Campofrío

A growing company in a mature market

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1. CAMPOFRÍO, A GROWING COMPANY IN A MATURE MARKET.

Ana and Carlos had just compiled the information on Campofrío. Now they had to analyse it and begin to write the report. It was starting to get hot, the end of the academic year was in sight, and this was the last assignment left to do. In June they would graduate, and at last they would have their MBA. So when they were assigned the company Campofrío as their final project they felt fortunate because there was a lot to be learnt from this company's strategy. Few companies could survive just with the domestic market. The task seemed simple enough. Analyse how a company in a mature sector had increased its sales in 11 years from 56,809[1] million pesetas in 1993 to 1,085,708 euros in 2003. What strategies for growth had they adopted? What lessons could be learnt from Campofrío's experience? How important had the internationalisation of the company been? Had all the strategic decisions been successful? If not, why not? As a starting point they had been given some information by their lecturer, Campofrío: Basic information- 1997 (APPENDIX 1); Sales Graph 1993-2003 (APPENDIX 2); View of the Spanish meat sector-2004 (APPENDIX 3); Situation of the world market in 1993 (APPENDIX 4). The rest of the information necessary to explain this sharp growth had been obtained from the sources of information available and in interviews with the company's managers.

After quickly reading the information from the lecturer, they had decided to divide the research work. Ana would do the period 1993-1997, and Carlos 1998-2003.

[1] 341,429 euros

So here they were, with the thought of holidays and job interviews on their minds, but they still had to make one last effort to prepare the best report.

Carlos: We've nearly finished. I think we've got enough information now to be able to analyse the strategy for growth and write the report. 11 years is a long time, there have been so many initiatives and decisions...

Ana: Yes, and also as Campofrío really began to internationalise in '89, I've collected information from the start of that period too, because I think it's interesting enough to be included in our work. Did you know that the idea of internationalising the company came to Pedro Ballvé when he was on holiday in the Dominican Republic where he'd gone to chill out, and he suddenly got this feeling that the Dominican Republic was an interesting market that could become the doorway to the United States?

Carlos: No, I didn't know that. I did know, though, that this company although it's become a multinational, in many respects still operates like a family business. Pedro Ballvé's an executive who's totally involved in the company, he knows the sector very well and is really intuitive about detecting opportunities; this is what makes decision-making so quick.

Ana: I've structured the information by countries. While you're reading, I'll include the economic information (APPENDICES 5, 6, and 7), the information on the Stock Exchange quotations (APPENDIX 8) and the Nielsen comparative market analysis data: 1994-2003 (APPENDIX 9).

2. 1993 – 1997.

2.1. Dominican Republic.

Doorway to the American Market.

The Dominican market had interesting potential, dominated by brands owned by exiled Cuban businessmen and one or two local small businessman. It also offered opportunities for expansion towards the Caribbean for processed meat products, but what made the project most appealing was that it was a way of gaining access to the American market.

In 1989 Agrocarne was constituted, which became Campofrío's first foreign investment. Campofrío's stake in that first project was 25% via its subsidiary Tenki International Holding (a portfolio company) and it was 50% in 1995. The rest of the shares belonged to two local partners: the Dominican company Proteínas Nacionales and the Cuban company Romana Corporation (owned by exiled Cubans).

The Dominican Republic had the advantage that it was near, and also that there was special American legislation for the import of products from this country, since it now had new clean livestock that the Americans had developed. The obstacles from the American administration for officially approving food products (official approval of plants, products, labels, packaging and sources of supply) were arduous and meant that the process was long and not resolved until the end of 1992. In 1993, the health authorities granted permission to Agrocarne to export to the USA (New York, Connecticut, New Jersey, Florida and then to Puerto Rico). This fact together with increased exports from the plant to Central America and increased local sales heralded success in the medium term.

In spite of all the progress made, in 1994 Agrocarne continued to generate increasing losses (after four years' activity and expanding production in 1991 with the construction of a new plant). This was due basically to the delay mentioned earlier in the administrative formalities required to begin exporting to the United States where most of the production was for.

In 1995 the activities in the Dominican Republic were split. From now on the Agrocarne company would be responsible for the Dominican market, whereas Sandridge, established in a duty-free zone, would be responsible for the export market.

The efforts suffered a harsh setback. At the end of 1997 an outbreak of swine fever was detected in Haiti and the Dominican Republic was classified as a contaminated country. All prospects of exports to the USA were thus crushed. This fact together with the fire that broke out in the storage plant forced Campofrío to rethink its investment policy in that country. The main measures adopted were:

- Temporary suspension of industrial activity
- Cancellation of contracts
- Implementing a plan to convert the company into a bonded warehouse for products requiring a cool temperature in order to facilitate the distribution of imported meat products.
- Sale of assets to generate the funds and profitability necessary to ensure the company's continuity.

2.2. Russia: Campomos.

The Route to Market Diversification.

In 1989 the second investment was made abroad. They chose Russia from intuition, coincidence and the capacity to assume risks.

Campofrío found Russia to be a fertile land for its activity. The country had very few meat products and there was virtually no international competition.

Initially the investment studies and negotiations focused on Saint Petersburg, where they had had interesting contacts for years, as a result of the company's earlier exporting activity, and also because it was here where they intended to install the factory. However, the Spanish engineers found the city's old factory difficult to adapt. They were feeling discouraged when by chance on a flight from Saint Petersburg to Moscow they met someone who would later be their partner in Campomos.

The negotiations were concluded in December 1989 with the opening of Campomos in Moscow, a 50% private and public company, where Campofrío assumed a minimum investment risk of 3 million dollars, and the local partner, Mosmiasoprom, (Moscow meat combine under municipal control) provided a plant of 2,500 m^2 with a capacity of 2,500 tonnes/year, which after the remodelling done under Campofrío's technical management was increased to 4,000 tonnes/year with the same staff. That minimum investment nevertheless allowed them to collaborate and be right from the very start in the company conversion begun there. Campomos was the first private and public company in the USSR meat sector. The staff was local except for a few managers who were Spanish.

In 1992 as a result of the successful running of the company, they decided to reinvest the profits generated by Campomos. The local partner did not participate in the reinvestment, Campofrío acquired 70% of the company, and the profits were used to finance a second plant near Moscow with an envisaged production capacity of 15,000 tonnes/year, which began operating in 1994.

In 1994 the subsidiaries abroad were still being consolidated and had losses except for Campomos.

From 1995 to 1997, Campomos became the most important meat company in Russia because of its quality, volume, effectiveness and profitability. In October 1997, Campofrío decided to increase its stake again in Campomos and bought 13% more from its local partner, which now gave it an 83% stake.

The sharp growth in recent years meant that Campomos was now the market leader in the Moscow region with more than 20% of the quota. This growth occurred without virtually any erosion in the net margins that continued to be around 15%.

CAMPOMOS

CAMPOMOS	91	92	93	94	95	96	97
Turnover (tonnes)	3,220	3,764	5,011	1,454	24.422	33,551	43,383
Income over sales (thousands US$)	558	3,004	9,551	31,867	76,382	121,546	155,000
Profit after taxes (thousands US$)	59	1,621	3,382	2,424	9,621	21,052	24,000

2.3. Philippines: San Miguel – Campocarne.

Asian Market.

In the early 1990s, Asia held great promise. Countries in South-East Asia were developing fast. Campofrío arrived in the Philippines after discarding other options in South-East Asia: Indonesia and Malaysia had a mainly Muslim population; Thailand did not consume many meat products and Taiwan, although it was a pork producing country, did not have a large enough population for an investment of this kind. In the Philippines some vestiges of Spanish food habits made it easier to introduce Campofrío products there.

The most attractive company on the market was the Grupo San Miguel, one of the leading local food groups, which at that time was looking for a partner in the processed meat sector to cover all the food processes from breeding to the end product.

In June 1991, a 50% private and public company was constituted with the Grupo San Miguel to construct a production plant for processed meat products near Manila, which would have an initial capacity of 7,500 tonnes/year and an investment of 3,000 million pesetas. The aim was to supply the Philippine market first, and then export to other neighbouring markets.

The opportunity to invest was again with the collaboration of a local partner firmly established in the area. Campofrío arrived in the Philippines without any previous experience in that market and without first exporting to test its products.

The plant began operating in 1992, but because the product and the packaging were not precisely the right ones for the Philippine market, the beginnings were more difficult than envisaged.

In the Philippines, food products were sold at small open-air markets with no refrigerated containers and where the atmosphere humidity was very high. The products were packaged at first like in the West in packets containing 6/7 units. Given that very few families had fridges in their home, they did the shopping every day and bought one or two units of each product. Once the packets were open, they could not be stored and the food went off, so the traders decided not to have them in their shops. The error was detected by the Campofrío export manager on a trip to the area.

Campofrío decided to control the new distribution organisation themselves and the products were adapted to the characteristics of the Philippine market. In 1995 a new production line of tinned meat was completed in order to begin exporting long-life products to South-East Asia.

SAN MIGUEL– CAMPOCARNE

San Miguel – Campocarne	93	94	95	96	97
Turnover (tonnes)	1,537	3,941	5,510	6,401	7,891
Income over sales (thousands US$)	4,410	11,560	17,230	18,930	26,750
Profit after tax (thousands US$)	-2,190	-4,510	-5,060	-2,540	60

2.4. Mexico: Campofrío México, S.A.

The American Market.

Investment in this country was guaranteed because of its earlier experience of selling in Mexico via distributors, which had been very positive in previous years. Moreover, Mexico was then one of the American countries that more positively strived to ensure its future by controlling inflation, maintaining an apparently stable political situation and it was also close to signing the Free Trade Agreement with the United States and Canada, which made it really appealing as a country where great development was envisaged in the medium term. There was some euphoria about this market, and although it was traditionally known to be difficult, not only Campofrío, but many other Spanish companies decided to go there.

So Campofrío México, S.A. (100% Campofrío) was founded and began to operate in 1992 with an investment of 1,300 million pesetas.

In 1993 the new Campofrío México S.A. plant had a capacity of 4,000 tonnes/year for quality products in the upper and middle/upper sector. The plant obtained the TIF classification, which allowed it to export to the USA. After a year in production it began to establish a distribution network via its subsidiary “Campofrío Distribución” to extend its coverage to all the territory. Up to then it had focused just on Mexico City.

However, in 1994 something happened that no one expected. The financial storm at the end of this year known as the “Tequila Effect” stopped sales from growing although the company’s production had increased by 40% compared with 1993 and they had even had to reach different production agreements during the year with third parties to satisfy demand. The end of the year was discouraging, sales fell by 15%.

That year, with an economic crisis, higher inflation, the peso’s devaluation and lower GDP (with the subsequent loss in purchasing power for most of the population), Campofrío México was forced to export 2,000 tonnes to Russia, the Caribbean, Georgia, North Africa and Jordan, using the bartering formula with the American company Atwood Richards in exchange for cardboard packaging, turkey and other raw materials. As well as the crisis there was also the high initial cost of its operations (market research, product adaptation, investment in advertising, etc…).

This financial crisis revealed their ignorance about the real political situation of the country. The investment by Campofrío would suffer the same fate as that of other Spanish companies in Mexico. Moreover, they had made some mistakes when they had set up there: the size of the plant was not right, it was small for a country where it was competing with giants, (although their quality, presentation, etc. was better). In short, the approach was wrong and also the human team was not prepared for the situation, which caused serious market and product problems.

All this led to the decision to leave this market. In 1996 Campofrío stopped its activity and sold its assets and liabilities to its subsidiary in Mexico "Distribuidora Campofrío S.A." except for its tangible fixed assets that it leased to this company.

2.5. Argentina: Campo Austral.

Mercosur.

In 1992 the ban on Spanish pork product imports was lifted by Argentina, which had been restricted until then because of swine fever. A new opportunity emerged of expanding into an area with great potential growth, although this time there was strong local and American competition. Consumption of meat products is high, not only in Argentina, but in all the area of influence, Uruguay, Paraguay and south Brazil, although beef is the main meat consumed.

Campofrío began by exporting (mainly cured ham). These exports provided practical insight into the market which proved positive for Campofrío products. Demand was covered mainly with surpluses from Spain, Mexico and the Dominican Republic.

The excellent behaviour of the market led to the creation of the Campo Austral company with the Argentine Blasfer group where Campofrío had a 25% stake. Moreover, a production plant was built in 1995 on the outskirts of Buenos Aires with a capacity of 6,000 tonnes/year and a total staff of 60. The plant would begin operating at the end of 1996 and have high productivity. Thus in 1997 they decided to extend the plant in Argentina with an investment of 450 million pesetas and achieve a production of 8,000 tonnes/year.

The aim of this new investment was clear: to participate in the development of Mercosur, a market with a high growth potential for processed meat products and consumption habits that were already developed. The Campofrío products began to be introduced into other markets in the Mercosur area from the plant in Buenos Aires.

CAMPO AUSTRAL

Campoaustral	94	95	96	97
Turnover (tonnes)	86	426	732	1.968
Income over sales (thousands US$)	800	3,113	4,873	10,057
Profit after tax (thousands US$)	-726	-1,088	-1,700	-264

2.6. Rumania: Tabco, S.A.

Back to Europe.

The good performance of Campomos investment in Russia led Campofrío to think again of the countries in the old Soviet area of East Europe. These countries offered good opportunities, significant positioning with little investment and market behaviour known by Campofrío via different isolated exports from Spain and the subsidiary - Campofrío France. These were countries with a high level of meat consumption, especially pork.

Campofrío, within its policy for establishing itself in East European countries, bought 56% of the share capital of Tabco, S.A., a meat company situated in Tulcea (Rumania). This share stake belonged to the Rumanian State Heritage Fund (FPS) and was awarded in an international tender to Campofrío as part of the privatisation process of state-owned companies begun in that country.

The plant in Tulcea had a pig and cow abattoir, and a factory for processed and tinned meat products, with a capacity of 20,000 tonnes/year. Its operations were normal and acceptable. Tabco was a well-established brand in Rumania and in 1996 had sales of around 280 million pesetas. The award of the Rumanian company included Campofrío's commitment to invest one million dollars initially in order to modernise the technology of the installations.

With this project Campofrío aimed not only to obtain a high market share in Rumania but also to expand and introduce Campofrío products into the bordering countries: the Ukraine, Moldavia, Hungary, Bulgaria, Turkey and ex-Yugoslavia.

It was also a strategic project for the company, not only because of the area of influence mentioned, but also because it was a springboard for sales to the bordering countries in the current EU, once the enlargement was completed to the Central European and East European countries.

2.7. Investment in the USA: Abuin Packaging.

An Emerging Marketing within a Developed Market.

When Campofrío began to internationalise, it had considered the USA as a target market, with great potential for development if they directed their offer at Latin Americans residing in the USA.

There were some 27 million Latin Americans registered in the USA in 1997 with very different eating habits to the Americans'. This market up to then had been dominated by brands owned by Cuban exiles, generally residing in Miami, but not by large multinationals who had not shown an interest in this group (although they had in Asian, Italian, Greek, etc. immigrants … manufacturing specialised products to suit their tastes). Campofrío wanted to conquer this clearly expanding segment: in the USA it was increasingly common to see Latin American restaurants, hotels and supermarkets. Moreover, this market segment was made up of a young population that was growing and with it, its purchasing power.

In November 1997 Campofrío bought the Abuin Packaging factory in New York (Cuban brand "El Miño") to enrich the range of products manufactured in the Dominican Republic with meat products exclusively for Latin Americans. Therefore, this investment in a developed country truly aimed to meet the needs of an emerging market. In Campofrío's opinion, this was an interesting and innovative project, and profits were rapidly obtained. Excellent results were expected in the short-term.

2.8. Recapitulation until 1997.

In 1997 after the lesson that they had learnt, Campofrío products were present in all the European Union (with two of their own distributing companies in France and Portugal) and they had production centres in Russia, the Philippines, the Dominican Republic, the United States, Argentina and Rumania. Products were sent from Spain and the factories in these countries to over 40 countries and could be found in markets as diverse as the Far East, Scandinavian Countries, Africa and Central America. Campofrío had invested a great deal in quality, innovation and image in products (Pollofrío, Pavofrío, etc.) and in the different companies in the group (Tabco, Campomos, etc.)

Throughout 1997, efforts focused on East European countries and penetrating the American continent, especially the USA, either with products for Latin Americans via the New Jersey plant or with typical upper range Spanish products (especially, cured ham), via their partner Hormel Foods' distribution network.

The aim at that moment was to become the top European meat company at the dawn of the second millenium. To achieve this, it had to reach high rates of growth by developing innovation projects and making acquisitions abroad. Growth could also be through the design of an important vertical integration policy to satisfy the different demand profiles in the EU markets and in other geographical areas where the Campofrío brand was present.

In recent years Campofrío had been directly exporting from Spain to new markets like Croatia, Bosnia, the Ukraine and Khazastan where its products had been very well received.

Ana: I think this company's innovative and can assume risks. In fact, in a mature market like the meat sector, the possibilities of stagnating and disappearing are very high. Campofrío's doubled its sales in 4 years.

Carlos: You're partly right, but when you take decisions that are risky they don't always work out. I suppose what's important is to react in time and be flexible enough to change your strategy if the results aren't as expected. One of the large international investments will really surprise you..... But go on reading.....

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3. 1998–2003.

3.1. Consolidation in Emerging Countries.

3.1.1. Russia.

In 1998, Campomos, Campofrío's star subsidiary, which had increased its volume fifteen fold since 1991 suffered the effects of the Soviet financial crisis, which contributed to the Group's low international sales.

However, Campomos was able to take advantage of this crisis to establish itself in the country. The direct competitors in Russia had to close five factories in Moscow and Saint Petersburg, which left a market share that Campofrío absorbed by adapting its range of products to the population's new purchasing level. Foreign competitors (manufacturers-exporters) were also cautious about exporting and were waiting for the situation to improve. Thus this small market share was available too. Campofrío also benefited from the acquisition of companies with new machinery that went bankrupt.

After the crisis Campofrío was producing at 100% of its capacity (50-55 thousand tonnes a year). Nevertheless, margins were affected by the sharp fall in demand and the manufacture of products with a lower unit price and less added value.

In 2000, Campofrío obtained a profit of 1.7 million euros and in 2001, 12.8 million, in 2002, 16.3 million, and in 2003, 6.97 million.

Today, fifteen years later, Campofrío's managers are surprised at the decision taken then when there was still much speculation about the future of the country.

3.1.2. Poland.

In Poland, Campofrío acquired 98.34% of Morliny and 76% of Ostroleka in 1998. Poland was a market with 40 million inhabitants where the standard of living was rising significantly. It was also a net exporter of pork and one of the major producers and consumers in the world (its consumption per capita was twice Spain's). Campofrío saw that it could improve the production of raw material with its technology and thus supply Campomos at a lower cost.

Moreover, Poland was one of the main candidates to enter the EU in the medium term (in 2004). The capacity of Morliny's installations was initially 130,000 tonnes/year (double Campomos and similar to that in Campofrío Spain).

In 2001 Campofrío launched an exclusive takeover bid on the Warsaw Stock Exchange to obtain 1.66% of Morliny that it still did not control. At the beginning of 2002 it sold its stake in Ostroleka in order to concentrate its efforts on improving the factory in Ostroda. On the one hand, it wanted to significantly improve productivity and therefore production costs and on the other, it wanted to adapt the factory to manufacture new products.

Morliny is licensed to export to the USA where there is a large Polish community.

3.1.3. South America.

In January 1999 an agreement was concluded to increase its stake from 27.14% to 40%. in its subsidiary Campo-Austral. Campofrío considered that this company was the key to its growth in South America. In November 1998 Pedro Ballvé opened the new Campo-Austral installations.

However, Argentina's economic situation seriously affected the company's financial situation, and in 2002 Campofrío decided to sell Campo-Austral because it had never made any profit.

3.2. Change in Strategy. Developed Countries.

As early as 1999 after it had become the Spanish leader and had established itself in East Europe, America and the Philippines, Campofrío viewed the EU as a single market of 300 million consumers, most of them with a common currency. The most interesting areas in this single market were: Spain, France and Portugal. Campofrío's new objective for growth were the developed European countries.

3.2.1. France.

In April 1999 the Spanish group announced the acquisition of 80% of the French company Gairaud Montagne for 2,800 million pesetas. The operation consisted of integrating this company with the distributor Campofrío France so that the combined sales that year were more than 13,500 million pesetas. It should be noted that 10% of Gairaud's business was from abroad (basically Argentina and Benelux).

Gairaud, a family business, founded in 1933 had five factories in the French Pyrenees region and employed 282 people. Its sales were 9,023 million pesetas in 1998. It specialised in upper range meat products and had a strong presence in the French market. 70% of its production was *Jambon Sec*, equivalent to Spanish Parma ham (*jamón serrano)*.

The strategic value of the investment was the exchange of technology, the development of Campofrío in West Europe once its presence had been consolidated in the East European countries, and the use of the Gairaud sales network to distribute other countries' products in France.

3.2.2. Portugal.

Campofrío reached an agreement for the acquisition of 100% of Fricarnes, a leading family business in the meat sector in this country. The investment amounted to 8,320 million pesetas and was Campofrío's biggest investment abroad ahead of Morliny's in Poland. Strategically, this positioning in Portugal was considered to be very important for controlling the possible entry of European and American competitors in the national market.

In 2002, however, Campofrío decided to vary its strategy in the country and closed the pig abattoir due to the low return on investment. It still continued to manufacture processed meat products adapted to the local tastes, though.

This investment meant that 1999 was a record year for acquisitions. The budget for this investment was 19,000 million pesetas, as much as the total investment since 1990.

3.2.3. United Kingdom.

After France the company opened an office in London to study what opportunities existed for its products in the British market. From the new office very detailed market research was done to introduce the products that English people like to eat when they visit Spain as tourists. The main difficulties of the British market were as follows:

- 40% of the market was cornered by distributors' own brands (DOBs).
- Sausages (*embutidos*) are not eaten with meals as much as for example in Germany and France.
- Transport cost was high if the import was direct.

3.3. Growing to Compete.

At the beginning of 2000 Campofrío decided to change its strategy again and focus on the Spanish market. They were determined to grow, a factor that they considered key and essential for improving results. For this they embarked on an ambitious plan of acquisitions in the Peninsula. At the same time, they also decided to reduce their presence in countries where the economic situation, the situation of the markets or relations with partners were less favourable, as we have already seen in the disinvestments done in some of the countries.

3.3.1. OMSA Alimentación.

In March 2000 Campofrío launched a friendly takeover bid on 100% of Omsa Alimentación's capital, the manufacturer in Spain of the Oscar Mayer brand. The purchase price of the shares was 7.06 euros, 9.45% premium over the year's average quotation. At the close of the fixed period, 55.79% of shareholders had taken part in the takeover bid and 23% corresponded to Inversiones Ibersuizas and Grucysa. The total amount paid was 8,207 million pesetas. The directors at OMSA Alimentación, owner of 31.28% of the shares via the holding company Ajino agreed with Campofrío to deferred selling of the shares with the granting of call-and-put option reciprocal rights on these shares until the end of 2002. Their price would be fixed according to the equity trend during 2000-2002. Until the total transmission of the shares, OMSA directors would continue participating in the management of the company and Campofrío would hold the voting rights to these shares. Campofrío extended the right agreed to Ajino, to Omsa Alimentación's minority shareholders. This offer was accepted by 4.06% of the shareholders. The result of this operation was that Campofrío acquired voting rights over 87.07% of Omsa Alimentación's shares until the end of 2002.

With the purchase of Omsa, Campofrío obtained a 17% aggregated share in the Spanish market

In July 2002 the Stock Exchange exclusion operation was done. So the stake in Omsa Alimentación, S.A. stood at 63.15% on 31 December 2002 and the voting rights at 97.66% of the share capital.

The merger occurred in the first quarter of 2003 when Omsa's minority shareholders received Campofrío share certificates, one parent company share was given in exchange for one Omsa share. The exchange of shares was done with Campofrío's bought-back shares. Regarding Ajino's absorption, it became a company entirely participated by Campofrío, so there was no exchange of shares. 34,936,000 euros were paid for it.

3.3.2. Navidul.

In June 2000 the Securities and Investments Board (CNMV[2]) was informed of the board of directors' decision of the takeover merger of Navidul, S.A. by Campofrío S.A. Campofrío paid 14,161 million pesetas for 49.5% of the shares in this agreement. For the remaining 50.5%, there was an exchange of shares based on a capital increase of 6.2 million shares at one euro, which represented 16% of the company's new share capital.

In order to facilitate the merger process, the Navidul chairman up till then, became Campofrío Alimentación's co-chairman for a maximum of three years.

Both Omsa and Navidul were, at the time of the merger, two companies that were present in Europe and the United States. Their brands were of recognised prestige because of the effort they had put into making their products quality products, the constant investments they had made in improving their technological and research capacity, and the advertising and marketing campaigns that they had conducted. Omsa, represented by the Oscar Mayer brand now had a strong penetration in the children's and young people's market segment, whereas Navidul had a 5.7% market share in 1999 and was one of the main manufacturers of cured products (hams and hard pork sausages "*chorizos*").

Campofrío's merger with Omsa and Navidul has given it an 18.3% market share, which makes it the indisputable leader in Spain and has consolidated the Group as the leading meat company in Europe. Initially the synergies were valued at some 6 billion pesetas, and a plan was prepared to manage the redundancies and integrate the three company cultures and operations. A new model for Raw Material Management was set in motion

[2] CNMV: Comisión Nacional del Mercado de Valores

and the Innovation Processes were redesigned to shorten the launch times; the company brands were researched in depth to strengthen their position, and the new product portfolio was simplified and rationalised. Finally, an Innovation Department was created to undertake a product diversification policy including the marketing of new pre-cooked meals with more added value. Thus Campofrío ensured that it was part of the changing trend in food habits and increased its presence in the market with products specifically designed to tackle the consumer sectors where Campofrío still did not have the presence it desired.

The staff trend in numbers is significant and has been accompanied by integration policies. In 2002 the Human Resources Integration Plan was launched.

	2000	2001	2002	2003
No. Employees	9,200	8,963	8,691	7,751

3.4. Restructuring the Fresh Division.

In 2002 the integration of the fresh area of the companies in the Campofrío Group began and the Omsa abattoirs were also integrated. All the Group’s fresh meat activity was concentrated in the Primayor Alimentación S.L. company and it became not only the number one Spanish company for pork but also for beef. It was decided to build what would be the most modern abattoir in Europe, from a technological point of view, for the slaughtering and quartering of pigs. It had a maximum slaughter capacity of 8,000 pigs a day and a total quartering capacity of 1.4 million carcasses a year. The total investment financed by the Caja de Ahorros Municipal de Burgos amounted to 40 million euros and the abattoir began operating in July 2003.

Primayor also became the main supplier of fresh meats with traceability in Spain, thanks to the agreements reached with officially approved cattle breeders and farms, and to the complex systems implanted in all the product processing chain, ensuring safety and quality at a moment when consumers, producers and the administration were especially sensitive to the “mad cow”[3] crisis at the end of 2000, and swine fever (foot-and-mouth disease) in 2001.

In spite of the effort invested, and because the marker situation was complicated during the summer months and last quarter of 2002, Primayor’s profit-and-loss account had losses of 7.7 million euros, which in 2003 amounted to 10 million.

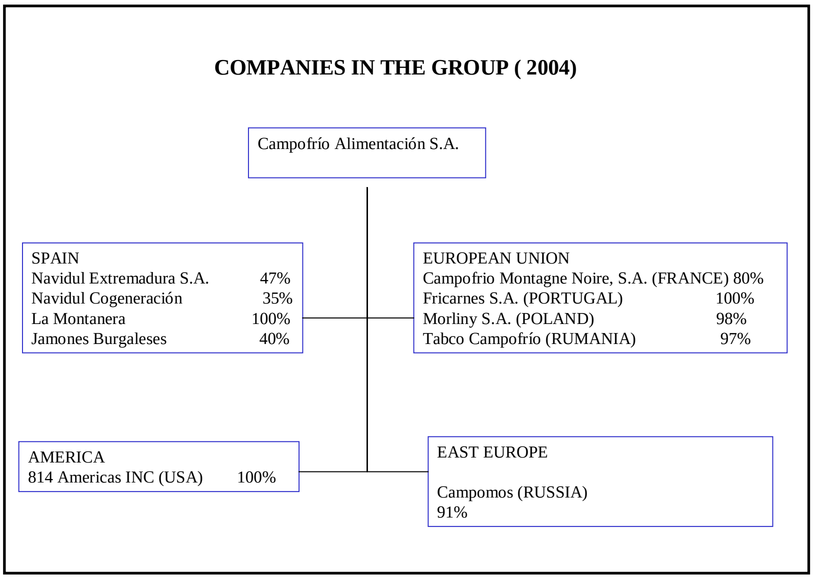
In 2003 Campofrío decided to sell Primayor Alimentación, S.L and the company was sold at the beginning of 2004 for 17 million euros to Proinserga in Segovia.

They signed a supply contract with Proinserga for seven years that could be extended to 10 for the preferential supply of meat, covering 60% of Campofrío’s raw material needs and thereby ensuring the quality of the meat in all its process from animal genetics to feed and cattle management.

[3] The common name for Bovine Spongiforme Encephalopathy (BSE).

4. CHANGES IN THE SHAREHOLDERS.

In February 2004, Smithfield Foods, the number one pork producer in the United States acquired 15.2% of Campofrío from Hormel Foods for 69.77 million euros. This operation with Campofrío as intermediary represented strategic collaboration in the long term for both companies, since Smithfield had considerable production activity in Poland and France, and was also present in Brazil, China and Mexico.



Ana: Not bad at all....

Carlos: No, it isn't. They haven't stopped, but in 2001 they sold their stake to their partners in the Philippines; in 2002 they sold Agrocarne in the Dominican Republic; and Campo-Austral in Argentina is waiting for a buyer to appear.

Ana: Really. What happened?

Carlos: I imagine they were forced to because of the poor results in some of these countries and they also had to free up resources to continue investing when new opportunities appeared. It isn’t easy to introduce this kind of products in countries with different cultures and food habits. A good product, quality, and a good image in your own country aren’t enough. Not even if you’re a brand that’s recognised all over the world.

Ana: I think I’ve read something about this. In the 80s when Spain was preparing to enter Europe, several multinationals tried to buy companies in this sector in Spain and failed.

Carlos: Yes, we saw it in class. Nestlé bought “El Acueducto” and in the end had to sell it, and now it belongs to Proinserga; Unilever bought “Revilla” that ended up with Navidul and now is also a brand in the Campofrío Group.

Ana: And the other day I read that Argal changed from being a family business with British Petroleum, then the multinational Sara Lee bought it, and now a group of managers have.

Carlos: And Omsa that’s now part of Campofrío has an even stranger past. It was a family business and then it passed to an American company Oscar Mayer in 1976. Then in 1981 General Food, also American, bought it and then in 1985 the Philips Morris group. Then in ’87 Coop A.G., a German group bought it. And it doesn’t stop there. In ’91 with a brand and technology contract with Oscar Mayer, it changed hands again to a group of managers and Inversiones Ibersuiza. In ’95, a company in the FCC group entered in the capital and you’ve seen what happened in the end.

Ana: Obviously, we’ll have to include an analysis of the competitive advantages of the local companies in our report and compare them with multinationals. Perhaps if we analyse what happened in Spain, we can explain why Campofrío had to abandon some of its investments in emerging countries....

Ana: Let's make a list of the key issues to analyse in our report and then begin.

Carlos: As you've said, we've got to consider:

- Competitive advantages of the local companies comparing them with foreign multinational companies in this sector.
- Lessons learnt by Campofrío from the different strategies it's adopted.

Ana:

- The internationalisation strategy in emerging countries: decisions adopted (partners, production capacities, products, distribution,....)
- The East Europe adventure (advantages, risks asssumed, ...)
- Analysis of the financial data, what effect they've had on the Balance Sheet and Profit-and-Loss Accounts, the successes and failures (I've included some notes to explain all this in APPENDIX 5).

Carlos:

- Stock Exchange Quotation Trend. (We mustn't forget that companies have to pay shareholders).
- The recent mergers/acquisitions in Spain. Are they achieving the synergies envisaged?

Ana: I'd also like

- To consider the recent decision to sell the fresh product division. I've enclosed some data on the trend in the price of pork (APPENDIX 10).

Carlos: I think we've got enough to begin with. As we get into it, something else will probably crop up that we'll have to include.

Ana: So, let's begin.....

5. EPILOGUE.

In August 2004 Smithfield Foods acquired an extra 7.2% for 41 million euros and increased its presence from 15.2% to 22.4% in the company's capital and became the main unit shareholder. Nevertheless, all the Ballvé family had the company's majority capital and controlled 44.14%.

Also in August, Campofrío announced the sale of its Polish subsidiary Morliny to its partner Smithfield Foods for 42 million euros. The operation would generate gains of approximately 10 million euros, whereas Morliny's contribution to the previous year's net profit was 1.4 million euros. Morliny had to adapt to the hard market conditions in 2003 when the prices of meat products started to fall. This situation led the Polish company to apply an aggressive price policy to maintain profitability.

Campofrío was the third major producer in Poland with a market share of 5.5% and Poland was a strategic market for the company. Therefore, disinvestment in Poland marked a change in Campofrío's strategy.

According to Pedro Ballvé (October 2004), the Campofrío Group has now embarked on a new adventure to grow in the Spanish and Community market with a product diversification policy that covers meat and fish and, especially, the marketing of new ready-to-serve meals with greater added value. Pedro Ballvé explained that he had as much as 250 million euros to undertake this project.

APPENDIX 1.

Campofrío: Basic Information (1997).

Origins.

The origin of the Campofrío Group dates back to 1952, the date when the parent company “Conservera Campofrío S.A.” was constituted, with the Ballvé and Yartu families as the main shareholders. The company began with an abattoir for pigs and cows in Burgos, and then in 1960 it diversified to processed meat products.

In 1978 the American company Beatrice Foods acquired 50% of Campofrío’s capital, which was a profitable partnership. It was during this period when Campofrío introduced advanced concepts on organisation, technology and marketing into its production and distribution processes.

The “Contemporary History” of Campofrío began in 1988 when the Ballvé family, with the support of the then Banco Central, regained 50% of the shares that its founder, José Luis Ballvé, had sold ten years before to Beatrice Foods, since they were interested in developing a meat division in Europe. The crisis in the American group helped the operation as did another key circumstance: at that time Banco Central was looking for the backing of businessmen in exchange for minority investment in industrial projects. Banco Central gave resources to the operation in exchange for 25% of the then Conservera Campofrío and the Ballvé family acquired 5% of the bank and became one of its main shareholders. Pedro Ballvé, chairman of the meat industry, sat on the Board of Directors and Executive Committee.

In the late 1980s Pedro Ballvé knew very well the real situation of the processed meat business in Spain. Demand was stagnant and a change in food habits began to occur because of the ageing population, the entry of foreign food products and the arrival of large food multinationals. Moreover, the fashion began for “light products”, which forced them to rethink the company’s product strategy, which focused primarily on the production of processed pork products. We must remember that these ten years (1987-1997) coincide with the Spanish economy's progressive integration into the EU, which meant that other lifestyles had subtly been permeating the Spanish way of life.

Pedro Ballvé, Campofrío's chairman since his father's death in 1985, had inherited the task that had been started of internationalising the company. Now the moment had arrived to complete it. The company would gradually change from being a family business to a multinational business.

The decision to export occurred at a moment when production capacity in the national market was double the domestic demand.

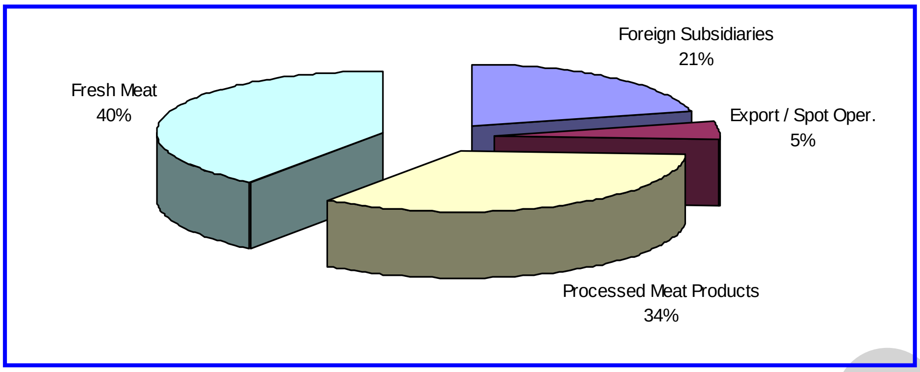
Business Activity.

Campofrío focuses mainly on abattoir activities, quartering and, specially the manufacture of sausages (*embutidos*), cold meats, shoulders of pork (*paletas*), hams, pork sausages and animal feed. It also markets fresh meat.

The four basic pillars of the group's development are:

- Active R&D policy to match Campofrío products with consumers' new demands.
- To be a prestigious brand linked with healthy living.
- Product diversification, based on processing white meats to complement pork. Pavofrío and Pollofrío were developed with this in mind.
- International development adventure.

BUSINESS SEGEMENTATION 1997 (% IN PESETAS)



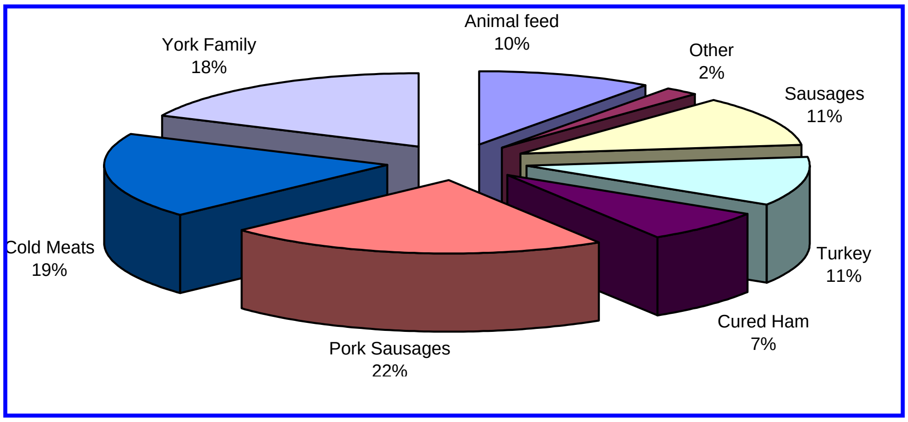
Source: Campofrío

Product Line.

It has a very wide range of products, as many as 300, and is positioned in the high-price range thanks to the image of quality and excellence that its advertising and marketing campaigns convey to society.

In 1996, and in keeping with the philosophy that the company should be conceived as a food company, they decided to change the company name “Conservera Campofrío” to “Campofrío Alimentación”. At the same time they also adopted a more dynamic corporate image and launched the product line “Sanissimo” on the market, processed meat products with a distinct meat taste but lower salt, fat or cholesterol content.

PRODUCT LINES 1997 (% IN PESETAS)



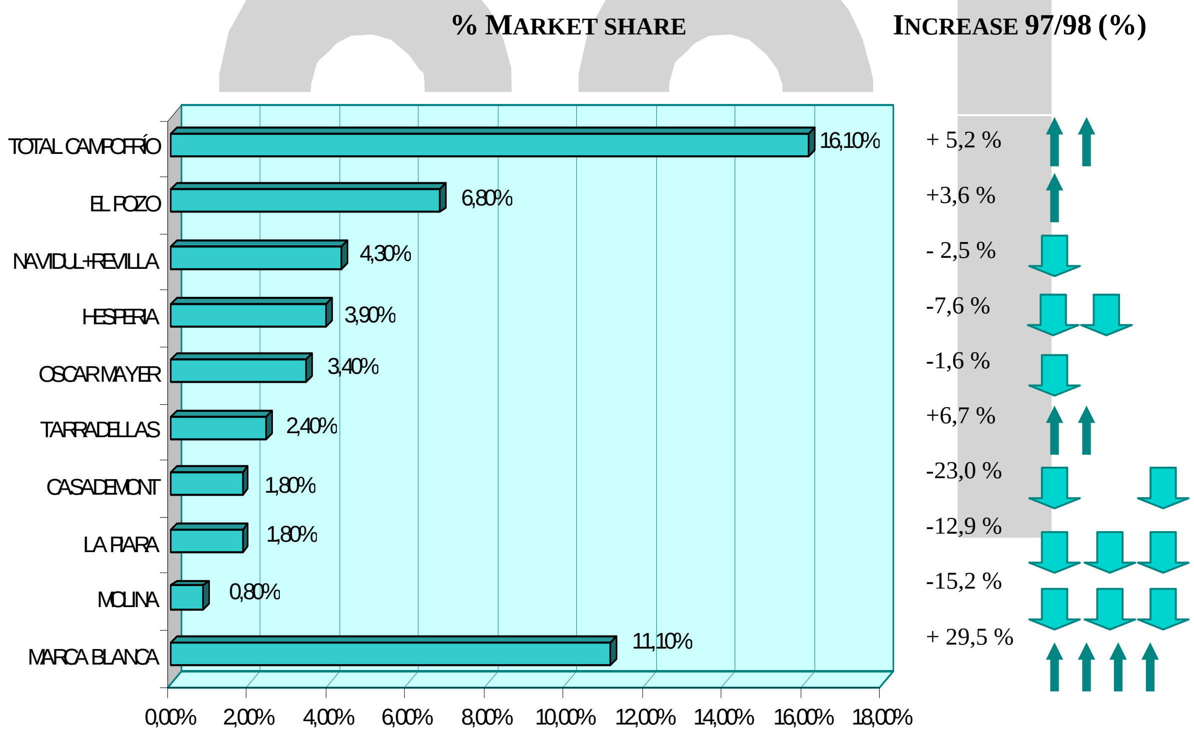
Source: Campofrío

Competitive Position with other Spanish Brands.

It is the leader in the processed meat product sector in Spain with a market share that grew from 10% in 1993 to 16% in 1997 against its most direct competitor, El Pozo, with 7% of the national share[4].

Campofrío's production capacity has three basic parameters:

- Competitive costs
- Quality
- Services



Source: Campofrío

[4] Source: Campofrío

Human Resources.

In 1997 Campofrío employed 3,785 people, and 2,000 of these worked abroad.

Campofrío wanted to involve its staff in the company's objectives and for this it has implemented the KVP methodology (continuous improvement) which tries to optimise work methods using workers as the source of improvement. It has developed a competitiveness agreement and a variable incentive system to promote teamwork. It also has an interesting professional development and training programme.

Staff Trend in Spain.

Year	No. Workers
1992	1,786
1993	1,869
1994	1,808
1995	1,593
1996	1,589
1997	1,785[5]

[5] The increased number of staff is due to the fact that people had to be taken on for the new products and the new plant in Burgos.

Share Structure 1997.

The shareholders in 1997 were as follows:

Ballvé Family	55 %
Hormel Foods	21 %
Stock Exchange	21 %
BCH	3 %

Group Structure.

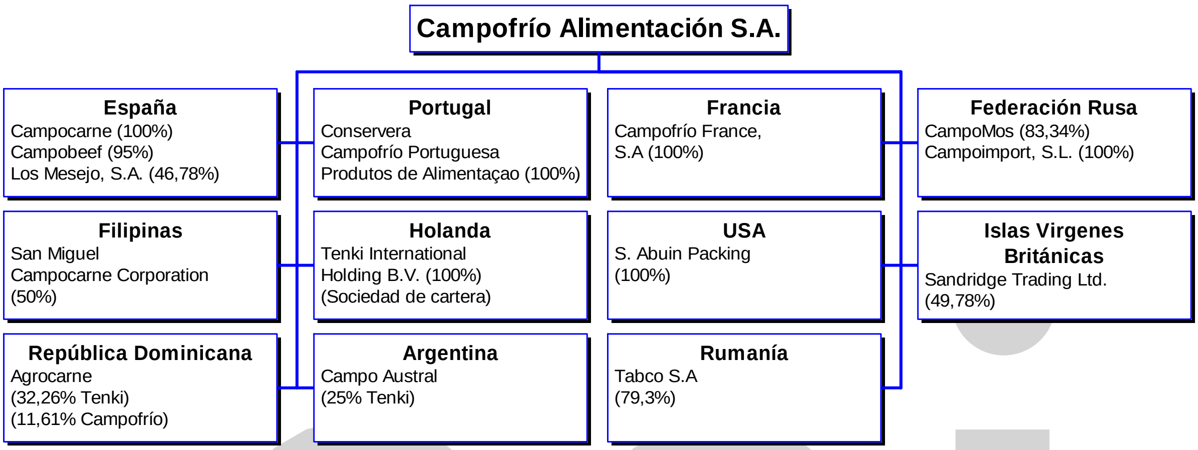
Campofrío Alimentación operates with its parent company in Spain and through three companies, Campocarne S.A., Campobeef and Los Mesejo. Campobeef was created in February 1997 as a 100 % Campofrío subsidary to sell beef with a high added value brand and thus break with the company's excessive dependence on pork products.

It has 8 factories in different provinces of Spain. The largest ones are in Burgos (processed meat products) and Villaverde (Madrid). It has abattoirs in Madrid and Lerida.

The company has followed a geographical diversification strategy in countries with strong potential for growth and low industrial development, and it has avoided markets like those in North Europe, which are highly concentrated and competitive.

In 1997 it had production plants in the Dominican Republic, Russia, the Philippines, Argentina, Rumania and the USA. Campofrío companies in France and Portugal marketed its products in these countries, in the rest of the European Union and other European countries. It also had a portfolio company, Tenki International, in Holland.

GROUP STRUCTURE 1997



Campofrío Strategies to Problems in the Sector.

In the early 1990s Campofrío began a strategy that combined considerable technological, industrial and commercial reorganisation with a deep commitment to foreign growth to help overcome the maturity of the saturated national market.

- Dynamism and innovation to face sluggish domestic demand: since the late 1980s Campofrío has been characterised by great dynamism, constant innovation in management and production processes and a clear commitment to internationalisation.

- Product differentiation: anticipation and adaptation of its products to the changes and trends in buying habits. Trend towards production lines with great added value because of their product processing, quality and presentation which have allowed it to progress in the sector; not all the actions in the innovation framework have been successful, since the company was forced in 1993-1994 to slow down its search for new products and restrict the sale of certain products (pre-cooked products), due in part to the economic context in which they were introduced into the market and possibly because of too much anticipation of the trend in Spanish consumer habits.

Moreover, it has reduced its dependence on pork because of cyclical price crises. Pork products still account for 80% of the sales[6], but chicken, turkey and beef are becoming important.

- Large investment in modernising plants, which have the latest technology and are a factor for competing in the national or international markets.
- Cost reduction: it has reorganised internally to reduce costs and improve effectiveness:
  - "Outsourcing" of the computing activity (Andersen Consulting[7])
  - "Outsourcing" of logistics management (Exell Logistic-1995)
  - Adaptation, adjustment and motivation of the staff
  - Agreement with suppliers (1995)
- Brand management – Development of a quality image

  It is one of the most prestigious and recognised brands on the processed meat and food product market in general. It has a clear commitment to "total quality", "safety" and "healthy living". It has expressed a real desire to strengthen the Campofrío brand. Nevertheless, it also uses other brands like: Alerce, Campofritos,

[6] In 1996 the first crisis of Bovine Spongiforme Encephalopathy occurred, and in 1997 there was an outbreak of swine fever. The supply of pork fell because pigs with swine fever had to be slaughtered and prices rocketed. In 1996 one kg of live weight was 175 ptas and in May 1997 275 ptas. The cost of raw material in a processed product like chorizo, ham, etc. is 80%. To avoid disaster in its profit-and-loss account, Campofrío renegotiated the prices that it had agreed with hyper and supermarkets before the crisis, because any price increase to consumers would shift demand to other meats.

[7] Campofrío has had an outsourcing agreement with Andersen Consulting for information system management since 1994. They organised a sales network of approximately 40,600 outlets and at the end of 1997 the order-delivery cycle had been reduced by 50%.

Camposierra, Catedral, Superchopp, Top Chicken, El Cid, Gaty, Gran Doblón, Gan Serrano, Jamongus, New Yorker, Perry Mix, Perry Nat, Pollofrío, Salchibeef, Sanissimo, and Pavofrío.

Change in Shareholders: from a Family Business to an Emerging Multinational.

Campofrío, which had begun its activity in Burgos in 1952, soon understood that it could not just focus on national markets, but that it would have to move with the times and join forces with international markets and later global ones. So in 1978 it began to think of alliances (Beatrice foods) and later the need to go to other different and distant countries. This expansion would be entirely the fruit of its prowess.

Stock Exchange.

Campofrío began to quote on the Stock Exchange at the end of 1989, which marked a pronounced change in its corporate strategy. It was the start of the process from a family business to an emerging multinational.

The trend in Campofrío's share price is characterised by its high correlation with the Madrid Stock Exchange general index and until barely two years ago by its defensive character (its volatility is less then the market average, due to the fact that Campofrío products and food in general are always consumed, to a greater or larger extent, and affected less by crises).

The first difference between the general index and Campofrío began to be observed in the middle of 1995 and, especially, in 1996. The bad behaviour of Campofrío's share is explained first by the effect that higher pork prices had had on its profits caused by swine fever and then by mad cow disease (which meant that consumers shifted from beef to pork).

During 1997 Campofrío's shares greatly appreciated as a result of:

- General depression of pork prices because of excess supply
- Spectacular growth in Campomos, which reached a net margin of around 15% in 1997, three times the normal margin in the meat industry.

Hormel Foods.

The company's internationalisation strategy changed dramatically from 1996. The company began to truly behave like a multinational, although it was still not the size of the large international groups.

The acquisition in December 1996 by the Hormel Foods group of 21% of the capital (it was bought from BCH) would allow Campofrío to embark on a combined penetration plan with both companies in new international markets, which would have been difficult and costly to do alone.

Hormel Foods Corporation is one of the largest food multinationals in the world, (it ranks sixth in the world). It has its headquarters in Minnesota and in 1996 its sales were 3 billion dollars. It exports to over 30 countries and has production plants in others, such as, China, Philippines, Poland, Australia and United Kingdom.

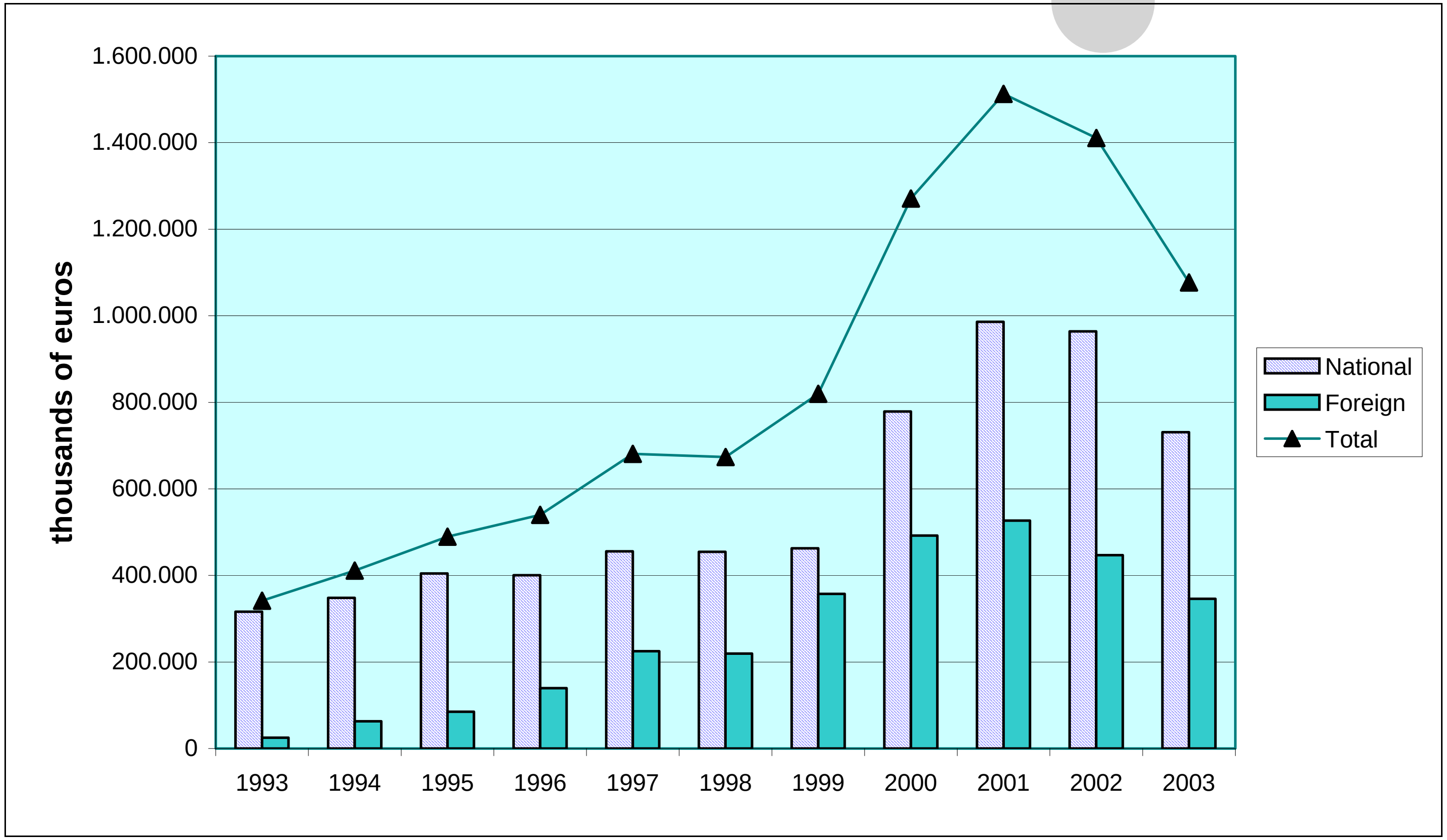
Hormel Foods was the perfect way for Campofrío to gain access to the American market, considered as strategic for the company's foreign activity.

1997 Hormel Foods investment in the company was positive and offered opportunities for taking advantage of the synergies that both companies provided: thus a common buying policy was established that could improve the conditions and prices of all the common inputs, Campofrío's European distribution network could be used for Hormel's products and at the same time Hormel's American network for Campofrío products. Moreover, both their product lines were complementary. Hormel provided specialist product lines (Chinese, Indian, Italian food…) and Campofrío provided Spanish and Dominican product lines to meet the demands of the wide and growing Spanish population in the USA. They also joined forces outside the European Union and the United States in countries where only one of the companies was present, for example, Hormel in Poland and China and Campofrío in Russia and Rumania.

The policy that they were conducting for exchanging experiences on Research and Development would surely benefit and allow economies of scale for both companies in this area.

APPENDIX 2

Sales Graph (1993 –2003)



APPENDIX 3.

View of the Meat Sector in Spain[8] (2004).

The meat sector today is the major sector in all the food industry as is shown by the fact that of the 66,242 million euros spent on food in Spain in 2002, almost a quarter, i.e., 24.9% corresponded to meat and meat products, much higher than in sectors like fish (13.9%) or milk (12.1%).

The national average consumption of meat and meat products was more than 68 kilos per inhabitant a year in 2003, with a 4.8% increase in spending and a decrease of 0.7 kg/inhabitant in consumption, compared with 2002.

An idea of this industrial trend can be obtained by comparing the 9 cold-storage abattoirs and 615 sausage factories in 1954 with the 1,460 abattoirs and over 4,800 industries operating in 2004. However, behind these general figures there is a sector characterised by great fragmentation and the existence of a large number of small and medium companies.

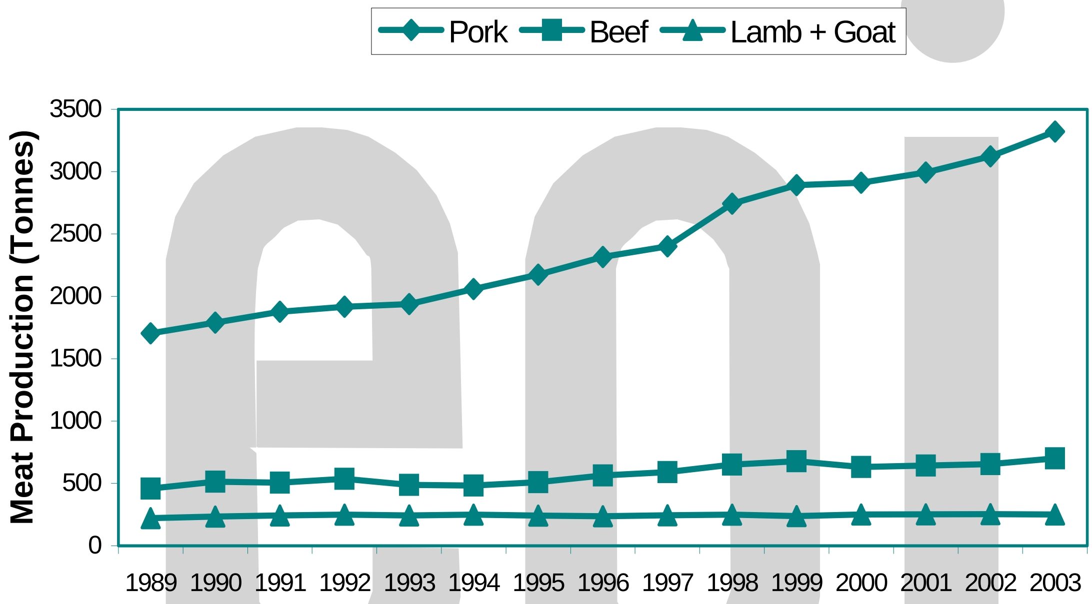
SOME SECTOR DATA (FEBRUARY 2004)

Number of abattoirs (excluding those of permanent exception)	589
Number of cold-storage warehouses	2,155
Number of quartering rooms	1,938
Number of processing industries	4,847
Average number of employees/company	11

[8] Source: Asociación de Industrias de la Carne “Association of Meat Industries”(Spain)

The graph below shows the trend in meat production in recent years, where the relative amounts for pork stand out, representing 60% of the total meat produced in our country. With a production exceeding three million tonnes, Spain is the fourth largest pork producer in the world (behind China, the USA and Germany). Poultry is second, with around one and a half million tonnes and accounts for 24% of the sector.

MEAT SECTOR IN SPAIN (PRODUCTION IN THOUSANDS OF TONNES)

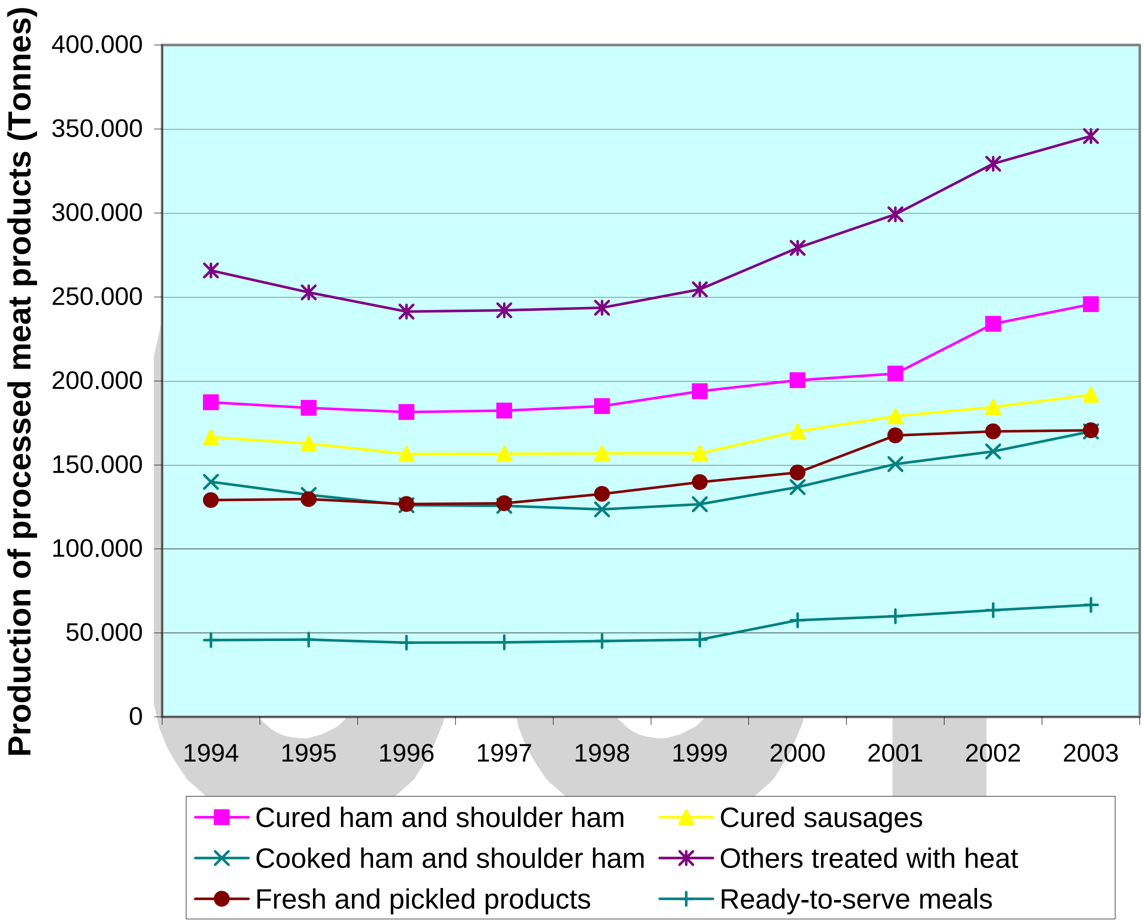


Beef is third in volume (12.4%), although this time Spain is way behind the world's leading producers, the USA and Brazil. We should also mention that lamb production is falling year after year, although Spain is second in the EU.

The production capacity of processed meat products is nearly 3 million tonnes/year, although their real use is just above 38%, i.e., 1,190,698 tonnes in 2003. This figure, however, places us fourth in the European Union behind Germany, Italy and France who are the leaders in this order.

There has been a spectacular increase in fresh meat and meat product production in terms of quality, which in 2002 was 170.75 million euros, representing 30.5% of the total marketed by all the food designations of origin and geographical indications.

PRODUCTION OF PROCESSED MEAT PRODUCTS (TONNES)



Finally, foreign trade in meat and processed meat products have made considerable progress in recent years, and they have recovered from the stagnation suffered in 2001 because of the Classic Swine Fever.

Data in tonnes	EXPORTS						IMPORTS					
	1998	1999	2000	2001	2002	2003	1998	1999	2000	2001	2002	2003
Beef	117,200	139,323	132,682	108,963	122,734	158,217	68,306	72,983	70,915	54,946	84,381	84,308
Pork	208,705	289,318,	320,599	353,280	385,341	457,437	58,100	74,930	80,249	69,000	65,577	70,961
Parma ham	10,795	14,000	16,243	12,706	13,126	14,852	750	960	1,143	900	2,115	2,023
Cured sausages	10,146	11,600	15,249	16,984	16,026	16,802	975	925	681	743	616	965
Cooked ham and Shoulder ham	6,217	8,612	8,100	6,427	4,635	3,854	2,992	2,030	2,572	2,407	2,245	2,812
Cooked sausages	13,223	11,120	9,560	10,300	9,097	12,157	9,630	8,946	10,651	10,971	12,212	11,865
Other products	11,836	12,200	12,258	9,865	9,226	10,610	6,384	6,900	4,793	4,692	4,796	4,812

Source: ICEX[9], Aduanas[10] , MAPA [11]. Provisonal data 2003

The structure and characteristics of the meat market have led to a process of concentration and selection in the sector, and the result has been a gradual consolidation of large groups, medium companies have advanced and many small companies have disappeared.

This selection process in the sector has been brought about not only by the crisis in some large companies but also by the continued narrowing of margins caused primarily by tensions from the price of raw materials, consumption stagnation, pressure from falling prices due to the progressive concentration on distribution, and excess supply in the sector leading to fierce price competition.

[9] Spanish Institute of Foreign Trade

[10] Customs

[11] Ministry of Agriculture, Fishing and Trade

In this environment, the leading companies in the sector try to maintain their margins with high investments in advertising to create a brand image that allows them to differentiate and make their customers loyal.

APPENDIX 4.

The World Meat Sector.

The meat market has been developing in recent years as follows:

- Fall in red meat consumption
  - Consumers now prefer meats with lower fat and cholesterol content than the fatty meats.
  - Consumers are increasingly concerned about the way animals are treated and the use of hormones.
  - Red meats are usually more expensive, so this market is seriously affected when there are economic crises.
- Increased use of prepared meats
  - Matching consumer demand for convenience foods.
  - Image of safety, wider range of products available and development of retail outlets.
  - This sector is the one with the greatest potential for developing new products with high added value.
- Increased consumption of poultry
  - Lower fat and cholesterol content and high protein content.
  - Lower unit price (a result of better production indexes for poultry than beef or pork).
  - Less pronounced taste, which makes this meat more versatile.
  - Image not as tarnished by scandals about the production methods.

THE WORLD MEAT MARKET

WORLD RANKING OF MEAT COMPANIES (1993)

	Sales ($Mill)
1.- ConAgra (USA)	11,000
2.- IBP (USA)	9,460
3.- Nippon Meat Packers (Japan)	5,140
4.- Tyson (USA)	4,300
5.- Hillsdown Holdings (UK)	1,900
6.- Hormel Foods (USA)	1,860
7.- Philip Morris (USA)	1,800
8.- Nestlé (Switzerland)	1,500
9.- Sara Lee (USA)	1,550
10.- Tulip International Group (Denmark)	680

APPENDIX 5

Campofrío: Economic Data

BALANCE SHEET	(thousands of euros)										
	2003	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**	**1995**	**1994**	**1993**
ASSETS											
Fixed	438,507	444,939	496,087	518,822	268,856	194,620	184,661	168,980	137,481		143,322
Current	525,459	584,162	580,938	577,905	273,067	215,060	210,975	158,259	152,580		91,231
Other (1)	35,293	53,255	55,921	60,663	41,405	1,142	1,626	1,539	1,626		4,535
	999,259	**1,082,356**	**1,132,946**	**1,157,390**	**583,329**	**410,822**	**397,263**	**328,779**	**291,686**	**0**	**239,088**
LIABILITIES	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**	**1995**	**1994**	**1993**
Equity	338,038	351,374	254,836	285,823	218,28	198,767	186,704	170,890	159,832		135,966
Other (2)	44,755	62,874	43,139	88,529	33,312	28,091	25,104	21,841	10,315		7,278
Long-term debt	285,163	320,059	365,606	357,806	90,569	14,424	13,601	10,584	26,716		17,323
Short-term debt	331,303	348,049	469,365	425,232	240,920	169,618	171,853	125,464	94,823		78,521
	999,259	**1,082,356**	**1,132,946**	**1,157,390**	**583,329**	**410,900**	**397,263**	**328,779**	**291,686**	**0**	**239,088**

(1): Goodwill for consolidation, Expenses to be distributed over several years
(2): External Partners, Negative difference in consolidation, Income to be distributed in several years, Provisions for risks and expenses

Source : Campofrío annual reports

BALANCE SHEET (thousands of euros)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Sales national market	730,899	964,125	986,122	778,964	462,593	454,389	455,753	400,630	404,487	348,244	316,230
Sales foreign market	345,961	446,793	526,536	492,034	357,280	219,345	225,055	139,328	85,025	62,830	25,203
Other operating income	8,848	2,267	18,140	37,062	26,598	7,152	14,310	19,274	13,054	7,597	9,080
	1,085,708	**1,413,185**	**1,530,798**	**1,308,060**	**846,471**	**680,887**	**695,119**	**559,231**	**502,566**	**418,671**	**350,513**
Consumptions and other external expenses	578,175	864,554	991,446	827,466	517,170	417,193	430,463	342,896	303,842	246,301	195,130
Staff expenses	164,211	199,381	207,156	175,040	120,176	89,521	84,875	74,195	75,848	75,848	68,858
Fixed Asset Depreciation	40,890	44,592	50,543	45,645	29,827	20,639	18,283	14,863	15,182	17,327	15,961
Other operating expenses	242,505	257,235	229,465	219,924	166,225	123,532	111,271	86,699	76,707	59,037	47,558
	1,025,781	**1,365,762**	**1,478,610**	**1,268,075**	**833,397**	**650,884**	**644,892**	**518,652**	**471,578**	**398,513**	**327,507**
Gross Operating Profit	**59,927**	**47,423**	**52,188**	**39,985**	**13,074**	**30,003**	**50,227**	**40,579**	**30,988**	**20,158**	**23,005**
% / Income	5.5%	3.4%	3.4%	3.1%	1.5%	4.4%	7.2%	7.3%	6.2%	4.8%	6.6%
Financial Income	3,991	3,510	1,420	2,912	4,783	5,283	1,989	1,981	0	0	2,248
Financial Expenses	23,013	26,043	27,130	22,097	11,573	7,074	8,096	8,389	9,376	8,823	9,005
Goodwill Amortisation	2,302	3,033	3,240	3,055	-2,979	-270	234	233	233	234	233
Equity method	357	241	199	1,213	-3,111	-4,105	-1,893	-2,221	-3,342	-733	-2,018
Profit Ordinary Activities	**38,960**	**22,098**	**23,437**	**18,958**	**6,151**	**24,377**	**41,993**	**31,719**	**18,038**	**10,367**	**13,998**
% / Income	3.6%	1.6%	1.5%	1.4%	0.7%	3.6%	6.0%	5.7%	3.6%	2.5%	4,0%
Extraordinary Income	13,918	11,749	33,176	30,006	34,244	28,518	3,719	5,816	23,794	2,596	3,501
Extraordinary Income	33,171	30,941	27,596	13,207	5,841	4,952	1,041	1,808	5,313	2,194	3,347
Pre-Tax Consolidated Profit	**19,707**	**2,906**	**29,017**	**35,757**	**34,554**	**47,943**	**44,670**	**35,726**	**36,519**	**10,770**	**14,153**
	1.8%	0.2%	1.9%	2.7%	4.1%	7.0%	6.4%	6.4%	7.3%	2,6%	4,0%
Taxes over Profits	6,787	-24,449	-1,369	2,006	12,488	13,613	16,594	9,759	5,950	5,175	4,833
Year's Consolidated Profits	**12,920**	**27,355**	**30,386**	**33,751**	**22,066**	**34,330**	**28,076**	**25,967**	**30,569**	**5,595**	**9,319**
% / Income	1.2%	1.9%	2.0%	2.6%	2.6%	5.0%	4.0%	4.6%	6.1%	1.3%	2.7%
Profits (Losses) attributed to external partners	-896	-4,887	-4,660	-3,125	1,368	-1,827	-6,437	-6,321	-2,386	180	-217
Year's profits attributed to the dominant company	**12,024**	**22,468**	**25,726**	**30,626**	**23,434**	**32,503**	**21,640**	**19,647**	**28,183**	**5,776**	**9,536**

Some Notes to Campofrío's Balance Sheets and Profit-and-Loss Accounts.

Balance Sheets.

Equity.

2000: Capital increase as a result of the Navidul operation.

2001: A provision was made against reserves of €30.34 million, of which €26.21 were for Restructuring national and foreign subsidiaries.

2002: Capital increase of €100 million (March 2002).

2003: Conversion differences of €21.7 million.

Long-term debt.

2000: Syndicated loan of €300.5 million. The Chase Manhattan Bank acted as an agent bank, where 35 financial entities participated. Interest rate: euroibor plus 0.625%. Period: 7 years with 2 years' grace.

2003: Long-term debt financing of €271.8 million, in part to prematurely cancel the syndicated loan. The financing was done by a small group of institutional investors in the USA market. Maturity of the debt: €65.6 million in 2010, €184 million in 2013 and €18.5 million in 2015.

Profit-and-Loss Accounts.

2000: In the second half of the year Bovine Spongiforme Encephalopathy appeared and the price of pork rocketed. It also had an effect in 2001.

Sales National Market.

2000: Grupo Navidul and OMSA Alimentación were consolidated in the Group.

2003: Primayor left the Group- (fresh meats).

Sales Foreign Market.

2000: Grupo Navidul and OMSA Alimentación were consolidated in the Group.

2002: The fresh division in Portugal, Ostroleka in Poland and Agrocarne in the Dominican Republic were sold.

Extraordinary Income.

1999: Disposal of Intangible Fixed Assets, Tangible Fixed Assets, and Control Portfolio: €30,293,000.

2000: Disposal of Intangible Fixed Assets, Tangible Fixed Assets, and Control Portfolio: €21,797,000.

2001: Disposal of Intangible Fixed Assets, Tangible Fixed Asset, and Control Portfolio: €23,175,000.

2002: Disposal of Intangible Fixed Assets, Tangible Fixed Assets, and Control Portfolio: €3,703,000. Capital grants: €3,362,000.

2003: Disposal of Intangible Fixed Assets, Tangible Fixed Assets, and Control Portfolio: €8,409,000. Capital grants: €3,100,000.

Extraordinary Income.

2000: Losses from Intangible Fixed Assets, Tangible Fixed Assets and Control Portfolio: €6,665,000.

2001: Net variation in the provisions of Intangible Fixed Assets, Tangible Fixed Assets and Control Portfolio: €9,485,000; also losses idem: €3,172,000.

2002: Net variation in the provisions of Intangible Fixed Assets, Tangible Fixed Assets and Control Portfolio: €4,968,000; also losses idem: €3,378,000; Restructuring Costs (reduction in staff, among other things): €6,203,000.

2003: Net variation in the provisions of Intangible Fixed Assets, Tangible Fixed Assets and Control Portfolio: €8,034,000; also losses idem: €808,000; Restructuring Costs (reduction in staff, among other things): €14,247,000.

APPENDIX 6.

NAVIDUL: Economic Data.

BALANCE SHEET (thousands of euros)

ASSETS			LIABILITIES	
	1999			**1999**
Fixed Assets	87,525		Equity	104,926
Current	181,222		Other	7,228
Other	511		Long-term debt	75,262
	269,257		Short-term debt	81,842
				269,257

Source: Navidul S.A Annual Report

PROFIT-AND-LOSS ACCOUNT	
	1999
Sales national market	235,110
Sales foreign market	20,314
Other operating income	1,813
	257,237
Consumption and other external expenses	162,668
Staff expenses	30,425
Other operating expenses	46,584
	239,677
Gross Operating Profit	**17,560**
Financial Income	116
Financial Expenses	5,360
Goodwill Amortisation	
Equity method	133
Ordinary Activity Profit	**12,451**
Extraordinary Income	1,237
Extraordinary Expenses	677
Pre-Tax Consolidated Profit	**13,010**
Taxes over Profits	424
Year’s Consolidated Profits	**12,587**
Profits (Losses) attributed to external partners	251
Year’s profits attributed to the dominant company	**12,336**

APPENDIX 7.

OMSA: Economic Data.

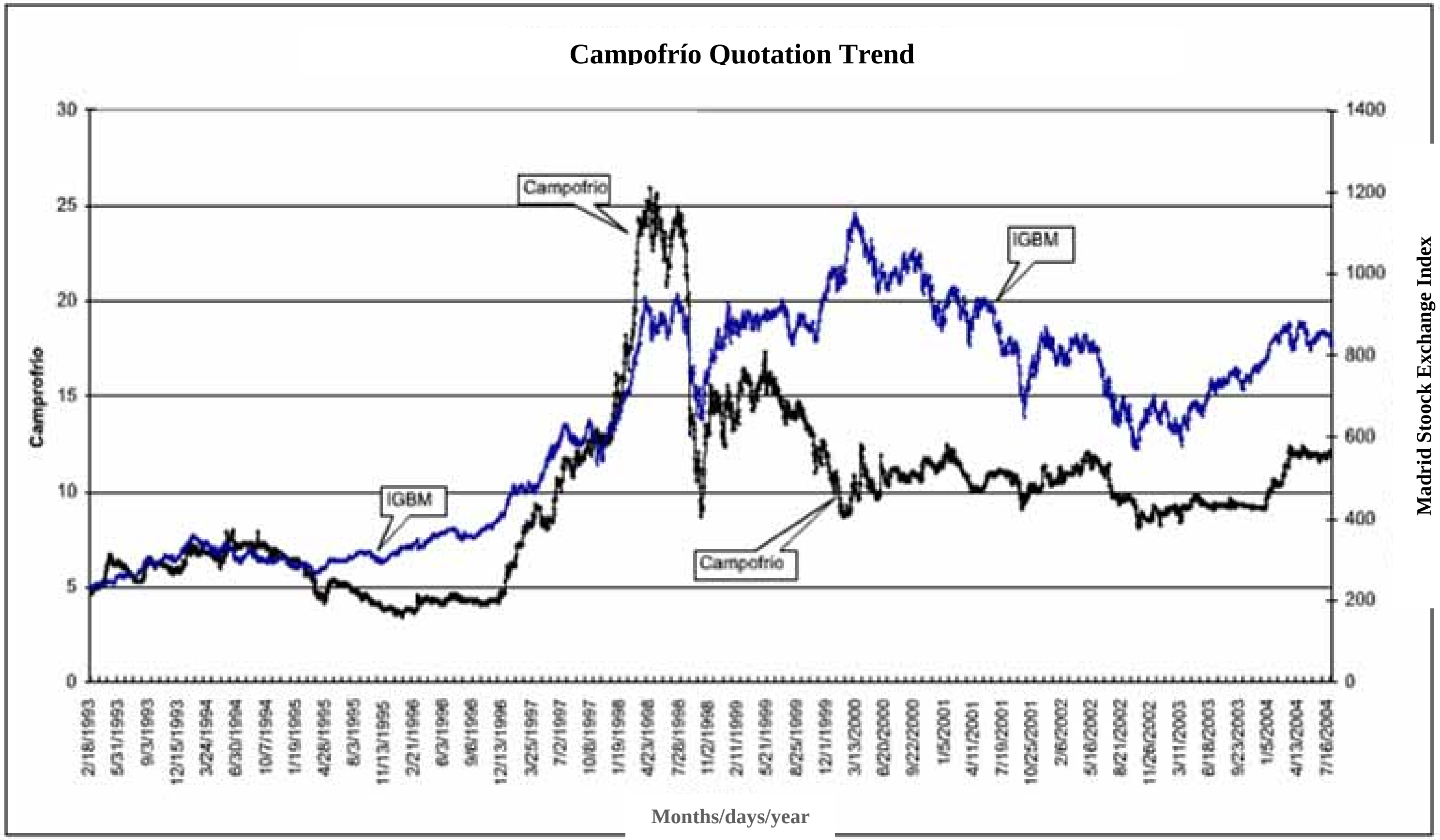
BALANCE SHEET (thousands of euros)

ASSETS				LIABILITIES		
	2001	**2000**			**2001**	**2000**
Fixed Assets	55,113	53,583		Equity	53,352	55,361
Current	89,873	71,677		Other	10,764	1,706
Other	59	85		Long-term debt	4,732	5,271
				Short-term debt	76,196	63,008
	145,045	**125,346**			**145,045**	**125,346**

Source: OMSA Alimentación S.A. Annual Report

PROFIT-AND-LOSS ACCOUNT		
	2001	**2000**
Sales	282,587	252,458
Other operating income	2,311	1,038
	284,898	**253,496**
Consumption and other external expenses	187,752	165,716
Staff expenses	38,076	36,356
Other operating expenses	48,481	45,091
	274,309	**247,163**
Gross Operating Profit	**10,589**	**6,333**
Financial Income	312	396
Financial Expenses	1,035	844
Goodwill Amortisation		
Equity method		468
Ordinary Activity Profits	**9,866**	**6,353**
Extraordinary Income	1,180	3,329
Extraordinary Expenses	23	2
Pre-Tax Consolidated Profit	**11,023**	**9,680**
Taxes over Profit	2,864	2,312
Year’s Consolidated Profit	**8,159**	**7,368**

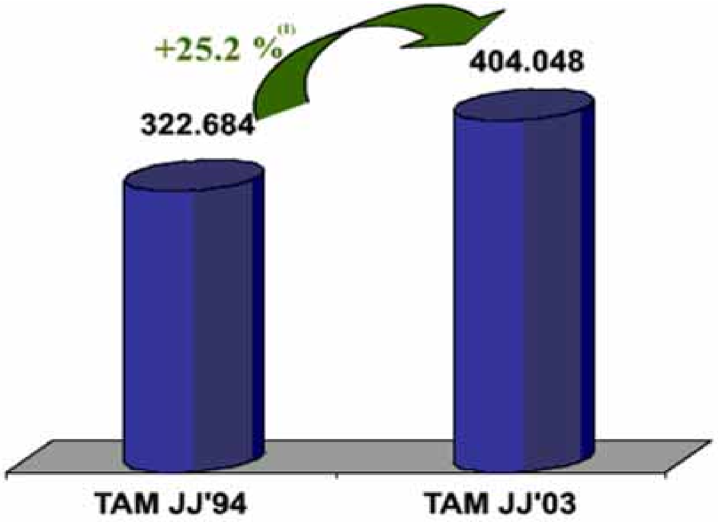
APPENDIX 8. Campofrío: Stock Exchange Quotations (1993-2004).



APPENDIX 9

NIELSEN ’03 HAMS VS ’94

TOTAL PROCESSED MEAT PRODUCTS FOOD + COOKED PORK RODUCTS
Data in Volume

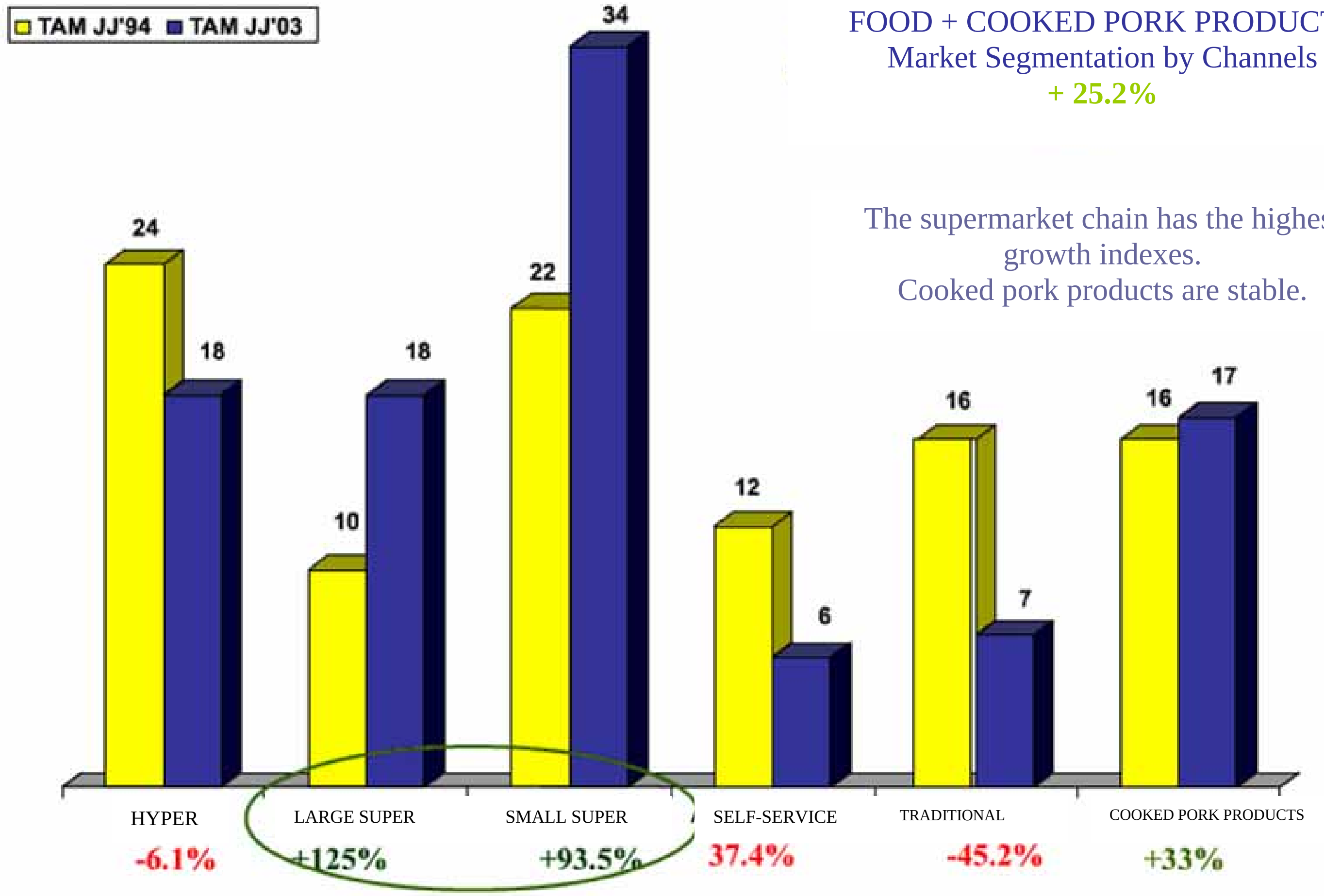


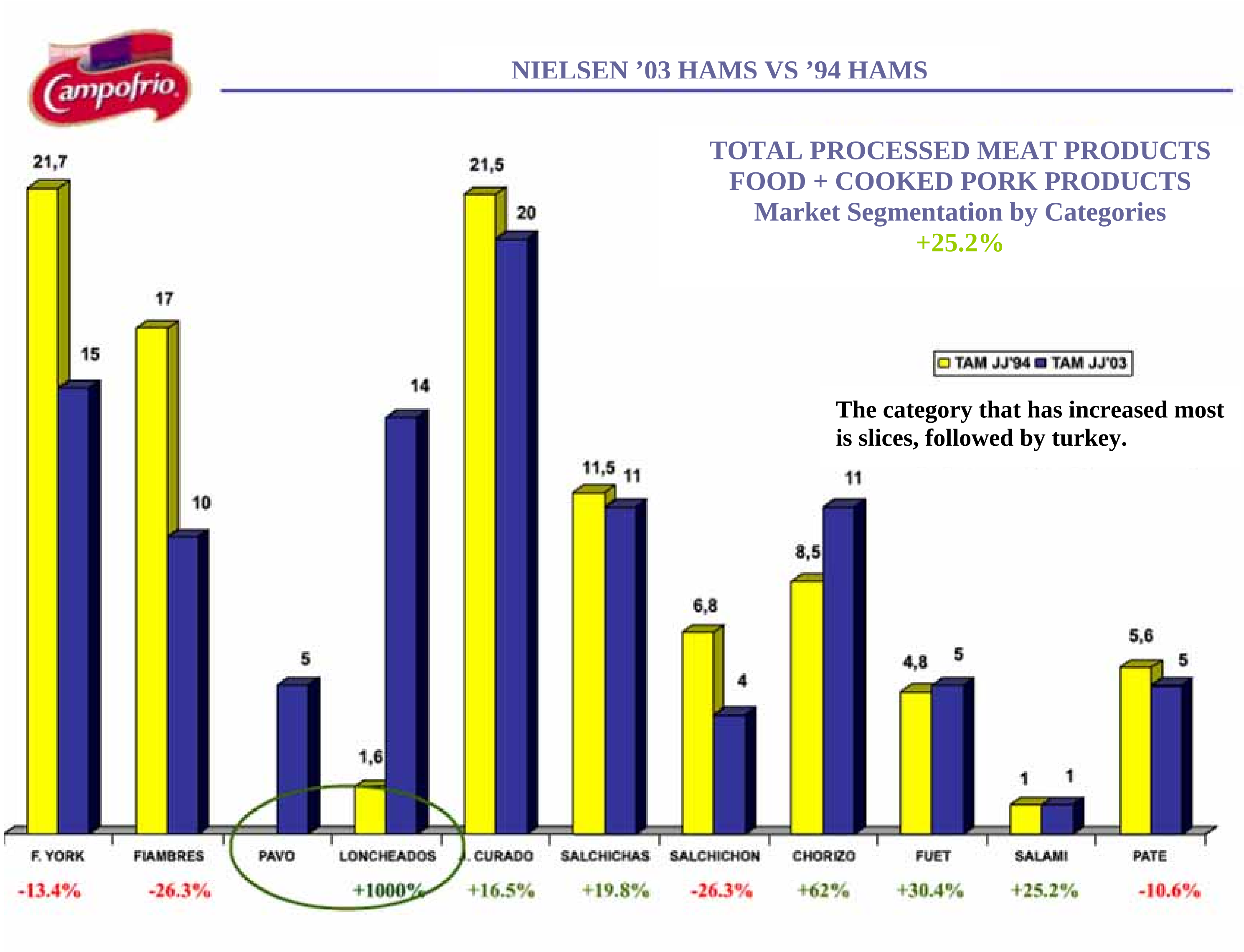
(1) : **Represents an average annual growth of 2.53%**

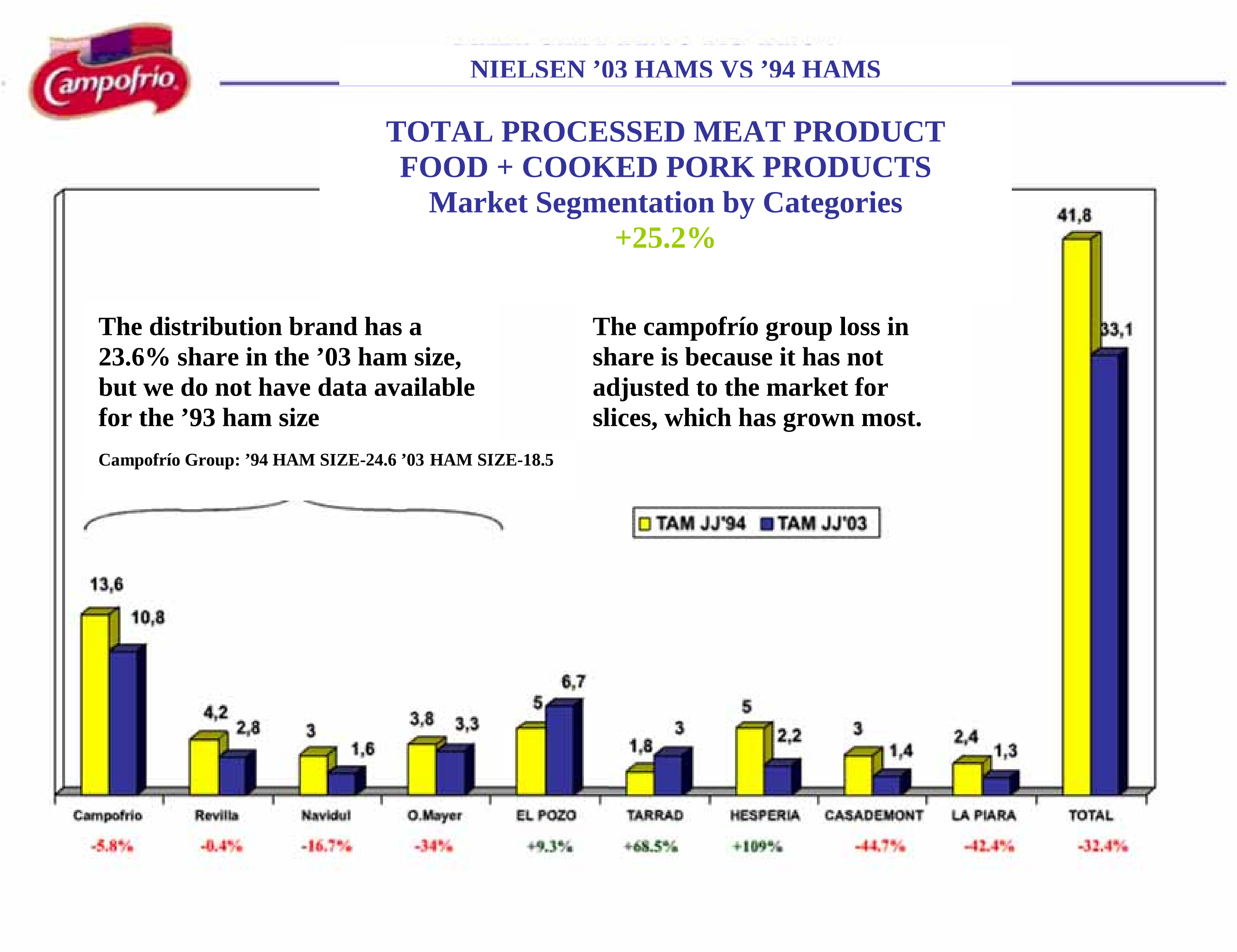
NIELSEN ’03 HAMS VS ’94 HAMS ’94 HAM SIZE ’03 HAM SIZE

TOTAL PROCESSED MEAT PRODUCTS
FOOD + COOKED PORK PRODUCTS
Market Segmentation by Channels
+ 25.2%

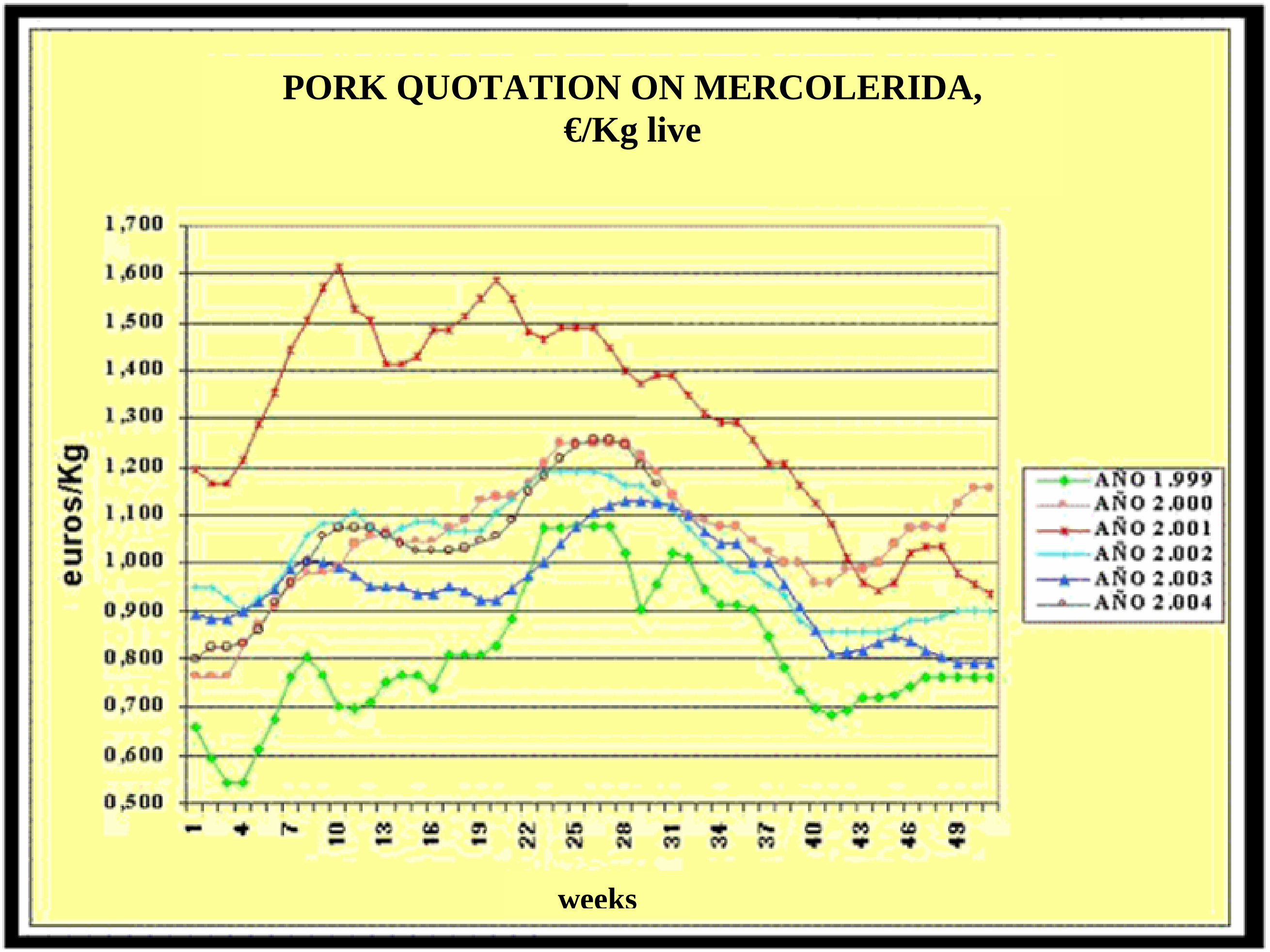
The supermarket chain has the highest growth indexes.
Cooked pork products are stable.




NIELSEN ’03 HAMS VS ’94 HAMS
TOTAL PROCESSED MEAT PRODUCTS
FOOD + COOKED PORK PRODUCTS
Market Segmentation by Categories
+25.2%
TAM JJ'94
TAM JJ'03
The category that has increased most is slices, followed by turkey.
21,7
15
17
10
5
1,6
14
21,5
20
11,5
11
6,8
4
8,5
11
4,8
5
1
1
5,6
5
F. YORK
FIAMBRES
PAVO
LONCHEADOS
CURADO
SALCHICHAS
SALCHICHON
CHORIZO
FUET
SALAMI
PATE
-13.4%
-26.3%
+1000%
+16.5%
+19.8%
-26.3%
+62%
+30.4%
+25.2%
-10.6%


NIELSEN ’03 HAMS VS ’94 HAMS
TOTAL PROCESSED MEAT PRODUCT
FOOD + COOKED PORK PRODUCTS
Market Segmentation by Categories
+25.2%
The distribution brand has a 23.6% share in the ’03 ham size, but we do not have data available for the ’93 ham size
Campofrío Group: ’94 HAM SIZE-24.6 ’03 HAM SIZE-18.5
The campofrío group loss in share is because it has not adjusted to the market for slices, which has grown most.
TAM JJ'94
TAM JJ'03
13,6
10,8
4,2
2,8
3
1,6
3,8
3,3
5
6,7
1,8
3
5
2,2
3
1,4
2,4
1,3
41,8
33,1
Campofrio
Revilla
Navidul
O.Mayer
EL POZO
TARRAD
HESPERIA
CASADEMONT
LA PIARA
TOTAL
-5.8%
-0.4%
-16.7%
-34%
+9.3%
+68.5%
+109%
-44.7%
-42.4%
-32.4%

APPENDIX. 10.


PORK QUOTATION ON MERCOLERIDA,
€/Kg live
euros/Kg
1,700
1,600
1,500
1,400
1,300
1,200
1,100
1,000
0,900
0,800
0,700
0,600
0,500
1
4
7
10
13
16
19
22
25
28
31
34
37
40
43
46
49
weeks
AÑO 1.999
AÑO 2.000
AÑO 2.001
AÑO 2.002
AÑO 2.003
AÑO 2.004

Main Sources consulted

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- Information from Campofrío