



2006 Consolidado Management Report

(FIGURES IN THOUSANDS OF EUROS)

Following we present the information on the company's performance, consolidated results and main business segments. In some cases, data are obtained from certain transactions and aggregations of figures contained in the accompanying consolidated accounts. In others, internal information is used for management control of the Group's various businesses.

1. Review of the year

CONSOLIDATED FIGURES					
Thousands of euros	2004 (*)	2005 (*)	2005-2004	2006	2006-2005
Revenues	1,814,359	2,128,956	17.3%	2,448,794	15.0%
Net sales	1,765,527	2,080,975	17.9%	2,395,398	15.1%
As % of revenues	97.3%	97.7%		97.8%	
EBITDA	248,489	281,564	13.3%	306,005	8.7%
As % of revenues	13.7%	13.2%		12.5%	
EBIT	182,871	197,052	7.8%	211,216	7.2%
As % of revenues	10.1%	9.3%		8.6%	
EBIT + Financial results	162,778	163,590	0.5%	162,616	-0.6%
As % of revenues	9.0%	7.7%		6.6%	
Profit before tax	171,365	210,361	22.8%	200,099	-4.9%
As % of revenues	9.4%	9.9%		8.2%	
Income tax expense	(40,558)	(58,744)	-44.8%	(71,734)	22.1%
As % of revenues	-2.2%	-2.8%		-2.9%	
Profit for the year	126,573	155,641	23.0%	180,363	15.9%
As % of revenues	7.0%	7.3%		7.4%	
Average working capital	426,853	451,215	5.7%	493,143	9.3%
Capital employed	1,219,230	1,535,036	25.9%	1,654,931	7.8%
ROCE (1)	15.5	13.5%		12.8%	
Capex	102,524	99,664	2.8%	298,225	199.2%
Average number of employees	5,261	6,296	19.7%	6,784	7.8%
	31-12-04	31-12-05	2005-2004	31-12-06	2006-2005
Equity	961,160	1,076,582	12.0%	1,187,962	10.3%
Net debt	472,123	931,322	97.3%	1,134,894	21.9%
Average net debt	352,088	841,427	139.0%	1,046,354	24.4%
Gearing	0.37	0.78		0.88%	
Total assets	2,167,244	2,988,903		3,363,715	

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

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

(*) Revenue differs from previous years due to the reclassification of commercial costs at Panzani in 2005 and the presentation of the business in Central America in 2004 and 2005 as a discontinued operation.

Double-digit growth:

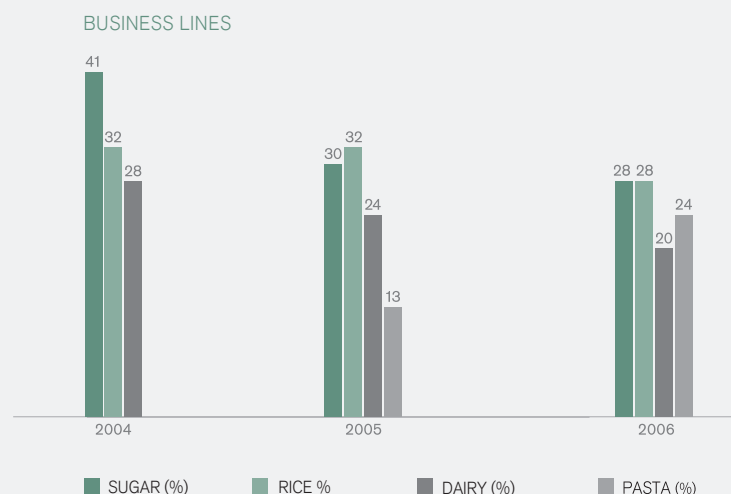
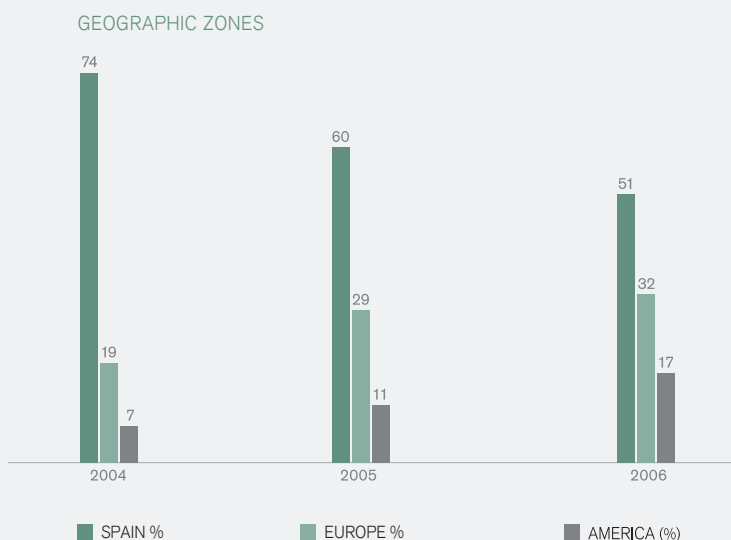
Net attributable profit rose 16% in 2006 to 180,363 thousand euros after increasing 23% in 2005. The makeup and scale of the increase are a true testament to the success of the Company's strategy. This strategy is based on diversifying, both geographically and by business, resizing the various businesses and promoting innovation and tailored solutions for consumers.

To clearly understand the Company's results in 2006, the following changes in consolidation scope must be borne in mind:

- The inclusion of the Panzani Group, acquired in May 2005, for the full 12 months.
- The acquisition on May 27, 2006 of New World Pasta, the US leader in dry pasta. This company contributed seven months of business:
 - revenue of 149,222 thousand euros
 - EBITDA of 30,172 thousand euros
- Two months' contribution by Kraft Foods' Minute Rice brand, acquired on November 1, 2006:
 - revenue of 13,732 thousand euros
 - EBITDA of 4,904 thousand euros
- The sale in August of our activities in Central America. In accordance with International Financial Reporting Standards, results from this business up to the effective date of sale and the net gain on the disposal are presented as discontinued operations in the income statement for 2006 and the years before its inclusion. This circumstance is reflected in the information in this management report.

Revenue set to reach the 3 billion mark, with a footprint in an increasing number of markets and growth aimed to enhancing and broadening our product portfolio.

Revenue of 2,395,398 thousand euros, a 15% increase on the 2,080,975 thousand euros of 2005. The following charts underscore the increasing balance across the various businesses and geographic areas achieved over the last three years.



Spain now accounts for roughly half the total business. Next year, once the acquisitions made in 2006 have contributed for a full year, this weight should decline even further. Aside from expanding in countries and currencies that help reduce the sensitivity of our performance to fluctuations in macroeconomic variables, all our business segments now represent over 20% of the total. Noteworthy was the smaller contribution by the sugar business, one of the Group's objectives ahead of the new sugar CMO (common market organization).

Cash flows from operations (**EBITDA**) rose 9% to **24,441 thousand euros**. The increase was fuelled primarily by the contribution from new companies and the strong performances of our businesses in America, which easily made up for the 19% drop in EBITDA from the sugar business. Had New World Pasta been consolidated for a full year, EBITDA of the pasta business (i.e. Panzani and New World Pasta) would outstrip that of the sugar business. The trend of EBITDA in dollars reflects this rebalancing:

CONSOLIDATED			
Thousand of euros	2004	2005	2006
EBITDA generated in \$.	11,367	24,969	60,292
EBITDA group	248,489	281,564	306,005
%	4.6%	8.9%	19.7%

Our Group is leader of a market of 300 million people, equivalent in size to Europe. Moreover, demographic trends in our segments (e.g. growing weight of the Hispanic community) are positive.

The main factors shaping the EBITDA performance were:

- The addition of leading brands and companies in their respective product categories have made us the number one player in the US rice market and the world's second largest pasta company.
- Upward pressure on raw materials in the rice business caused by the drought in Spain in 2006 and the inability to import US merchandise because of the advent of genetically-modified rice, whose sale is prohibited in the EU.
- Excellent performances by products designed to satisfy customers' needs (e.g. convenient, easy and appealing).
- The volatile situation of the sugar market in the year's half

Finance costs rose during the year as a result of the debt taken on to fund the acquisitions of the Panzani Group (in May 2005), New World Pasta and the Minute Rice brand (both in 2006). As a result, despite the sharp increase in cash flow, EBIT plus financial expenses was unchanged.

The new sugar CMO in the year led to the closure of the Ciudad Real plant and a new redundancy plan (see Note 21 of the notes to the consolidated financial statements). These measures, alongside steps to streamline production at Riviana and Panzani, led to an extraordinary charge in the income statement of roughly 50 million euros. This caused profit before tax to fall 4.9% even though capital gains on asset disposals were higher.

Profit before tax includes proceeds from the disposal of non-core assets and properties, but not from the sale of assets in Central America. These were included under "Profit (loss) for the year from discontinued operations," in accordance with IFRS. Had they been accounted as operating profit, profit before tax would have increased by 29% in the year, to 272 million euros.

"Investments" includes the acquisition of the Minute Rice brand for 211 million euros. Like-for-like capex (i.e. stripping out this acquisition) was 87 million euros, in line with the 2005 figure. Both the precooked products plant in Jerez and the new sugar packaging plant in Benavente were completed during the year and are now fully operative. The year also featured the start-up of construction of a steamed rice plant in Egypt, entailing an estimated investment of 7 million euros, new facilities at the Memphis packaging plant and various upgrades in productivity at the Nanterre pasta plant.

The Group's financial structure reflects the recent acquisitions, although the leverage ratio is still less than one. The decline in cash flow generation was caused by the increase in debt-interest expenses and higher working capital investment caused by the increase in raw material costs and the adoption of strategic positions in the rice market, which is under heavy price pressure.

The currency composition of our debt (euro/dollar) provides a natural hedge to our asset investments.

EBRO PULEVA GROUP CONSOLIDATED CASH FLOW STATEMENTS		
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005		
Thousand of euros	12-31-2006	12-31-2005
Net cash flows from operating activities	171,639	221,057
Net cash flows from investing activities	(362,719)	(286,166)
Net cash flows from financing activities	187,651	36,773
Translation differences of flows from foreign operations	(2,641)	1,326
Increase (decrease) in cash and cash equivalents	(6,070)	(27,011)
Cash and cash equivalents at January 1	82,196	109,673
Impact of year-end exchange rates on opening balance	(1,056)	(466)
Cash and cash equivalents at December 31	75,070	82,196

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 and New World Pasta.
- 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	2006	2006-2005
Revenues	734,097	652,314	-11.1%	687,011	5.3%
Net sales	710,866	624,993	-12.1%	657,770	5.2%
% of revenues	96,8%	95,8%		95,7%	
EBITDA	152,251	119,505	-21.5%	96,955	-18.9%
% of revenues	20,7%	18,3%		14,1%	
EBIT	118,205	86,273	-27.0%	64,818	-24.9%
% of revenues	16,1 %	13, 2%		9,4%	
EBIT + Financial result	112,937	81,052	-28.2%	60,411	-25.5%
% of revenues	15, 4 %	12, 4 %		8,8%	
Average working capital	149,385	155,162	3.9%	149,766	-3.5%
Capital employed	555,498	559,623	0.7%	543,599	-2.9%
ROCE	21,0	15,6		11,9	
Capex	41,461	34,584	16.6%	27,368	-20.9%

A new market. 2006 was the first year of the new regulatory framework following the reform to the sugar CMO. The breadth of the reform had a considerable impact on activity in this business segment.

The new framework was designed to curtail sugar production in Europe via economic disincentives entailing price cuts and incentives to give up quota (see Note 28 of the accompanying consolidated annual accounts).

This situation led to the general Multi-industry Framework Agreement for the 2006/07 to 2014/15 campaigns, with participation by all the Spanish farmers' associations. This agreement governs the purchase and sale of sugar beet and includes a special section on sector restructuring via relinquishing quota.

The immediate impact of the new regulation was the decision by farmers in Castilla- La Mancha to stop growing beets. This caused the closure of sugar plants in the area and our plant in Ciudad Real and Linares (ARJ Group), as well as the transfer of quota in exchange for the average compensation envisaged. Azucarera del Guadalfeo S.A. was also closed, marking an end to sugar cane production in Spain.

Knowing this was coming, Azucarera has been restructuring and streamlining activity for years, to become a business that balances maximum returns and limited capital employment.

We estimate sugar consumption in Spain in 2006 at around 1.3 million tons, similar to 2005. Our market share decreased slightly, to 53.8%, but this was offset by sales of 52,500 tons to intervention. These sales were made to limit the market's imbalance caused by the aggressiveness of our European peers vis-à-vis deficit markets, like Spain.

Their ultimate goal is to pressure producers to stop producing. In fact, production has disappeared in Ireland and been cut in half in Italy.

The highlight of our sales performance was the 30,000 ton jump in sales to the EU. Exports to other countries rose to 44,429 tons, spurred on by the healthy level of reimbursements.

Alcohol volume sales dropped slightly, but prices were 25% higher than in 2005 as both increases in energy and raw material costs were passed on to customers.

2006 also featured the first TV advertising campaign for the Azucarera brand. The aim was to build up volume sales in the market and raise consumer awareness of our brand. Spontaneous recognition of the Azucarera brand jumped from 29.6% to 37.4% and aided awareness rose from 69.1% to 79.4% by the end of the campaign.

1,796,906 tons of beet were collected in the southern harvest. Costs were higher than the previous campaign because of the increase in fuel costs. However, beet quality was slightly better, which means a higher yield, while the quality of the sugar produced was also better.

Some 28,100 hectares of beets were sowed in the southern area for the next campaign, 20% fewer than in 2005. This underscores the impact of the new sugar CMO and the dramatic fall in prices.

Total collection in the north is estimated at 2,875,000 tons. Plant productivity and the results of the northern harvest were unchanged from the year before, despite the lower technological quality of the beet and the restructuring levy.

EBITDA was 22,550 thousand euros lower as new regulations pushed down market prices.

Investments:

The bulk of investment in 2006 was earmarked to lower production costs, meet the increasing quality demands of customers and comply with environmental regulations. Noteworthy was the reduction compared to previous years because of the downsizing.

Rice (Rice Business USA Riviana and Rice Business Herba:

RICE BUSINESS					
Thousands of euros	2004	2005	2005-2004	2006	2006-2005
Revenues	574,856	688,648	19.8%	696,655	1.2%
Net sales	549,255	667,988	21.6%	672,500	0.7%
% of revenues	95.5%	97.0%		96.5%	
EBITDA	61,291	68,820	12.3%	71,343	3.7%
% of revenues	10.7%	10.0%		10.2%	
EBIT	47,624	49,147	3.2%	51,368	4.5%
% of revenues	8.3%	7.1%		7.4%	
EBIT + Financial result	44,399	48,202	8.6%	45,562	-5.5%
% of revenues	7.7%	7.0%		6.5%	
Average working capital	130,389	166,035	27.3%	191,208	15.2%
Capital employed	238,251	455,937	91.4%	501,656	10.0%
ROCE	15.2	13,1		10.2	
Capex	25,164	25,727	2.2%	23,098	-10.2%

(*) For more meaningful comparison, 2006 capex does not include the acquisition of the Minute Rice brand

Tension was widespread in world rice markets owing to the dearth of this grain in certain areas. Logically, this sent prices soaring in raw materials markets.

In the US, the decline in the surface area used to cultivate long grain rice put considerable pressure on prices at source for this product, taking them to their highest since the 1997-98 campaign. In Europe, a combination of events took place:

- Southern Spain sustained a drought, which cut the rice harvest by 30%.
- Rice consumption in Europe continued to grow, driven by the recent addition of new consumer countries to the EU, as well as immigration phenomena.
- The European rice market regulators, in line with plans to gradually deregulate the industry, practically finished releasing their scant regulated rice stocks, so future contributions from the rice market intervention are unlikely.
- This was rounded off when in August 2006 the market was informed that US exports included some types of genetically-modified rice. This type of rice is not allowed in the EU, so the channels for importing rice from the US to Europe have been virtually closed until importers have safety measures in place. Not surprisingly, this caused the price of long grain rice (the kind usually imported by Europe from the US) to rise, adding more pressure on markets.

Amid this general market backdrop, the Group took prompt action to offset the negative factors, while it leveraged opportunities by:

- Diversifying supply sources, by opening up to countries with competitive and quality sources. We set up subsidiaries in Thailand and Egypt, producers of indica and japonica rice, respectively, to acquire, process and export rice to consumer markets in Europe and the US.
- Managing the GMO crisis. Aware of the concerns in European markets raised by the news of consignments of rice containing GMO-tainted varieties, the company decided to temporarily halt all US rice imports until the questions about the quality of this supply were cleared up. To mitigate the impact, the company has sought alternative sources capable of making up for the deficit caused by the GMO. Uruguay has provided a guaranteed and quality option.
- Gaining a foothold in value-added markets. This strategy included acquiring the Minute Rice brand, which has made us the unrivalled leader in quick cook rice in the US and Canada. This purchase also brought us a nationally-renowned brand and leaves scope to extract sizeable synergies in the premium segment.
- Launching new rice varieties to satisfy customers seeking new flavors and textures. This included new bomba and basmati rice specialties and new brown rice blends in the US.
- Further penetrating the precooked dishes segments. In Spain, microwave pastas and purees were launched, alongside the rice-in-a-cup product range, which now makes up 13% of revenues in Spain.

- Broadening the product range. Our microwave rice-in-a-cup line was launched in the US in April. This line was rolled out gradually under the Success Rice brand in southeastern and northeastern US, with five varieties tailored to the distribution area. According to Nielsen data for the last 12 weeks, we now have a 4.2% market share despite not having a nationwide presence. This is an expanding segment that has grown 25.6% over the last year.

EBITDA for the rice business rose 3.7% to 2.5 million euros. The figure includes two months' contribution from the Minute Rice brand, but otherwise would still have marked a slight improvement in the US from the year before despite the impact of the 5.5 million euros spent on new product launches. The European segment sustained a 2.6 million drop in EBITDA due to the supply problems mentioned, which put a squeeze on margins and caused sales to fall because of the inability to sell US rice in the EU.

The jump in raw materials prices and the need to change normal supply channels led to an increase in working capital. Financing this increase pushed up costs, as did the financing of the Minute Rice acquisition at the end of the year.

Meanwhile, the reorganization of the production facilities in Louisiana was completed after the entire activity at the Abbeville installation was halted.

Investments:

In 2006, the investment in Jerez to produce the microwave rice in a cup and doy-packs sold throughout Europe and the US was completed.

Work began to assemble a steamed rice plant in Morocco to supply North Africa and a rice mill in Egypt to supply round grain rice to the entire Group.

The main investments in the US went to the packaging facilities in Memphis. Once they are complete, they will be an example of innovation and flexible production.

Dairy Business:

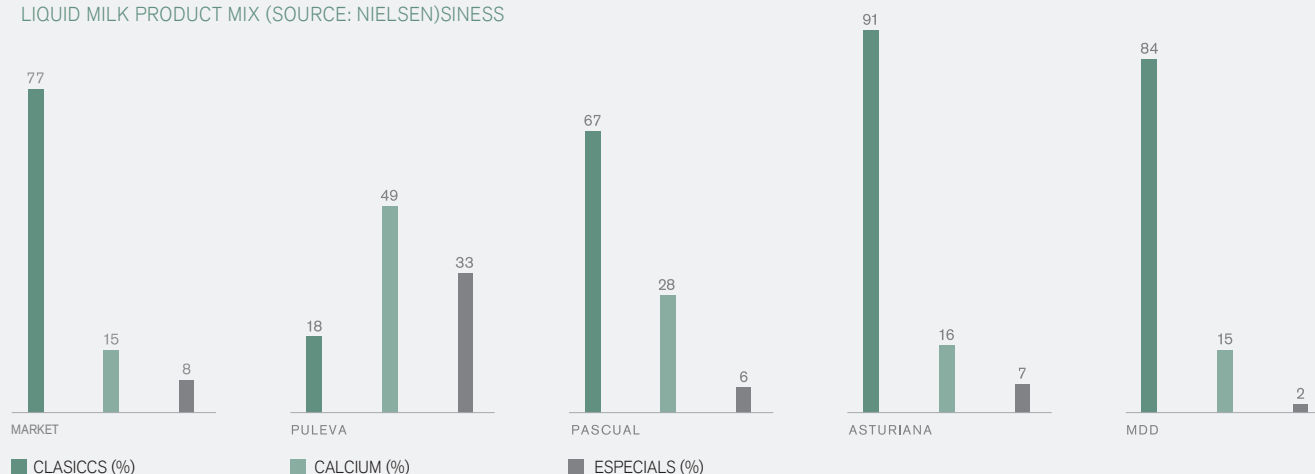
DAIRY BUSINESS					
Thousands of euros	2004	2005	2005-2004	2006	2006-2005
Revenues	497,078	518,137	4.2%	504,140	-2.7%
Net sales	497,078	518,137	4.2%	504,140	-2.7%
% of revenues	100%	100%		100.0%	
EBITDA	46,620	54,121	16.1%	55,460	2.5%
% of revenues	9.4%	10.4%		11.0%	
EBIT	31,078	37,507	20.7%	40,176	7.1%
% of revenues	6.3%	7.2%		8.0%	
EBIT + Financial result	26,645	37,387	40.3%	39,993	7.0%
% of revenues	5.4%	7.2%		7.9%	
Average working capital	71,042	79,597	12%	87,508	9.9%
Capital employed	217,432	225,904	3.9%	223,511	-1.1%
ROCE	14.3	16.6		18.0	
Capex	36,948	17,501	52.6%	14,625	-16.4%

Faithful to the strong commitment to innovation, the strategy in this business segment in 2006 was based again on the launch of new concepts and products, and reinforcing the launches of previous years. At the same time, since the surplus of industrial assets was resolved with the streamlining measures carried out in 2005, the company embarked on a campaign to cut costs and leverage the brands grouped under Lactimilk.

Sales dipped slightly as it was the first year without the Leyma brand, sold in 2005. This subsidiary contributed around 20 million liters of sales per year. Also hurting sales was the policy to maximize profitability at Lactimilk, which entailed a strategy of differentiating formats and gradually raising prices at the expense of discount volumes that contributed negatively. The restructuring exercise enhanced the quality of earnings, achieving wider sales margins, a decrease in capital employed and a sharp jump in ROCE.

Our Puleva brand reinforced its leadership in all value-added milk segments. The different market focus is seen by comparing the product mixes of the large dairy groups.

LIQUID MILK PRODUCT MIX (SOURCE: NIELSEN)SINESS



Highlights by product family included:

- The creation of PULEVA CALCIO COMPLET to reinforce our position in "Calcium." A mixture (skim milk, fortified with calcium, Omega 3, oleic acid, fiber, phosphorous and vitamins) initially targeting "digestibility." It comes on top of PULEVA CALCIO SOJA, which was launched in April 2005 and delivered a highly satisfactory performance in 2006.
- Among special milks:
 - Omega 3 is still comfortably the leader in products that are beneficial for cardiovascular disorders
 - The children's milk segment fared particularly well in 2006, with PULEVA PEQUES raising its market share of liquid baby milk and formula (for children under age three) to over 30%.
 - Children aged from 3 to 12 showed their loyalty to PULEVA MAX, underscored by robust sales, which made us the far and away leader in growth-promoting milk, with a 58% market shares. In milkshakes, it has a 28% market share by value.

Even though we managed to unlock the value of our brands and despite constant product innovation, EBITDA advanced a modest 2.5% due to the repositioning of competitors, especially private labels, which flooded the market and caused margins to shrink.

Investments:

The main investments went to streamlining processes, saving energy and developing new products and IT systems.

Pasta:

PASTA BUSINESS			
Thousands of euros	2005	2006	2006-2005
Revenues	289,588	592,722	104.7%
Net sales	289,588	592,722	104.7%
% of revenues	100%	100%	
EBITDA	44,416	92,093	107.3%
% of revenues	15.3%	15.5%	
EBIT	31,492	66,408	110.9%
% of revenues	10.9%	11.2%	
EBIT + Financial result	27,215	61,394	125.6%
% of revenues	9.4%	10.4%	
Average working capital	28,889	57,592	99.4%
Capital employed	217,927	361,120	65.7%
ROCE	14.5	18.4%	
Capex	15,964	19,419	21.6%

Revenue differs from the previous year due to the reclassification of commercial costs at Panzani

This is the Group's latest addition. It comprises two solid leaders in their respective markets on both sides of the Atlantic Ocean: Panzani (included in May 2005) and New World Pasta (consolidated for the first time in June 2006). Pasta represented the bulk of Ebro Puleva's investment. Panzani was already active in this market through the Lustucru and Taure Ailé brands, and the company is firmly committed to this business, which clearly complements the rice activity. As pointed out previously, pasta is set to become the main business segment next year.

The highlight of 2006 was the acquisition on May 27 of New World Pasta for 362,500 thousand dollars. New World Pasta operates in the US and Canada, where it is leader in dry pasta, with net annual sales upwards of 300 million dollars. The company boasts a wide range of brands, led by Healthy Harvest, Ronzoni, Skinner, Creamette, San Giorgio, American Beauty, Prince and Skinner in the US, and Catelli, Healthy Harves and Lancia in Canada.

The North American market has slumped in recent years, hampered by the low-carb diet craze. In addition, competition sprung up from companies located outside the US. Meanwhile, high leverage and management problems at New World Pasta forced the company to file for Chapter 11 in 2004.

After it overcame these problems, we acquired the company. One of New World Pasta's main assets is its positioning in the health foods segment through its Healthy Harvest brand. Healthy Harvest sells whole wheat pasta, achieving growth of around 30% p.a. in both the US and Canada.

In the seven months since its inclusion, the company contributed 30,172 thousand euros to Group EBITDA, capping off an excellent year driven by improvements in all processes in the value chain. The outlook could not be better for the company, which aims to exploit opportunities in the market for health and convenience foods alongside the Ebro Puleva Group. In addition, there is major scope to extract synergies with Riviana, above all in logistics and commercial distribution.

Meanwhile, Panzani managed to grow volume sales despite being leader in its markets and in stable categories. Sauces posted the sharpest increase, with over 10%.

Driving sales growth were new products; e.g. microwave pastas, new types of sauces and new gnocchis. The company began marketing frozen pasta for the first time during the year, achieving sales of 500 tons. It expects to triple this figure next year.

During 2006, efforts began to downsize the La Montre plant, which should improve the cost structure. These initiatives bode well for growth in cash flow next year, especially now that we have overcome the amendments to the Commerce Law, which kept us from fully passing on the increases in raw material costs to our product prices.

Investments:

The main investments in the year went to remodeling and starting up new dry pasta lines at the Nanterre facilities, a new fried gnocchi line and the enlargement of the semolina plant in Vitrolles.

2. Outlook

Strategically, our Group believes a cycle has ended. Increasingly globalization in recent years has forced us to be present in new markets and focus on new leading products with growth potential, but without ignoring those that are cash cows and that add a major element of innovation. The company has pursued this by both organic growth, designing new product ranges targeting consumers, and via acquisitions in core business areas.

The latest purchases have provided the ability and dimension we believe is needed in this new scenario. Going forward, we will first concentrate on consolidating our Group and expanding the product range in markets where we already operate. However, this does not mean we will not make acquisitions in markets with growth potential.

Sugar business:

2007 will be the first full year (i.e. sugar in both campaigns) of operations under the new regulatory framework. See Note 28 for a full description of the reform and potential implications.

Rice business:

In line with the integration and industrial upgrade strategy, the Group intends to combine its three production plants in Seville at a new site that will meet the conditions necessary to raise productivity ratios, become more cost efficient, and enhance the adaptability to new processes and products.

In the US, efforts will go to galvanizing the Minute Rice brand as a national brand, renovating the formats of our flagship products and starting construction of new facilities in Memphis.

Finally, plans for the new facilities in Egypt and Thailand should product sources of round and long grain rice, respectively.

Dairy Products business:

The company will continue focusing on developing value products by appropriate market segmentation, and raising technological and economic barriers to fend off attempts by competitors to mirror its policies.

Pasta:

At New World Pasta, joint products with other Group companies will take shape, starting with an overhaul of brands and products.

Panzani will complete the restructuring of its dry pasta business and aims to become a major player in Hungary, the UK and Canada alongside Group companies operating in these markets.

Other businesses:

Investment will commence at the Dosbio bioenergy subsidiary, which hopes to begin production in 2008.

Having strengthened its business and now selling ingredients to other companies, Puleva Biotech, S.A. should show greater business autonomy vis-à-vis its core shareholder.

Additional properties will be sold to obtain cash to fund the growth of the core businesses.

3. R&D&I

In 2006, the Group enhanced its R&D&I potential with the inclusion of the Spanish company I+D, S.A., which specializes in making bread and pastries, rice technology and its by-products and modern catering. Accordingly, the Company's R&D&I activities have five cornerstones: Puleva Biotech, the European Center for Research on Cereals, Rice and Pasta (CRECERPAL), the Center for Culinary Research and Inspection (CEREC), the Azucarera Ebro R&D Center and the Spanish R&D Center.

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 innovate in technologies, which will allow the company to develop processes in-house and establish technological barriers to competition
- To maintain a steady flow of products in the pipeline.
- To contribute innovative customer relationship solutions.

All these targets are aligned with the development of healthy, convenient and gastronomically appealing foods based on a strict food safety policy.

The main actions taken in 2006 were the following:

- In the rice division, work was performed to set up new processes and products based on rice, other grains and legumes. The "ready to serve" product range was enlarged, to add meals based on legumes and vegetables, while efforts were made to shorten the cooking time for steamed rice. Progress was also made in new rice flake-based products and new prepared breeding flours, whose features make them apt for a wide range of industrial uses.
- Efforts in the sugar division were geared to improving industrial prices, raising sugar quality indicators and carrying out predictive exercises on sugar beet quality and yield.
- In the dairy division, the Puleva Complet range was developed and rolled out. This is a new category of dairy products with a high level of digestibility. Work also went to stimulate the range of baby foods with the Puleva Peques (humanized and follow-on milk) and the new range of catering products under the El Castillo brand was completed.
- Finally, in the pasta division, innovation led to the addition of two new product categories: frozen and fresh cooked meals.

4. Treasury shares

In 2006, the Company bought and sold treasury shares as authorized by the General Meeting held on April 5, 2006, having duly notified the CNMV (Spanish National Securities Commission) in accordance with current reporting standards. In 2006, 80,000 treasury shares were purchased and 80,000 were sold. At year end the Company had 231 treasury shares, equivalent to 0.0002% of its share capital. At year end 2006, 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.

Note 28 of the accompanying consolidated annual accounts explains the key features of the sugar CMO, which came into effect in 2006.

2. Environmental and food quality risk:

The Group's environmental policy is based on the principle of ongoing compliance with legislation. Accordingly, it has designed, developed and put into place an environmental management and food safety system that is UNE-EN-ISO 14001:2004 and UNE-EN-ISO 9001:2000 standard compliant and certified by AENOR.

It has also defined a food quality and safety system that meets the requirements of the UNE-EN-ISO 17025 standard, certified by 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. The Group also has a waste (e.g. paper and aluminum) recycling program. Finally, we would highlight some quality-enhancing initiatives carried out by our North American subsidiaries, such as the GMP (Good Manufacturing Practices) and the HAACP (Hazard Analysis and Critical Control Policy).

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.

One of the Group's subsidiaries, Azucarera Energías, has entered into a swap whose underlying asset is a basket of natural gas indexed to Brent. The notional is measured in megawatts per hour (MWh). The swap is denominated in euros and expires at the end of 2007. The fixed rate contracted is 22.40 €/MWh.

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.

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, 2006, after taking into account the effect of interest rate swaps, approximately 8% of the Group's borrowings are at a fixed rate of interest.

Note 22 of the notes to the consolidated financial statements provides details on outstanding SWAPS at December 31, 2006 and 2005 and the Group's financial liabilities exposed to interest rate risk.

Foreign currency risk:

As a result of significant investment operations in the United States, the Group's balance sheet can be affected significantly by movements in the USD/EUR exchange rate.

The Group seeks to mitigate the effect of its structural currency exposure by borrowing in US dollars. 100% of its investment in the US is hedged in this manner.

Included under "Non-current loans" at December 31, 2006 are two, 440 and 190 million US dollar, loans (see Note 22) designated as a hedge of net investments in US subsidiaries and used to hedge the Group's foreign currency risk arising from these investments. Gains or losses on the translation of this loan to euros are recognized in equity to offset any gain or loss on the translation of the net investments in the subsidiaries.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. The Group requires all its operating units to use forward currency contracts to eliminate the currency exposures on large transactions for which payment is anticipated more than one month after the Group has entered into a firm commitment for a sale or purchase. The forward currency contracts must be in the same currency as the hedged item.

It is the Group's policy not to enter into forward contracts until a firm commitment is in place and to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness.

Some Spanish companies of the Rice Business- Herba and Pasta Business - Panzani segments have entered into currency futures (exchange rate insurance) to hedge the risk of foreign currency fluctuation of customer receivables, although it did not have any contracts of significant amounts at the end of the year.

Liquidity risk:

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of revolving credit policies, bank loans and forward purchase contracts.

7. Environmental Issues

Note 29 details information regarding the environment.

8. Events after the balance sheet date

No significant events have occurred from December 31, 2006 to the date on which these consolidated annual accounts were drawn up.