1. COMPANY SITUATION

Ebro Foods S.A. is the parent of the Ebro Foods Group, Spain's largest food group. Through its subsidiaries, it commands a presence in the rice and pasta markets in Europe and North America, as well as a growing presence in other countries.

As a holding company, its overriding objective is to lead, coordinate and foster the development of the Group it heads up, whose strategy is articulated around the provision of healthy food solutions to consumers that enable it to differentiate its brands by means of innovation and new product and format development.

The Ebro Foods Group articulates its management around business segments that combine business activities and their geographic location. Its key business lines are the production and distribution of pasta and rice and their culinary derivatives and accompaniments. Geographically, it is structured into four major regions: the Americas, Spain, Europe & RoW.

Decision-making is spearheaded by the Board of Directors, which is ultimately responsible for defining the Company's general strategy and management guidelines. The Board delegates certain tasks in its Executive Committee, including, notably, monitoring and oversight of delivery of the strategic and corporate development guidelines, while the Management Committee, on which the heads of the various business areas are represented, is tasked with monitoring and preparing the decisions taken at the management level.

The Annual Corporate Governance Report contains detailed information on the Group's ownership and governance structure.

The Management Report accompanying the consolidated financial statements provides detailed coverage of key trends in and the performance of the various segments and businesses that comprised the Ebro Food Group in 2016.

2. BUSINESS PERFORMANCE OF EBRO FOODS, S.A.

Ebro Foods, S.A.'s key sources of revenue are the dividends paid by its subsidiaries, the services it provides to these subsidiaries and certain real estate transactions. Its expenditure relates mainly to staff costs and the financial cost of the borrowings taken on in its capacity as parent of the Ebro Foods Group. In addition, depending on developments with respect to the value of its investments in its subsidiaries, it recognizes and reverses impairment provisions on its portfolio of investees as required. Recurring revenue and expenditure were flat year-on-year.

Operating profit amounted to 14,404 thousand euros, compared to 24,193 thousand in 2015. The decline in operating profit is attributable to the drop in dividend income from subsidiaries (note 8), offset by the gain recognized on the sale of two investment properties (note 7) of 13,287 thousand euros before tax.

Net finance income amounted to 674 thousand euros, compared to net finance expense of 5,536 thousand in 2015. This difference is attributable to the reversal in 2016 of impairment provisions recognized against investments in group companies as a result of the re-assessment of their financial performance and of the outlook for their profitability and, by extension, valuation.

Profit after tax accordingly amounted to 13,382 thousand euros, compared to 23,220 thousand euros in 2015.

The most significant developments last year related to its activity as parent of the Ebro Foods Group were the following:

Key investments and exits concluded by the Group

Note 8 to the financial statements lists Ebro Foods, S.A.'s direct investments in group companies and associates. The main transactions coordinated by Ebro Foods, S.A. in 2016:

Investment in Santa Rita Harinas:

Acquisition of 52% of Santa Rita Harinas, a Spanish company that makes and markets flour and cooking mixes. Underpinned by a strong strategic commitment to R&D and innovation, it has become the leader in the premium packaged flour segment. The company has a manufacturing facility in Loranca de Tajuña (Guadalajara) and it has 15 employees. In total the Company paid 5.8 million euros for its 52% interest, 4.8 million euros of which was paid in 2016; payment of remaining 1 million euros is subject to delivery of certain targets between 2016 and 2017.

Investment in the bio health food segment:

In early 2016, the Company, through one of its French subsidiaries, acquired 100% of France's CELNAT, a pioneer in the organic food business and one of France's most important organic cereal producers for 25.5 million euros. CELNAT boasts a very strong position in the high-end organic food category and an excellent reputation in the specialist retail circles in which it makes 95% of its sales.

Additional investment in Scotti Spa.

The Company increased its shareholding in this investee to 40% in 2016 (having acquired 25% in 2013); the value of its investment increased by 13.6 million euros. The Scotti Group is an Italian group specialized in the production and processing of rice. It is the leading maker of risotto rice in Italy and boasts a broad portfolio of products that it sells under the Scotti brand in more than 70 markets. This portfolio includes multiple value-added products (rice and soy milk, rice biscuits, rice oils, ready meals etc.) that represent a modern take on Italian cuisine and are targeted at the premium segment.

Sale of the rice business in Puerto Rico

On February 2, 2016, the Ebro Group sold its rice businesses in Puerto Rico and the US Virgin Islands, which it operated under several brands (El Mago, Sello Rojo and Cinta Azul), to CC1 Grain, LLC of Puerto Rico. The transaction price was 12 million US dollars. The sale generated a pre-tax gain of 9 million euros.

3. EMPLOYEE AND ENVIRONMENTAL DISCLOSURES

Staff

Ebro Food's ultimate objective on the labor front is to foster mutually-beneficial labor relations, by making its employees feel vested in the organization, encouraging their career development, promoting equal opportunities and taking a zero-tolerance stance on discrimination and establishing, in a nutshell, a tranquil workplace climate.

Each of the Group companies is governed by the labor legislation prevailing in the countries in which it does business. In addition, the bigger subsidiaries have formulated their own human resource policies that regulate relations between management and employees. Above all of these policies, and notwithstanding the terms of the collective bargaining agreements of the various companies comprising the Ebro Foods Group, there is a corporate Code of Conduct designed not only to ensure the ethical and responsible conduct of the professionals of all Ebro Foods Group companies on the job but also to serve as a guide for defining employment policies and safeguards, workplace health and safety policy, training issues and the principles for guaranteeing the absence of discrimination and the promotion of diversity and equality in hiring decisions.

The key Ebro Foods, S.A. staff disclosures are provided in notes 18 and 19 of the accompanying financial statements.

Environmental disclosures

Although the Company's business activities do not imply environmental consequences *per se*, one of Ebro Foods's basic management commitments is to provide its companies with the tools and measures needed to strike an optimal balance between their business activities and environmental protection. See note 19.d to the financial statements for additional information.

4. LIQUIDITY AND FINANCING

Ebro Foods, S.A. manages the Group's financing requirements in respect of strategic matters such as dividend policy and the Group's organic growth. To this end it relies on the cash generated by its subsidiaries which act as guarantors on the long-term loans taken on to facilitate this role.

The Management Report accompanying the consolidated financial statements provides an in-depth overview of the Group's liquidity and financial position.

5. BUSINESS RISK MANAGEMENT TARGETS AND POLICIES

Ebro Foods, in its capacity as the parent of a group of companies, is indirectly exposed to risks affecting its subsidiaries via the valuation of its investment portfolio and the amount of dividends it receives from them. The business activities performed by the Ebro Foods Group companies are carried out it an environment shaped by exogenous factors that could influence their business and financial performances.

These risks are mainly environmental, business, financial, borrowings, labor and technology related. These risks and the measures taken to identify, manage and mitigate them are described in detail in both the Management Report accompanying the consolidated financial statements and in the Group's Annual Corporate Governance Report.

On the basis of the main risks identified each year, management assesses the instruments in place for mitigating them and the main associated processes and controls.

Financial risk management and use of financial instruments

The main financial instruments used are bank loans, bank overdraft facilities, cash and short-term deposits. The overriding goal of using these instruments is to expand the sources of financing available to the Group.

In the past, the Company has written derivatives to hedge interest and exchange rate risk. It is Company policy not to use financial instruments for speculative purposes.

The main risks arising from the financial instruments used are credit risk, cash flow interest rate risk, liquidity risk and foreign currency risk.

The Board of Directors reviews and establishes the policies put in place for managing each of these risks, while the Finance Department identifies and manages them with a view to minimizing or ring-fencing their potential impact on the Group's performance.

Credit risk

Ebro Foods, S.A.'s exposure to credit risk is not significantly concentrated. Moreover, it deposits its cash and arranges its financial instruments with highly solvent and creditworthy financial institutions.

Cash flow interest rate risk

The Company is exposed to changes in market interest rates, mainly on account of its non-current payment obligations arranged at floating rates of interest.

The policy deployed to minimize this risk is to combine floating and fixed rates and to strive to achieve a well-balanced debt structure so as to reduce borrowing costs while containing volatility. To this end it tracks interest rate trends with the help of external experts. Whenever deemed necessary, Ebro Foods, S.A. arranges interest rate derivatives.

Foreign currency risk

As a result of the investments made in the US, the carrying amounts of the Company's assets and liabilities are significantly exposed to changes in the USD / EUR exchange rate. It has mitigated this structural exchange-rate risk by denominating specific borrowings in this currency. In this manner, it has hedged the majority of its US investments.

Foreign currency risk also arises from the purchases and sales made by the various subsidiaries in currencies other than the functional currency. In this instance, the subsidiaries themselves arrange their own forward contracts or other exchange rate hedges, in keeping with Group policy.

Liquidity risk

Ebro Foods, S.A.'s objective is to maintain a balance between continuity of funding and flexibility through the use of renewable credit facilities, bank loans and short-term deposits.

6. EVENTS AFTER THE REPORTING PERIOD

In December 2016, the Group merged several US-resident companies with the aim of simplifying and streamlining its structure in that market (Ebro North America) and reducing costs, reasons deemed valid from an economic and tax perspective. That reorganization, which culminated in the merger of the Group's two main North American subsidiaries (Riviana Foods, Inc. and New World Pasta, Inc., the latter merging into the former) was structured as a tax-free reorganization in the US; the equivalent tax-neutral regime will be availed of in Spain over the course of 2017 (specifically the regime provided for in Chapter VII of Title VII of Spain's Corporate Income Tax Act (Law 27/2014)). The merger is effective for legal and financial purposes from January 1, 2017.

There have been no other significant events or developments between the end of the reporting period and the date of authorizing the accompanying financial statements for issue.

7. BUSINESS OUTLOOK

Ebro Foods' earnings performance going forward will depend on the dividends received from its subsidiaries, the gains recognized on properties deemed non-core and the finance costs incurred on the debt taken on to finance its assets.

The Company's directors believe that the dividends declared by its subsidiaries will be sufficient to enable Ebro Foods to fund an adequate shareholder remuneration policy.

8. R&D

R&D initiatives are shaped by the subsidiaries' strategic initiatives (to which end we refer the reader to the Management Report accompanying the consolidated financial statements).

9. OWN SHARE TRANSACTIONS

In 2016, the Parent had the power to buy back and sell own shares under the scope of the authorization granted at the Annual General Meeting held on June 3, 2015 for a period of five years (and duly notified to the CNMV in keeping with prevailing legislation). In 2016, the Company bought back 28,553 shares, sold 2,106 and delivered 26,447 own shares to employees. The Company did not hold any own shares as treasury stock at December 31, 2016.

10. OTHER DISCLOSURES

Average payment period

The Company paid its suppliers at 21 days on average in 2016.

	2016	2015
	Days	Days
Average supplier payment term	21	15
Paid transactions ratio	21	15
Outstanding transactions ratio	4	37
	Amount (thousands of euros)	Amount (thousands of euros)
Total amount of payments made	12,676	9,242
Total payments outstanding	60	226

Share price performance

Dividend distribution

On June 1, 2016, it was resolved to pay a cash dividend against unrestricted reserves and 2015 profits of 0.54 euros per share over the course of 2016. This dividend was paid in three instalments on April 1, June 29 and October 3, 2016.