

## DIRECTORS' REPORT

### ON THE 2004 FINANCIAL YEAR

#### 1. BUSINESS REVIEW

Ebro Puleva is the parent company of the Ebro Puleva Group, the leading Spanish food group. It operates in the sugar, milk, rice, biotechnology and other less significant markets through its subsidiaries, mainly in Spain, but with a growing international presence.

In 2004, Ebro Puleva set in motion a strategic diversification and internationalization plan culminating in the 100% takeover of Riviana Foods Inc. on September 5.

Riviana is the leading rice production and marketing company in the United States. It has interests in Central America where it is the largest producer and marketer of cookies, crackers, and fruit juices.

Ebro Puleva is moving towards its goal of achieving a better revenue balance between its domestic Spanish and international markets, while increasing the relative importance of branded sales over industrial sales. The balance between the various business lines is also improving: the rice business now contributes more to the Group as a whole, and the sugar business less.

Other significant developments in the year were:

- \* Continued operational improvements in our sugar business are producing highly satisfactory manufacturing results, with production well over the assigned quota. Production and structural costs were both reduced, dehydrated alcohol production was concentrated at the Rinconada distillery, and the last animal feed production plants still in operation were closed down.
- \* We continued to grow our rice business in Europe. We completed our expansion into the United Kingdom by buying Vogan and setting up S&B Herba Foods (a merger between Joseph Heap and Stevens & Brotherton) which is well positioned in the industrial and branded segments. The Finnish brand, Risella, was acquired, which represents a major step forward in our plans to penetrate the Nordic markets.
- \* In the Spanish market, commercial networks in the rice business were reorganized. As part of this reorganization, Herba Nutrición absorbed its subsidiary, Nomen Alimentación, towards the end of the year.
- \* The Group has redesigned its financing structure with the 375 million dollar long term financing of the Riviana acquisition.
- \* Some non-core assets were sold off, the most important of which were the former Santa Elvira sugar factory in León and the old San Francisco and Fábrica de Ron Bermúdez distilleries in Salobreña (Granada).
- \* Assets have been divested in Chile, with the sale of 49% of its subsidiary Inversiones Greenfields through which the Group previously held an actual shareholding of 23% in Empresas Iansa.

## 2. FORESEEABLE DEVELOPMENT OF THE COMPANY

2005 will be a year of consolidation of all the processes carried out in 2004. We will continue to work towards improving the balance between domestic and international market revenues, and the balance between branded and industrial sales. In this respect we have already taken another step forward with our bid for Panzani, as we reported in our “Post-balance sheet events”.

We will begin to reap the benefits of our restructuring of the sugar and rice businesses, and our concentration on higher added value products, especially in the milk business.

The upcoming 2005/06 sugar campaign will continue to be regulated by the current European Commission Regulation 1260/2001 which means that the price paid to the farmer for sugar beet will remain unchanged. The following campaigns will presumably be run under the new regulation currently being drawn up.

The content of the new regulation will be known by late 2005 if the EC keeps to its planned schedule. Only then will we be able to judge what impact it will have on Azucarera. However, it should be noted that the European Commission has always had an abiding commitment to the goal of establishing a framework which would ensure the long term continuance of a major sugar beet/sugar industry in the European Union.

Azucarera currently enjoys an excellent competitive position in the EU sector, thanks to the company's efforts to improve efficiency and cut production costs in both agronomic and industrial processes. As a result we believe that the new regulatory framework will provide Azucarera with a stable economic environment in which to continue developing its business.

In 2004 a reform of the regulatory framework governing the rice sector was completed with the passing of a new CMO. One of the main consequences of this reform has been the lowering of the support price for rice to almost half the previous level. This should inject dynamism into the sector, boost the consumption of rice in general, and facilitate trade between different areas.

The Board of Directors, which prepares the Group's annual accounts and this management report, intends to continue ensuring major increases in shareholder return. This rose from 0.30 euros per share in the previous year to 0.33 euros per share in 2004.

## 3. RESEARCH AND DEVELOPMENT

Our R&D projects as the parent company is conducted through the activities of our subsidiaries.

In Azucarera, the goals of the RD&I Centre continued to be ongoing improvement and the optimization of sugar industry processes. Its collaboration in various projects with a number of national and international bodies, institutions and universities, establishes it as a benchmark center for research into sugar and sugar by-products.

In 2004 work continued on projects in progress aimed at improving industrial processes for preservation, sugar beet washing, diffusion, purification, evaporation, and crystallization.

Puleva's innovation policy has been the key to the company's development. Its differentiation strategy is still setting standards in the market and is appreciated by the retail trade and consumers alike. In 2004, Puleva was given an award in recognition of its work as an innovative company.

Herba has been very active in R&D for new higher added value products ever since ready to eat rice in cartons took off. The most interesting research in this area is into new rice based food products along with new formulas and improvements of the pre-cooked rice line, demonstrating Herba's firm commitment to the development of new business lines.

Meanwhile Puleva Biotech, very much a research and development company itself, has started to market omega 3 and will shortly be moving into the marketing of probiotics. It has developed a new range of infant food products for Puleva Food, bringing baby food formulas up to date and creating a whole new range of infant milks. For Lactimilk, Puleva Biotech has developed new high added value dairy products which are expected to be on the market in 2005 to complete RAM's product range. The company is also identifying new uses and potential new high valued added markets for rice and its by-products. Meanwhile work is still in progress on the development of a biocatalytic process for the industrial production of functional oligosaccharides for Azucarera Ebro.

Ebro Puleva S.A. continues to coordinate the Group's projects so that all the Group's companies can benefit from the communication and sharing of best practices and experiences in matters of RD&I.

#### 4. OWN SHARES

In 2004, the Company made purchases and sales of own shares as authorized by the General Meeting held on April 15, 2004, having duly notified the CNMV (Spanish National Securities Commission) in accordance with current reporting standards. In 2004, 2,408,678 shares were purchased and 3,198,253 shares were sold. At year-end the Company had 65,231 own shares amounting to 0.04% of its share capital, having created the required reserve for own shares. In accordance with the Redrafted Text of the Spanish Corporation Law, an unavailable reserve has been set up equivalent to the amount of own shares in portfolio. This reserve will become available when the circumstances requiring it to be set up no longer prevail. At year-end 2004, these own shares are not earmarked for any specific purpose.

## 5. POST-BALANCE SHEET EVENTS

Significant events subsequent to year-end were as follows:

- \* On February 14, 2005, the Spanish tax authorities notified all the companies in the tax group headed by Ebro Puleva, S.A. that a tax inspection had been initiated for the years 1999-2003 for corporate tax, and the years 2001-2003 for other taxes.
- \* In a meeting held on February 23, 2005, Ebro Puleva S.A.'s Board of Directors agreed to make an irrevocable offer to buy 100% of Panzani for 337 million euros. In accordance with French legislation, this offer is subject to consultation with the legal representatives of the workforce and to the approval of the French and German competition authorities.

The irrevocable offer is for all Panzani's shares and partial acceptance is not an option. The offer will expire three months after the sellers (three investment funds and the company's own management team) are notified. Panzani is a major French company occupying a leading position in several sectors of the French food market through its various brands. At January 31, 2005, its debt stood at 302 million euros, so the total cost of the transaction to Ebro Puleva would be around 639 million euros.

In March 2005, the representatives of the workforce formally declared that they do not oppose the transaction. On March 24, Bundeskartellamt gave their go ahead for the transaction.

If this acquisition takes place, it will give Ebro Puleva a major brand presence in the French food market. This will increase the contribution of branded businesses to the Group as a whole and reduce the relative importance of the sugar business, while increasing the importance of our international businesses. All of which outcomes are perfectly aligned with the company's strategy of profitable growth, diversification and internationalization.

