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 2011 (expressed in thousands of euros)

1. ANALYSIS OF 2011. ORGANIC GROWTH

Backdrop

In 2011 the growth of the world economy lost stream as a result of weaker growth in Europe (for which growth was negative in the last quarter) and a downturn in the emerging economies. Consumer confidence in developed countries lost momentum due to the high unemployment figures, the reduction in disposable income and the need to make headway with fiscal consolidation. In 2012 the eurozone is likely to experience a moderate recession in which the financial crisis and the debt crisis will show no signs of abating. Although the situation in the US is more positive, there is still a high level of unemployment that is undermining internal demand and a large fiscal deficit.

The aforementioned situation gave rise to a decrease in consumption in European homes in the last four-month period of the year, which may have a particular impact on 2012. The biggest risk faced by the US is the spread of contagion from Europe to its still recovering economy.

Grain markets ended 2010 with generalised price increases, which were particularly significant in the case of wheat. This situation was consolidated in 2011, which saw price hikes in June and July that began to decrease slowly in the last four months of the year when it became known that final stocks would remain at reasonable levels and the pressure on alternative crops such as corn used in the production of biofuel in the US would diminish.

Rice prices remained fairly stable during 2011 following price increase pressures at the end of 2010. Significant events include most notably the elimination of barriers to exports in India, which placed a huge amount of its product on the market. Conversely, the newly-elected Thai government is guaranteeing farmers a price that clearly exceeds market price and, as a result, it has edged the biggest rice exporter in the world, until this year, out of the market. In addition, around 5.5 million mt of paddy rice remain in storage in government warehouses.

Group earnings

In view of the increased volatility of raw material prices, the net profit from continuing operations grew by 17.6%. The AAGR in the last three years (+21.5%) is evidence of a solid income statement with growth across all lines.

The sales figure was up 6.8% on 2010 due to the price increases that took place in the year to offset the rise in the price of raw materials. In many cases, these price increases were accompanied by promotional initiatives aimed at boosting consumption, which cushioned their impact on sales.

EBIDTA was up 2.1% on 2010, representing an AAGR of 6.5% from 2009 to 2011. Year-on-year growth would have totalled 5% had there been no negative exchange rate effect.

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CONSOLIDATED DIRECTORS' REPORT FOR 2011 (expressed in thousands of euros)

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

CONSOLIDATED FIGURES Thousands of Euros		2009	2010	2010/2009	2011	2011/2010	AAGR 2011/2009
Net sales		1,746,586	1,688,957	-3.3%	1,804,111	6.8%	**1.6%**
EBITDA		240,898	267,479	11.0%	273,106	2.1%	**6.5%**
	% of net sales	13.8%	15.8%		15.1%		
EBIT		190,348	211,573	11.2%	224,022	5.9%	**8.5%**
	% of net sales	10.9%	12.5%		12.4%		
Profit before tax		137,455	192,504	40.0%	222,393	15.5%	**27.2%**
	% of net sales	7.9%	11.4%		12.3%		
Income tax		(34,762)	(63,532)	-82.8%	(70,750)	-11.4%	**-242.7%**
	% of net sales	-2.0%	-3.8%		-3.9%		
Consolidated profit for the year (continuing operations)		102,693	128,972	25.6%	151,643	17.6%	**21.5%**
	% of net sales	5.9%	7.6%		8.4%		
Net profit from discontinued operations		70,116	259,970	270.8%		-100.0%	**-100.0%**
	% of net sales	4.0%	15.4%				
Net profit		176,539	388,797	120.2%	151,542	-61.0%	**-7.3%**
	% of net sales	10.1%	23.0%		8.4%		
Average working capital (*)		323,230	237,222	26.6%	252,916	-6.6%	
Capital employed (*)		1,176,282	995,309	15.4%	1,007,686	-1.2%	
ROCE **(1)** (*)		20.4	21.3		22.2		
Capex (*)		87,414	69,617	-20.4%	66,596	-4.3%	
Average headcount		4,489	4,850	8.0%	4,920	1.4%	
		31/12/2009	**31/12/10**	**2010/2009**	**31/12/11**	**2011/2010**	
Equity		1,280,322	1,592,743	24.4%	1,587,298	-0.3%	
Net debt (*)		556,800	17,600	-96.8%	390,073	2116.3%	
Average net debt (*)		716,725	378,336	-47.2%	139,157	-63.2%	
Leverage **(2)**		0.56	0.24		0.09		
Total assets		2,684,465	2,885,030		2,710,608		

(*) In order for these parameters to remain consistent, the calculation includes the profit from discontinued operations and the associated assets and liabilities

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

(2) 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 stands at over 15% despite the increase in sales that resulted from transferring the cereal price tensions. ROCE is up 22.2%. ROCE is a particularly significant measure since it arises in a situation of inflation relating to working capital due to the rise in the price of inventories.

Profit from continuing operations is improving due to the increase in the earnings from operations and the decrease in finance costs. Finance costs are down as a result of the decrease in borrowings due to the sale of the non-core businesses in prior years.

Net profit from discontinued operations reflects the net gains arising from the sale of businesses and those relating to its operations until the effective sale date. Therefore, the most significant portion of this net profit reflects the net gain from the sale of the dairy product business in 2010 and from the sale of the sugar business in 2009.

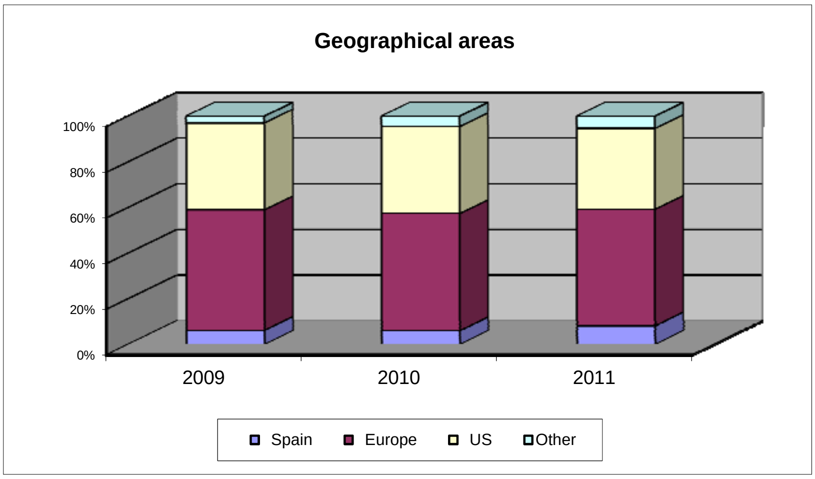
The Ebro Foods strategy

The Group's strategy involves leadership in the business segments in which it operates. With this in mind, in September 2011 it concluded the acquisition of the Deoleo (formerly SOS) rice division. Through this transaction, Ebro purchased the Deoleo rice businesses in Spain, the US, Saudi Arabia and the Netherlands as well as the SOS brand worldwide. In addition to this agreement, the Group entered into an agreement in March to purchase the Saludaes brand in Portugal. The total amount of all these acquisitions was EUR 203.5 million.

Also, in December an agreement was entered into with the US company Strom Products Ltd. to acquire USD 50 million of its pasta business in the US and Canada. The agreement includes the purchase of the No Yolks and Wacky Mac brands, which carry on their main activities in the area of healthy pasta and noodles. No Yolks is the leading brand in the yolk-free noodle segment and dry fibre-enriched pasta segment in the US and Canada.

The Group's principles are as follows:

- Low risk exposure. The Group's structure provides it with a geographically balanced source of income among developed countries, which the management teams are well aware of and where it is possible to share resources and develop synergies. The growth strategy announced places particular emphasis on these synergies. Also, a low-levered financial position makes growth possible without exposure to financial storms. The detail of sales, by geographical area, is as follows:



  The latest acquisitions will extend the area of distribution of the Group's products, giving it a considerable presence in the markets of the Netherlands and the Middle East. In recent years the Group has achieved consistent growth in recurring profits despite the volatility in basic raw materials markets. Diversification in the sources of supply has been essential to this positive performance, which led the Group to establish itself in areas of production and to continually work on adapting grain varieties and origins to our customers' needs.

- Differentiation and innovation. Ebro Foods is firmly committed to investment in products along two lines; major innovation and development (R&D+i) and firm backing of leading brands in its business areas.

  In 2011 frozen rice distribution increased in the United States (minute steamers), new varieties of ready-to-serve rice were introduced, the range of pre-cooked rice was extended, a range of sauces targeted at children was launched in addition to pasta portions and a new range of pasta-based side dishes.

CONSOLIDATED DIRECTORS' REPORT FOR 2011 (expressed in thousands of euros)

Not only does Ebro Foods make a consistent effort in terms of innovation, it has also turned it into its main activity. Consequently, sales of ready-to-serve rice now account for 21% of the sales achieved under the Minute brand in the US with annual growth of over 15% while fresh product growth has benefited in particular from new products such as pre-cooked gnocchi.

- Growth and consolidation of synergies. Ebro Foods is a group specialising in foodstuffs that has a major presence in North America and Europe. Companies are acquired on the basis of selective criteria in areas that enable synergies to be amply integrated.

  The acquisitions made in 2011 have placed the Group at the top of the rice market in the Netherlands and the medium-grain rice market in Spain and, as a result of the sales obtained under the Abu Bint brand, the Group has also gained a foothold in a market with huge potential, i.e. the Middle East.

  The subsidiaries in Germany have been internally consolidated by concentrating services at the headquarters in Hamburg and eliminating unprofitable businesses.

Both 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. Comparable CAPEX (eliminating the investments of the discontinued businesses) in the last three years is as follows:

Year	Amount Thousands of euros
2009	78,658
2010	64,691
2011	66,596

The impact of the new rice factory in Memphis can be seen in particular in the figure for 2009 although investments in machinery were concluded in 2011. In 2011 the largest investments relate to the renewal plan for the pasta business and the ready-to-serve rice factory adjacent to the Memphis factory.

CONSOLIDATED DIRECTORS' REPORT FOR 2011 (expressed in thousands of euros)

Financial position

The debt position at the end of the period was especially satisfactory.

NET DEBT

NET DEBT (Thousands of Euros)	CONSOLIDATED FIGURES				
	2009	2010	*2010/2009*	2011	*2011/2010*
Equity	1,280,322	1,592,743	*24.4%*	1,587,298	*-0.3%*
Net debt	556,800	17,600	*-96.8%*	390,073	*2116.3%*
Average net debt	716,725	378,336	*-47.2%*	139,157	*-63.2%*
Leverage	43.5%	1.1%	*-97.5%*	24.6%	*2123.9%*
Leverage, average debt ***(1)***	56.0%	23.8%	*-57.6%*	8.8%	*-63.1%*
EBITDA	243,824	267,479	*9.7%*	273,106	*2.1%*
Hedge	2.31	0.07		1.43	

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

Following the completion of the aforementioned acquisitions and the payment of an extraordinary dividend to the shareholders, the financial position remained comfortable, making it possible to sustain a high rate of internal investment and to continue to explore the market in search of opportunities that will complement the Group's strategy.

Main businesses

The Ebro Foods Group is organised around the following business areas:

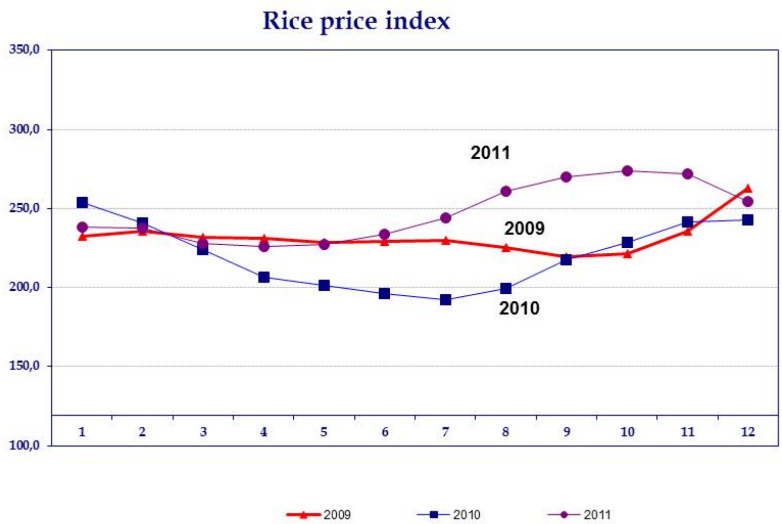
- ✓ Rice Business - includes the industrial and branding activities in relation to rice and other products. The Group operates throughout Europe, the Mediterranean region, the Middle East, North America and Thailand through Herba, Riviana and ARI (US).
- ✓ Pasta Business - includes the production and marketing of dry and fresh pasta, sauces and semolina carried on by the Panzani, New World Pasta and Birkel Groups.
- ✓ Other Businesses - include the management of real estate assets and other activities related to foodstuffs and the management of the various businesses.

RICE

RICE BUSINESS Thousands of Euros	2009	2010	*2010/2009*	2011	*2011/2010*	*AAGR 2011/2009*
Net sales	836,147	811,558	*-2.9%*	920,752	*13.5%*	***4.9%***
EBITDA	118,561	123,263	*4.0%*	135,953	*10.3%*	***7.1%***
% of net sales	*14.2%*	*15.2%*		*14.8%*		
EBIT	97,575	99,019	*1.5%*	113,698	*14.8%*	***7.9%***
% of net sales	*11.7%*	*12.2%*		*12.3%*		
Average working capital	185,446	181,782	*2.0%*	231,686	*-27.5%*	
Capital employed	495,768	506,347	*-2.1%*	582,158	*-15.0%*	
ROCE	20	20		19		
Capex	55,138	37,855	*-31.3%*	26,950	*-28.8%*	

- As indicated in the section on the backdrop for 2011, prices stabilised to an extent until news of the export restrictions in Thailand unfolded because the prices guaranteed by the government were much higher than those on the market. There was some uncertainty for a few months, which affected the market price in neighbouring Vietnam and, consequently, the other exporting countries. Once it became known that India would open its exports (limited to varieties of basmati rice until after summer due to government legislation), that these exports would not be subject to a quota and that there were generally good harvest levels in the east Asian countries and once it was established that the Thai authorities would not need to place the huge quantity of rice that they had in storage on the market, prices began to ease.

- Production during the 2010/11 marketing year was somewhat shorter than in 2009/10 in Europe and the US. However, it was sufficient to cover existing expectations. Production of varieties of long grain rice in the US was lower than in the prior marketing year but of a higher quality, while stocks of medium-grain rice (Calrose and other varieties) recovered and their prices fell.



- Area sales increased as a result of the contribution of new businesses (EUR 87 million) and the application of new contracts containing adjusted prices following the increase in prices at source at the end of 2010. In the US, Riviana increased certain prices at the beginning of the year. However, it had a scant impact on the year-on-year area comparison due to the effect of the exchange rate.

- The market followed the trend witnessed in recent years, with growth of ready-to-serve rice (with certain exceptions in countries severely affected by the crisis such as Portugal), brown rice and aromatic rice (changing on the basis of local preferences). Group sales also follow these trends, with excellent sales of certain special varieties of rice and specifically adapted flour, which are worked with at the La Rinconada R&D plant.

- Year-on-year EBITDA was up 10%. If we exclude the contribution of the new SOS businesses, growth remains pegged at approximately 6% despite the negative effect of the USD/EUR exchange rate, which amounts to EUR 4 million. The biggest contribution to the growth of the pre-existing business was made by the European businesses (Herba) since Riviana, whose contribution grew by USD 2 million, was marred by the reduced yield of its instant rice lines compared to the forecast yield and the delays in the mechanisation of its packaging and pallet lines at the Memphis factory, which stand at USD 10 million. In the last four months of the year, the factory's productivity was at the levels required due to the new improved-quality harvest and having overcome the learning curve.

CONSOLIDATED DIRECTORS' REPORT FOR 2011 (expressed in thousands of euros)

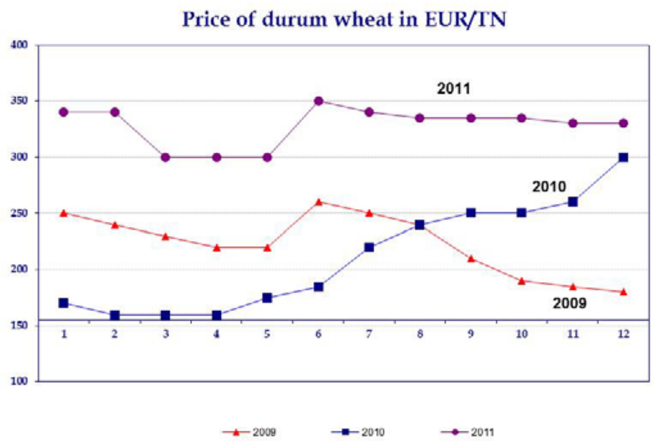
- The increase in working capital caused by the increase at the end of 2010, the needs to cover a larger market due to new acquisitions and the desire to avoid friction in the inclusion of new businesses in the Group's structure (ARI's systems and equipment were fully integrated at the beginning of 2012) increased the Group's working capital and had an impact on the area's ROCE, which fell to 18.8% following record levels in the two prior years.

- The main investments in the area relate to the latest equipment installed at the Memphis factory (USD 8 million) and the adjacent ready-to-serve rice factory (USD 10 million) that came into service in December 2011.

PASTA

PASTA BUSINESS Thousands of Euros		2009	2010	*2010/2009*	2011	*2011/2010*	*AAGR 2011/2009*
Net sales		928,077	916,101	*-1.3%*	928,297	*1.3%*	***0.0%***
EBITDA		137,057	160,484	*17.1%*	144,457	*-10.0%*	***2.7%***
	% of net sales	*14.8%*	*17.5%*		*15.6%*		
EBIT		108,831	133,741	*22.9%*	119,064	*-11.0%*	***4.6%***
	% of net sales	*11.7%*	*14.6%*		*12.8%*		
Average working capital		91,292	60,427	*33.8%*	69,173	*-14.5%*	
Capital employed		469,915	442,061	*5.9%*	456,917	*-3.4%*	
ROCE		23.2	30.3		26.1		
Capex		18,359	32,652	*77.9%*	38,095	*16.7%*	

- A particularly turbulent year. The increases in wheat prices at the end of 2010 were consolidated and were even exceeded mid-year as the news on heavy rain, floods and reductions in the harvested area unfolded. An unusual circumstance arose when prices began to drop like in the case of other grains. As a result of the difficulties in the durum wheat market, there was a large difference in the price of this wheat with respect to other types of wheat, which reached EUR 177 per mt, something that had not happened since the beginning of 2008 in the middle of the raw materials crisis.



- The immediate reaction was to announce price increases, which continued throughout the year. Specifically, there were three increases totalling USD 0.22 per 1lb packet of pasta in the US and EUR 0.16/kg in Europe. Of course, these increases were the result of an immense negotiating effort involving distribution and generally had positive results.

However, they required significant promotional efforts in order to boost consumption, which had already been weakened due to the economic situation.

- There was a moderate increase in sales despite the price increases, due to the discontinuation of certain activities that were scantly profitable in the US (own brand) and Germany (where extensive restructuring took place) and the negative effect of the exchange rate on sales in US dollars.

- The circumstances in the industry gave rise to a reduction in the contribution from this area. The impact was uneven because Panzani improved its results, volume and sales figures with record dry pasta and fresh pasta quotas, while NWP in the US faced a very aggressive strategy from the competition, with a substantial loss of profit which it fought by making additional promotional endeavours and by transferring volumes to less strategic channels and products.

- Lastly, the greatest difficulties arose in Germany where prices were very competitive and the main competitors increased their promotions by 50%, which can be seen in the shrinking value of the pasta market (2.8%) from October 2010 to October 2011, despite the rise in raw material prices. This situation and the difficulty of passing on any price increase, coupled with shrinking margins, led to a complete restructuring of the Group’s presence by concentrating its activities on the most profitable brands (Birkel and 3 Gloken).

- EBITDA decreased 10% to EUR 144.5 million (EUR 147 million excluding the exchange rate effect). ROCE fell to 26.1%.

- CAPEX grew as a result of the three-year investment plan in the area. The biggest investments made include a new line of short-cut pasta at the Saint Louis factory for USD 7 million, EUR 4 million to renew the dry pasta facilities, EUR 3.5 million to start up the new ERP system and EUR 2.5 million to extend the storage facilities for fresh products.

2. OUTLOOK FOR THE GROUP

The economic outlook for 2012 includes a recession across Europe and slow growth in other developed economies. The impact of this situation on consumption was already evident in the last quarter of 2011 and food products, even basic food items found in the shopping basket, are no exception. Prices factor will foreseeably be considered to a greater extent by a certain percentage of the population and brands are likely to have to go the extra mile to stand out and achieve a price-quality balance.

The expectations in the rice and wheat markets are good with stable rice prices, except for certain specific varieties and a foreseeable drop in durum wheat until the next harvest.

Ebro Foods should finish the inclusion of the purchases made and maintain the processes of innovation that place it in a league of its own.

✓ **Rice business**

The Memphis factory will become fully automated at the end of the first quarter and the line of ready-to-serve pots will be at full capacity. The inclusion of the Freeport factory will also represent an important competitive advantage to import and export operations.

Investments were approved in India and Argentina which will increase import opportunities and make the Company’s structure even more flexible.

✓ **Pasta**

The Group is still committed to innovation and to making fresh products the focus of growth. The initial payments relating to a new fresh pasta factory were made, which will be fundamental to this strategy.

In addition, the improvements in production arising from the restructuring of the business in Germany and the substantial investments in dry pasta production are worthy of note.

3. R&D+i ACTIVITIES

Ebro Foods has always been 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 2011 the Group continued its unwavering commitment in this connection once it became disassociated with Puleva Biosearch, which was a driving force for innovation for many years.

The total investment in 2011 amounted to EUR 5.6 million, which was distributed between internal resources (EUR 3.5 million) and external resources (EUR 2.1 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 ten employees, oriented towards developing the pasta division's range of fresh pasta, fresh pre-cooked meals and sauces. In 2011 its business activities focused on extending the range of Lunch Box products, pre-cooked gnocchi and risotto sauces and on preparing the new launches for 2012.

2. CRECERPAL, located in Marseilles, with fourteen technicians working in a laboratory on raw materials and analysis, focuses research on the development of the category of durum wheat, dry pasta, couscous and new food processing technologies applied to cereals. In 2011 work was carried out in particular on a new dry pre-cooked pasta, a new variety of pre-cooked couscous and the extended range of pre-cooked rice.

3. TECH Centre, with three researchers engaging in the research and subsequent development of new products, processes and technologies for the rice division in the US. Their work has centred on obtaining the permits and certification for the ready-to-serve pots at the new factory from the Food and Drug Administration while they continue the tests relating to the adaptation of local rice at their pilot factory.

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 technical assistance in the areas of rice technology and its by-products for the modern hospitality industry, i.e. fast-food and

catering. The most significant project under way consists of the development of a line of functional flours, which is expected to yield benefits by creating a new line of products in the short term.

4. TREASURY SHARE TRANSACTIONS

In 2011, the Group made treasury share purchases and sales pursuant to authorisation granted by the shareholders at the Annual General Meetings held on 2 June 2010 and 15 June 2011, and, in accordance with current legislation, the Spanish National Securities Market Commission (CNMV) was notified accordingly. In 2011 4,087,972 treasury shares were acquired and 703,878 were sold. At 2011 year-end the Group held 3,384,094 treasury shares representing 2.199% of its share capital. At 2011 year-end no decision had been taken regarding the specific use to which these treasury shares would be put.

5. EMPLOYEES

The number of employees at Ebro Foods continued to grow with the inclusion of new companies and businesses. This situation allows for the integration of diverse cultures and skills with a constant flow of information and knowledge.

6. 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 a risk map was implemented at Group level, which is supported by an IT 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 ultimate objective of these risk control systems is to safeguard the interests of our shareholders, customers, employees and our corporate environment. At the same time, these systems guarantee the corporate reputation and the financial soundness of the Ebro Foods Group on an ongoing basis.

The main risks and the control systems in place to mitigate them are as follows.

Risks specific to the industry in which the activity is carried on

Legal / Regulatory risk. The Group is subject to, and its operations are affected by, the legislation of numerous countries and international organisations. This legislation establishes rules ranging from production quotas to trading prices or tariff protection. To counter the related risk, the Group opted to apply a policy of geographical and product diversification.

The Group is also exposed to the risk of not being able to adequately protect is brands and intellectual property. Therefore, the Group exhaustively monitors its intellectual property and protects its use with the competent agencies, applying for the appropriate patents wherever necessary.

Environmental and food quality risk. The Group's environmental policy is based on the principle of compliance with the legislation in force at any given time, for which purpose the Group has defined, developed and implemented a quality, environmental and food safety management system that meets the requirements of the UNE-EN-ISO 9001:2000/8, UNE-EN-ISO 14001:2004 and ISO 22000:2005 standards under which most of the Group's production centres in Europe, the US and Canada have been certified.

The food safety and quality programmes are based on the monitoring of protocols that aim to identify and control certain Hazard Analysis and Critical Control Points (HACCP) to ensure that residual risk is minimal. The main control points are grouped into:

- ✓ Physical points. Controls to detect materials unrelated to the product or the presence of metals.
- ✓ Chemical points. Detection of chemical elements or the presence of allergens.
- ✓ Biological points. Presence of elements such as salmonella or other types of pathogens.

Most of the handling processes have obtained IFS (International Food Security) certificates and the US pasta plants are in the process of obtaining Global Food Safety Initiative (GFSI) compliance certification.

Furthermore, the Group has undertaken various initiatives to reduce gas emissions and atmospheric waste, improve water quality and reduce waste discharges, improve energy efficiency and water conservation, as well as recycling programmes for physical waste such as paper, aluminium and other materials.

The Group provides its employees with adequate and ongoing training in areas relating to food safety and occupational health and safety.

Lastly, the Group has taken out several insurance policies that cover the risks relating to food safety.

Supply risk. The business activities carried on by Ebro Foods depend on the supply of raw materials such as rice and durum wheat. The Group is exposed to the risk of not receiving sufficient raw materials of a quality that is in line with the Group's standards at an appropriate price. To cater for this risk the Group acts along two lines:

a. Diversifying the sources of supply, going to the main production markets if it is considered that in doing so a competitive advantage is gained.

b. Entering into long-term supply agreements and cooperation agreements with the suppliers that the Group considers to be important for the business.

Risk due to an excess of installed capacity. The consumer goods industry is threatened by possible surplus installed capacity, which becomes more apparent at low points in the economic cycle. Once more, the best guarantee against this type of risk is innovation and ongoing product differentiation. Also, the Group endeavours to keep up to date and renew its production structure by retiring the assets that it does not consider to be sufficiently efficient (restructuring in Germany) and by investing in new factories (Memphis) or production lines (pasta).

Risks specific to the Ebro Foods Group

Risks to production assets. The exposure of the Group's production assets to catastrophic natural events such as earthquakes and floods is limited. Also, all the Group companies insure all of their assets, capital goods and inventories by taking out the related policies.

Country risk. The Group carries on activities in certain countries classified as “developing countries”. This situation means that certain investments are affected by the typical risks associated with these countries such as possible political changes that might affect market conditions, restrictions on the movement of capital, nationalisation of assets or devaluations of reference currencies. Ebro Food´s presence in these countries is limited and in most cases it is restricted to taking positions to optimise supply (primarily rice). In view of these possible contingencies, the Group opted to diversify the risks with a presence in Europe, the Americas, Asia (Thailand and India) and Africa (Morocco and Egypt).

Risk related with the Group's growth strategy. The Group's strategy to be leaders in “Meal Solutions” entails the possibility of making certain acquisitions. These acquisitions can have a negative impact if the companies, brands and processes acquired do not become fully integrated. To combat this situation, Ebro Foods implements certain practices to minimise acquisition risk, most notably including:

- Performance of due diligence reviews with firms of renowned prestige.
- Negotiation of the end price based on risk analysis.
- Request for guarantees until the resolution of litigation or the definitive clarification of the risk.
- Deferred payment or bank guarantee in the event of possible contingencies.

Also, certain investment alternatives (organic growth) may represent a risk if the expected success is not achieved. In order to cater for these risks, all the investment projects include risk analysis, which enables them to be assessed on an economic and strategic basis, prior to taking any decisions. These decisions are taken by the corresponding body, on the basis of the established limits, and the most significant projects (those amounting to more than EUR 2 million) require the approval of the Board of Directors.

Risk related with the R&D+i technological delay. Through its research and development subsidiaries, the Group supports its main business lines by facilitating product and process development and innovation. The practical application is guaranteed through the constant launch of a broad line of products supported through sufficient advertising and promotional coverage.

Occupational risk. This relates to both attracting human resources and limiting labour risks. Accordingly, the Group promotes both personal incentive and remuneration schemes for the main executives tied to results and fosters the improvement of working conditions. There are also specific programmes designed to promote an enhanced working environment and to maximise protection levels, which most notably include training courses for Group employees.

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.

In order to manage the foreign currency and interest rate risk arising from the Group's operations and, on occasions, the risk relating to possible changes in the price of certain raw materials (gas), the Group arranges derivatives, basically in the form of interest rate and foreign currency forwards and options, or non-derivatives (financing in foreign currencies) to minimise or mitigate the risk.

The accounting policies used to measure these financial instruments are described in Note 3 to these consolidated financial statements.

The Board of Directors reviews and establishes policies for managing each of these risks, as summarised below.

Cash flow interest rate risk

Interest rate risk arising on financing denominated in euros or in foreign currency and at a floating interest rate (due to the potential changes in the cash flows associated with the interest payments on borrowings due to changes in interest rates). The Group is exposed to the risk of changes primarily in connection with its long-term payment obligations that bear floating interest rates.

The Group manages its borrowing costs by using, where necessary, a combination of floating and fixed interest rates. The Group minimises its exposure to this risk and to do so it closely monitors the changes in interest rates with the support of external experts. When it is deemed necessary, the Group arranges derivative financial instruments on interest rates. These derivative instruments are designed to hedge underlying payment obligations.

See Note 28 to the accompanying consolidated financial statements for information on the Group's financial instruments exposed to interest rate risk.

Foreign currency risk

Foreign currency risk due to assets, liabilities, net investment in foreign operations or transactions in currencies other than the euro and to the potential change to the associated cash flows in euros to changes in the spot rate.

As a result of the significant investments in the US, the Group's balance sheet could be significantly affected by fluctuations in the USD/EUR exchange rate.

The ultimate objective of the exchange-rate risk management policy is to offset (at least partially) the potential fall in the value of assets denominated in currencies other than the euro by savings due to decreases in value of the liabilities in these currencies.

The Group endeavours to mitigate the effect of its structural foreign currency risk by obtaining loans in US dollars and, accordingly, most of its investments in the US are hedged in this way.

At 31 December 2011, "Other Loans" included two loans totalling USD 374 million (31 December 2010: USD 411 million) (see Note 22), which were designated as hedges of net investments in the US subsidiaries and are used to hedge the Group's exposure to foreign currency risk on these investments. The gains or losses on the translation to euros of this loan are recognised in equity to offset any gains or losses on the translation of the net assets at these subsidiaries.

In addition, the Group is exposed to foreign currency risk on its transactions. This risk arises from purchases and sales made by the operating units in currencies other than the functional currency.

In relation to important transactions, the Group uses forward foreign currency contracts to eliminate or minimise foreign currency risk. These contracts must be stated in the same currency as the item that is being hedged and they must not be arranged until the definitive contract is entered into, in order to obtain the best possible correlation with the hedged underlying.

As indicated in the preceding paragraph, certain companies in the rice business (Herba, S&B Herba and Euryza) and in the pasta business (Panzani) have forward foreign currency contracts (foreign currency swaps) to mitigate the exposure of their commercial transactions. These transactions are carried out in order to minimise foreign currency risk although they do not qualify for hedge accounting.

See Note 28 to the accompanying consolidated financial statements for information on the Group's financial instruments exposed to foreign currency risk.

Price risk of other financial assets

The Group is exposed to changes in the price of certain financial assets and liabilities. The most significant effect relates to the shares of Deoleo (formerly SOS Corporación Alimentaria, S.A.) and Biosearch which are included as available-for-sale assets in the consolidated balance sheet at 31 December 2011 (see Note 12 to the accompanying consolidated financial statements) and the changes in the fair value thereof are reflected for accounting purposes in the Group's equity.

Liquidity risk

The Group's objective is to match the maturities of its payables to its ability to generate cash flows to settle these obligations. In order to achieve this, it maintains a balance between continuity of the financing and flexibility through the use of revolving credit policies, bank loans that may include grace periods to adapt them to the return on the related assets, and forward purchase contracts.

Note 22 to the accompanying consolidated financial statements includes a breakdown of the liabilities at 31 December 2011 and their maturities.

Credit risk (counterparty)

This risk arises when a counterparty fails to meet its contractual obligations resulting in a financial loss for the Group.

The risk is mitigated through an appropriate selection policy in relation to the transactions and banks that act as a counterparty in these transactions based on their credit ratings and obtaining sufficient guarantees to mitigate this risk.

The Group's policy with respect to commercial transactions has always been conservative and there are risk committees that regularly assess the situation, the open positions and the automatic alerts implemented in the systems, which historically have led to low bad debt rates. Also, the commercial and collection management departments work together on a coordinated basis and take into account the credit ratings awarded by the credit insurance companies with which the Group works, which provide the last line of guarantee. The Group’s high level of geographical diversification reduces the concentrations of credit risk at the Group arising from this type of transaction.

7. INFORMATION ON THE ENVIRONMENT

The information on the environment is included in Note 29 to the accompanying consolidated financial statements.

8. EVENTS AFTER THE REPORTING PERIOD

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

9. ANNUAL CORPORATE GOVERNANCE REPORT

Pursuant to legislation currently in force, the following section of the consolidated directors' report includes the 2011 Annual Corporate Governance Report of Ebro Foods, S.A. as required by the Spanish National Securities Market Commission.