*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

**EBRO FOODS GROUP**

# CONSOLIDATED DIRECTORS' REPORT FOR 2013 (EXPRESSED IN THOUSANDS OF EUROS)

## 1. SITUATION OF THE COMPANY

### Organisational structure

The Ebro Foods Group is the leading Spanish food group. Through its subsidiaries it is present in the rice and pasta markets in Europe and North America and is increasingly making its way into third countries.

The Ebro Foods Group is managed by business segments that combine the type of activity in which they engage and their geographical location. The two main areas of activity are:

*Rice business*: includes the production and distribution of rice and rice-based products and complementary food products. It engages in industrial and branding activities under a multi-brand model. Its presence spans Europe, the Mediterranean Basin, India and Thailand with the Herba Group companies and covers North America, Central America, the Caribbean and the Middle East through the Riviana Group and its subsidiary American Rice (ARI).

*Pasta business*: includes the production and marketing of dry and fresh pasta, sauces, semolina and semolina-based products and complementary food products carried on by the New World Pasta Group in North America and the Panzani Group (rest of the world).

Decisions are made at the instigation of the Board of Directors, which is responsible for defining the Group's general strategy and management guidelines. The Board delegates certain tasks to the Executive Committee, including most notably the monitoring and supervision of compliance with strategic and corporate development guidelines, whereas the Management Committee, which includes the heads of the main business areas, is responsible for monitoring and preparing decisions regarding the Group's management and administration.

The Annual Corporate Governance Report contains detailed information on the ownership structure and its administration.

### Operations and strategy

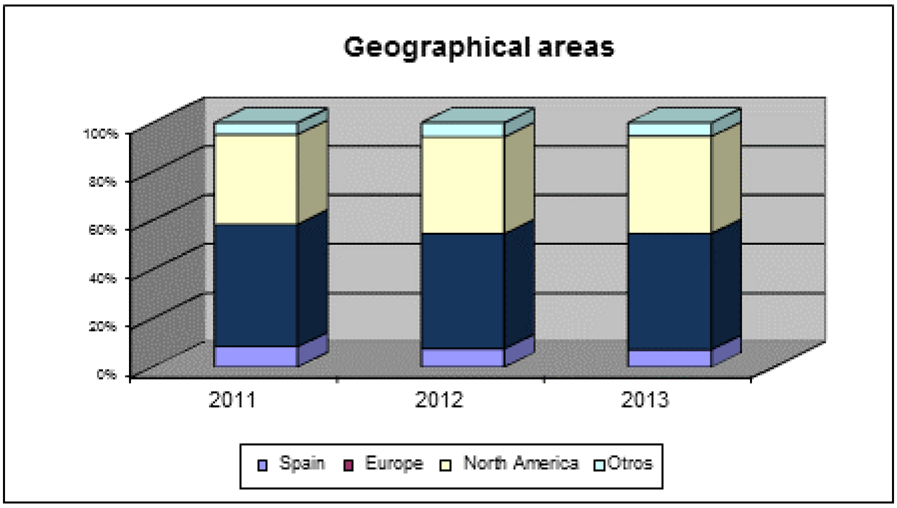
The basic raw materials used in the production process of the products marketed by the Group are rice and durum wheat. Rice is the world's most consumed grain, although the volume of world trade is lower than for other cereals due to the production shortfalls of certain of the world's major producers (China, the Philippines, Indonesia). The origins of the rice marketed by Ebro vary by grain type and the quality/abundance of harvests. There are three major sources of supply relating to different rice varieties: the US, southern Europe and South East Asia. Pasta is produced from a variety of wheat -durum wheat- with a high protein content. Durum wheat has a much smaller geographical distribution and market than other varieties that are used mainly for flour production. Ebro's main sources of supply are in the northern US and Canada and southern Europe (France, Spain and Italy).

Purchases are made from farmers, cooperatives and milling companies that provide the basic raw material for the production process. The requisite milling and processing is performed at the Ebro Group's processing facilities. Processes differ depending on the product's end purpose and range from cleaning, milling, polishing and basic extrusion to the complex processes of pre-cooking, cooking and freezing.

Note 6 to the consolidated financial statements, "Segment Reporting", provides, by activity, an overview of the main activities, brands and market share.

The Group's strategy aims at providing consumers with healthy eating solutions that enable its brands to stand out on the basis of the innovation and development of new formats and products. The broad outlines are reflected in the various three-year Plans:

- Low risk exposure. The Group's structure affords a geographically balanced source of income. The detail of sales, by geographical area, is as follows:




The business segments in which the Group carries on its activity do not have a marked cyclical character, although fresh and value-added products, which are at the same time the main drivers of growth, are those most closely linked to changes in consumption patterns.

Also, a low-levered financial position and recurring cash flows make growth possible without exposure to financial storms.

- Differentiation and innovation. The Ebro Foods Group is firmly committed to investment in products along two lines: major innovation and development (R&D+i) and a firm backing of leading brands in its business areas.
- Growth and consolidation of synergies. Ebro Foods is a Group specialising in food with a large presence in the US and Europe and a growing presence in the markets where raw materials are sourced. Growth centres on countries that the management teams know well and where it is possible to share resources and develop synergies. The growth strategy places particular emphasis on these synergies: high value added products in countries with high consumer demand and seeking possible openings in developing countries with high growth potential.

## 2. BUSINESS PERFORMANCE AND RESULTS

### Backdrop

The recession in the euro zone is gradually being left behind. After six consecutive quarters of contraction, GDP growth returned to positive territory in the second quarter of 2013 with a quarter-on-quarter change of 0.3%. Consumer confidence and industrial production indexes closed out 2013 on a positive note and, although growth remains weak -the so-called real economy (employment and disposable income) has yet to be reached in certain cases and there are differences in the growth capacity of various countries- the climate is positive.

The situation in the US is also favourable with a clear improvement in economic data (+1.9% annual GDP) -including employment, confidence levels and home sales- although average household income fell and the number of households receiving food stamps increased, thus reflecting imbalances in the recovery which seemed to retreat only at the end of the year.

Despite these improvements, years of uncertainty and high unemployment rates still recorded in many developed countries have taken their toll in changes in consumers' patterns. In general, consumers have adapted their buying habits by buying less and buying cheaper and have changed their preferences toward quality private labels or name-brand products offered at a good price. At the same time, new alternatives to traditional distribution such as online shopping ("online" supermarket) have appeared and consumers are increasingly looking for fresh products providing a sense of well-being but without increasing household spending.

Grain markets reached a turning point from July onwards. The announcement of a corn harvest surplus and a copious common wheat harvest pushed prices down until the end of the year. With a singularly narrow market, durum wheat followed this trend with a good level of harvests and stocks in Canada, which is the source of approximately 60% of the world trade of this cereal. With the rest of sources in a stable position, prices in Europe dropped from EUR 300/t to EUR 250/t at the end of the year.

Rice prices continued on a downward trend as a result of record harvests across the globe and an abundant global stock pending further attempts by Thailand to lower its levels of government stock. In this global setting, there were certain particularly noteworthy exceptions for the Ebro Group: the drought devastating Texas, US domestic pricing pressures, basmati prices and the shortage of Spain-sourced rice at a competitive price stood as the greatest challenges in 2013.

**CONSOLIDATED DIRECTORS' REPORT FOR 2013 (EXPRESSED IN THOUSANDS OF EUROS)**

## Group earnings

**Net profit from continuing operations** fell by 12.1% due to the decreased contribution of non-recurring earnings, which arose in 2012 from the gain on the sale of the Nomen brand and from significant reversals of excessive provisions for the litigation relating to the former sugar and dairy businesses.

Year-on-year revenue decreased 1.2% as lower procurement prices were passed on to customers and exchange rate fluctuations at companies using the US dollar absorbed positive performance in terms of volumes.

**EBITDA** was down 5.6% on 2012. This drop took place entirely in the rice area due to problems in the supply of certain rice sources, which raised the price and thinned the margin, leaving no possibility of passing it on at short term. In addition, the negative impact of the exchange rate compared with 2012 stood at EUR 5.1 million.

The Group's most significant economic aggregates are as follows:

| CONSOLIDATED FIGURES (Thousands of euros) | 2011 | 2012 | *2012/2011* | 2013 | *2013/2012* | CAGR 2013-2011 |
|---|---|---|---|---|---|---|
| Net Sales | 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%*** |
| *% of net sales* | *15.8%* | *15.1%* | | *14.4%* | | |
| EBIT | 226,914 | 244,319 | *7.7%* | 226,356 | *-7.4%* | ***-0.1%*** |
| *% of net sales* | *13.1%* | *12.3%* | | *11.6%* | | |
| Profit before tax | 233,829 | 250,438 | *7.1%* | 210,646 | *-15.9%* | ***-5.1%*** |
| *% of net sales* | *13.5%* | *12.6%* | | *10.8%* | | |
| Income tax | (72,163) | (89,464) | *-24.0%* | (69,157) | *22.7%* | ***-2.1%*** |
| *% of net sales* | *-4.2%* | *-4.5%* | | *-3.5%* | | |
| Consolidated profit for the year (continuing operations) | 161,666 | 160,974 | *-0.4%* | 141,489 | *-12.1%* | ***-6.4%*** |
| *% of net sales* | *9.3%* | *8.1%* | | *7.2%* | | |
| Net loss from discontinued operations | (10,023) | (2,523) | *-74.8%* | (7,507) | *197.5%* | ***-13.5%*** |
| *% of net sales* | *-0.6%* | *-0.1%* | | *-0.4%* | | |
| Net profit | 151,542 | 158,592 | *4.7%* | 132,759 | *-16.3%* | ***-6.4%*** |
| *% of net sales* | *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%* | |
| | **12/31/2011** | **12/31/2012** | *2012/2011* | **12/31/2013** | *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 net 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 | | 2,772,680 | | |

***(1) ROCE = (Profit(Loss) from operations AAR over last twelve months / (Intangible assets - Property, plant and equipment - Working capital***

***(2) Capex as the outflow of cash for investment***

***(3) Ratio of average net financial debt and borrowing costs divided by equity (excluding non-controlling interests)***

The profitability measured using the EBITDA to Sales ratio dropped slightly to 14.4%, due mainly to the lower returns of the rice business and the efforts made to increase advertising expenditure to consolidate the aforementioned improvements in volume.

This lower profitability was based on basmati rice, which suffered a spiral in prices, breaches in supply contracts and the supply problems mentioned above and discussed below in "Rice Business".

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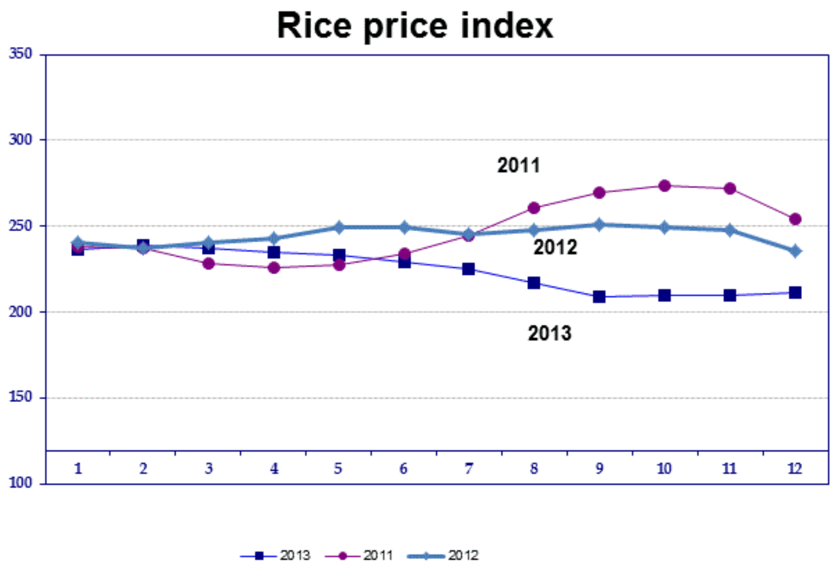
The **return on capital employed** (ROCE) fell back by 17.7%. Narrower rice margins were coupled with the increase in the average working capital required to address the procurement difficulties that prevented counteracting the declines in the cost of supply and to cover the incorporation of Ebro India, which in recent months has been stockpiling the new harvest but has yet to contribute to annual results.

Net profit or loss from discontinued operations reflects the net gains or losses arising from the sale of businesses and those relating to its operations until the effective sale date. In this case, loss from the last three years relates to the pasta business in Germany and the loss on the sale as detailed in Note 7 to the consolidated financial statements.

## Rice area

| RICE BUSINESS (Thousands of euros) | 2011 | 2012 | *2012/2011* | 2013 | *2013/2012* | CAGR 2013-2011 |
|---|---|---|---|---|---|---|
| Net Sales | 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%*** |
| *% of net sales* | *14.8%* | *14.6%* | | *12.6%* | | |
| EBIT | 113,698 | 133,927 | *17.8%* | 110,156 | *-17.7%* | ***-1.6%*** |
| *% of net sales* | *12.3%* | *12.1%* | | *10.1%* | | |
| Average working capital | 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%* | |

As indicated above, the general market trend was of one of falling prices with global production reaching all-time highs and stock levels also attaining peaks in historical terms. The Thai government maintained its subsidy programme and, despite renewed attempts to place its stocks on the market through bilateral agreements, it is estimated to have approximately 16 million tonnes of white rice equivalent that provide support to the world market.




However, disturbances took place in the supply from certain sources, which had a significant impact on the earnings of this area. More specifically, prices in the US followed an upward trend caused by the drought in the producing area of Texas and a harvest lower than in recent years (levels similar to the 2003/04 season).

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**US season prices** (source: USDA)

| USD/cwt | 13/14 | 12/13 | 11/12 |
|---|---|---|---|
| Average price | 15.62 | 14.9 | 14.5 |
| Long grain | 15.34 | 14.4 | 13.4 |
| Medium grain | 16.76 | 16.7 | 16.5 |

August-July

Also, basmati prices (an aromatic variety produced exclusively in certain areas of India and Pakistan) experienced a significant increase from December 2012, which brought up the price of traditional varieties from the approximately of USD 1,200/t FOB for white rice equivalent to USD 2,000/t at 2013 year-end.

Sales increased in volume and price but the impact of the exchange rate on US dollar sales offset the increase. The improvement in volumes was particularly important in the US, where ready-to-serve (RTS) products are sold, and in the Middle East, where the Abu Bint brand is sold, as sales increased by 13% on 2012.

EBITDA decreased by 14.5% in year-on-year terms. Despite the positive sales performance (excluding the impact of the exchange rate), certain external components gave rise to this reduction in profitability:

a) The drought in Texas and the price differential of American long grain rice with respect to other sources.

   - ARI's plant in Freeport is supplied by local rice and, due to the drought, it was required to source a substantial amount of supplies from other states, thus increasing costs. ARI sells private label and industry brands to maximise installed capacity, which proves to be a highly competitive business where the cost of supply is critical.
   - The price differential with respect to other sources led to reduced exports and diverted a portion of large cooperatives' product towards the domestic market - directly impacting the profitability of the less brand-driven businesses and the Food Service.

b) The significant entry into Morocco of rice of a dubious origin prevented Group brands from being competitive and led to a deterioration of the profitability of the Moroccan subsidiary.

c) The failure to meet prices agreed upon with basmati rice producers required the Group to negotiate higher prices without being able to pass these on in full to customers. The purchase in February of a factory located in one of the best basmati producing areas in the country will ensure supply and a better planning of prices of this product.

d) The scarcity of Spain-sourced rice at competitive prices led to reductions in this source of supply and, therefore, in the Group's industrial activity in the area with a decreased absorption of fixed costs that impacted profitability.

Despite the foregoing problems, advertising expenditure increased by EUR 1.6 million (EUR 3 million more than in 2011) and efforts continued to be made in innovation with new varieties of ready-to-serve rice in the US (fried rice, rice with black beans) and the bolstering of the Brillante category (Mix and Go, Brillante Sabroz, Brillante Sartén) and higher-end products (SOS). Lastly, the effect of the exchange rate on the EBITDA generated in US dollars translated into a smaller margin of EUR 3.2 million.

The area's ROCE decreased significantly due to the double effect of lower profitability and an increase in working capital resulting from the need to build up inventory to face the aforementioned price fluctuations, the process of industrial concentration in northern Europe described below and the seasonal purchases made in India to cater for the new plant that is not yet generating resources.

The main investments made in the area related to equipment for improving the productivity of the parboiling plant in Carlisle (USD 2.7 million), the ingredient project in the Netherlands (EUR 2.8 million) and the capacity expansion of frozen products with new individual formats (EUR 2.5 million). The latter two, together with the agreement to acquire the rice and frozen pasta business of Keck Spezializaten, GmbH in Germany, form part of the innovation strategy as a lever for business value in the coming years.

2013 saw the launch of the industrial concentration process in northern Europe. In the first quarter dismantling commenced at the Hamburg plant, from which production was progressively moved to Antwerp. The process was complex and additional costs were incurred (duplication, process outsourcing and increased safety stock) in order to maintain the supply chain and serve customers; nonetheless, it was successfully completed with the sale of the facilities for EUR 3,150 thousand.

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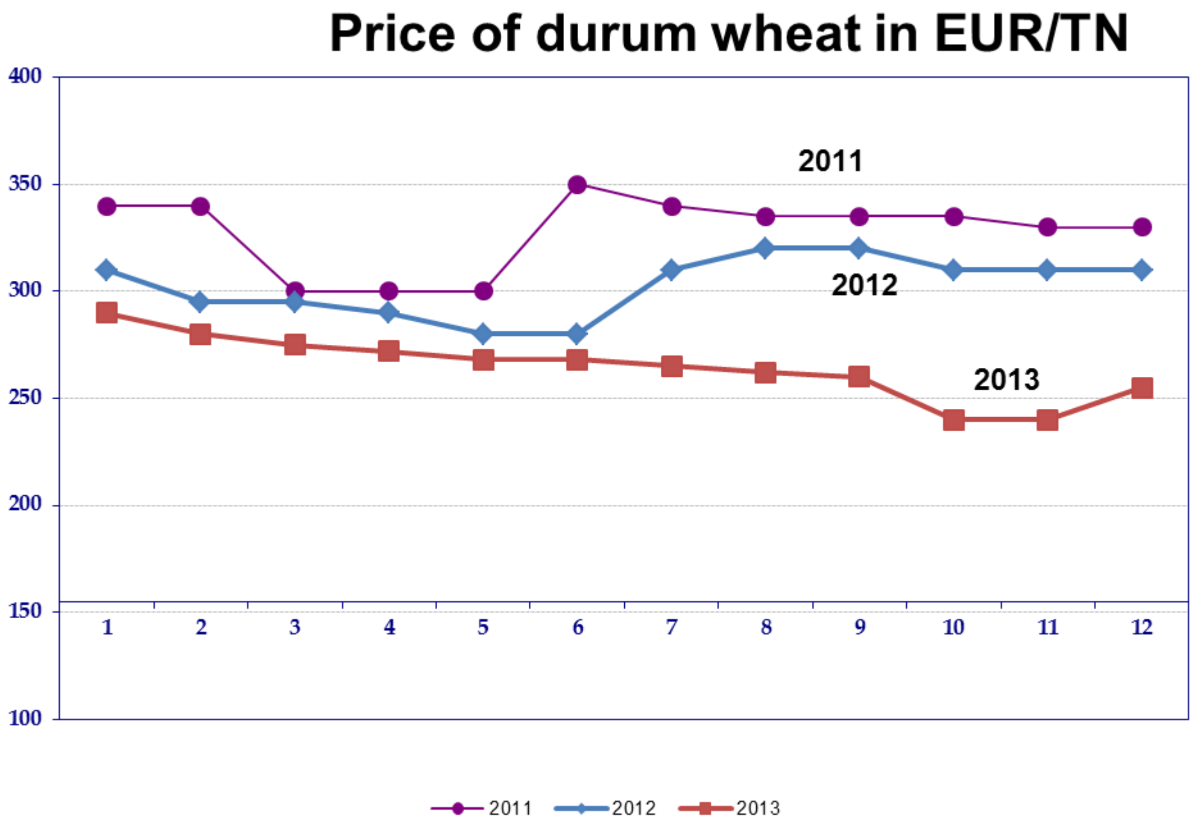
## Pasta area

| PASTA BUSINESS (Thousands of euros) | | 2011 | 2012 | 2012/2011 | 2013 | 2013/2012 | CAGR 2013-2011 |
|---|---|---|---|---|---|---|---|
| Net Sales | | 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% |
| | % of net sales | 16.8% | 15.8% | | 16.7% | | |
| EBIT | | 121,956 | 118,884 | -2.5% | 125,725 | 5.8% | 1.5% |
| | % of net sales | 14.2% | 12.9% | | 13.7% | | |
| Average working capital | | 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% | |

Despite the decrease of the French durum wheat harvest, the return to normality of the Spanish harvest left 2013/2014 European production at a similar level to 2012/2013. This situation, coupled with a positive outlook in the US and Canada (world leader in the export market) and the strong season of other cereals, led to the progressive fall in prices and then a significant reduction from the summer onwards.




The figures presented include the disposal of the pasta business in Germany, which is classified as a discontinued operation in the consolidated income statement. Although the business had been earning profits after five years of industrial and commercial restructuring, the particular difficulty of the market (brand and competitor fragmentation, proximity to the surplus-producing Italian market) hindered the ability to grow and improve its contribution and, accordingly, it was decided to sell the business for EUR 21.3 million.

The crisis affects the market by driving distributors to fight over consumers by using prices, which has led a loss of price leadership at hard discount stores following a reduction of margins in traditional distribution. Polarisation is observed in consumption with increases in the low-price segments and higher-end products that provide consumers with a sense of enjoyment.

Against this backdrop, sales remain stable but with significant differences between the Group's major markets:

- ✓ The French market for dry and fresh pasta grew in volume (+2.4 % and +2.3%, respectively), with the increase in the volumes of the Panzani (+1.4% in dry pasta volume) and the Lustucru Frais (+7% in fresh product volume) brands in spite of fierce price competition (discounts and promotions in an increasing percentage of sales), which considerably damaged the market. Brand recognition and innovation made it possible to overcome the drop in prices, especially in lower value-added products. The entry into the category of potato- and potato-based products and by-products (cubed potatoes, noisettes, chips and tortillas) remains on a steady track with sales growth of more than 100% with respect to 2012.
- ✓ In the US, the change in trade policy announced in 2012 made it possible to recover a share in a stagnant market in which, with the exception of Barilla, the other competitors are losing ground. The clear improvement in volumes was offset by a decline in benchmark prices and the effect of the exchange rate.

EBITDA increased 5.3% despite the negative effect of the US dollar amounting to EUR 2.5 million and a EUR 3.5 million increase in advertising expenditure. Growth was based on the improvement of volumes, which offset the reduction in prices.

Falls in the cost of the durum wheat supply had a greater impact in the US, while in Europe, episodes such as the "horsemeat crisis" (which required the purchasing of more expensive certified meat in order to boost consumer confidence) and the basmati rice crisis (in France, where the rice business is coupled with the pasta business) offset this effect.

In December the fresh pasta and fresh sauces of Olivieri Foods were acquired for EUR 82,832 thousand. Olivieri is the leading fresh pasta and sauces brand in Canada and is also present in the US. With this acquisition the Ebro Group will enter the Canadian fresh pasta and sauce segment through its leading brand, thereby consolidating our leadership position in all categories in which we operate and driving the growth of fresh products.

CAPEX was focused on facilities to improve the capacity and productivity of fresh products (EUR 14 million) -the erection of a new factory in Communay (outskirts of Lyon) is being completed-, on upgrading packaging lines in La Montre (EUR 2.4 million) and on investments to improve the productivity of milling activities and pasta production (EUR 8.4 million).

## Personnel and environmental matters

The Group's main objective in the workplace is to have in place an adequate framework for labour relations and to make its employees feel an integral part of the organisation by encouraging professional development, promoting equal opportunities and non-discrimination and establishing a climate of social peace.

Each of the Group companies is governed by the labour laws of the country in which it operates. In addition, the largest subsidiaries have their own human resources policies governing the relationships between employees and the company. Above them, and without prejudice to the collective agreements of the various Ebro Foods Group companies, there is a Corporate Code of Conduct (COC) which safeguards not only the ethical and responsible behaviour of the professionals at all Ebro Foods companies in the performance of their work, but also serves as a reference to define the policy's objectives and guarantees employment, occupational health and safety, training and the principles to ensure non-discrimination, diversity and equal opportunities in the access to employment.

Note 8 to the consolidated financial statements provides additional information on personnel.

As regards sustainability policies, one of Ebro Foods' basic management principles is the implementation at its subsidiaries of the tools and measures necessary to strike the greatest possible balance between the pursuit of its business and protecting the environment (see Note 29 to the consolidated financial statements and the Ebro Group's Annual Sustainability Report).

## 3. LIQUIDITY AND CAPITAL RESOURCES

The Group's financial operations aim to achieve a financial structure that enables maintaining stable credit ratios and operational flexibility at short and long term.

The structure is based on long-term loans that finance the main investments and are generally denominated in the same currency of the investment to provide a natural hedge against foreign currency risk. Other financing is arranged through short-term credit facilities and covers variable working capital needs. Both variables are linked to long- and short-term growth plans that are reflected in annual budgets, the related revisions and the Group's Strategic Plan.

Note 22 to the consolidated financial statements includes a detail of the financial liabilities and capital requirements included in certain long-term loan agreements.

**Investment**

Growth through the acquisition of assets or businesses

The main investments made in 2013 were the acquisition of the pasta and fresh sauce business in Canada with the Olivieri brand, the acquisition of 25% of the Scotti Group, the acquisition of a rice production plant in India from Olam International and the inclusion in the Ebro Group of a frozen product (mainly rice and pasta) production and marketing business in northern Europe (see Note 5 to the consolidated financial statements).

These investments totalled EUR 116 million plus the related working capital, which was significant in the case of India. Financing was also made using equity and by securing a new long-term loan of USD 100 million.

Also, the pasta business in Germany was disposed as it did not fit into the Group's global strategy.

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Internal growth

Growth and innovation depend on an investment strategy that requires that virtually all of the production capacity of the instant rice and fresh pasta segments be renewed. CAPEX in the last three years amounts to:

| Year | Amount (Thousands of euros) |
|---|---|
| 2011 | 66,596 |
| 2012 | 52,930 |
| 2013 | 61,308 |

In 2013 the most significant investments in innovation relate to the fresh pasta plant located on the outskirts of Lyon, which is aimed at increasing the capacity of products of this type, such as gnocchi, to be pan-fried or the new potato-based dish line. In the rice area the most substantial investments were concentrated in the rice-based ingredients project and the capacity expansion of frozen products.

## Financial position

The debt position continued to be highly satisfactory.

NET DEBT

| NET DEBT (Thousands of euros) | CONSOLIDATED | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | *2012/2011* | 2013 | *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 net debt | 139,157 | 294,114 | *111.4%* | 260,820 | *-11.3%* |
| Leverage | 24.6% | 14.5% | *-41.1%* | 19.8% | *37.1%* |
| Leverage of average debt (1) | 8.8% | 17.4% | *98.3%* | 15.3% | *-12.0%* |
| EBITDA | 273,642 | 299,226 | *9.3%* | 282,392 | *-5.6%* |
| Hedging | 1.43 | 0.82 | | 1.20 | |

***(1) Ratio of average net financial debt and borrowing costs divided by equity (excluding non-controlling interests)***

Hedging ratios were excellent, enabling high investment capacity and organic or inorganic growth. The changes in the level of debt to free cash flow generation can be seen in the following table:

| Thousands of euros | CONSOLIDATED | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | *2012/2011* | 2013 | *2013/2012* |
| Cash flow from operating activities | 58,496 | 220,734 | *277.3%* | 161,118 | *-27.0%* |
| Cash flow from investment activities | (253,662) | (37,029) | *-85.4%* | (163,961) | *342.8%* |
| Cash flow from share-based transactions | (177,232) | (44,296) | *-75.0%* | (92,319) | *108.4%* |
| **Free cash flow** | **(372,398)** | **139,409** | | **(95,162)** | |

In 2011 the rise in the price of raw materials triggered a considerable increase in the use of operating cash flows, which resulted in the increase in working capital. In 2013, despite an overall drop in raw material prices, the working capital associated with the new plant in India and the need to hedge the possible risks of certain rice sources gave rise to a negative contribution with respect to 2012. The major changes that took place in other lines related to the purchase or sale of businesses (investment) and the distribution of dividends or treasury share transactions (financing).

## 4. RISK AND FINANCIAL INSTRUMENT MANAGEMENT OBJECTIVES AND POLICIES

The Ebro Foods Group, influenced by the conceptual framework of the “Committee of Sponsoring Organizations of the Treadway Commission” (COSO) report over internal control has implemented certain risk identification, measurement, management and reporting systems.

In 2011 the Group developed a risk map, managed with the aid of a software tool called GIRO. The risk map includes a risk matrix for the whole Group and by individual company, including the probability of occurrence of these risks, their related impact and the protocols to be put in place to mitigate these risks. The main risks, their associated processes and control mechanisms are reviewed each year.

Section E of the Corporate Governance Report contains a detailed description of the main risks to which the Ebro Foods Group is exposed, the control systems and the managerial efforts made to mitigate them.

### Financial risk management and financial instruments

The Group's principal financial instruments include bank loans, bank overdraft facilities, equity instruments, cash and short-term deposits. Also, the Group has other financial assets and liabilities such as trade receivables and payables.

These financial instruments give rise to market risks due to changes in interest rates, exchange rates or the fair value of certain financial instruments, liquidity risk and credit risk.

Through the consultative and decision-making bodies established in its regulations, the Board of Directors reviews and establishes policies for managing each of these risks.

Note 28 to the consolidated financial statements contains a description of these risks and the measures adopted to reduce them.

## 5. EVENTS AFTER THE REPORTING PERIOD

From the end of 2013 until the authorisation for issue of this consolidated directors' report, 57,475,572 shares of Deoleo Corporación, S.A. were sold (see Note 12.1 to the consolidated financial statements).

No other significant events took place between the reporting date and the authorisation for issue of these consolidated financial statements.

## 6. OUTLOOK FOR THE GROUP

It appears that 2014 will be a year of growth recovery in most developed countries, where a turnaround in household consumption is being observed. The US economic recovery appears to be solid with employment numbers, consumer surveys (Gallup) and consumer confidence (Nielsen) backing this impression. In the European Union the signals are weaker and follow different speeds, although they generally show a recovery in consumer confidence.

Expectations in the rice and wheat markets remain stable, except for certain varieties such as basmati rice and Italy-sourced rice, which are stressing the market. Lower prices are expected from countries included in the Everything but Arms (EBA) programme and Thailand (where it is increasingly difficult to maintain the current programme providing aid to farmers), which will reduce the competitiveness of Spanish rice. The price differential with the Asian market endures in the US and no substantial changes are expected in production in Texas.

- ✓ **Rice business**

Expectations in the US exert significant pressure on competition to the extent that the price differential with other sources and export difficulties remain in place.

Group plans look to maintain volumes with increased direct marketing and a resolute commitment to quality and innovation (Minute Multigrain Medley, Success Basmati and new mixes of rice with beans in RTS format and mixes) as a lever to retain and boost loyalty among consumers.

At the Freeport plant (Texas) work will focus on increasing productivity in order to compete with producers in Arkansas and Louisiana, although the supply of local rice costs approximately 7% more.

In Europe and other countries innovation is the main value lever. Renewing formats while not overlooking the traditional customer (SOS), consolidating the success of Brillante Sabroz and expanding the distribution of pan-fried and microwaveable products (Mix & Go) are the main objectives in 2014.

From the operational standpoint, the full integration of operations in northern Europe, a comprehensive strategy in the frozen product range and the return to normality of the Moroccan market should all go towards boosting earnings. Parboiling production in Spain is clouded by worse expectations due to the situation of international markets.

The new rice processing plant in India is already operating as a point of basmati rice supply for the Group and, therefore, the risk associated with this variety of rice has decreased and, in addition, a further supply point is obtained for other local non-aromatic varieties.

- ✓ **Pasta business**

The shift in strategy launched in 2013 in the US by New World Pasta bore fruit in the form of a trend change in the dry pasta market. The expansion of the product range and entry into like categories are articulated on this strategy.

The gluten-free (multigrain mixture of rice, corn and quinoa in a range of products), low-calorie and oven-ready dry pasta range of products should be consolidated and their presence in the aisles increased.

In 2013 the entry into the sauce market began, which is key to the "meal solutions" strategy. The acquisition of the Olivieri brand should bolster this movement. Olivieri, the leading brand in fresh pasta and sauces in the Canadian market with a presence in the US, should be a key in the future development of this category with the R&D+i support of the European division.

In Europe the commitment to innovation continues. Fresh products are the cornerstone of growth and throughout the year installation will be completed of the first lines of the new fresh pasta factory in Lyon, which will be crucial to this strategy.

The development of the entire category of potato and potato-based products (chips, cubed potatoes, tortillas, etc.), easy-to-cook pan-fried products and new sauces should drive volumes and defend margins in markets with competitors focused on growth through promotions.

Achieving the objectives of this business and the innovation strategy require increasing productivity and making milling and dry pasta production more efficient. To this end, significant investments have been made in the last three years.

## 7. R&D+i ACTIVITIES

The Ebro Foods Group has always been a step ahead of new consumer trends and is an international benchmark in the research and development of products applied to the food industry. Aware that R&D+i is an essential tool for the implementation of its quality and differentiation strategy, in 2013 the Group continued its unwavering commitment in this connection.

The total investment made in 2013 amounted to EUR 4.0 million, which was distributed between internal resources (EUR 2.5 million) and external resources (EUR 1.5 million).

The Group has built its R&D+i engine around research centres in France, the US and Spain. These centres and the main projects carried out in the year are:

1. CEREC, located in St. Genis Laval (France), with eight employees, oriented towards developing the pasta division's range of fresh pasta, potato-based dishes, fresh pre-cooked meals and sauces. In 2013 its activity focused on the renewal of the range of tomato sauces, the expansion of the range of "bolo balls", the development of new formats for sauces (PET), the development of new coextrusion and precooked pasta processes and the expansion of the potato-based product category.
2. CRECERPAL, located in Marseilles, with eight technicians working in a raw material testing and analysis laboratory, focuses research on the development of the category of durum wheat, dry pasta, couscous and new food processing technologies applied to cereals. Substantial efforts were made in 2013 to expand the range of durum wheat-based products towards new flour and batter, bread and bakery goods and new recipes for pan-fried rice and to add polenta to the range of products, such as couscous.
3. In the US, with four employees dedicated to the development of new products, processes and technologies or to the adaptation thereof for the rice and pasta divisions in the US. Their work focused on completing the pre-marketing development and launch of gluten-free and low-calorie products, the renewal of the Healthy Harvest range to make it 100% natural, the improvement of the Smart Taste formula, the development of rice and bean mixes and multigrain projects and the upgrade of

new varieties of grain for the RTS lines.

4. Centres associated with the Herba Group in Moncada (Valencia), and the new plant in San José de Rinconada, with 15 researchers dedicated to developing new and/or improved products and technologies and to technical assistance in the areas of rice technology and rice-based products for the modern hospitality industry, i.e. fast-food and catering. The most important project under way is the development of a functional flour and rice-, cereal- and legume-based ingredients line which is the basis of a completely new line of business.

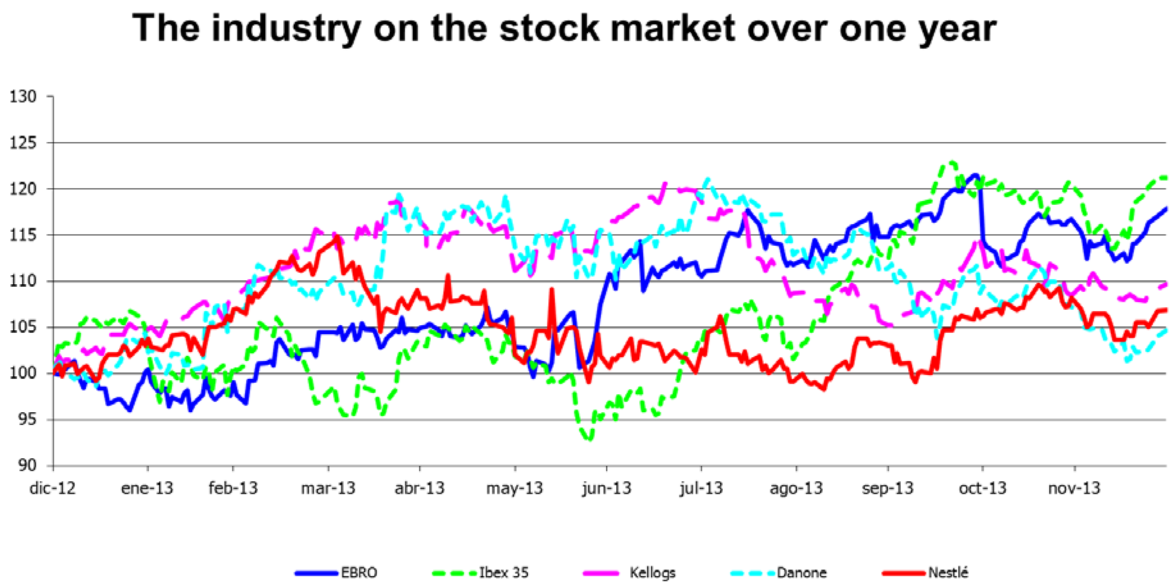
## 8. TREASURY SHARE TRANSACTIONS

In 2013, the Parent made treasury share purchases and sales pursuant to authorisations granted by the shareholders at the Annual General Meetings held on 4 June 2013 and 29 May 2012, and, in accordance with current legislation, the Spanish National Securities Market Commission (CNMV) was notified accordingly. In 2013 20,784 treasury shares were acquired and delivered to employees.

At 31 December 2013, the Company did not have any treasury shares.

## 9. OTHER SALIENT INFORMATION

**Share price**




The main analyst reports followed by the Company can be found on the Company webpage.

**Distribution of dividends**

The shareholders at the Annual General Meeting held on 4 June 2013 resolved to distribute a dividend payable in cash with a charge to unrestricted reserves of EUR 0.60 per share for a total of EUR 92,319 thousand, of which EUR 0.16 per share was paid in January, May and September 2013 and the remainder of EUR 0.12 per share was paid on 10 December 2013.