off the shelves of one of the major distributors in the country, with a significant effect on volumes sold, although not on profits. Even so, Catelli Foods still leads the market with a 28.0% share in volume. The fresh pasta market grew by 8% in volume and 5% in value, and Olivieri strengthened its leadership reaching a 46.8% market share, underpinned by innovation.

The division **EBITDA** grew by 3.7%, pushed up by Garofalo, which posted record profits thanks to the improvement of the product mix and the success of its procurement policy. The contribution by Vegetalia was practically counteracted by the effect of the exchange rate. Investment in advertising was cut by 7%, adjusting advertising campaigns to the situation on the markets.

France raised its contribution to €101.2 million, which, after stripping out the contribution by Vegetalia, was on a par with the record earnings obtained in the previous year. Panzani was faced with two fundamental problems: (i) the shrinking of non-brand or price markets, and (ii) the smaller contribution by Roland Monterrad products owing to greater price competition. Those problems were counteracted with: (i) a considerable increase in the volumes of its brands, (ii) a better product mix achieved by renovating its portfolio and (iii) improved productivity.

Garofalo contributed €25.7 million, up 28% year on year (when a 16% growth had been reflected). It held a perfect course within a deflated market, where it managed to improve its profitability by extending its brand, in collaboration with other Group companies, and thanks to agile management of its purchasing position for top quality wheat.

The North American pasta segment contributed slightly less (down €1.5 million), with contrasting performance in the United States and Canada. In the USA, the declining volumes in the health and well being segment left a less profitable product mix which, together with a short position in raw material supplies in the summer months, when durum wheat prices hiked suddenly, producing an excess cost year on year of US$ 4.2 million. In Canada, however, despite smaller volumes, profits were secured and the situation of supplies in the summer was more favourable, so profitability improved in both fresh and dry pasta.

The **Operating Profit** improved in comparison with the above-mentioned margins, as last year a non-recurring provision was recognised to cover a modification of the pension commitments in France.

CAPEX was concentrated in: (i) renovation of one of the dry pasta plants to improve its capacity and productivity (€6 million), (ii) a new quick-cooking couscous line (€2 million), (iii) a new pan-fried gnocchi line (€4 million), (iv) a new long pasta line at St. Louis (€6 million) and (v) the renovation of packaging lines in the United States (€3 million).