

CONSOLIDATED GROUP

RICE

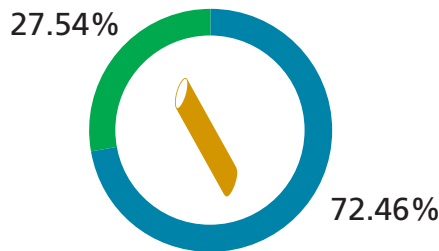
PASTA



# Pasta, sauces and others

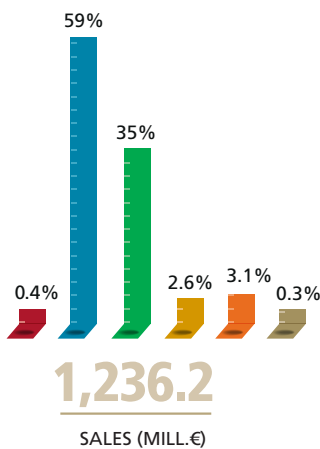
This division is represented by the companies new world pasta (leader in the United States and Canada), Panzani (no. 1 in France in the dry and fresh pasta, sauces, couscous and semolina sectors) and Pastificio lucio Garofalo (Italy). Apart from these countries, the group’s brands are also present in Belgium, hungary, united kingdom, algeria, united arab emirates, czech republic and russia, so in just ten years, ebro has positioned itself as second pasta manufacturer in the world. The division overall now accounts for 49% of the group’s business.

BREAKDOWN OF GROUP WORKFORCE BY GEOGRAPHICAL AREAS

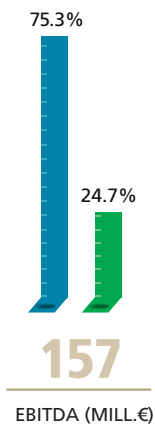


**2,999**  
AVERAGE WORKFORCE

BREAKDOWN NET SALES OF PASTA DIVISION BY GEOGRAPHICAL AREAS



BREAKDOWN EBITDA OF PASTA DIVISION BY GEOGRAPHICAL AREAS



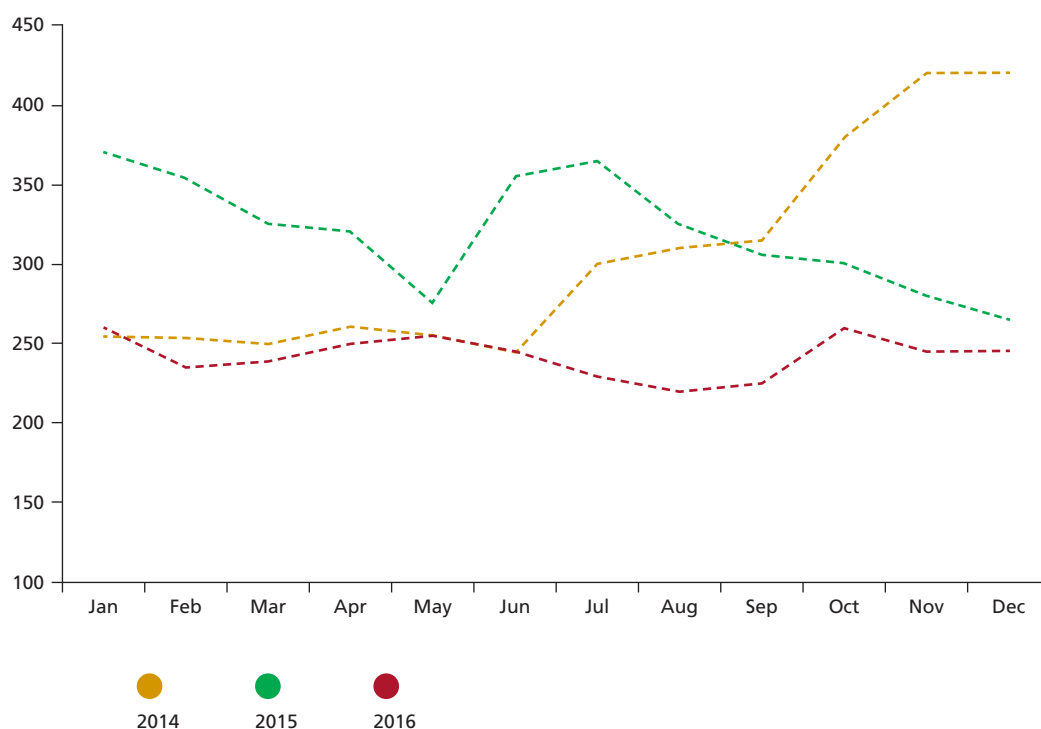
## Development of the pasta and sauces business in 2016

PASTA BUSINESS (€ 000)	2014	2015	2015/2014	2016	2016/2015	CAGR 2016/2015
Net sales	1,029,294	1,224,491	19.0%	1,236,227	1.0%	9.6%
EBITDA	146,317	148,647	1.6%	157,089	5.7%	3.6%
% net sales	14.2%	12.1%		12.7%		
EBIT	114,397	110,477	(3.4%)	113,544	2.8%	(0.4%)
% net sales	11.1%	9.0%		9.2%		
Average working capital	94,810	107,261	(13.1%)	97,015	9.6%	
Capital employed	578,767	691,071	(19.4%)	709,253	(2.6%)	
ROCE	20.5	16.1		16.2		
Capex	34,249	40,683	18.8%	59,701	46.7%	

Durum wheat prices were very stable throughout 2016. There was considerable variation in the harvests and yields of this cereal in the different wheat-growing regions. The year commenced with an abundant stock from the 15/16 season, although with certain quality shortcomings, and the 16/17 season has reproduced this situation with larger areas sown and harvests in the principal producing countries (USA, Canada and southern Europe) but, owing to the late rainfall, with a poor quality harvest in northern France and Canada. Cereal harvests are, nevertheless, at all-time high levels, making the market very stable, as reflected in the evolution of prices over the past three years.

### PRICE OF DURUM WHEAT IN €/TON

Source: Terre.net



The prices paid to growers in the USA, published by USDA, are also clearly falling, from 9.16 \$/bushel in June 2015 to an average price paid in December 2016 of 6.27 \$/bushel.

**Sales** grew by 1%, boosted by the incorporation of other businesses, which contributed €64 million in the year-on-year comparison (nine months more of Monterrat and full year Celnat), while prices put strong downward pressure on turnover.

By geographical markets:

- ◆ In France, dry pasta sales grew by 1.7% in volume to reach a 37.6% share of modern distribution, in a category that is declining at a rate of 0.4%. The growth in sales and market share was extended to fresh pasta, which increased to a 39.1% market share in volume, but stagnated in the sauces segment following a complicated first quarter. Overall, the greater volume of sales pushed the turnover up by €26 million. Prices had the opposite effect (-€38 million) as the falling prices of wheat were passed on to consumers.

A significant part of this growth is underpinned by innovations, especially in the new dry pasta with the quality of fresh product (2,427 tonnes sold, compared to 1,247 tonnes in the preceding year), 811 tonnes of the new product ranges based on ancient grains and combinations with rice or pulses, and the 35.9% growth in sales of pan-fried gnocchi, which further broadened its range with annual sales of 12,703 tonnes, making it the flagship of the Group's innovation and an example to be followed by the new ranges of Spanish Tortilla, Croque Monsieur and Pizza.

Special mention should be made here of the incorporation of CELNAT, acquired in January 2016. This company is a pioneer in organic food segment and one of the most important organic cereal producers in France. CELNAT has a very significant position in the category of high quality organic products and an excellent reputation in specialised circuits, where it makes 95% of its sales. It has been consolidated as planned and we trust that it will become the seed of a new healthy food division.

- ◆ Another great year for Garofalo, with growth in volume and profitability. It has increased its share of the premium pasta market in Italy to 5% in volume and 7.5% in value, while its distribution in Spain has grown by 35%.
- ◆ United States. This is a highly complex market, where price competition is extremely intense and promotions are all-important. The Group's strategy during the year was to bolster its principal brands to guarantee their volume and recognition, while positioning the new product lines in the health and well being segment (ancient grains, supergreens, gluten free and organic). Numerous initiatives were developed in respect of local brands (territorial expansion of American Beauty), increasing promotion by 10% and investment in advertising by 64%. New World Pasta now has an 18.8% share in volume of the market.
- ◆ Canada. Just as in the USA, the lowering of prices at source caused a deflationary market (3.8% increase in volume, but only 2% in value), with a large number of operators implementing aggressive price policies.

The Group's response was similar, with increased promotions and advertising. Catelli Foods still leads the market with a 31% share in volume. The fresh pasta market grew by 2.3% in volume and 3.0% in value, and Olivieri maintains its leadership with a 45.1% share, despite the competition between private label and manufacturers' brands.

The division **EBITDA** grew by 5.7%. Roland Monterrat contributed €4.3 million and CELNAT €3.2 million for the full year.

France increased its contribution to €99.4 million, with organic growth of €4.2 million, despite a 10% increase in advertising investment. The higher profitability was thanks to a larger volume of sales and improved productivity throughout the value chain. The fresh sandwich segment marketed by Roland Monterrat came under strong pressure from competition, so a profitability enhancement plan was implemented, with a progressive integration in the Panzani structure.

Garofalo contributed €20.1 million, up 16% year on year while investing 10% more in advertising. It held a perfect course within a deflated market, where it managed to improve its profitability by extending its brand and thanks to agile management of its purchasing position for top quality wheat.

The performance of New World Pasta was not so good in either the dry pasta segment, where it was forced to make major efforts in price negotiation and promotions, or in the fresh pasta and sauces business, in which it operates under its Olivieri brand in Canada. Its contribution to Group earnings dropped by €5.8 million (increasing its expenditure on advertising by €9.3 million) and the erosion of the Olivieri brand was reflected in the recognition of a loss for a reduction of value calculated at CAD 10 million (see Note 9 to the Annual Accounts).

The division **ROCE** remained more or less stable at 16.2%.

**CAPEX** was concentrated in the facilities to improve the fresh product capacity and productivity at Communay (€4 million, taking the investment so far to €33.5 million), a new long-grain pasta line (€4 million), a logistics warehouse in the north of France (€13,4 million), increased productivity at the Roland Monterrat plant (€3 million), a new short-grain pasta line at the Garofalo plant (€2,4 million) and improved productivity of the long-grain pasta line at Winchester (€2 million).