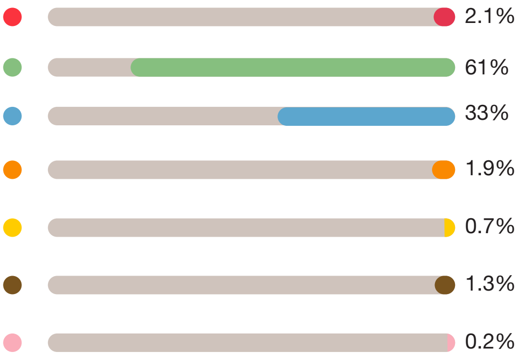
PASTA

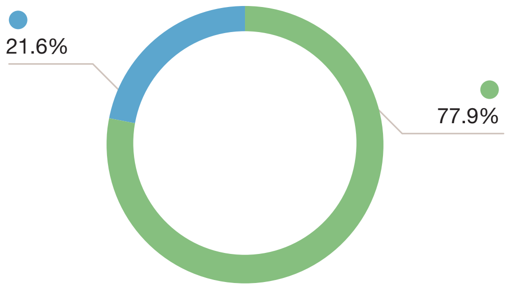


1,298.5 Mill€

NET SALES OF PASTA DIVISION
BY GEOGRAPHICAL AREAS

156.5 Mill€

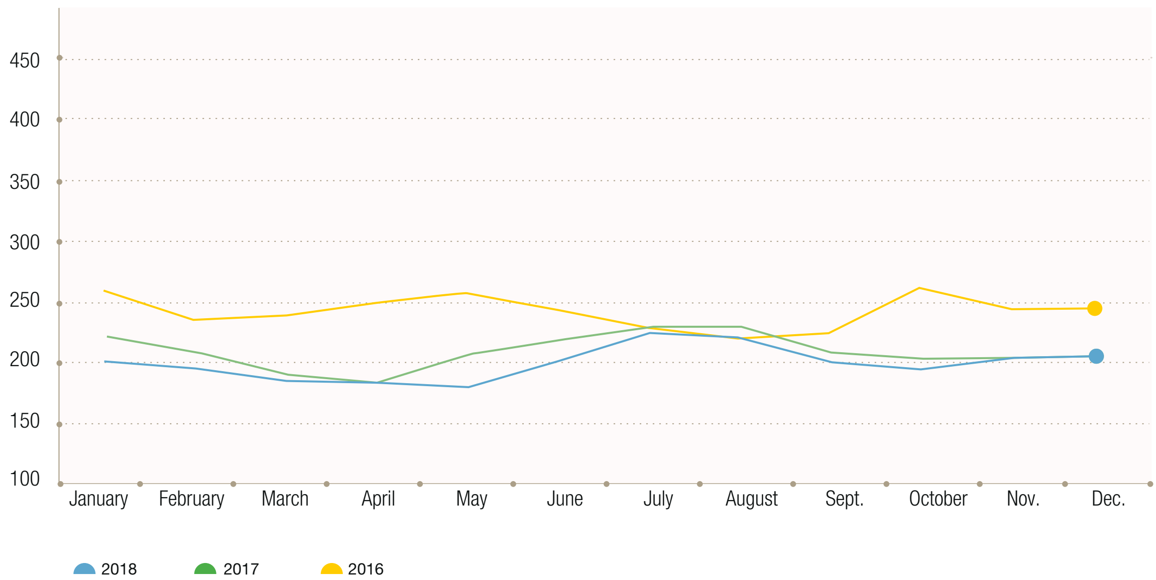
EBITDA OF PASTA DIVISION
BY GEOGRAPHICAL AREAS



PROFIT AND LOSS	2016	2017	2017/2016	2018	2018/2017	CAGR 2018-2016
Net sales	1,236,227	1,218,285	(1.5%)	1,298,546	6.6%	2.5%
Advertising	(70,840)	(66,154)	(6.6%)	(63,368)	(4.2%)	(5.4%)
EBITDA	157,089	162,977	3.7%	156,451	(4.0%)	(0.2%)
EBIT	113,544	117,420	3.4%	106,352	(9.4%)	(3.2%)
Operating profit	93,294	102,032	9.4%	99,401	(2.6%)	3.2%
Capex	59,701	52,855	(11.5%)	73,946	39.9%	11.3%

Overall, durum wheat prices maintained in 2018 the line of stability announced in 2017, even a little lower than the prices of the previous crop year. The 18/19 harvest was slightly larger than the previous season, with a considerably larger area sown in the United States and Canada, which is the leading global producer. In contrast, European production was smaller in 2018 due to a smaller crop yield, affected by excessive rainfall in the spring. In any case, stock levels are still high, affording a high resilience to price volatility at least until next summer.

PRICE OF DURUM WHEAT IN EUR/TON



Source: Terre.net

Division **sales** rose 6.6%, boosted by the incorporation of Bertagni in a sum of €61 million, although this was partly offset by the -€11 million impact of the exchange rate on the American business.

The evolution by geographical markets was as follows:

- In France, the brand markets in which we operate (dry pasta, fresh pasta, sauces, cereals and pulses) maintained a healthy growth, apart from couscous and pulses, which declined by 3.4% and 0.8%, respectively.

  The volumes sold by Panzani's sales volumes rose steadily, especially in the fresh and dry pasta markets, in spite of the extraordinarily hot summer, which tended to dampen sales of those products. Dry pasta sales grew in volume to a 37.9% share of modern distribution. The performance of fresh pasta was outstanding, with a 43.4% growth in volume. Overall, like-for-like turnover grew in spite of fierce price competition, which forced our subsidiary to increase its promotional actions (-€11 million), although this was partly offset by the larger volume of branded (+€8 million) and other low value-added product sales.

Principal innovations included: (i) the launching of a new high quality traditional pasta line, produced in bronze moulds, (ii) expanding the range of dry pasta with fresh pasta quality and organic pasta products, and (iii) novelties in the sauces segment with new 'fresh quality' sauces and the launching of a new tomato pulp line. In the fresh pasta segment, there is continued double-digit growth of pan-fried gnocchi sales (+11.9%), with an even broader range, and "Lunch Box" fresh products for microwave, which include an entire category of snacks and full meals with special items for gourmets. This segment has a growth rate of 14.1%.

- Garofalo maintained its growth in turnover, up 1% year on year, particularly in sales volumes of its principal brand which rose by over 4%, partly counteracted by falling sales in other secondary brands with price positioning. It increased its share of the premium pasta market in Italy to 5.3% in volume, holding steady at 7.6% in value. In 2018 it maintained its distribution growth throughout Europe, in both dry pasta and its new premium quality fresh pasta range.

- The most significant events of the year include the group's acquisition of Bertagni 1882 Spa., a specialist that has been producing and selling top quality fresh pasta products for over 100 years. Within the pasta division the purchase was made by Panzani and Garofalo and is an important step forward in the international consolidation of the fresh pasta branch, especially in premium quality, which Garofalo leads in the dry pasta segment.

  Since its incorporation as of 1 April 2018, it has contributed some €61 million to the Group's earnings, which would be around €82 million for a full year. The company has two factories in Italy and sells its products in 42 countries. Over 90% of its sales are exports to markets that are important for the Group.

- United States: The sluggish trend of previous years has continued in this market, which lost 0.6% in volume and 0.3% in value, reflecting a slight downturn in penetration and the quantities of this product purchased by American households.

  The health and well-being segment has also declined, cushioned by the appearance of a larger segmentation of the category with products that have a higher value added and the resilience of gluten free and organic products, which are growing, albeit slowly. Riviana has lost some market share in pasta, now standing at 19.1% of the market, due to the slump in healthy products and despite the successful launch of Thick&Hearty (special pasta for sauces) and Homestyle (fresh quality dry pasta).

- Canada. The dry pasta market continued the trend of the previous year with a 3% drop in value, exactly the same figure as in 2017. An important factor in this downward pressure, which is a far cry from the evolution of durum wheat as key to pricing, was the importing of product from Turkey, especially for the private brand segment, which only began to be curtailed by a decision passed by the customs authorities imposing an import duty of 27.4% on these products. That measure is currently in place, although it is being appealed at the Federal Court of Canada. Even so, Catelli Foods still leads the market with a share of 28.8% in volume.

  The fresh pasta market grew by 8.4% in volume and 5.7% in value, and Olivieri maintains its leadership with a market share of 45.8%, underpinned by innovation and, especially, the gnocchi segment that leads growth in this category.

The division EBITDA fell by 4%, dragged down by the smaller contribution by Panzani and Garofalo, in spite of the contribution made by Bertagni of €9.5 million. The negative impact of exchange rates is calculated at €1 million.

France lowered its contribution to €101.2 million (€7 million less than the previous year on a like-for-like basis). The main reasons for this evolution were: (i) a worse net sales mix with branded products, in which sales volumes rose but the net value was considerably reduced by promotion activities (with an impact of -€2.5 million), (ii) the smaller contribution by Roland Monterrat products owing to tougher price competition in the sandwich market (-€2 million) and (iii) cost inflation of raw and auxiliary materials, especially in the case of fragrant varieties, meat for fillings and transport, in spite of a positive performance by durum wheat (-€4.5 million overall). All this has been cushioned by increased productivity and a small reduction of investment in advertising.

Garofalo contributed €20.5 million, €5 million less than the previous year, due to the increase in a similar amount in its investments in advertising and the expense of expanding the brand in new markets and introducing the recently launched range of fresh products. In other words, it replicated its excellent results of 2017, on a like-for-like basis.

As mentioned earlier, Bertagni joined our Group on 1 April and has contributed €9.5 million to the consolidated EBITDA. The incorporation of this company came up to expectations right from the outset, with year-on-year improvements in sales and margins even though one of its two production plants was started up in April and was not fully operational until October 2018.

The North American segment made a slightly smaller contribution than in 2017 (-€2.4 million after stripping out the impact of exchange rates), essentially due to the inflation on the American market, which we commented on in the section regarding the Rice division. In this case, the price of wheat remained stable, but the impact of logistics costs, the price of eggs and auxiliary materials (valued at -US$14 million) could not be fully offset by cutting down on promotion and channel marketing actions and raising the prices of our products containing egg protein (noodles). The situation especially affected the United States, which had a less profitable product mix, whereas Canada obtained similar profits to the previous year and even achieved growth in the fresh pasta segment, thanks to the success of the new gnocchi products.

The Operating Profit followed the trend of the above-mentioned margins, but it was comparatively better year on year, as the previous year's results included a non-recurrent expense incurred in making provisions for downturns in some of the North American brands.

CAPEX was concentrated in: (i) the acquisition of new headquarters for the pasta business in France, (ii) a new warehouse for fresh products, (iii) new dry pasta lines, (iv) the new gnocchi line, (v) a new fresh pasta line, (vi) a new couscous line, (vii) renovation of the long pasta and lasagne lines and (viii) replacement of a pasta packaging line.