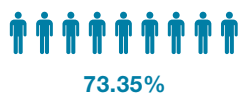


3 Pasta, Sauces and Others



Pasta, Sauces and Others

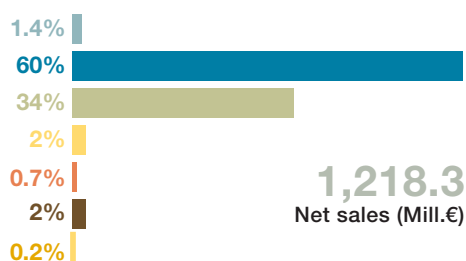
BREAKDOWN OF PASTA DIVISION WORKFORCE BY GEOGRAPHICAL AREAS



2,867
Average Workforce



BREAKDOWN OF PASTA DIVISION SALES BY GEOGRAPHICAL AREAS



Spain

Europe

North America

Africa

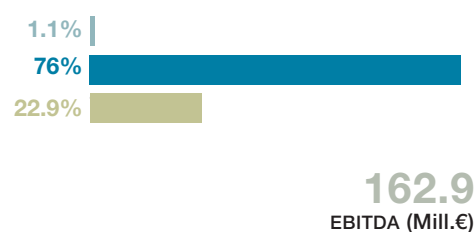
Asia

Middle east

Others



BREAKDOWN OF PASTA DIVISION EBITDA BY GEOGRAPHICAL AREAS



PROFIT AND LOSS	2015	2016	2016-2015	2017	2017-2016	CAGR 2017-2015
Net sales	1,224,491	1,236,227	1.0%	1,218,285	(1.5%)	(0.3%)
Advertising	(58,231)	(70,840)	(21.7%)	(66,154)	6.6%	6.6%
EBITDA	148,647	157,089	5.7%	162,977	3.7%	4.7%
EBIT	110,477	113,544	2.8%	117,420	3.4%	3.1%
Operating profit	104,957	93,294	(11.1%)	102,032	9.4%	(1.4%)
Capex	40,683	59,701	46.7%	52,855	(11.5%)	14.0%

Thousand of euros

Price of Durum Wheat in EUR/TON



Source: Terre.net

Overall, durum wheat prices maintained in 2017 the line of stability announced in 2016, except the price hike in the USA in the summer, as mentioned earlier. A larger area was sown in the 16/17 season and the harvest rose in the main producers (North America and southern Europe), but owing to the late rains, the quality in the major production areas of the USA and Canada was rather poor. Even so, the abundance of wheat in Europe, where excellent harvests were reaped, guaranteed falling prices up to the new spring-summer harvest, as reflected on the price evolution graph (European prices).

With the new harvest, the announcement of a smaller sowing area (in the previous two seasons the price spread between durum wheat and common wheat had favoured the former) and the low quality of the carryover stock made markets uneasy and prices rose, especially in North America, where the problems were more acute. Although a smaller output is expected in the 2017/18 season (down approximately 36% year on year in Canada and 47% in the USA), the reduction is expected to be offset with a larger production in the rest of the world and improved quality, so prices returned to normal after the summer.

The prices paid to growers in the USA, published by USDA, follow the pattern described in the preceding paragraph, ranging from an average price of 6.50 US\$/bushel in June 2016, lows of 5.71 US\$/bushel in February/March 2017, an upturn to 6.69 US\$/bushel in June 2018, then stabilising as from September with a price of 6.41 US\$/bushel in December 2018.

Sales dropped by 1.5%, boosted by the incorporation of Vegetalia with a contribution of €12 million, partly counteracted by the impact of the exchange rate on the American business, of -€5 million. Sale prices were accompanied by the lowering of wheat prices in the first half of the year, especially in the non-brand markets, and when the prices at source went up (especially in the United States), they were corrected by reducing the number of promotions to absorb the impact.

By geographical markets:

- ▶ In France, the brand markets in which we operate (dry pasta, fresh pasta, sauces, cereals and pulses) maintained a healthy growth, apart from dry pasta, which remained stable. However, non-brand (or price) sales fell, mainly due to the lowering of net prices in response to competition from countries in which the raw material was cheaper (such as Italy).

Panzani dry pasta sales fell slightly in volume to a 36.7% share of modern distribution, owing to a fierce promotion campaign by competition. In other categories, the performance was excellent, increasing to 42.9% in volume in fresh pasta and 21.6% in cereals and pulses. Overall, the like-for-like turnover fell due to the price effect (down €12million), partly offset by a large volume of sales (up €7 million).

Principal innovations included: (i) a new pasta+cereals line, (ii) the new sauces with fresh quality, (iii) the performance of dry pasta with fresh pasta quality (+23% in volume year on year), which continues broadening its range, and (iv) the new range of mixes, of semolina, rice, ancient grains and pulses (+73%). In the fresh pasta segment, there is continued growth of pan-fried gnocchi sales (+18%), expanding the range, with annual sales of 14,966 tonnes.

- ▶ Garofalo brand sales grew in volume and profitability, in a practically flat market. Total sales remained stable as the sales of other secondary brands with price positioning fell. It increased share of the premium pasta market in Italy to 5.1% in volume and 7.6% in value. In 2017 its distribution grew throughout Europe, and towards the end of the year it launched a new premium quality fresh pasta range.
- ▶ United States. As mentioned last year, this market is sluggish, shrinking by 1.2% in volume and 2.3% in value, owing to fierce price competition (accompanied by the trend in durum wheat prices in the first half of the year). The health and well being segment plummeted (down 4.4%, with only the gluten free line maintaining any growth), which hit our oldest brands (Healthy Harvest, Garden Delight, Smart Taste) harder. Gluten free and organic products grew, but slowly. Riviana's market share in volume remained at 18.5% in pasta, offsetting the drop in the health segment with growth in traditional products of the Ronzoni and American Beauty brands.
- ▶ Canada. The dry pasta market reproduced the trends witnessed in its southern neighbour (the Canadian durum wheat market practically mirrors the US market, subject to the evolution of the exchange rate between their currencies) but even more aggressively, growing 1.2% in volume, but dropping 3% in value. Some of the largest distributors in the country have developed price competition strategies which are reflected in this trend.

This price competition led one of our brands used in the low-price strategy to be taken off the shelves of one of the major distributors in the country, with a significant effect on volumes sold, although not on profits. Even so, Catelli Foods still leads the market with a 28.0% share in volume. The fresh pasta market grew by 8% in volume and 5% in value, and Olivieri strengthened its leadership reaching a 46.8% market share, underpinned by innovation.

The division **EBITDA** grew by 3.7%, pushed up by Garofalo, which posted record profits thanks to the improvement of the product mix and the success of its procurement policy. The contribution by Vegetalia was practically counteracted by the effect of the exchange rate. Investment in advertising was cut by 7%, adjusting advertising campaigns to the situation on the markets.

France raised its contribution to €101.2 million, which, after stripping out the contribution by Vegetalia, was on a par with the record earnings obtained in the previous year. Panzani was faced with two fundamental problems: (i) the shrinking of non-brand or price markets, and (ii) the smaller contribution by Roland Monterrad products owing to greater price competition. Those problems were counteracted with: (i) a considerable increase in the volumes of its brands, (ii) a better product mix achieved by renovating its portfolio and (iii) improved productivity.

Garofalo contributed €25.7 million, up 28% year on year (when a 16% growth had been reflected). It held a perfect course within a deflated market, where it managed to improve its profitability by extending its brand, in collaboration with other Group companies, and thanks to agile management of its purchasing position for top quality wheat.

The North American pasta segment contributed slightly less (down €1.5 million), with contrasting performance in the United States and Canada. In the USA, the declining volumes in the health and well being segment left a less profitable product mix which, together with a short position in raw material supplies in the summer months, when durum wheat prices hiked suddenly, producing an excess cost year on year of US\$ 4.2 million. In Canada, however, despite smaller volumes, profits were secured and the situation of supplies in the summer was more favourable, so profitability improved in both fresh and dry pasta.

The **Operating Profit** improved in comparison with the above-mentioned margins, as last year a non-recurring provision was recognised to cover a modification of the pension commitments in France.

CAPEX was concentrated in: (i) renovation of one of the dry pasta plants to improve its capacity and productivity (€6 million), (ii) a new quick-cooking couscous line (€2 million), (iii) a new pan-fried gnocchi line (€4 million), (iv) a new long pasta line at St. Louis (€6 million) and (v) the renovation of packaging lines in the United States (€3 million).

