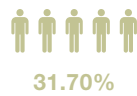
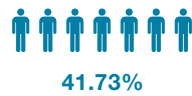


# 2 Rice



# Rice

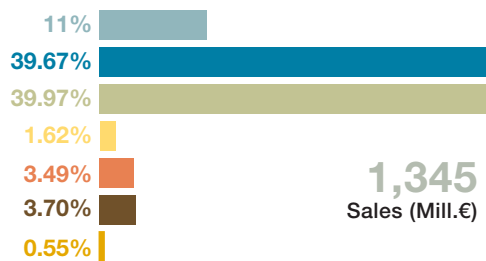
## BREAKDOWN OF RICE DIVISION WORKFORCE BY GEOGRAPHICAL AREAS



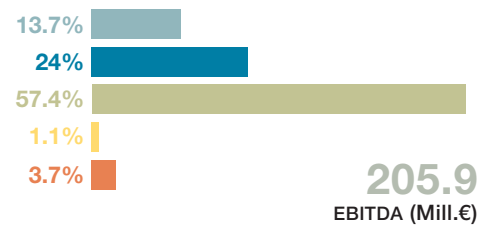
**3,297**  
Average workforce



## BREAKDOWN OF RICE DIVISION SALES BY GEOGRAPHICAL AREAS



## BREAKDOWN OF RICE DIVISION EBITDA BY GEOGRAPHICAL AREAS

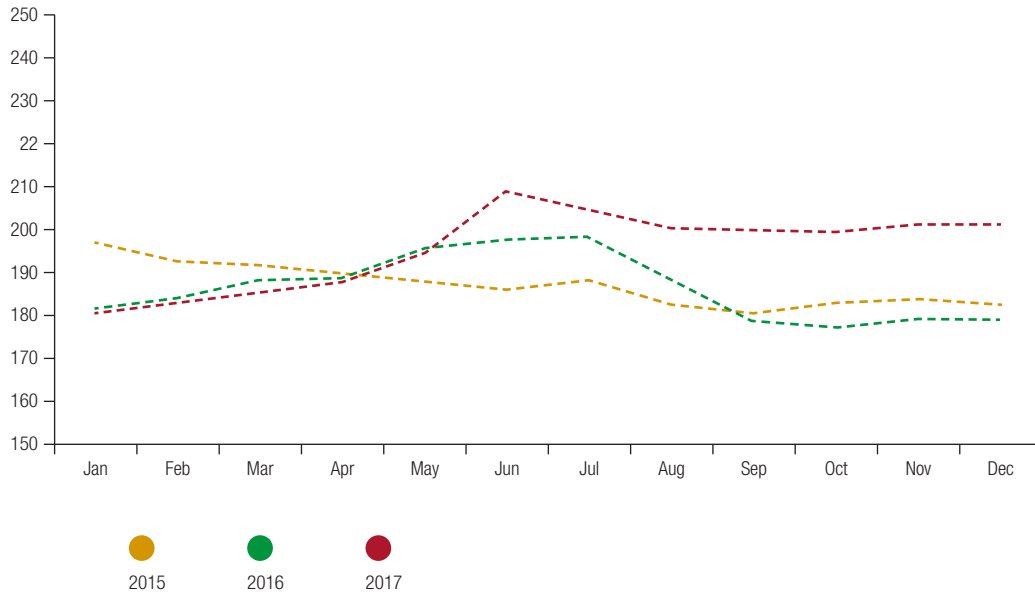


Spain    Europe    North America    Africa    Asia    Middle east    Others

PROFIT AND LOSS	2015	2016	2016-2015	2017	2017-2016	CAGR 2017-2015
Net sales	1,287,726	1,283,853	(0.3%)	1,345,026	4.8%	2.2%
Advertising	(28,988)	(30,135)	(4.0%)	(33,466)	(11.1%)	7.4%
EBITDA	176,959	196,264	10.9%	205,988	5.0%	7.9%
EBIT	147,509	163,561	10.9%	172,522	5.5%	8.1%
Operating profit	148,600	169,240	13.9%	174,027	2.8%	8.2%
Capex	39,555	47,391	19.8%	65,807	38.9%	29.0%

Thousand of euros

## Rice Price Index (IPO)



As from the first quarter of the year, rice prices rose generally, even though world production and stock levels were already close to record levels. The devaluation of the US\$ clearly affected this trend, and prices varied considerably for different sources and varieties.

By geographical regions, the trend of the previous year was maintained in the European Union, with abundant sowing and harvesting of short-grain rice and a certain reduction in the area sown with long-grain rice varieties (which are not very competitive against the long-grain rice from EBA countries). Overall, an abundant harvest and relatively low prices.

In the United States, the 16/17 harvest was excellent, with 30% more land sown with long-grain rice, taking the quantity of rice available up to almost record levels. Consequently, prices remained low for the first half of the year.

However, as from the summer, hurricanes caused flooding in the rice-growing areas and this, together with the smaller growing area (owing to the unfavourable price expectations in the sowing season), pushed prices up, as shown in the following table of prices paid to growers (the 17/18 crop year is still in progress, so the prices for this season were estimated in December 2017):

### Price US crop year August-July

\$/CWT	17/18 (*)	16/17	15/16	14/15	13/14
Average price	12.3-13.3	10.4	12.2	13.4	16.3
Long grain	11.6-12.6	9.64	11.2	11.9	15.4
Medium grain	14.2-15.2	12.9	15.3	18.3	19.2

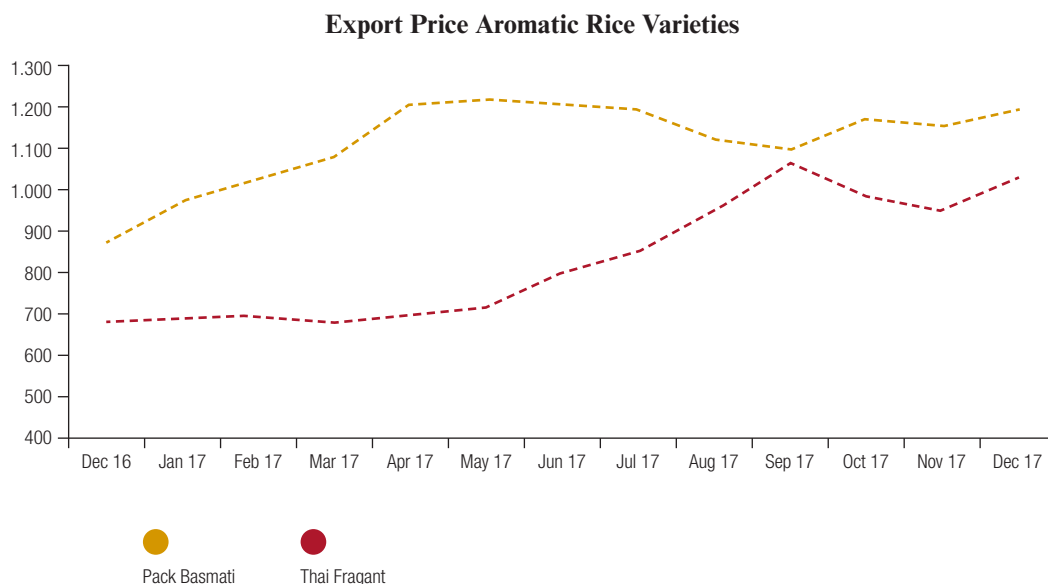
(\*) Estimated range

(Source: USDA)

Finally, in the rice-growing regions of South East Asia (principal global exporters: India, Thailand, Vietnam, Pakistan and Myanmar), prices were hit by the devaluation of the dollar and the benchmark of American long-grain rice, with export prices rising as from May-June with an average increase of 5-10% year on year.

The evolution of aromatic rice varieties (basmati and Thai fragrant) is worthy of separate consideration. During the last crop year, the smaller yield on these crops led growers to sow a smaller area with basmati rice. A water shortage in certain growing areas also affected the crop and the carryover stock and these circumstances led to a hike in the prices of this variety.

As from mid-year, the hike in basmati rice prices extended to the Thai fragrant rice, which was to a certain extent substituted for basmati in some markets importing these varieties. The situation is shown very clearly in the following graph of export prices in US\$:



This trend has obviously affected profit margins and will also affect prices.

**Sales** grew again in both absolute terms (+2.2%) and on a like-for-like basis (€30 million increase in sales due to incorporation of businesses; exchange rate effect -€12 million). Net prices in the United States declined over the first half of the year, while they remained generally stable in Europe.

By geographical regions, sales made in the United States accounted for 40% of the rice division. The remaining sales were distributed among a large number of countries, mainly in the European Union.

The highlights of the year are set out below:

- ▶ The volume of sales by the US rice unit increased in both the domestic market (even though sales of the category fell by 0.6%) and exports, where the Group benefited from very competitive American long-grain rice prices in the first half of the year.
- ▶ The solid growth of cups continued in both the United States (+15% in volume) and other countries (+35% in volume in Spain).
- ▶ Strong development in Europe of the “Benefit” range, based on grain, vegetable and pulse mixes, which combine health and convenience and provide a full, healthy, natural menu. In the United States, production of the organic cup range is commencing now, after obtaining accreditation of our facilities.
- ▶ Real explosion of products based on or mixed with quinoa and ancient grains, both in cups (quinoa has consolidated its position as the third product in the category, behind white and brown rice) and in traditional preparations (Vidasania, Bosto grains, Lassie Zilvervlies and Reis-fit Knormix).
- ▶ Growth in organic rice and pulses, included in the healthy products line. The acquisition of Geovita, for its product range in this category, is considered the perfect complement for its development.

The division **EBITDA** was up 5.0% year on year. A small portion of this growth corresponds to the integration of new businesses (€2.7 million), offsetting the decline due to the exchange rate effect on the US rice business (-€2.4 million).

The performance of margins is especially worth mentioning, considering the above-mentioned price increase of aromatic rice. A hike in the cost of the raw material directly hits margins, since it is difficult to pass such a sharp rise on to customers, requiring lengthy negotiations with distributors. In this case, the direct impact reflected in the 2017 accounts has been estimated at €2.6 million, concentrated in the costs of basmati (which especially affects the European market) as the prices of other varieties of fragrant rice rose at the end of the year with a higher alert level and, in any case, they will be negotiated with distributors in 2018.

Investment in advertising remained more or less stable, with an increase of €3.2 million in our European businesses and a reduction of €5.2 million in the United States (to adjust the step-up in promotions in the first three quarters of the year to mark-to-market).

The American business registered a new record contribution of US\$ 134 million, with an outstanding performance by the principal brands (Mahatma, Carolina, Minute and Success) despite the impact of the hurricanes (which caused a toll difficult to quantify in extraordinary maintenance and repair work, change in production schemes and enormous logistics problems).

By source, the contribution to the EBITDA of the non-American business is as follows:

	2015	2016	%	2017	%
Spain	23,191	27,903	38.7%	28,382	32.6%
Europe	41,307	40,261	55.9%	48,577	55.7%
Others	7,522	9,845	13.7%	10,210	11.7%
<b>Total Ebitda</b>	<b>72,020</b>	<b>78,009</b>	<b>100.0%</b>	<b>87,169</b>	<b>100.0%</b>

The business development is especially satisfactory: (i) in Germany, where a new commercial team has renovated the product portfolio, incorporating the range already existing in other countries, but adapting it to local consumers, thus increasing revenue through mixes; (ii) in the Netherlands, where the market has proved receptive to the idea of healthy food; and (iii) in our frozen foods business, which has furthered its international expansion with the UK plant, now operational, and a large project in the USA, where a latest-generation plant has been built, fully automated, expected to come on stream in 2018.

Growth from other sources is due to the increased business in India and Thailand, where the Group has reinforced its presence both to guarantee its supply of long-grain and aromatic rice varieties at prices and with qualities meeting the Group's internal requirements and with a view to progressively establishing itself in the local market.

The **Operating Profit** was smaller than other margins on the profit and loss account, due to the smaller non-recurring earnings, since in the previous year it had included the sale of the business in Puerto Rico and major properties.

Investment in fixed assets grew again, especially in business lines with a high growth potential. The principal investments (**CAPEX**) made in this division correspond to (i) the new frozen foods factory in the United States (€17.5 million), (ii) the new pasta facilities in India (€4.5 million), (iii) the conclusion of investments in a new finished product warehouse in Antwerp (€1.7 million) and Amsterdam (€1.2 million), (iv) the new storage facilities in Cambodia (€3 million), (v) the enlargement of the ingredients plant (€3.2 million), (vi) the increased capacity of instant rice at the Memphis plant (€3 million), (vi) the automation of the packaging lines at the Freeport plant (€4.2 million) and (vii) the enlargement of the microwave cups plant in Jerez de la Frontera (€1.3 million).

