

## 2005 CONSOLIDATED MANAGEMENT REPORT

### 1. REVIEW OF THE YEAR

CONSOLIDATED FIGURES			
Thousands of euros	2004	2005	2005/2004
Revenues	1,844,610	2,359,866	27.9%
Net sales	1,795,778	2,173,849	21.1%
As % of revenues	97.4%	92.1%	
EBITDA	252,122	295,160	17.1%
As % of revenues	13.7%	12.5%	
EBIT	186,014	207,682	11.6%
As % of revenues	10.1 %	8.8%	
EBIT + Financial results	165,844	173,355	4.5%
As % of revenues	9.0%	7.3%	
Profit before tax	174,432	220,056	26.2%
As % of revenues	9.5%	9.3%	
Income tax expense	(41,349)	(61,298)	-48.2%
As % of revenues	-2.2%	-2.6%	
Profit for the year	126,573	155,641	23.0%
As % of revenues	6.9%	6.6%	
Average working capital	426,853	450,453	5.5%
Capital employed	1,219,230	1,534,318	25.8%
ROCE (1)	15.5	13.5	
Capex	102,524	99,664	2.8%
Average number of employees	5,261	8,118	54.3%
	<b>12.31.04</b>	<b>12.31.05</b>	<b>2005/2004</b>
Equity	961,160	1,076,582	12.0%
Net debt	472,123	931,322	97.3%
Average net debt	352,088	841,427	139.0%
Gearing (2)	0.37	0.78	
Total assets	2,167,244	2,988,903	

(1) ROCE = (Operating profit/(loss), Total Average Rate for 12 months/(Net investment – Investments– Goodwill)).

(2) Net interest-bearing loans and borrowings/equity (excluding minority interests).

Ebro Puleva achieved record earnings in 2005, with profit of 155,641 thousand euros 23% respect to 2004. The contribution by business lines underscored the diversification strategy followed in recent years, which has added stability to the Company and helped it achieved a better balance across businesses and markets.

The stellar results came amid a tough market backdrop, highlighted by:

- \* The recent reform to the Common Rice Market
- \* The reform to the sugar market
- \* A macroeconomic environment featuring scant growth throughout Europe
- \* An industry faced with aggressive discounts and a war among distributors

**Revenues for the year totaled 2,173,849 thousand euros, a 21% increase on the 1,795,778 thousand euros of 2004.** Ebro Puleva's activity included 12 full months of consolidation of the Riviana Group for the first time, which resulted in:

- \* a 298,700 thousand euro increase in revenues

- \* a 33,875 thousand euro increase in EBITDA

and eight months of the Panzani Group, which provided entry to a new business line and:

- \* revenues of 289,588 thousand euros

- \* EBITDA of 44,416 thousand euros

**Like-for-like revenues;** i.e. excluding the contributions by the Panzani and Riviana Groups (213,768 thousand euros in the first eight months of 2005), however, were 7% lower at 1,670,493 thousand euros. This fall was largely due to the situation of the sugar industry in 2005. A new regulatory framework (CMO) for the sector was negotiated during the year that culminated in the agreement reached by the EU agricultural ministers on November 24, 2005 (see Note 28 in the notes to the consolidated financial statements). This prompted a change in behavior by market players, encouraging them to reposition amid the uncertainty and downward pressure on prices.

Noteworthy was the 5.5% increase in working capital, fuelled by a 28% increase in revenues, which bears out the Company's improved product mix (i.e. greater weight of products with a shorter life cycle).

**The addition of new companies and restructuring of existing businesses are part of the Company's ongoing adaptation to market circumstances and regulatory changes.** EBITDA rose 17% to 43,038 thousand euros, driven by additions and despite:

- \* a increase in oil derivatives and fuel prices, on the back of a 50% surge in Brent barrel prices,

- \* higher transport and logistics costs caused by the rise in crude prices, which led to an increase in Spanish transport tariffs of around 15%

- \* an increase in commercial costs, in line with Ebro Puleva's product-customer focus and brand strategy

- \* the situation arising from the change in legislation in the sugar industry.

Ebro Puleva continues to diversify into non-core assets and properties, with the aim of generating capital gains and cash to fund the Group's strategy of remaining Spain's leading food company and one of the world's main industry players. In 2005, the Company sold 116.5 million euros worth of assets, obtaining capital gains of 69 million euros. This partly explains the sharp growth in profit before taxes.

The bulk of investment in the year aside from the purchase of Panzani for 639 million euros (including debt) went to new products and to upgrade existing products. Specifically, the Group acquired a new packaging plant in Benavente, which will help it meet current and future market demands and produce a new line of higher added-value products. It started up a new dry pasta line, refurbished the

Jerez factor to produce microwave rice, and added new boil in the bag rice facility in Houston and new steam lines for wild rice in Minnesota.

At the same time it continued to streamline resources and installations to adapt installed capacity. This reduced capital employed and, accordingly, improved the Company's ROCE.

The Group's financial structure reflects the recent Panzani and Riviana acquisitions. These purchases were financed by a 440 million US dollar syndicated loan arranged in May 2005 and the renewal of another 426 million euro loan at the same time (see Note 14 of the note to the consolidated financial statements for further details). These loans afford the Group a natural hedge of assets and liabilities. Stripping out the investment in Panzani, Group debt would have decreased by 187 million euros. Ebro Puleva wants to achieve a balanced structure between business lines and currencies so it can generate sustainable and stable cash flows.

<b>EBRO PULEVA GROUP</b>		
<b>Consolidated cash flow statements for the years ended december 31, 2005 and 2004</b>		
	<b>12/31/2005</b>	<b>12/31/2004</b>
Net cash flows from operating activities	221,057	189,859
Net cash flows from investing activities	(286,166)	(324,782)
Net cash flows from financing activities	36,773	149,564
Translation differences of flows from foreign operations	1,326	(497)
INCREASE (DECREASE) in cash and cash equivalents	(27,011)	14,144
Cash and cash equivalents at January 1	109,673	96,154
Impact of year-end exchange rates on opening balance	(466)	(625)
<b>Cash and cash equivalents at December 31</b>	<b>82,196</b>	<b>109,673</b>

## **RESULTS BY BUSINESS LINE**

The Ebro Puleva Group is divided into the following business lines:

- \* Sugar business: carried out mainly by Azucarera Ebro S.L.U., which produces and sells sugar and byproducts.
- \* Dairy business: basically milk, fermented products, dairy beverages and baby food. This business is carried out through the Puleva Food and Lactimilk groups.
- \* Rice business: includes the industrial and rice brand activity and other products. We are present in a large number of countries in Europe, the Maghreb, North and Central America.
- \* Pasta: production and sale of dry and fresh pasta, sauces, semolina and wheat flour through the Panzani Group.
- \* Other businesses: R&D activities by Puleva Biotech in neutraceuticals; harnessing and managing power related to our industry; real estate management; and other activities related to the food industry and our other business lines.

## SUGAR

SUGAR BUSINESS			
Thousands of euros	2004	2005	2005/2004
Revenues	734,097	652,314	-11.1%
Net sales	710,866	624,993	-12.1%
% of revenues	96.8%	95.8%	
EBITDA	152,251	119,505	-21.5%
% of revenues	20.7%	1.3%	
EBIT	118,205	86,273	-27.0%
% of revenues	16.1 %	13. 2%	
EBIT + Financial result	112,937	81,052	-28.2%
% of revenues	15. 4 %	12. 4 %	
Average working capital	149,385	155,162	3.9%
Capital employed	555,498	559,623	0.7%
ROCE	21,0	15,6	
Capex	41,461	34,584	16.6%

2005 was a transition year for Azucarera, with the high point being the reform of the CMO adopted by the EU at the end of the year. The regulations were approved by the EU Council of Ministers on February 20, 2006. Affecting the situation was the spiral in oil prices and its derivatives. This put a squeeze on the Company's margins, despite the commercial improvements achieved and the higher productivity at its factories.

### Commercial

Sugar consumption in Spain was steady, at around 1.3 million tons. The downtrend of the commercial market continued, although this was offset by a slight pickup in consumption by industrial customers.

Broadly speaking, the commercial markets of the main EU countries were volatile, featuring stiffer competition and a plunge in sugar prices. A number of factors were behind this situation, such as:

- \* The varying and, often opposing, interests of member countries and sugar producers in the reform of the Sugar CMO.
- \* The final ruling in Brazil, Thailand and Australia's class action (known as the Sugar Panel) against the EU at the WTO, which went against community interests by curtailing future sugar exports.
- \* The miscalculation of consumption in the 10 new members of the EEC in 2004, which created a larger imbalance between supply and demand and uncovered the existence of sugar stocks in producing countries before they joined the EU.
- \* The cut to reimbursement of sugar quota exports, which undermined margins throughout the year.
- \* The EC's decision not to declassify sugar in the 2004/2005 campaign.

This situation put a strain on supply in the Spanish market, causing imports from the community to rise, especially from France and Portugal. Azucarera Ebro's volume was 4.76% lower than in 2004 as a result. Meanwhile, average sugar prices were also down 6%.

Alcohol sales were up slightly (1.6%), while prices jumped (9.4%).

Other highlights of the commercial activity in the year were:

- \* Actions taken in trade marketing to the modern channel, which boosted penetration in specialties and led to a 10.6% increase in brown sugar from the year before.
- \* Continued collaboration, in general communications, with the beet and sugar research institute (IEDAR) to disseminate and promote sugar consumption.

All these factors led to a 12.1% decrease in revenues in 2005.

### **Industrial**

In southern Spain, where beets are harvested in summer, the three factors yielded 1,692,213 tons, with an average sugar content of 16.8%. 2005 was a dry year, with an extremely cold winter. The technological quality of the root was average, hurt by the adverse weather conditions throughout the harvest.

It was, however, a good year for crops sewn in spring in northern and central Spain, as seen by the excellent yields and technical quality of the roots. The average root sugar content was 17.5°.

On the industrial front, in 2005 we streamlined the management of active centers to reinforce our competitive edge in products and costs and be better prepared for the implications of the new sector reform.

Steps were taken to raise yields, optimize the use of resources and cut production costs, mainly by cutting back fuel consumption and lowering maintenance costs at our factories without undermining reliability by using cutting-edge predictive maintenance techniques. Nonetheless, the increase in crude prices led to an average increase of 10 euros per ton in the cost of sugar produced.

The overall poor market performance and the higher cost of sugar produced in the southern harvest –owing to both adverse weather conditions and the increased cost of oil derivatives- caused EBITDA to fall 32,746 thousand euros from the year before. The good yields of the northern harvest, which will improve product costs, have yet to be marketed.

### **Investments**

The bulk of investment in 2005 was earmarked to lower production costs, meet the increasing quality demands of customers and comply with environmental regulations.

The Company completed the new packaging plant in Benavente, which will help it meet current and future market demands and produce a new range of higher added-value products.

## RICE

RICE BUSINESS (HERBA+ RIVIANA)			
Thousands of euros	2004	2005	2005/2004
Revenues	605,107	781,522	29.2%
Net sales	579,506	760,862	31.3%
% of revenues	95.8%	97.4%	
EBITDA	64,924	82,416	26.9%
% of revenues	10.7%	10.5%	
EBIT	50,767	59,777	17.7%
% of revenues	8.4%	7.6%	
EBIT + Financial result	47,465	57,967	22.1%
% of revenues	7.8%	7.4%	
Average working capital	130,389	166,035	27.3%
Capital employed	238,251	455,937	91.4%
ROCE	15.2	13.1	
Capex	26,663	29,776	11.7%

Behind the sharp growth of the rice business was the consolidation for the first time of a full year of the Riviana Group, which delivered an excellent performance.

The end of low carb diets in the US paved the way for overall market growth, with Riviana among the leaders. Its share of the distribution market rose 4pp to 27% at year end, based on: 1) the company's solid positioning in two of the fastest growth market segments, brown and specialty rice, where it doubled the sector's average growth; and 2) its stronger positioning in instant rice, posting a 12% volume increase versus a 2% decline by the market.

In Europe, the segment of rice in a cup for microwaves performed especially well, with growth of nearly 50% in both volumes and absolute sales. Also noteworthy was the creation of BOSTO POLAND, a new subsidiary for the Company's growing businesses in the EU. The Group is well aware of the importance of these emerging markets and is firmly committed to having its brands present in the main countries.

Ebro Puleva continues to play a major role in developing new products: its recent penetration of markets such as France (Panzani) and the US (Riviana) have enabled it to introduce the new pre-cooked products manufactured by the Group in Spain, but tailored to local tastes and demand. The established portfolio of cooked rice following a variety of recipes is being enlarged with other products of this format. The sales networks of our subsidiaries are the ideal vehicle for introducing these new products, in which the Group is a specialist.

In Europe, the new regulatory framework for rice, mainly the start-up of the new CMO at the end of 2004, was most visible in 2005. The dramatic reduction in the intervention price only partly fed through to real prices at source, prompting downward revisions for cost-cutting targets and forecasts. To some extent, this was due to higher demand for rice by the Eastern European countries that recently joined the EU, which pushed up prices. To overcome the shortfall in supply, Europe had to import rice from non-EU countries and release part of the intervention stocks onto the market.

In the US, the foundations were laid to further streamline production. In August 2005, the Company announced that the packaging plant in Abbeville (Louisiana) would be closed, with the business relocating to the production centers in Houston and Memphis. This was followed up by the announcement at the end of January 2006 that the drying, storage and mill facilities in southern Louisiana were up for sale. Both these initiatives will have a major impact from 2006.

EBITDA for the rice business rose 26.9% to 6 million euros. Revenues, however, were lower than in 2004 due to two factors:

- \* The commitment to value-added products, which led to a sharp increase in commercial and marketing initiatives
- \* The impact of the restructuring at Riviana, which entailed 135 job losses at the factories mentioned previously and administrative staff cuts

In any event, these measures leave room for solid growth going forward.

Average capital employed was higher in 2005, following the full consolidation of Riviana. Working capital performed well, with growth lagging that of revenues. Conversely, the high volume of assets added at the end of 2004 undermined ROCE in 2005, although the ongoing production reorganization should enhance this ratio in 2006.

### Investments

2005 featured an ambitious investment plan for the rice business. The microwave rice factory in Seville was enlarged, while investment on building the new plant in Jerez began. Regarding the rest of the Europe-based companies, highlights included the conclusion of investment in Coruche (Portugal), providing the Company with top-notch installations in a market where its brands are heavily entrenched, and the improvements made at the packaging plant in Belgium.

### DAIRY

DAIRY BUSINESS			
Thousands of euros	2004	2005	2005/2004
Revenues	497,078	518,137	4.2%
Net sales	497,078	518,137	4.2%
% of revenues	100%	100%	
EBITDA	46,620	54,121	16.1%
% of revenues	9.4%	10.4%	
EBIT	31,078	37,507	20.7%
% of revenues	6.3%	7.2%	
EBIT + Financial result	26,645	37,387	40.3%
% of revenues	5.4%	7.2%	
Average working capital	71,042	79,597	12%
Capital employed	217,432	225,904	3.9%
ROCE	14.3	16.6	
Capex	36,948	17,501	52.6%

In 2005, the Dairy division took steps to optimize installed capacity and achieve a leaner cost structure. As part of this process, in August and September it sold the Leyma brand and the Arteixo factory. Likewise, the Jerez plant was reconverted and integrated into the rice business.

Puleva's strategy was to further innovate and focus on value-added products associated with health and well-being. Meanwhile, Lactimilk, with its RAM and El Castillo brands, operates in the classic milk segment, where it enjoys a rich local tradition and where customers recognize its convenience and accessibility.

Revenues rose for the year even though the Leyma brand was discontinued in August, which implied 8.5 million liters less. Compared to 2004, growth was particularly strong in the volume of nutritional milks, with Omega 3 and the Max range (targeting younger people), although 13 million liters more of RAM brand milk was sold in 2005. Revenues rose 21,059 thousand euros to 518,137 thousand euros.

Driving sales were new dairy product launches, such as Puleva Calcio Soja, a milk with isoflavones that complements the range of products with calcium, and Puleva Max Defensas, a fermented dairy product with probiotic bacteria targeting children aged 4 to 12. The Company also introduced new cereal-based baby formulas and powdered infant and follow-on milk.

EBITDA improved 7,501 thousand euros, fuelled by better milk at origin prices, cost control and productivity improvements. The full impact of the restructuring was not felt in 2005, but should be in 2006.

### Investments

After investing heavily to bring the co-generation plant up to speed the year before, in 2005 the Dairy division continued to invest in new PET lines, providing a quality and differentiated bottle (the new 2x2 packs) and enhancing the traceability and quality systems.

### PASTA

BUSINESS	
Thousands of euros	2005
Net sales	289,588
% of revenues	100%
EBITDA	44,416
% of revenues	15.3%
EBIT	31,492
% of revenues	10.9%
EBIT + Financial result	27,215
% of revenues	9.4%
Average working capital	28,889
Capital employed	217,927
ROCE	14.5
Capex	15,964

The Pasta division was added for the first time to the Ebro Puleva Group following the acquisition of Panzani S.A.S. ("Panzani"), the French pasta leader. The acquisition was completed on April 25. The figures shown are from May to December.

Panzani produces and sells dry and fresh pasta, sauces, rice and couscous under the Panzani, Lustucru, Taureau Aile, Ferrero and Regia brands and is a leading player in all these products.

In 2005, preparations were made to amend the Commerce Law. The new law, set to come into effect in January 2006, coupled with other governmental initiatives, is designed to boost consumption. It aims to modify the structure of commercial discounts, increase transparency, protect small and medium-sized industry and lower end product prices.

During the year, the hard discounters stepped up the pressure on the larger distributors. This caused prices to fall and led to higher sales of discount and house brands.

Panzani addressed the situation by reinforcing its leadership position in all segments, maximizing the synergies from belonging to the Group and anticipating trends and growth in its markets.

Market share growth was underpinned by:

- \* adapting products and prices to market deflation
- \* providing new solutions (microwave pasta, Gnocchi for frying, etc.), tailored to consumer's tastes

The Company managed to tap synergies throughout the value chain: commercial synergies by leveraging the Group's strong international presence, synergies in the procurement of products and services, and in manufacturing and industrial localization.

Panzani anticipates change by launching new products:

- \* microwave pastas
- \* Gnocchi for frying
- \* Fresh cooked meals (to be launched in May 2006)
- \* a new range of frozen foods

Panzani is expanding its activities into new product ranges, such as frozen foods, and new markets. Having become the leader in the Czech Republic, with a 21% market share in three years, in 2005 Panzani started up activities in Hungary, Canada and England alongside the Ebro Puleva Group.

## **Investments**

The main investments in the year went to bring a new dry pasta line on stream and to launch the new prepared dishes line.

## 2. OUTLOOK

2006 will be a year of consolidation of recent expansion and diversification. We will continue to work towards improving the balance between domestic and international market revenues, and branded and industrial sales.

### \* **Sugar business**

The 2006/07 campaign will be the first regulated by the new Sugar CMO (see Note 28 of the notes to the consolidated financial statements for details of the reform).

### \* **Rice business**

Ebro Puleva will complete the restructuring of its business in the US, raising its industrial efficiency and disposing of non-core assets. There will be more joint venture opportunities with the sale of microwave products manufactured at the new factory in Jerez.

On the industrial side, the new plant will help meet the increasing needs of this range of value-added products. Meanwhile, the Company will explore existing possibilities in countries outside the EU that can contribute growth and sizeable synergies.

### \* **Dairy Products business**

The improvements in production should become visible now that the business has been restructured. The Company will continue to innovate and operate product ranges developed to meet the specific needs of some sectors of the population.

### \* **Pasta**

The changes to legislation spearheaded by the French government will come into effect. The new framework governing the relationship with the large distributors should make trade relations more transparent and benefit producers.

The Company will proceed with its geographical expansion, above all in Southern Europe, North Africa, Eastern Europe and the US. It will also continue to fine-tune its new range of frozen foods and microwave pasta.

### \* **Other businesses**

Puleva Biotech will continue to perform R&D on new products and nutritional components and provide advisory services on R&D&I to Group and other companies. Additional properties will be sold to obtain cash to fund the growth of the core businesses.

### 3. R&D&I

Ebro Puleva leverages the know-how gained internally and externally with its own innovation management model. This includes integrated management of all issues related to innovation and a company (Puleva Biotech) that carries out projects that can be applied to all Group divisions.

The objectives of the R&D&I initiatives carried out are:

- \* To help Ebro Puleva develop through R&D of new products and processes.
- \* To become an international benchmark in R&D of products applied to the food industry.
- \* To maintain a steady flow of products in the pipeline.

In 2005, the work performed by Puleva Biotech to Puleva Food in baby foods focused on aiding the launch of infant and follow-on milk and new cereal formula. In other dairy products, work is being done to launch products targeting sectors of the population that have specific needs. The Puleva Calcio product range has added a milk with soy isoflavones, Puleva Calcio Soja.

Work also continued on dairy products to make them appealing to customers, such as new margarines and the development of new drinks.

In the rice business, the project to determine the characteristics —both the nutritional composition and the functional properties— of varieties of rice and flours continued, with special attention being paid to brown rice flour with varying fiber contents. In addition, over the last year efforts have been made to gain further knowledge of the procedure for obtaining rice derivatives, starches, maltodextrines, proteins and other products, as well as the recovery and revaporization of products from water in which rice has been boiled.

In the sugar business, the work pending was successfully completed before the conclusion of the technology transfer contract for the production of fructo-oligosaccharides (FOS), including the use of the products generated, the exploration of alternative production methods and the demonstration of the greater functional properties of products through in vitro and in vivo studies. Related to this work, a feasibility plan was drawn up and estimates were made on investments for the industrial implementation of the full FOS production process.

### 4. TREASURY SHARES

In 2005, the Company bought and sold treasury shares as authorized by the General Meeting held on April 27, 2005, having duly notified the CNMV (Spanish National Securities Commission) in accordance with current reporting standards. In 2005, 1,200,584 treasury shares were purchased and 1,265,584 were sold. At year end the Company had 231 treasury shares, equivalent to 0.0002% of its share capital. At year end 2005, these shares were not earmarked for any specific purpose.

## 5. EMPLOYEES

The number of employees Ebro Puleva has grown with the addition of companies and businesses. The Company has been able to mix a variety of cultures and skills with a constant flow of information and knowledge (see Note 8.4 for details on employees).

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES AND FINANCIAL INSTRUMENTS

The Ebro Puleva Group, within the framework of the *Committee of Sponsoring Organizations of the Treadway Commission* (COSO) report on internal control, has systems in place to identify, measure, manage and report risks for all its businesses.

These systems are used to hedge environmental, business, financial and credit, labor and technological risks. The Group was the first in its industry to develop and encourage R&D, environmental and food quality and internal audit.

It has committees for environmental and food quality, commercial or counterparty risk, occupational hazard prevention and R&D. These committees are responsible for preventing and mitigating risks.

In addition, for all investment projects a risk analysis is performed beforehand to assess their economic and strategic viability. Investment decisions are made by the appropriate body based on a series of predefined limits. The main projects (i.e. over 2 million euros) require approval by the Board of Directors.

With acquisitions of companies and businesses, Ebro Puleva, S.A. has a series of procedures for minimizing acquisition risk. The main ones are:

- \* Due diligence with renowned firms.
- \* Negotiation of the final price based on a risk analysis.
- \* Application for guarantees until litigation is resolved or the liability is clarified.
- \* Deferred payment or bank guarantee in case of potential contingencies.

Ebro Puleva, S.A. hedges transactions that could be subject to foreign currency risks either via exchange rate insurance or natural hedges through loan financing with cash flows generated in the same currency.

With interest rate risk, in some cases these are hedged with interest rate collars or ranges whereby the interest rate paid by Ebro Puleva, S.A. ranges between 2.5% and 4.9%.

Finally, for risks affecting inventories and assets, all Group companies have insurance policies for their properties, investments and inventories.

The Group is also faced with another two types of risk: regulatory (e.g. guidelines established by the Common Agriculture Policy) and country or market risk. Over the last few years, the Group has mitigated these risks by implementing a firm policy of business and geographical diversification, expanding its presence in Europe, America and the Maghreb countries.

## **CONTROL SYSTEMS TO ASSESS AND MITIGATE OR REDUCE THE MAIN RISKS FACING THE PARENT COMPANY AND THE GROUP**

### **1. Regulatory risk.**

As its business entails the production and sale of sugar, milk, pasta and rice, the Group is subject to certain legal regulations, above all in the European Union through the Common Agriculture Policy (CAP) and the World Trade Organization (WTO). These regulations establish from production quotas to intervention prices or customs protection. Because of this regulatory risk, the Group's policy entails stable expansion to become more geographically diversified and to achieve a more balanced contribution by results by the four main businesses: sugar, rice, pasta and milk.

### **2. Environmental and food quality risk**

The Group has designed, developed and put into place an environmental management system (EMS) that is UNE-EN-ISO 14001 standard compliant. It has also defined a quality and food safety management system that complies with the UNE-EN-ISO 9001:2000 standard, endorsed by the certifying body, ENAC.

In food safety, the Group has reported no incidents and is still drawing up an HACCP (Hazard Analysis and Critical Control Point) system that meets the requirements of both Spanish and European Union legislation.

### **3. Technological risk**

Through its Puleva Biotech subsidiary, the Group supports its main business lines by facilitating product and process development and innovation so they can leverage the commercial launch on the food market of new functional foods, such as Omega 3, and become a benchmark in biotechnology.

### **4. Labor risk**

As the Group is mainly involved in an industrial business and since most of its employees work at factories, the control and prevention of occupational hazards is paramount.

The Group's policy in labor risk prevention aims to promote the improvement of working conditions, and raise the level of safety protection and the health of its workers.

It has a series of protocols to prevent potential claims, including evacuation plans, first aid, etc. There are also specific programs designed to enhance the work environment and maximize protection levels, such as training courses for Group companies and the purchase of material and installations so employees can work properly.

## 5. Credit risk

The Group's policy in this respect has always been conservative. It has credit insurance for the businesses with the highest levels of credit risk, as a result of which it has virtually no bad debts.

The commercial risk committees draw up tables or templates for each customer that include risk tolerance for each customer classification, as well as potential bonuses and volume discounts. These committees prepare a monthly printout showing the age of the amounts due from customers, the age of receivable balances, their source and the steps taken to collect. After a certain age, the matter is handed over to the Group's legal advisors. In addition, each month the Internal Audit and Control unit reviews the situation of customers that have caused problems.

The Group is not exposed to significant concentration of credit risk. In addition, the Company invests cash and enters into financial instruments with entities of high solvency and credit ratings.

## FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, forward purchase contracts, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's activities. The Group has various other financial assets and liabilities, such as trade receivables and trade payables. The Group also enters into derivative transactions, including principally forward currency contracts and occasionally interest rate swaps. The purpose is to hedge the interest rate and currency risks arising from the Group's operations and its sources of finance.

Throughout the year under review, the Group's policy has been not to trade in financial instruments.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk, as indicated previously (see point 5 of the note).

The board reviews and agrees policies for managing each of these risks, as summarized below. The Group's accounting policies in relation to derivatives are set out in Note 3 of the notes to the consolidated financial statements.

### Cash flow interest rate risk

The Group's exposure to the risk for changes in market interest rates relates primarily to its long-term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to minimize its exposure to this risk and therefore it closely monitors fluctuations in interest rates with the help of external experts. When necessary, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At December 31, 2005, after taking into account the effect of interest rate swaps, approximately 20% of the Group's borrowings are at a fixed rate of interest.