



# Management report

## 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 biofuels in Europe, North America and, increasingly, in other countries.

Ebro Puleva is making great strides at striking a balance between revenues received from the Spanish and international markets, as well as increasing income from brand name sales vis-à-vis industrial sales. Similarly, it is also leveling the revenues from its various business divisions. Overall, the rice division is gaining over its sugar business and specializing in value-added dairy products.

The management report on the consolidated annual accounts includes information on business trends and the activity carried out in 2006 by the various business lines and segments of the companies comprising the Ebro Puleva Group.

## 2. 2006 overview of Ebro Puleva, S.A.

Revenues mainly come from dividends from subsidiaries and transactions with investment property. The main expenses are overheads and debt-interest expenses. In addition, investment provisions are recorded or released in accordance with changes in the equity investments in subsidiaries.

Operating loss amounted to 10,338 thousand euros as compared with loss of 5,931 thousands in the previous year. The difference relates to the decrease in revenue from services rendered to Group companies.

Financial income stood at 34,441 thousand, as opposed to 57,353 in the previous year. The result is lower because of the decrease in dividends received from subsidiaries, which in 2005 made an extraordinary contribution, and to higher finance costs on loans taken out to fund the company's expansion.

Extraordinary profit totaled 122,173 thousand euros (2005: 76,738 thousands euros), thanks to disinvestment in non-strategic fixed assets during the year and the application of portfolio provisions.

Profit after tax amounted to 103,326 thousand euros, a decline of 38,102 thousand euros from the year before. This was caused by the changes mentioned above and the higher income tax expense (42,950 thousands euros vs. 13,268 thousand euros).

The main investments made in the year were the acquisition of 100% of New World Pasta for 362,500 thousand dollars carried out on May 27, 2006 and the acquisition of Kraft Foods' rice brand in the US and Canada, via the Riviana Foods subsidiary, for 276,160 thousand dollars.

Meanwhile, the company sold the businesses of its Riviana Group's Central American subsidiaries, for a net 188,263 thousand dollars.

Banks loans were taken out to finance these transactions. Note 14 details the drawdowns made by the Company.

### 3. Foreseeable development of the company

Shaping Ebro Puleva's earnings going forward will be dividends from subsidiaries, revenues from services rendered, capital gains on non-core properties and interest expenses on debt taken out to finance assets.

The Company's directors consider that the dividend policies established for subsidiaries will be sufficient for Ebro Puleva to obtain results that will enable it to offer attractive remuneration to its shareholders.

### 4. R&D activities

R&D activities depend largely on the projects being developed by our subsidiaries (we refer the reader to our consolidated management report for information on this area).

### 5. Transactions with own shares

In 2006, the Company purchased and sold own shares as authorized by the shareholders in their general meeting held on April 5, 2006. These transactions were communicated to the National Securities Market Commission as required by prevailing regulations. The Company purchased 80,000 shares in 2006 and sold 80,000 shares. At year end 2006, the Company holds 231 of its own shares which correspond to 0.0002% of share capital. At year end 2006, the Company has not yet decided on the final use of these shares.

### 6. Personnel

The principal data on this heading is included in Notes 17 and 18 of the accompanying Notes to the Financial Statements.

### 7. Management objectives and policies relating to business risk

As the parent company of the group, Ebro Puleva is indirectly exposed to risks associated with its subsidiaries resulting from the valuation of its investment portfolio and the dividends received from its subsidiaries. The activities of the subsidiaries comprising the Ebro Puleva Puleva Group are subject to external factors which can influence trends in their operations and economic results.

The Company is therefore exposed to environmental, financial, credit, labor and technological risks. The description of these risks and the policies in place to detect and manage them is provided for in the consolidated management report.

## 8. Financial risk management and financial instruments

The Company's principal financial instruments comprise bank loans, overdrafts, and cash and short-term deposits. The main purpose of these financial instruments is to finance the Group's activities.

The Company has also entered into derivative transactions to hedge interest rate and currency risks. It is not the Company's policy to trade in financial instruments.

The principal risks from financial instruments relate to credit risk, interest rate risk from cash flows, liquidity risk and exchange rate risk.

The Board of Directors continually establishes and reviews the management policies in place for each of these risks, which are summarized below.

### **Credit risk:**

Ebro Puleva has adequately spread out its credit risk. In addition, surplus cash is invested and financial instruments acquired through very solvent institutions with high credit ratings.

### **Cash flow interest rate risk:**

The Company's exposure to the risk of changes in market interest rates relates primarily to its long-term debt obligations with floating interest rates.

The Company's policy is to manage its interest cost using a mix of fixed and variable rate debts. The objective is to strike a balance in the structure of debt that enables the Company to minimize interest cost by reducing volatility. To achieve this, interest rate fluctuations are closely monitored with the help of qualified experts. When necessary, Ebro Puleva contracts interest rate swaps in which it agrees to swap during certain periods the difference between the amount of fixed and variable interest rates, calculated based on a notional amount of principal agreed-upon between the parties. These swaps are designed to cover the underlying payment commitments. At December 31, 2006, after taking into account the effect of interest rate swaps, approximately 8% of loans had fixed interest rates.

### **Foreign currency risk:**

As a result of investment transactions in the United States, the Company's balance sheet can be affected significantly by movements in the US-EUR exchange rate. The Company 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.

Transactions carried out between subsidiaries operating in various functional currencies are likewise exposed to exchange rate risk. In these cases, subsidiaries take out their own exchange rate insurance and arrange other hedging instruments in accordance with Group policy.

### **Liquidity risk:**

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of revolving credit policies, bank loans and short-term financial investments.

## 9. Environmental issues

Given the specific nature of the Company's business, it has no relation to the environment on its own. (see Note 18.4)

## 10. Subsequent events

No significant events occurred between the balance sheet date and the date on which these annual accounts were drawn up.