

Annual Report 2006

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Letter from the Chairman

Dear Shareholder,

2006 has been a key year in the history of Viscofan. The Company took on a new dimension in January 2006 when it acquired Teepak's manufacturing facilities in North America and Mexico and its sales network for North America, Latin America and Asia Pacific. Teepak is one of the world's leading manufacturers of cellulose and fibrous casings.

This strong performance buttresses our leading position in the world market in manufactured casings. We have reinforced our multinational presence, balanced our exposure to the Group's main operating currencies, and become the only supplier to make all the casing families available on the market: cellulose, collagen, fibrous and plastic. From the start of the process to merge Teepak with the Group, Viscofan has made a major financial and human effort to bring the acquired manufacturing plants into line with the standards of quality and efficiency of the rest of the Group's facilities. The project is huge, but results so far are very pleasing: not counting non-recurring items, the acquired companies were into profit by the closing quarter of 2006, and have continued to make earnings in early 2007.

In 2006, the group made its highest profit to date. At €31.3 million, earnings were 58.9% up on the previous year.

Viscofan has undertaken many other challenges in 2006; it has further sharpened its competitive edge and gained an excellent footing to continue to grow and create value. In 2006, the Company finished moving its plastics operation from Germany to the Czech Republic and Brazil, which brings us a more competitive cost structure in this segment. We completed our move of machinery from Tripasin in Sweden to Koteks in Serbia, which is fast becoming a benchmark site for collagen manufacturing. We completed significant upgrade projects and achieved efficiency improvements at every single one of the Group's production facilities with respect to last year.

These initiatives have bolstered our competitive strength with a view to future challenges, and made 2006 Viscofan's best-ever year: at €31.3 million, earnings were 58.9% up on 2005. Revenue in 2006 exceeded €497 million, 32.7% more than in 2005. Group EBITDA was €83.6 million, making for an increase of 45.6%, or 25.2% if changes in the consolidation perimeter are excluded.

The casings market showed a solid performance in 2006, driven primarily by healthy demand in Eastern Europe, Asia and Latin America; this supported increases not just in volume, but wich is more relevant, in its value. For that reason Viscofan is strategically positioned through its presence in Poland, the Czech Republic, Russia, Serbia, Thailand, China, Mexico and Brazil to capture growth in those regions.

Viscofan's strong position in the manufactured casings industry has enabled us to lead a change of trend, especially in the cellulose casings market, which in recent years had suffered an ongoing slide in prices. Coupled with rising demand, the shift in market dynamics has allowed the casings business to achieve double-digit growth in the Group's three main sales regions (Europe, North America and Latin America), making for a 38.9% climb year-on-year in total casings revenue.

Viscofan has bolstered its world lead in the manufactured casings market and is the only supplier to make all casing product families, cellulose, collagen, fibrous and plastic.

The preserved vegetables business also performed strongly. Revenues exceeded €81 million in 2006, up 8%, and accounted for 16% of the Viscofan Group's consolidated turnover. Growth was driven by healthy demand and a well-handled boost to the Carretilla brand over the past few years. Earnings in the preserved vegetables division rose to €1.4 million, on the back of powerfully improved operating revenues and margins.

The consolidation of Teepak brought the Group's total headcount up to 4,213 at year-end 2006, versus 3,444 at year-end 2005. Viscofan is now working on bringing together the range of companies acquired in the past few years and their distinctive corporate cultures. 2006 was a milestone year for labour relations too: collective bargaining agreements were signed in Spain, the United States and Germany with a view to making our production sites even more competitive

Viscofan's global presence means we benefit from a wide-ranging repository of production and management know-how at our manufacturing sites and sales offices. Team effort, coordination and cooperation facilitates knowledge transfer within the Group.

Viscofan's new brand image reflects a new corporate strategy

The 2006 Annual Report also presents the Group's new brand image, reflecting the change we have set in motion with our new corporate strategy to create value by enhancing profitability, optimising resources and aligning the Company's efforts with five key ideas for the coming years: "consolidation", "globalisation", "service", "efficiency" and "R&D&I" (research, development and innovation).

Our confidence in the opportunities for growth in the manufactured casings market is taken forward by our initiatives and innovations. We are now implementing over 20 strategic product development projects across our entire range, and diversification applications for our customers' products. It is our belief, furthermore, that market growth must entail a commitment to the community and respect for the environment. We therefore continue to work towards energy efficiency improvements through energy co-generation projects and the implementation of new technologies to reduce steam consumption and carbon dioxide emissions.

In 2006, our initiatives, results and commitment to fluid and transparent communications garnered a favourable welcome in the market. The Viscofan share price rose 54% in the year to €14.29 per share, making for market capitalisation of €685; in 2007, our share price has climbed to over €17.

We put in an excellent performance in 2006, but, far from becoming complacent, we should use this favourable juncture to boost growth and continue to enhance profitability by entrenching the efficiency gains achieved and getting ready to face the new challenges on the horizon.

We propose to declare total shareholder remuneration of €0.305 per share, 58% up on the previous year.

The Board of Directors, with the aim to reward shareholders in accordance with the higher earnings achieved in 2006, will submit to the approval of the General Meeting of the Company its proposal to refund the issue premium in the amount of €0.160 per share; in conjunction with the attendance premium of €0.005 per share and the dividend declared in January of €0.140 per share out of 2006 earnings, the total proposed shareholder remuneration is €0.305 per share, 58% more than for 2005.

2006 was Viscofan's twentieth year of listing on the Spanish stock exchange. Over this time, the Company multiplied its market capitalisation by a factor of 20, and went from being a company with 203 employees, a manufacturing presence in Spain alone and revenues of just €39 million, to a business employing over 4,200 people, operating fourteen production sites, a presence in more than a hundred countries across five continents and revenues of €497 million. This growth would not have been possible without the backing of our shareholders, the efforts of every one of our 4,213 employees, and the trust of our customers and suppliers. Therefore, I should like to thank you all personally for helping this Company to create value.

Jaime Echevarría Abona

Chairman

Viscofan: cutting-edge quality in artificial casings

The world leader in the manufacture and sale of artificial casing for meat products, using proprietary technology.

The only artificial casings manufacturer to make all product families: cellulose, collagen, fibrous and plastic.

Over 2,600 customers, distributorships in more than 100 countries across five continents and manufacturing sites in Europe, North America and Latin America.

Leading Spanish distributor of canned white asparagus – we export to over 17 countries through the IAN Group, a preserved vegetable manufacturer and distributor.

Viscofan has listed on the Madrid stock exchange since November 1986.

Today, Viscofan operates casing manufacturing sites in Brazil, Czech Republic, Germany, Mexico, Serbia, Spain, and United States, and preserved vegetables plants working under IAN Group labels in China and Spain.

2006 was a year of integrating acquired companies with the Viscofan Group. The Group made a record profit of €31.3 million, 58.9% up on 2005.

Viscofan on the Internet ***www.viscofan.com***

Milestones of Company history

1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985

Viscofan founded



1986 1987 **1988** 1989 **1990** **1991** 1992 1993 **1994** **1995**

Viscofan listed on the stock exchange

Viscofan acquired IAN Group

Viscofan acquired Naturin GmbH (Germany)



Incorporation of Viscofan do Brasil



Opened sales offices in Russia and Asia, and established foothold in the United States

Acquired Gamex in the Czech Republic

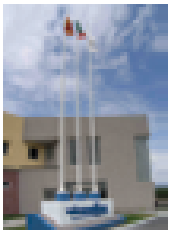


1996 1997 1998 1999 2000 **2001** **2002** **2003** 2004 **2005**

New sales office in Thailand

Created Viscofan Poland

Started up Viscofan Mexico



Acquired Koteksprodukt AD (Serbia)

2006



Acquired Teepak

2006 highlights

January

Viscofan announced the acquisition of Teepak's operations in North America, including its manufacturing sites in the United States and Mexico and its sales networks in the Americas and the Asia Pacific region.

Viscofan opened its own sales office in China.

March

Viscofan signed a range of labour agreements with the unions at the plant in Danville, Illinois, USA.

May

José Antonio Canales García appointed General Manager of the Viscofan Group.

Collective bargaining agreement signed with employees at the plant in Urdiain, Spain.

The General Meeting of 22 May approved the previous year's accounts and enacted legally required amendments to the company's articles.

June

The IAN Group's Carretilla brand launched a new range of ready-cooked meals.

July

The Group finished moving its plastics operation from Germany to the Czech Republic and Brazil.



September

Collective bargaining agreement signed with employees at the plant in Cáseda, Spain.

November

Completed the move of cellulose and fibrous casing finishing production assets from Teepak North America LLC's North Kansas City, Missouri, plant to Viscofan USA's facility at Montgomery, Alabama; this involved the closedown of the North Kansas City site.

Closed Teepak North America LLC's sales office in Miami.

Completed the move of machinery to make non-edible collagen from Tripasin, Sweden, to Koteks Viscofan, Serbia.

December

Viscofan reaches agreement with Naturin employees to enhance the competitiveness of the German subsidiary by lengthening the working day and achieving lower costs.

Financial highlights

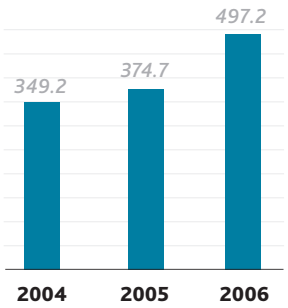
Viscofan's performance

Key financial figures Millions of euro	2006	2005	2004	06/05 Diff	CAGR 2004-06
Revenue	497.2	374.7	349.2	32.7%	12.5%
EBITDA	83.6	57.4	45.8	45.6%	22.3%
% EBITDA margin	16.8	15.3	13.1	1.5 pp	3.7 pp
EBIT	46.6	26.7	16.7	74.4%	40.7%
% EBIT margin	9.4	7.1	4.8	2.3 pp	4.6 pp
Adjusted EBIT	53.9	26.7	16.7	101.8%	47.7%
Profit before taxes	45.9	24.4	12.5	88.3%	54.3%
Net profit attributable to equity holders	31.3	19.7	13.8	58.9%	31.4%
Capital expenditure on property, plant and equipment	32.2	32.3	34.1	-0.3%	-2.0%
Shareholders' equity	268.1	251.8	234.9	6.5%	4.5%
Net debt	111.8	78.1	76.9	43.2%	13.3%
Market capitalisation at year-end	685.4	445.1	360.2	54.0%	23.9%
Average headcount	4,438	3,346	2,921	32.6%	15.0%
Net debt/equity (%)	41.7	31.0	32.7	10.7 pp	9.00 pp
ROE (%)	11.7	7.8	5.9	3.9 pp	5.8 pp
Year-end share price (euro)	14.3	9.3	7.5	54.0%	24.2%
Earnings per share (euro)	0.657	0.410	0.286	60.2%	31.9%
Dividend per share* (euro)	0.305	0.193	0.185	58.0%	18.1%

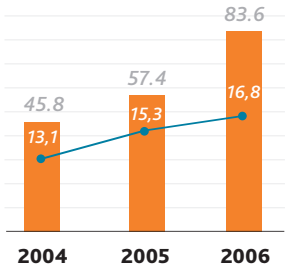
(*) Includes refund of issue premium and bonus for attending the General Meeting.

CAGR: Constant Annual Growth Rate

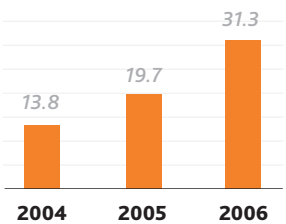
Revenue
Millions of euro



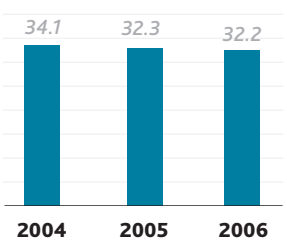
EBITDA
Millions of euro
% EBITDA margin



Net profit
Millions of euro

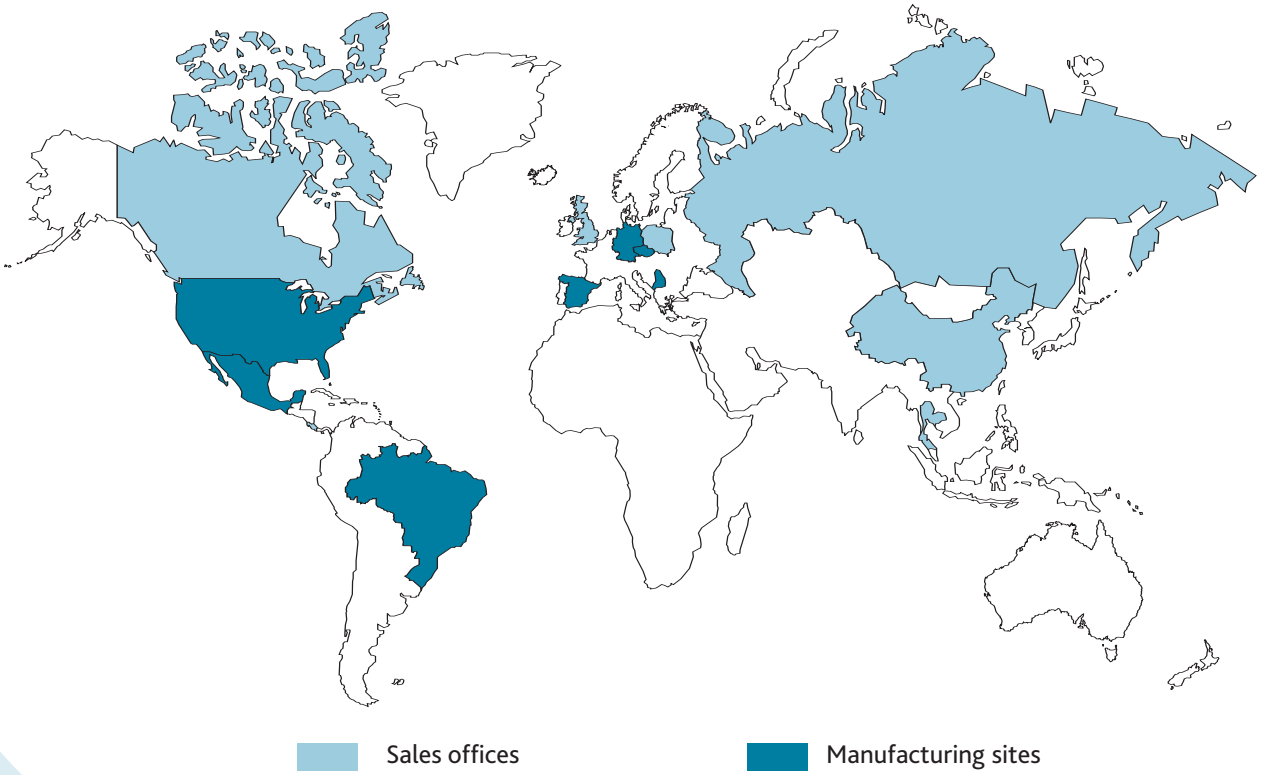


Capital expenditure
Millions of euro



Viscofan worldwide

Viscofan is the world's leading producer and distributor of artificial casings for the meat industry. Viscofan operates casing manufacturing sites in Brazil, Czech Republic, Germany, Mexico, Serbia, Spain and United States, canneries working under IAN Group labels in Spain, and fifteen sales offices.



NORTH AMERICA

1,148 employees
Revenue: €176 million
Extrusion and converting of cellulose and fibrous casings
4 manufacturing sites
3 sales offices

EUROPE/ASIA

2,395 employees
Revenue: €192 million
Extrusion and converting of cellulose, collagen and plastic casings
5 manufacturing sites
9 sales offices

SOUTH AMERICA

410 employees
Revenue: €49 million
Extrusion and converting of cellulose and plastic casings
2 manufacturing sites
2 sales offices

IAN Group

260 employees
Revenue: €81 million
Production and sale of preserved vegetables
3 manufacturing sites
1 sales office

Board of Directors

Chairman

Jaime Echevarría Abona

Vice Chairman

José María Cuevas Salvador

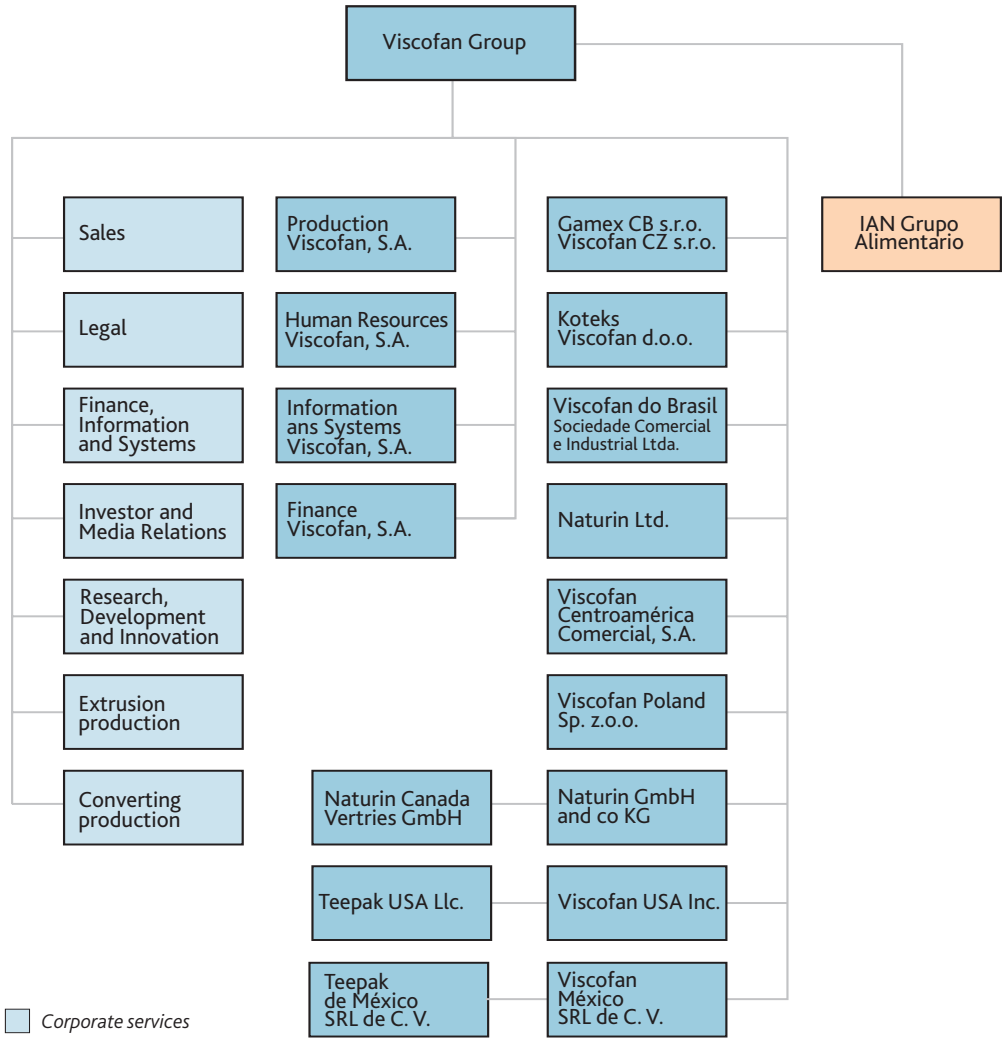
Directors

Néstor Basterra Larroudé
Íñigo Solaun Garteiz-Goxeascoa
Ágatha Echevarría Canales
José Cruz Pérez Lapazarán
Gregorio Marañón Bertran de Lis
Alejandro Legarda Zaragüeta

Secretary (non-voting)

Juan María Zuza Lanz

Viscofan Group structure



Viscofan and business performance in 2006



In 2006 the Viscofan Group undertook a major process of integration and restructuring of the businesses it acquired over the past few years. The key acquisition was the takeover early in the year of Teepak's manufacturing sites in the United States and Mexico and its sales offices for the Americas and the Asia Pacific region.

The purchase of Teepak was a milestone for the Viscofan Group. The move entrenched Viscofan's leadership in the artificial casings market, bolstered its international presence and made it the only manufacturer to make all commercially available casing families: cellulose, collagen, fibrous and plastic.

Viscofan, in the awareness of the competitive advantages of its new size, sped up the process of restructuring and integrating the acquired plants into the Group. A swift, efficient integration drive shortened the period of "teething difficulties" normally associated with this kind of operations.

The restructuring and improvement efforts of 2006 enabled us to achieve, just twelve months after the latest acquisitions, earnings per share 59% above last year's figure.

The changes included efficiency upgrades at the United States and Mexico plants, improvement work at the Serbian site and the completion of the move of plastics manufacturing from Germany to the Czech Republic and Brazil.

Alongside these developments, the Company continued to optimise the management of its other subsidiaries: they faced a major challenge in the form of rising energy costs, which drove up direct production costs.

Corporate strategy

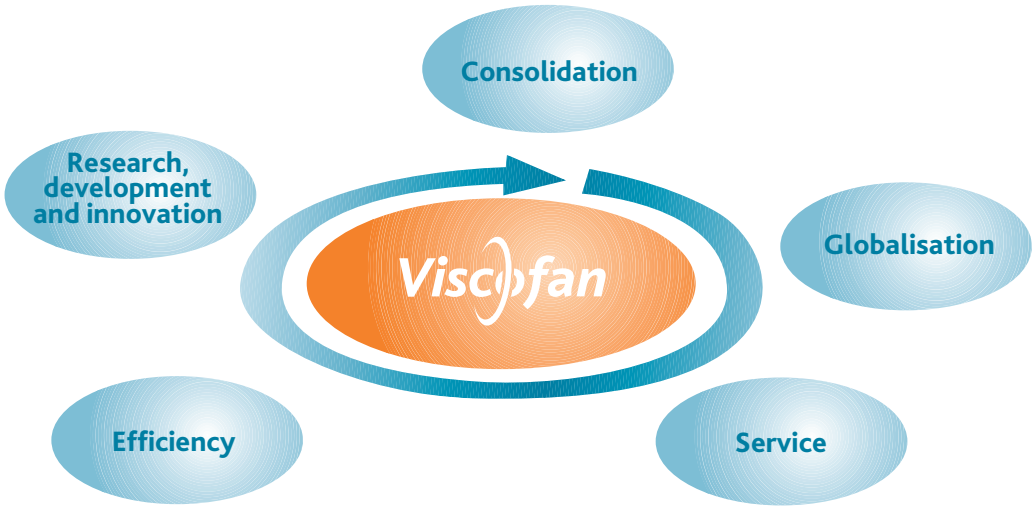
The market in artificial casings for meat products still displays solid growth expectatives. Emerging dietary trends combine new products such as chicken, fish and even vegetable sausages with the development of Western eating habits, where ready-cooked meals and fast-food chains remain strongly on the increase. Natural casings continue increasingly to be replaced by collagen casings. Some studies suggest that the natural casing market doubles the size of the collagen market.

Artificial casings are replacing natural casings because they provide better hygiene control, quality, uniformity and productivity. The trend towards replacement is not limited to countries where production processes are highly automated: it is happening even faster in countries in the process of upgrading their production capabilities (chiefly Latin America, Eastern Europe and Asia).

The Viscofan Group has taken on a new dimension in the manufactured casings industry after taking over one of its main competitors in the cellulose and fibrous casings segment. Its new size, besides higher turnover, means a broad-ranging customer base, an extensive sales network, a new production technology (fibrous casings) and farther-reaching geographical exposure through manufacturing sites in strategic markets.

The manufactured casings market grew faster in 2006, particularly due to the replacement of natural casings with collagen products.

Against this backdrop, the Group has decided to implement a new strategy to create value by enhancing profitability and optimising cash generation. Viscofan's strategy for the coming years rests on five core concepts: "consolidation", "globalisation", "service", "efficiency" and "R&D&I" (research, development and innovation).



VALUE CREATION

Consolidation

Viscofan views reinforcement as achieving an entrenched position in the market, a more clearly visible leadership, and a greater contribution to the food industry. On this view, the Company has improved its competitive position for over thirty years, until becoming the world leader in the manufactured casings market, with over 2,600 customers.

In 2006, Viscofan's acquisition of Teepak changed the competitive environment in the artificial casings industry and gave the Group greater scale and the chance to attain major production and management synergies to provide enhanced profitability. Obtaining synergies is a key aspect of the consolidation process that does not end with the acquisition deal, but involves full integration within the Group's production structure.

Revenues were €497 million, 32.7% up on 2005.

The acquisition of Teepak, together with the takeovers of Koteks in Serbia and Tripasin in Sweden in 2005, signals Viscofan's anticipation in the opportunities for consolidation in the artificial casings market in order to create higher value for shareholders.

Globalisation

Viscofan's newly expanded size gives it a greater presence in strategic markets and an improved balance of currencies in revenues and production costs.

A wider global presence requires suitable coordination among Group subsidiaries to enable the Company to align with its global strategic goals by making use of the advantages of a more local presence that comes closer to end-customers.

Proximity to customers has become one of the mainstays of Viscofan's strategy. The Group is in the midst of a process of relocation of its casings manufacturing and marketing capabilities in order to deliver faster, improved service and achieve better cost savings over the coming years in terms of logistics.

In the cellulose casings segment, Europe will cater to the European and Asian markets, the United States will cater to the North America region, Mexico will attend to its domestic market and the rest of Central American countries, and Brazil will be the key producer and distributor in the South American market. After this relocation, the Company expects to attain recurring annual savings of €2.5 million.

As part of this restructuring drive, Viscofan is implementing stringent quality standards to ensure product uniformity regardless of site of manufacture, thus enabling full interchangeability of products made at different Group facilities.

Service

Viscofan places the customer at the core of its operating decisions. Therefore, the Company prioritises quality in its manufactured casings to provide our customers with higher productivity. We offer specialised technical support through our network of specifically dedicated professionals.

The artificial casings market – the cellulose segment in particular – has become fiercely competitive in the past few years. Prices have been hard-hit, declining almost 40% over the past decade, and all competitors' profitability has been hurt. Given rising raw material and energy costs, the situation is unsustainable over the long term.

Viscofan is bringing about a change of trend in the market by applying a more disciplined pricing policy

consistent with the value our products provide. The aim is to recover more rational prices on the market and provide the meat industry with dependable suppliers of manufactured casings who continue to add value to the food sector through investments that generate enhanced services and new products redounding to the benefit of meat producers and consumers in general.

Efficiency

The ongoing development of the market in artificial casings for meat products, coupled with rising direct production costs, makes it increasingly necessary to seek new, improved manufacturing practices that make better use of resources and lead to enhanced operating profitability.

The Viscofan Group has therefore established itself in new regions offering more competitive costs. Suitable production management has brought about the present balance of capacity and market demand.

On the marketing side, the Company is structured by geographical region. This speeds up information flow and decision-making, which garners closer control of sales and improved service.

Viscofan takes the view that operating efficiency is optimised if best practices are shared across the Group's different companies and departments; this also improves the information available at subsidiaries and the reporting of information for decision-making purposes.

Research, development and innovation

Viscofan's leading position in the highly competitive world market must be sustained by cutting-edge efforts in research, development and innovation so that the Company can continue to lead the artificial casings industry.

The Company has therefore boosted its research, development and innovation capability as one of the strategic vectors of value creation which enables Viscofan to build a distinctive profile in a market that combines a high competitiveness with a very sophisticated technology.



2006 financial performance



The highlights of 2006 were the acquisition of Teepak in North America, the restructuring and integration of Teepak's manufacturing plants with the rest of the Group, the integration of Koteks in Serbia and the completion of the move of plastics manufacturing from Germany to the Czech Republic and Brazil. Despite sharply rising energy prices, Viscofan achieved the best after-tax performance of its history, with net profit of €31.3 million, up 58.9% on the previous year.

Viscofan exceeded all its targets for the year –which had already been revised upward in September 2006– by a wide margin, thanks to the strength of demand throughout the period, especially in the closing quarter, and ongoing efficiency improvements implemented at the Group's various companies.

In the fourth quarter the like-for-like growth[(see note 1)] of Group revenues sped up, on the back of strong demand and healthier prices – mainly in the cellulose segment – and the solid performance put in by the preserved vegetables division.

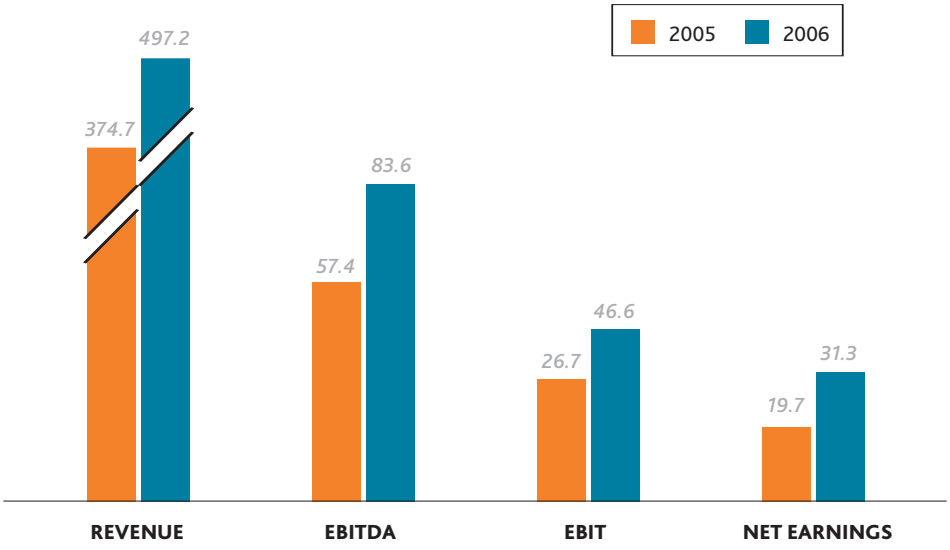
By December 2006 revenue for the year exceeded €497 million, 32.7% more than in 2005.

Like-for-like[(see note 1)], the Group ended the year with growth of 13.1%, driven by the casings division, which increased 14.3% year-on-year, while the preserved vegetables division attained growth of 8.0% helped by a succesful Christmas campaign.

Inputs rose 21.3%, reflecting the Group's efficiency gains in lowering the cost of raw materials and improving the production process, thus raising the gross margin.

The alignment of subsidiaries' structures with the Group's new size and the staff benefits deal reached at Teepak USA in the first quarter contained personnel expenses, which grew 22.5% to €128.3

Note 1. Like-for-like revenue growth considers companies consolidated to the same extent and over the same time frame. Like-for-like growth in 2006 thus includes the consolidated performance of all Viscofan companies except Teepak and the contribution of Koteks from January to July 2006, including the Koteks share of revenue from August to December 2006 and in 2005.



million. In 2006 the Group lowered its headcount by 413 employees, but the consolidation of Teepak increased the Group's overall staffing level to 4,213 at year-end 2006, versus 3,444 at year-end 2005.

The Group's full-year EBITDA topped €83.6 million (+45.6% versus 2005). The consolidated EBITDA margin for the year was 16.8%, 1.5 points above the margin achieved in 2005. The Group's like-for-like[(see note 1)] EBITDA rose 25.2% versus 2005.

Full-year EBITDA included non-recurring gains of €5.2 million, comprising:

- a €13.7 million decrease in personnel expenses through the agreement reached in March 2006 to reduce post-retirement benefit commitments to employees of the Danville plant in the United States;
- an €8.5 million increase in operating expenses due to:
  - the restructuring of Group companies, primarily Teepak, Koteks and Naturin, to align staff structure with the new size of the company;
  - the payout to cancel post-retirement commitments in the United States and other non-recurring expenses arising in the relocation of the converting activities from the North Kansas City plant (Teepak USA) to Montgomery (Viscofan USA);
  - the move of plastics manufacturing from Germany to the Czech Republic and Brazil.

In the closing quarter of the year, in the valuation test of the acquired companies, a positive difference between cost of acquisition and fair value was tented, arising for a net gain of €7.3 million, comprising €15.8 million of higher value of Teepak assets, minus a €6.1 million tax effect, and the reversal of goodwill in Tripasin, whose remeasured value was €2.3 million lower. These remeasurement procedures did not involve any cash flows.

The increased value of assets was reflected by the associated depreciation and amortisation; total depreciation and amortisation totalled €37.0 million, 20.6% more than accumulated depreciation and amortisation recognised in 2005.

Viscofan's net profit rose 58.9% in 2006 to €31.3 million.

Depreciation and amortisation expenses, excluding the effect of timing differences in the consolidation of new subsidiaries, held steady with respect to the previous year, thanks to Viscofan's effective maintenance policy at its manufacturing plants, which allows close monitoring of production processes and lengthens the useful lives of assets.

Hence, besides newly acquired companies, consolidated capital expenditure on property, plant and equipment stood at €32.2 million, in line with the previous year. The largest capital expenditure item, €7.6 million, went to subsidiaries acquired in 2005 and 2006, primarily to bring their production facilities into conformity with Viscofan standards.

Full-year EBIT before asset remeasurement adjustments rose 74.4% year-on-year, on the back of improved EBITDA and stable depreciation and amortisation expenses, to €46.6 million for 2006. If asset remeasurement adjustments are included, EBIT was double the previous year's figure.

Financial losses were €8.0 million, versus a €2.3 million financial loss in 2005. This was due, on one hand, to higher borrowings associated with the acquisition of Teepak at year-end 2005 coupled with higher borrowing costs, and, on the other, to a loss on currency exchange differences (-€1.5 million, as against a +€1.5 million gain in 2005) caused by the unfavourable behaviour of the US$ against the euro in 2006, unlike the favourable exchange rate movement of 2005.

Consolidated net debt at year-end 2006 was €111.8 million. The €33.7 million year-on-year increase in net debt chiefly reflected the acquisition of Teepak North America in January 2006. Gearing at December 2006 was 41.7%.

Pre-tax earnings in 2006 were €45.9 million, versus €24.4 million in 2005: this was the outcome of both improved operating performance and remeasurement of assets to their fair value.

The tax effect of Teepak's non-recurring results and better operating performance in countries under higher nominal tax rates raised the Group's overall tax rate to 32%. Taxes totalled €14.6 million, of which €5.7 million related to cancellation of the liability for post-retirement benefits associated with the Danville plant.

Full-year net earnings were up 58.9% on 2005 at €31.3 million by year-end 2006, exceeding our September 2006 forecasts by a wide margin.

Like-for-like net earnings for 2006 grew 16.2% year-on-year.

Casings

The casings market showed a solid performance in 2006, driven primarily by healthy demand in Eastern Europe, Asia and Latin America; this supported increases in both volume and value.

In this competitive setting, Viscofan entrenched its leading position in the artificial casings industry by achieving strong growth in revenues in its core businesses. Cellulose casings performed especially well; part of the slide in prices of the past ten years was reversed, and demand continues to pick up steadly.

Casings revenue increased 38.9% year-on-year, 14.3% in like-for-like terms[(see note 1)]. The closing quarter of the year was especially strong, enabling us to continue achieving double-digit growth and to make a record quarterly sales volume of over €105 million.

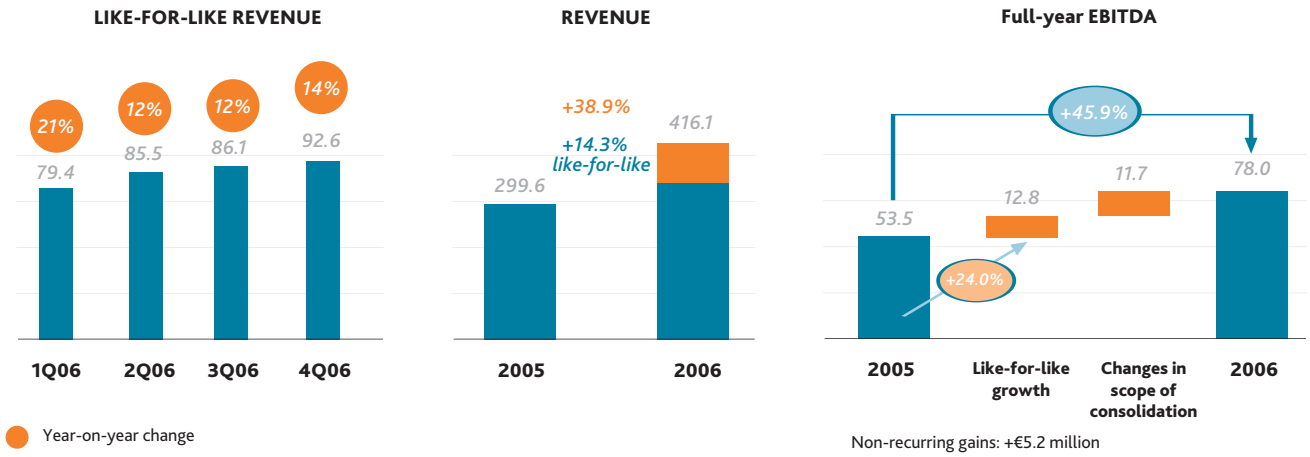
Consolidated EBITDA in the casings division by December 2006 was €78.0 million, 45.9% up on 2005 (24.0% like-for-like).

The figures showcase the improvements achieved in production efficiency, the completion of the move of plastics manufacturing to the Czech Republic and Brazil, the integration of newly acquired companies, the savings made under the new collective bargaining agreement at Teepak North America, and lower recurring expenses through streamlining human resources.

In the fourth quarter, the Group attained its highest-ever quarterly EBITDA, at €21.7 million, 29.8% more than the previous year, thanks to the strength of the demand and to the Group's gains in efficiency and profitability.

Double-digit growth sustained throughout the entire period

Millions of euro



Non-recurring gains: +€5.2 million

Viscofan entrenched its leading position in the artificial casings industry and achieved 38.9% year-on-year growth in revenues.

This robust performance was coupled with a major effort to enhance Viscofan's competitive edge:

- In 2006 the move of plastics manufacturing from Germany to the Czech Republic and Brazil was completed.
- At Teepak, the North Kansas City, Missouri, finishing plant was closed and its capacity was moved to Viscofan's existing site at Montgomery, Alabama. The Miami sales office was shut down, and Naturin Canada and Teepak Canada were merged as Viscofan Canada.
- The Koteks production plant in Serbia was upgraded.
- Efforts continue to enhance efficiency at the Group's new plants and optimise synergies.
- Collective bargaining agreements were concluded in Spain, the United States and Germany to bolster competitiveness at the various manufacturing sites.
- The Group's headcount in the casings division was lowered by 428.

Despite sharply rising energy costs, which doubled year-on-year, the 2006 EBITDA margin improved by 0.9 points to become 18.7%. Excluding the effect of consolidation of Teepak and the higher number of months for which Koteks is consolidated, the like-for-like EBITDA margin would be seen to have improved 1.5 points year-on-year to 19.3%.

The remeasurement from acquisition cost to fair value of Viscofan's acquired companies entailed a marked increase in depreciation and amortisation expenses in the fourth quarter. However, EBIT before asset remeasurement was up 73.1% on 2005 to €43.7 million, based on a solid operating performance.

Net earnings from the casings business totalled €29.9 million (56.2% above the previous year's figure), and €9.7 million in the fourth quarter (+43.0% versus the fourth quarter of 2005). Like-for-like[(see note 1)] net earnings for 2006 grew +12.3% year-on-year.



Performance by geographical region

Revenues grew at double-digit rates in all geographical regions:

Europe

Europe accounts for 46% of consolidated revenue in the casings division and is Viscofan's largest market. Revenues rose 11.6% year-on-year to €192 million.

In Europe, Viscofan has manufacturing sites in Spain (extrusion and cellulose and collagen converting), Germany (collagen extrusion), Czech Republic (cellulose and collagen converting, plastics extrusion and converting) and Serbia (collagen extrusion and converting).

Major organisational changes were implemented: plastics manufacturing was moved to the Czech Republic from Germany, and machinery was moved from Tripasin in Sweden to Koteks in Serbia.

Capital expenditure in 2006 totalled €16.6 million. Staff headcount in Europe at 31 December 2006 was 2,395.

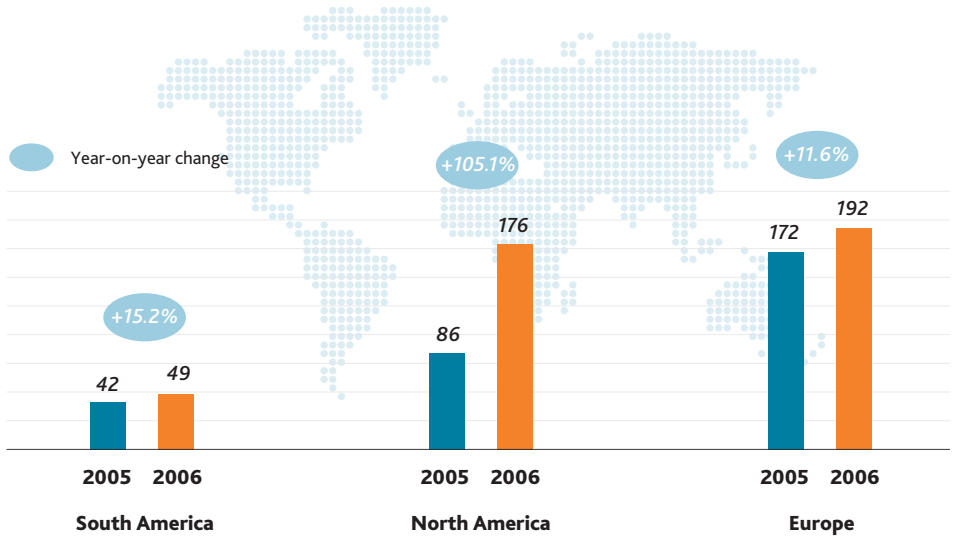
North America

North America doubled its contribution to the Viscofan Group due to the consolidation of Teepak from January 2006 onwards. Revenues were €176 million, accounting for 42% of the total for casings. Excluding Teepak, revenue in North America was 21.6% higher.

Besides performance in the marketplace, revenues reflected a major effort in the integration of the different corporate cultures, production standards and operating structures. Viscofan now has cellulose extrusion and converting facilities in the United States and Mexico, and a plastics converting plant in Canada.

Revenue

Millions of euro



Capital expenditure in 2006 was €8.6 million, while average staffing was 1,148.

South America

Revenues in South America grew 15.2% to €48.7 million, accounting for 12% of the total for casings and becoming one of the faster-growing end-customer markets alongside Asia and Eastern Europe.

2006 also saw the completion of the move of part of the plastic casing manufacturing from the Weinheim plant in Germany to the site at Itú, Brazil, to attain more competitive costs in plastics production.

The Viscofan Group spent €4.6 million in the region in 2006, earmarked for its cellulose extrusion and converting plants in Brazil, and employs 410 people.

Asia and the rest of the world

The Asian artificial casings market grew faster in 2006, particularly due to the replacement of natural casings with collagen products. Viscofan is strategically positioned to grasp opportunities for growth thanks to its having sales offices in China and Thailand, an extensive network of sales representatives in several countries, and the high quality of the products and services it offers, which have enabled it to win market share in the region.



Preserved vegetables (IAN Group)



In 2006, revenue from the preserved vegetables business exceeded €81 million, 8.0% above last year's figure and accounting for 16% of the consolidated revenues of the Viscofan Group. Growth was driven by rising demand for asparagus. The Group captured 2.3 points of market share versus the previous year, and products under the Carretilla label gained greater weight.



Increased revenues, a better sales mix, cost containment and a lower advertising spend translated into a 1.7 percentage point improvement in the full-year EBITDA margin. The EBITDA margin performed especially well in the fourth quarter of 2006, gaining 5 points over the figure for the same period last year, and was only 0.7 points lower than the third-quarter margin despite the higher advertising spend associated with the Christmas campaign. EBITDA for 2006 rose 42.3% to €5.6 million.

Improved operating profitability – in the closing quarter particularly – and stable depreciation and amortisation expenses enabled the preserved vegetables division practically to double full-year EBIT to €2.9 million, of which about €1 million was made in the final quarter (almost 7 times EBIT for the same period the previous year).

Net earnings were 2.6 times higher than last year at €1.4 million, on the back of the powerful rise in EBIT and a lower tax burden through the use of tax deductions worth €0.3 million from the research and development area.

IAN ended the year with a staff headcount of 260 and capital expenditure of €2.4 million.

Research, development and innovation at the service of our customers

Viscofan's products look simple and are simple to use. This belies the sophisticated technology underlying the manufacturing process, which only a few companies worldwide have developed.

Viscofan takes the view that its leading position in the highly competitive world market must be sustained by cutting-edge efforts in research, development and innovation so that the Company can continue to spearhead the artificial casings industry and create value for its stakeholders.

Viscofan couples its growth as a business with the development of its innovation capability so that it can access the best technologies available on the market, implement them and improve on them, and develop its own technologies to create an enduring competitive edge.

The complexity of Viscofan's production process and the sophisticated technology underlying its products means that research and development units are structured into teams that specialise on each process and casing type. The average staff headcount is 42. In addition, Viscofan is unifying most of these processes so as to achieve optimal synergies across different manufacturing facilities while meeting local needs.

The core research and development teams are based at the sites in Cáseda, Spain, and Weinheim, Germany. They conduct product and technology development in the fields of collagen and cellulose casings and develop innovative products other than meat casings. These are the benchmark research sites, by dint of their experience, resources and track record. Fibrous and plastic casings, for their part, are developed by specialised research teams in the United States and the Czech Republic, respectively.

The product development units, especially the European-based ones, transfer the technology to other Group sites to implement the stringent manufacturing, quality control and product performance standards that have made Viscofan an industry leader.

At present there are in progress over twenty strategic product development projects across the entire range (cellulose, collagen, fibrous and plastic)



Today, Viscofan has twenty strategic product development project in progress across its entire product range and diversification applications.

and encompassing diversification products so as to develop applications that equip Viscofan with the product range required to reinforce its presence in the world market. Research and development projects are mainly geared to:

- developing new products (to broaden the product portfolio) or improve existing ones, designed for meat application in markets of strategic interest to the Company;
- new casing concepts: functional casings that go beyond the classic "mould" concept to become active containers that confer properties or functionalities to the meat product they contain;
- adapting production processes to a wider range of raw material qualities, thus maintaining or exceeding the quality and performance of the end product and thus reducing dependence on a limited number of raw material suppliers and exposure to changing market conditions;
- diversification projects, based on raw materials widely used in the Group and aimed at potential alternative businesses, such as biomedical applications of collagen;
- technological support to improve the Company's existing products and processes under Viscofan's quality standards and current laws and regulations and to optimise production costs.

The IAN Group also continued to diversify its range by launching new products with higher value-added, such as new recipes for refrigerated and non-refrigerated ready-cooked meals and salads; it also seeks new ways to optimise production costs. IAN employs eight research and development specialists.

Support from international research centres

Viscofan has a long track record of working with Spanish and international public and private research centres to foment specialisation and gain access to the cutting-edge technologies it needs to carry on its research and development activity. Viscofan regularly collaborates with universities and research centres in Spain, the United States, the United Kingdom and Germany on food safety, analysis of materials, process and food-industry engineering, advanced physical and chemical analysis and other fields.

In addition, the Group has significant support in Spain from CDTI (the "centre for technical industrial development") and local government bodies.

Viscofan plays an active role in the artificial casings industry, and is therefore involved in several industry associations and groups that seek to cooperate towards enhancing the industry's contribution to the community. These institutions include:

- Comité Internationale de la Peliculle Cellulosique (CIPCEL). Based in Brussels, CIPCEL comprises the leading producers of regenerated cellulose film products.
- Collagen Casing Trade Association (CCTA). Also based in Brussels, CCTA comprises the leading producers of collagen casings.
- Centro Español de Plásticos (CEP). This is the Spanish association of entities relating to the manufacture and processing of plastics.
- Gelatin Manufacturers of Germany (GMG). An organisation of German gelatin producers.

Human resources: a global structure

The Viscofan Group constantly strives to improve its performance, and the Group's people are a key asset in its new global structure. Viscofan ended 2006 with a staff of 4,213 versus 3,443 at year-end 2005; this rise was the outcome of consolidating Teepak's operations.

In the wake of this major increase in size, Viscofan is now focusing its human resources policy on bringing together the range of companies acquired in the past few years and their distinctive corporate cultures within a single Group identity.

Viscofan benefits from a wide-ranging repository of production and management know-how at its twelve manufacturing sites and its sales offices.

2006 was a year of major labour-related agreements with union leaders to enhance competitiveness and business stability.



Team effort, coordination and cooperation facilitates knowledge transfer within the Group. The search for talent is hence another key goal of managing the Group's new global structure.

In 2006, one reflection of this philosophy was the secondment of staff based in Spain and Brazil to the manufacturing sites acquired from Teepak in the United States and Mexico to improve operating efficiency ratios and implement Viscofan's standard production processes, on which customers place a high value for the better quality of the cellulose casings they produce. In parallel, staff were posted from Spain and Germany to Serbia to set in motion the production of collagen at the plant acquired in 2005; and staff from Germany travelled to the Czech Republic to support the implementation of plastics manufacturing there.

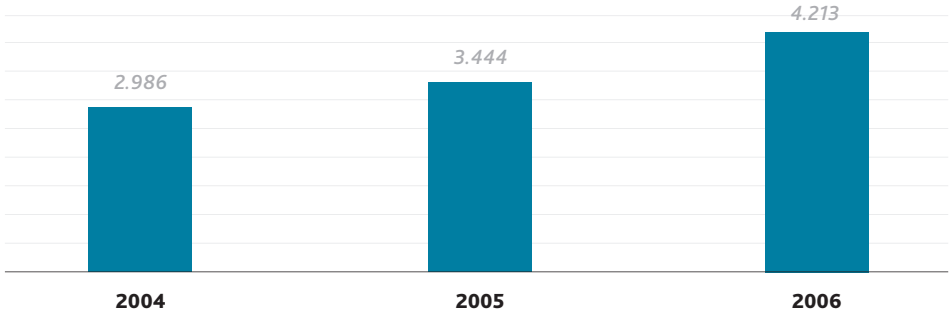
Employee training is a key process at Viscofan for the Company to achieve its goals and maintain the high quality of its products and services.

In 2006, general and specific training programmes were run for a combined total of 32,031 teaching hours, 12% more than in the previous year as a consequence of increased training at newly acquired companies.

2006 was also a year of major labour-related agreements with union leaders to assure and enhance competitiveness and business stability over the long term and into this new stage of the Company's development.

In the first quarter Viscofan signed a range of labour agreements with the unions at the plant in Danville, Illinois, USA. Among other points, the agreements: reduced post-retirement benefit liabilities; extended the collective bargaining agreement to March 2010,

Workforce evolution



with an annual increase of by-the-hour labour costs of US$0.25 (below inflation as at 2006); and allowed for streamlining plant staff down by up to 25% in accordance with efficiency and productivity gains.

In Spain, a collective bargaining agreement was reached for the 2005-2009 period with the 680 employees of the Cáseda and Urdiain plants in Navarre (Spain). This wage deal stipulates pay increases beyond annual real inflation of 0.3 to 0.75 points. The same working time laid down by the previous agreement remains effective throughout the term of the new agreement.

A collective bargaining agreement was signed in December 2006 with the employees of Naturin GmbH & Co KG in Germany, effective to 2011, to enhance competitiveness, maintain the site's benchmark status in the artificial casings market and be in a better situation to face the challenges of the coming years. The deal stipulates increases in annual working time and allows the layoff of up to 5.6% of company staff for operational reasons.

Long-term collective bargaining deals were concluded in 2005 in both Serbia and the Czech Republic to assure suitable stability at those sites.

The efforts made to bring the structure of subsidiaries into line with the Group's new size contained personnel expenses in 2006, which totalled €128.3 million.

At the year-end, staff by category broke down as follows:

	2006	2005	% Change
Management	97	72	34.7
Technitians and Department Heads	609	531	14.7
Administrative staff	293	236	24.2
Specialized personnel	950	970	-2.1
Specialized labors	2,264	1,635	38.5
	4,213	**3,444**	**22.3**

Commitment to safety, quality and the environment

Environment

Viscofan's capital expenditure in 2006 included investments aimed at environmental conservation, especially as regards solid wastes, gas emissions and discharges. Our priority is to acquire the latest available technologies to minimise the environmental impact of the emissions generated by the production process.

In all countries where it has manufacturing facilities, Viscofan works towards improving energy efficiency to reduce steam consumption and carbon dioxide emissions.

The Company has decided to adopt business management practices that support sustainable and economically viable social and environmental development, pursuing the three core goals to:

- promote environmental prevention;
- enhance environmental responsibility;
- encourage the development and implementation of environment-friendly technologies.

The Group's alignment with sustainable development takes the form of operating departments specifically concerned with environmental issues. Their role is to ensure that the environmental effects of the Company's activities remain within the standards set down by Viscofan and by the laws and regulations in force in each country. The environment area works with other departments to seek out and exploit opportunities for environmental improvement detected in the production process.

Viscofan regards close dialogue with government bodies as vital to positive and constructive solutions in the environmental field and to finding points of agreement to benefit the wider community. Cooperation with government includes annual inspections of production facilities.

The Company takes the view that a suitable environment policy support sustainable development and, furthermore, makes good economic sense, through minimal use and re-use of raw materials.

At production sites subject to European Community Directive No 2003/87/EC, the Emission Allowance Trading Directive, the Company has put in place a

Viscofan is committed to energy efficiency through co-generation, to reduce steam consumption and carbon dioxide emissions



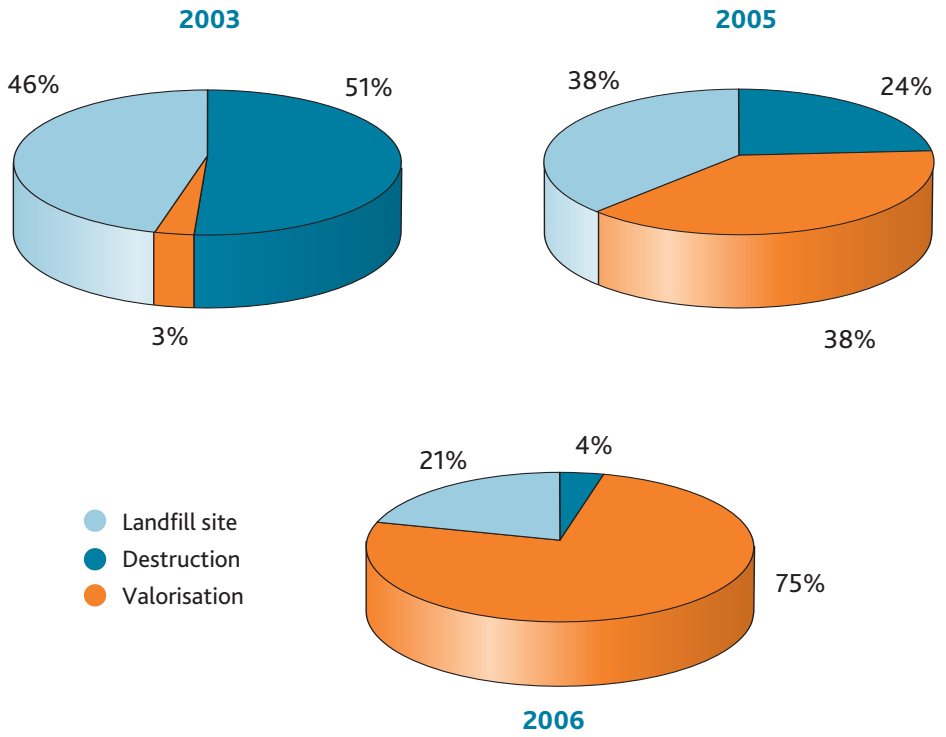
programme of control and monitoring to keep emissions below the allowances granted for the period 2005-2006. In conjunction with these programmes, the Company is in the process of an overall review of plant consumption of heat and energy to continue complying with the increasingly stringent emission requirements set to come into force in future years. At its facilities in Cáseda, Spain, Viscofan has already started a project to enlarge the co-generation plant with two new generators, to be partly commissioned in 2008; they will apply the best available technology to meet heat and power needs, and by the end of the project Cáseda will reach its maximum possible capacity of 49.8 MW.

The Cáseda plant is also taking the steps required to be granted an "integrated environmental authorisation".

Under the European IPPC (Integrated Pollution Prevention and Control) Directive on annual reporting of emissions into the air and into water of pollutants generated by industrial facilities, from 2002, when the European Pollutant Emission Register (EPER) was created across the various European Member States, Viscofan has consistently remained below the stipulated limits and achieved reductions in emissions per metre produced.

The process of minimising environmental impact comprises all initiatives aimed at reducing the volume of wastes to be destroyed or removed to landfills by valorising waste products. Major advances were made at the Group's main cellulose casings plant: over the lapse of four years, the situation has shifted from destruction of 46% of

Waste management: Spain



wastes and valorisation of only 3%, to destruction of 4% and valorisation of 75% by 2006.

Other initiatives include the shutdown in 2006 of the last incinerator at the Cáseda plant in Spain, and the re-use of raw materials in production through crystallisation processes. This avoids further consumption of raw materials and thus reduces emissions and achieves significant cost savings.

Viscofan regularly monitors noise levels at workstations and in the vicinity of its manufacturing plants. Noise levels are below the legally required ceilings in each country.

The Viscofan Group has spent over €4 million in 2006 on gas cleaners and waste water treatment plants, among other things, to meet its key environmental targets.

Quality and safety

As a manufacturer associated with the food sector, Viscofan is highly aware of industry requirements to ensure that the production process and the end-product strictly comply with legal specifications and have passed suitable controls to achieve optimal quality and offer customers guaranteed safety and hygiene.

The Company's commitment to food quality and hygiene takes the form of our mandatory processes



applied throughout the production process and involving stringent working practices that are audited both internally and externally.

These protocols configuring our product safety and quality system are based on the following core principles:

Hazard analysis and critical control point

Viscofan has a hazard analysis and critical control point (HACCP) system in place at all its facilities. The Company has formed an inter-disciplinary team that assesses every step of the production process to detect possible hazards, identify critical control points, implement suitable controls and take any required corrective action. The system is updated annually in line with any changes in the production process.



Product safety and food hygiene

Viscofan's product safety and food hygiene system covers all aspects. Manufacturing facilities are built to food safety specifications; employees are trained in food hygiene and product safety; raw materials are tested for compliance with specification previously agreed with certified suppliers; systems are in place to detect defective materials in the production system; pest control is implemented; and policies are in place to monitor hazardous substances, personal hygiene and visitors.

Product traceability and identification

Viscofan operates a product traceability system that enables us to identify at any time and in full detail the history of every unit sold and even sub-units, from receipt of raw materials to product use by our customer. Viscofan fully implements a food traceability system under European Community Directive 178/2002 and its related legislation.

To ensure that our product safety and food hygiene systems comply with requirements, our production processes are audited internally on a regular basis; they are also audited by outside inspectors to the most stringent standards on the market, laid down by the British Retail Consortium (BRC Standards).

In 2006, Viscofan renewed its quality certification in Spain under quality management standard ISO 9001:2000 for the third time at its Cáseda plant; the certifier was AENOR, the Spanish association of standardisation and certification. The sites in the Czech Republic, Germany and Brazil renewed their certifications to that same standard. In 2006 the Serbian plant obtained the certificates required to comply with the veterinary and health regulations governing the export of food casings made from animal raw materials, and continues to work towards obtaining the ISO 9001:2000 quality certificate in the near future.

Good governance practices

The Código de Buen Gobierno Corporativo ("Code of Good Corporate Governance") is the code of ethics of the governing bodies of listed companies. Its main purpose is to make a company's structure and business goals compatible with the protection of shareholders' interests.

A company's annual corporate governance report ensures that the code is followed and regularly reviewed.

The key features of the Code of Good Corporate Governance are contained in its recommendations. These are non-binding guidelines to help companies implement good governance practices.

Viscofan views good corporate governance as highly important. When the Code was published, the Company started a process of review and ongoing improvement of its corporate governance. Viscofan has adopted most of the Code's recommendations, and states its reasons in any instance where it departs from the Code.

For the same purpose as the Code and following similar principles, Viscofan has introduced internal rules in its various governing bodies.

Corporate governance at the Viscofan Group, therefore, is subject to applicable laws and regulations and, furthermore, to the following internal rules:

- **Articles of association:** These are the basic rules governing the Company and all its bodies. The articles set out the main features and operating principles of the General Meeting, the Board of Directors, the Executive Committee and the Audit Committee.

- **Rules and Regulations of the General Meeting:** This text lays down the rules governing the General Meeting to ensure transparency and safeguard shareholders' rights and their access to Company information.

  The rules stipulate the formalities of calling, attending and recording General Meetings, and of access to prior information by shareholders.

- **Rules and Regulations of the Board of Directors:** This text was approved by the Board of Directors on 30 March 1999 and amended on 23 February 2004.

  The rules help ensure the Company is properly run by setting down the principles of action of the Board of Directors and its organisational and operating requirements, the standards of conduct of Directors and the overarching principles that should guide their decisions.

- **Internal Code of Conduct on Matters Relating to the Securities Market:** The Internal Code of Conduct on Matters Relating to the Securities Market was approved by the General Meeting on 24 July 2003 and amended on 14 June 2004.

  This Code lays down rules of conduct to ensure that the institutional and personal acts of Company Directors and employees strictly comply with current laws and regulations on transparency in the markets and to protect investors' interests.

All these internal rules are available to shareholders and the general public on the Company website (www.viscofan.com), on the CNMV (the Spanish securities market regulator) website, and from the

Registro Mercantil de Navarra (Register of companies of Navarre) Spain, where the rules are registered.

Shareholders and the General Meeting

The General Meeting is the supreme governing body of the Company, in which shareholders decide by a majority vote on the affairs within the scope of their authority.

There are no limitations under the Company's articles on the exercise of voting rights. The requirement of holding at least 450 shares for entitlement to attend a General Meeting does not preclude or limit voting rights: votes can be pooled, and votes can be cast by proxy or by the remote means the Company makes available to shareholders.

In 2006, Viscofan continued to take steps to facilitate transparency, fluid communications and shareholder involvement with the Company, especially through the General Meeting called annually, as both an ordinary and extraordinary session, to deal with the Company's most important affairs.

Therefore, for the fourth year running, the Company will pay out an attendance bonus of €0.005 per share to shares present in person or by proxy at the General Meeting who provide due proof of such presence or proxy.

For the same reason, from 2005, the Company gives shareholders the option of voting or granting proxies electronically.

To encourage shareholder involvement other than at General Meetings, furthermore, the Company has put in place mechanisms whereby shareholders can request that a General Meeting be called or, once a Meeting is called, request a supplement to the notice of Meeting. Shareholders' rights to information are wholly guaranteed by the Company's internal rules. Full documentation relating to General Meetings is available to shareholders as from the publication of the notice of Meeting at the registered office and on the Company website.

As a result of these measures, the last General Meeting, held on 22 May 2006, was attended by 68.65% of capital, 12.56% in person and 56.09% by proxy. This firmly establishes a high rate of shareholder involvement over recent years, above the average for listed companies.

Shareholders may write to our investor relations email address, info_inv@viscofan.com, and the Company has a team of people to keep shareholders informed and cater to their requests and needs.

Board of Directors

The Board of Directors is the body in charge of representing and managing the Company. Its main role is to guide the Company's overall strategy and policies.

The Board is exclusively responsible for matters such as the appointment and pay of senior executives, monitoring the management of the Company, risk control and setting policy on reporting information to shareholders and markets.

To perform its functions to the required standards of diligence, the Board holds regular meetings. In 2006, the Board met 11 times.

The Company's articles place no restrictions on the appointment of Directors by the General Meeting or on reappointment for successive terms.

	Board of Directors	Executive Committee	Audit Committee	Appointments and Remuneration Committee
Jaime Echevarría Abona	*Chairman*	*Chairman*		*Chairman*
José María Cuevas Salvador	*Vice Chairman*	*Member*		*Member*
Néstor Basterra Larroudé	*Member*	*Member*		
Íñigo Solaun Garteiz-Goxeascoa	*Member*			
Ágatha Echevarría Canales	*Member*		*Member*	
José Cruz Pérez Lapazarán	*Member*		*Chairman*	*Member*
Gregorio Marañón Bertran de Lis	*Member*		*Member*	
Alejandro Legarda Zaragüeta	*Member*			

Juan María Zuza Lanz	*Secretary (non-voting)*

Board committees

The Board has created three committees in support of its functions:

Executive Committee

The Executive Committee comprises three Directors and is entrusted with all the delegable decision-making powers of the Board, except the undelegables and the sale, exchange and encumbrance of real property and industrial facilities. The Executive Committee, which met on 9 occasions in 2006, must in timely fashion report to the Board on its discussions and resolutions.

Audit Committee

The Audit Committee is made up of three independent Directors. The role of the Audit Committee is to report to the General Meeting on matters within its remit, appoint and carry on relations with outside auditors, oversee internal audit procedures and appraise the Company's financial reporting and risk control systems. The Audit Committee met on 6 occasions in 2006.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee comprises three Directors. Its role is to decide on and oversee appointments and remuneration of Directors and senior executives. The Appointments and Remuneration Committee met once in 2006.

Board membership

Pursuant to the Company's articles, the Board must comprise up to nine and not less than three Directors.

The Rules and Regulations of the Board stipulate that there must be a reasonable number of independent Directors, and that a majority of Directors must be non-executive. After the appointment by the General Meeting of 22 May 2006 of a new independent Director nominated by the Board, there are now eight Directors, of whom one, the Chairman, is an executive Director, two represent major shareholders and five – 62.5% – are independent, in accordance with present good governance guidelines.

The secretary to the Board is not a Director.

Directors' pay

The articles of association of Viscofan S.A. approved by the General Meeting lay down that Directors' pay is 1.5% of net pre-tax earnings, to be apportioned to Directors as decided by the Board.

The remuneration of the Executive Committee is likewise 1.5% of net pre-tax earnings, to be distributed among members as decided by the Committee. In previous years, pay has been apportioned in equal shares among Directors and Committee members, respectively. The Chairman of the Board is not paid for his position as an executive Director.

The rest of Board Committees are unpaid.

	Directors' pay in euro			
Name	Committee	Board	Boards of other Group companies	Total
Jaime Echevarría Abona	101,561	38,086	111,988	251,635
José María Cuevas Salvador	101,561	38,086	-	139,647
Néstor Basterra Larroudé	101,561	38,086	55,994	195,641
Inigo Soláun Garteiz-Goxeascoa	-	38,085	-	38,085
Ágatha Echevarría Canales	-	38,085	-	38,085
José Cruz Pérez Lapazarán	-	38,085	-	38,085
Gregorio Marañón Bertrán de Lis	-	38,085	-	38,085
Alejandro Legarda Zaragüeta	-	38,085	-	38,085
	304,683	304,683	167,982	777,348

Related-party transactions and conflicts of interest

The Company avoids these situations by engaging independent third parties. So far, this policy has succeeded in preventing such situations from arising.

In the hypothetical event of there arising a related-party transaction or a conflict of interest, the Rules and Regulation of the Board provide that Directors are under a duty of fair dealing and must advise the Board of any conflict of interest with the Company or a Group company as soon as they become aware of it; Directors are bound to resign forthwith if the conflict of interest persists or if their presence on the Board runs counter to the interests of Viscofan. Directors are further obliged to report to the Board any family, economic or other ties that might give rise to conflicts of interest.

Risk control

Suitable risk control is a key element of managing a modern business. Viscofan has fully identified the general risks associated with its business; these are covered by insurance policies and financial instruments at acceptable cost. Specific risks attaching to the Group's business as a supplier to the meat industry and as a manufacturer of preserved goods and other food products are addressed by the use of strict quality plans under the ISO 9001 standard. The responsibility for suitable control of general and specific risks rests with the Board of Directors.

Viscofan on the stock exchange

Viscofan strives to create value for its shareholders by improving its like-for-like performance and playing an active role in the ongoing consolidation of the industry; this has been well received by the market, and the Company share price rose 54% in 2006 to €14.29. Viscofan thus went from market capitalisation of €445 million at the start of 2006 to €685 million at year-end 2006.

In 2006, the Group rewarded its shareholders in terms of dividends, an issue premium refund and a General Meeting attendance bonus in the amount of €0.193 per share gross. Shareholder remuneration thus amounted to over €9 million in 2006.

Improved profitability and higher earnings continue to translate into higher shareholder remuneration

The rise in share price and increased shareholder remuneration meant that a shareholder buying shares at the opening of 2006 and holding them to 31 December 2006 would have achieved a return of 56.1% on his or her investment.

2006 also saw an increase in the average daily volume of the amount traded on the Spanish stock exchange €1.5 million versus €1.2 million in 2005. In 2006, therefore, the equivalent of 66% of the Company's average capitalisation was traded on the market.

The Company bolstered its investor relations unit and ran five road shows attended by the management team. One-to-one meetings were held with 75 fund managers from a range of different countries, and Viscofan was present at a range of conferences and seminars hosted by the financial community.

Dividends

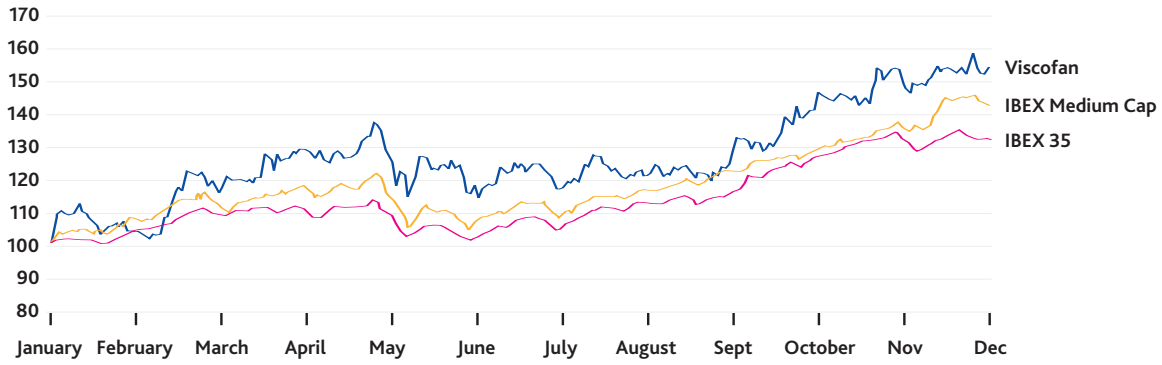
In January 2007, the Viscofan Board of Directors resolved to declare an interim dividend out of earnings for 2006 in the amount of €0.140 per share gross, making for a 79.5% increase on the interim divided declared in 2005. Moreover, the Board has proposed to the General Meeting that it approve a refund of the issue premium in the amount of €0.160 per share, and a bonus of €0.005 per share for attendance at the General Meeting. Total shareholder remuneration proposed for 2006 therefore stands at €0.305 per share, 58% up on the previous year's figure.

Shareholder remuneration accounts for 46.4% of earnings per share generated in 2006, and fulfils the Company's undertaking to reward shareholders in consonance with the improved performance achieved in the year.

The Board has also proposed to the General Meeting a resolution to redeem 662,964 treasury shares, 1.4% of share capital; this move will boost earnings per share.

As regards major shareholders, on 31 December 2006 the fund manager Bestinver Gestión, S.A., S.G.I.I.A. disclosed that across the various funds under its management it held 8.64% of Company shares.

Share price performance in 2006



Stock exchange highlights 2006	2006	2005	2004
Listed shares	47,959,806	47,959,806	48,346,579
Share capital at 31 Dec (millions of euro)	14.39	14.39	14.50
Market capitalisation at year-end (millions of euro)	685.35	445.07	360.18
Traded volume (cash value, millions of euro)	372.1	309.0	177.2
Daily average trading volume (millions of euro)	1.5	1.2	0.7
Traded shares	31,732,853	36,831,430	23,090,572
Daily average of traded shares	124,932.49	146,738.76	91,994.31
Share price (€)			
Year-end price	14.29	9.28	7.45
Average	11.72	8.38	7.65
High	14.71	9.97	8.29
Low	9.18	7.20	7.03

Year-end data	2006	2005	2004
% annual change, Viscofan	54.0%	24.6%	5.7%
% annual change, IGBM (Madrid all-share)	34.5%	20.6%	18.7%
% annual change, IBEX 35	31.8%	18.2%	17.4%
% annual change, IBEX Medium Cap	42.1%	37.1%	25.1%
% annual change, IBEX Small Cap	54.4%	42.5%	22.4%
% annual change, food sector	25.4%	31.5%	23.3%
Earnings per share (1)	0.657	0.410	0.286
Proposed dividend per share (2)	0.305	0.193	0.185
Viscofan P/E ratio	21.92	22.63	25.69

(1) Net earnings per share calculated by dividing net profit by the weighted average of ordinary shares in circulation in the year, excluding treasury shares.
(2) Includes interim dividend, refund of issue premium and bonus for attending the General Meeting.

A wide range of solutions and products
A guide to Viscofan products

The products and finishes made by the Viscofan Group encompass a wide and varied range of solutions for each market and end-consumer application. Viscofan is the only supplier in the world to make artificial casings for meat products in the four commercially available varieties: cellulose, collagen (large and small calibre), fibrous and plastic.

CASINGS

Collagen



Collagen casings

These casings use collagen as their raw material. Collagen is obtained from cow hides and processed using sophisticated technology so that it can be shaped into casings. Collagen casings are made in two main kinds: small- and large-calibre. The key difference lies in the thickness of the casing wall and the way the collagen is processed to withstand a given degree of stress when filled and holding in the weight of the meat.

Small-calibre collagen casings

Small-calibre collagen casings are used to make sausages generally eaten with the skin. Examples include fresh sausages, cabbanossi, frankfurters, bratwurst, Polish sausages, landjaeger and chistorra. Casings are made in a range of different colours, sizes and shapes (straight and curved).

Large-calibre collagen casings

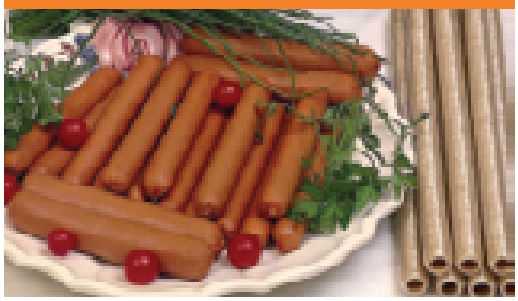
Large-calibre collagen casings are used for sausage products like salami, salchichón, bierwurst and so forth. They are made in various sizes, colours and straight and curved shapes, and are printable.

Collagen film

Viscofan uses collagen to make edible film wrap. The main application for collagen film (Coffi™) is to encase hams, roulades, salami, Coppa, and others.

Viscofan also sells the devices and machinery needed to use the film. It makes printed collagen film for traceability and brand imaging purposes.

Cellulose



Cellulose casings are made from natural cellulose. They are used mainly to make hot dog sausages.

The casing is generally used only as a cooking mould. The manufacturer peels off the casing before sale to the end-consumer. In some countries, hot dog sausages are sold unpeeled, and the end-consumer removes the casing.

We offer cellulose casings in the following value-added options: striped, non-transferable colour, transferable colour, and printed.

Fibrous casings



Fibrous casings are cellulose casings reinforced with manila hemp, which makes for high strength and highly uniform calibre.

Fibrous casings are primarily used for large sausages and slicing meats like mortadella, ham, pepperoni, etc.

Plastic casings



Plastic casings are made from a range of polymers. Viscofan makes a wide variety of plastic casings for different product applications.

Viscofan's plastic casings offer highly effective barrier properties, mechanical strength, thermal shrinkage, peeling, slicing and heat resistance.

PRESERVED FOODS

Preserved vegetables



Through the IAN Group, Viscofan distributes a wide range of preserved vegetables, including asparagus, pulses, peppers, tomato sauce, olives and more. It also markets tomato-based sauces, vegetable-based ready-cooked meals and ready-made salads.

Annual corporate governance report

Corporate governance report 2006

MODEL CORPORATE GOVERNANCE REPORT: LISTED COMPANIES

A. OWNERSHIP STRUCTURE

A.1. Complete the following table on company share capital:

Last modified	Share capital (€)	Number of shares
	14,387,941.80	47,959,806

If there are different share classes, describe the classes in the table below:

Class	Number of shares	Unit nominal value
ORDINARY	47,959,806	0.30

A.2. Disclose the direct and indirect holders of major interests and the size of such interests at year-end, directors excluded:

Shareholder name or company name	Number of directly held shares	Number of indirectly held shares (*)	% of share capital
BESTINVER GESTIÓN SGIIC	0	4,145,090	8.643

(*) Through:

Direct shareholder name or company name	Number of directly held shares	%% of share capital
IBERFAMA SICAV, S.A.	2,326	0.005
ATON INVERSIONES SICAV	10,733	0.022
BESTINFOND F.I.	934,158	1.948
BESTINVER BOLSA F.I.	2,348,557	4.897
BESTINVER MIXTO F.I.	330,314	0.689
BESTINVER RENTA F.I.	37,577	0.078
CAMPO DE ORO SICAV	4,890	0.010
CARTERA MILLENNIUM SICAV	5,881	0.012
CORFIN INVERSIONES SICAV	22,328	0.047
DIVALSA INVERSIONES SICAV	7,036	0.015
ENTRECAR INVERSIONES SICAV	8,002	0.017
H202 INVERSIONES SICAV	9,628	0.020
INV. EN BOLSA SIGLO XXI SICAV	15,350	0.032
LINKER INVERSIONES SICAV	4,773	0.010
PASGOM INVERSIONES SICAV	7,816	0.016
RODAON INVERSIONES SICAV	19,261	0.040
SOIXA SICAV	258,740	0.539
TEXRENTA INVERSIONES SICAV	49,274	0.103
TIBEST CINCO SICAV	41,620	0.087
TIGRIS INVERSIONES SICAV	10,524	0.022
ZAMARRON SICAV	6,467	0.013
OPEC INVERSIONES, SICAV, S.A.	3,398	0.007
ACC. CUP. Y OB. SEGOVIANAS SICAV	6,437	0.013
Total:	**4,145,090**	

Disclose the main changes in shareholder structure arising in the year:

Transacting shareholder name or company name	Date	Transaction
Not applicable		

A.3. Complete the following tables on company directors owning company shares:

Nombre o denominación social del consejero	First appointed	Last appointed	Number of directly held shares	Number of directly shares (*)	% of share capita
JAIME ECHEVARRÍA ABONA	17-10-1975	27-06-2005	111,954	57,897	0.354
NÉSTOR BASTERRA LARROUDÉ	29-07-1997	05-05-2003	65,299	6,118	0.149
ÁGATHA ECHEVARRÍA CANALES	24-06-1998	05-05-2003	16,749	0	0.035
JOSE MARÍA CUEVAS SALVADOR	09-01-1987	17-06-2002	10,640	0	0.022
JOSÉ CRUZ PÉREZ LAPAZARÁN	24-06-1998	05-05-2003	212	0	0.000
ÍÑIGO SOLAUN GARTEIZ-GOXEASCOA	19-01-1998	05-05-2003	25,382	25,835	0.107

(*) Through:

Direct shareholder name or company name	Number of directly held shares
IGNACIO BASTERRA MARTINEZ	6,118
CONCEPCION CANALES JAUREGUIBEITIA	57,897
Mª ANGELES BUSTILLO BASTERRA	25,835
Total:	**89,850**

% of total share capital held by board of directors	**0.667**

Complete the following tables on company directors holding company share options:

Director name or company name	Number of direct share options	Number of direct share options	Number equivalent shares	% of share capital
Not applicable				

A.4. Disclose any family, business, contractual or corporate ties among major shareholders, as far as such are known to the company, unless they are insignificant or arise from the ordinary course of business:

Names or company names of related parties	Relationship	Brief description
Not applicable		

A.5. Disclose any business, contractual or corporate ties between any major shareholder and the company, unless they are insignificant or arise from the ordinary course of business:

Names or company names of related parties	Relationship	Brief description
Not applicable		

A.6. Disclose any shareholder agreements reported to the company:

Parties to shareholder agreement	% of affected share capital	Brief description of agreement
Not applicable		

Disclose any concerted actions by shareholders known to the company:

Parties to concerted action	% of affected share capital	Brief description of concerted action
Not applicable		

If any such agreement or concerted action has changed or terminated in the course of the year, you must disclose this expressly.

A.7. Disclose whether any individual or body corporate exercises or may exercise control of the company as defined under article 4 of the Ley del Mercado de Valores ("the Securities Market Act"):

Name or company name
Remarks

A.8. Complete the following tables on the company's treasury shares:

At year-end:

Number of directly held shares	Number of indirectly held shares (*)	% of share capital
581.071	0	1.212

(*) Through:

Direct shareholder name or company name	Number of directly held shares	Total
Not applicable		

Detail of significant changes in the year pursuant to Royal Decree 377/1991:

Date	Number of directly held shares	Number of indirectly held shares (*)	% of share capital
Not applicable			

Gain/loss for the year on treasury share transactions (thousands of euro)	0

A.9. Detail the terms and effective period(s) of authority(ies) granted by the general meeting of the company to the board of directors to conclude the treasury share purchases or sales disclosed at section A.8.

Resolution of the general meeting of 22 May 2006:

"Be it resolved to render null and void the authority to purchase treasury shares granted to the Board of Directors by the General Meeting of 27 June 2005.

Be it resolved to authorise the Board of Directors so that it may, through such person, company or entity as it thinks fit, purchase and sell on the market shares of the Company itself, at the price quoted on the day of such transaction, in the maximum number of shares permitted by the Ley de Sociedades Anónimas ("the Companies Act") and its related statutes, at a price not less than 100% or more than 5000% of their nominal value.

This authority is granted to the Board of Directors for a maximum term of 18 months from the date of this resolution.

This authority is granted to the Board of Directors subject to the legal restrictions on acquisition of treasury shares, in particular, the restrictions under article 75 of the revised and consolidated text of the Companies Act.

If the Board of Directors needs to use the authority hereby granted by the General Meeting, the Company's treasury shares shall be subject to the rules laid down in article 79 of the revised and consolidated text of the Companies Act."

A.10. Disclose any legal restrictions, or restrictions under the company's memorandum and articles of association, on the exercise of voting rights, and any legal restrictions on acquisition or transfer of company shares:

There are no legal restrictions or restrictions under the company's memorandum and articles of association on the exercise of voting rights, except the restrictions relating to treasury shares. There are no legal or restrictions under the company's memorandum and articles of association on the acquisition or transfer of shares.

B. COMPANY MANAGEMENT STRUCTURE

B.1. Board of Directors

B.1.1. State the maximum and minimum number of directors set forth in the company's articles:

Maximum number of directors	**9**
Minimum number of directors	**3**

B.1.2. Give the directors' names in the table below:

Director name or company name	Representative	Position on the board	First appointed	Last appointed	Appointment procedure*
JAIME ECHEVARRÍA ABONA		CHAIRMAN	17-10-1975	27-06-2005	
JOSE MARÍA CUEVAS SALVADOR		VICE CHAIRMAN	09-01-1987	17-06-2002	
NÉSTOR BASTERRA LARROUDÉ		DIRECTOR	29-07-1997	05-05-2003	
ÍÑIGO SOLAUN GARTEIZ-GOXEASCOA		DIRECTOR	19-01-1998	05-05-2003	
ÁGATHA ECHEVARRÍA CANALES		DIRECTOR	24-06-1998	05-05-2003	
JOSÉ CRUZ PÉREZ LAPAZARÁN		DIRECTOR	24-06-1998	05-05-2003	
GREGORIO MARAÑÓN BERTRAN DE LIS		DIRECTOR	29-01-1999	05-05-2003	
ALEJANDRO LEGARDA ZARAGÜETA		DIRECTOR	22-05-2006	22-05-2006	

Total number of directors	**8**

* ELECTED BY GENERAL MEETING AND APPOINTED BY BOARD

Indicate any departures from the board of directors arising in the year

Director name or company name	Departure date
Not applicable	

B.1.3. Complete the following tables on directors and their details:

EXECUTIVE DIRECTORS

Director name or company name	Nominating body	Position in the company
JAIME ECHEVARRÍA ABONA	APPOINTMENTS COMMITTEE	CHAIRMAN

NON-INDEPENDENT NON-EXECUTIVE DIRECTORS

Director name or company name	Nominating body	Name or company name of major shareholder nominating or represented by the director
NÉSTOR BASTERRA LARROUDÉ	APPOINTMENTS COMMITTEE	SHAREHOLDER FAMILY
ÍÑIGO SOLAUN GARTEIZ-GOXEASCOA	APPOINTMENTS COMMITTEE	SHAREHOLDER FAMILY

INDEPENDENT NON-EXECUTIVE DIRECTORS

Director name or company name	Nominating body	Profile
JOSE MARÍA CUEVAS SALVADOR	APPOINTMENTS COMMITTEE	LAWYER
ÁGATHA ECHEVARRÍA CANALES	APPOINTMENTS COMMITTEE	LAWYER AND ACCOUNTANT
JOSÉ CRUZ PÉREZ LAPAZARÁN	APPOINTMENTS COMMITTEE	AGRICULTURAL ENGINEER
GREGORIO MARAÑÓN BERTRAN DE LIS	APPOINTMENTS COMMITTEE	LAWYER
ALEJANDRO LEGARDA ZARAGÜETA	APPOINTMENTS COMMITTEE	INDUSTRIAL ENGINEER

OTHER NON-EXECUTIVE DIRECTORS

Director name or company name	Nominating body
Not applicable	

State the reasons why the above directors may not be considered non-independent or independent:

Indicate any changes to the classification of directors during the year:

Director name or company name	Date of change	Previous status	Current status
Not applicable			

B.1.4. Indicate whether the classification of directors in the above section is in accordance with the composition laid down in the rules and regulations of the board:

Article 8 of the Rules and Regulations of the Board of Directors provides that "the board shall comprise a reasonable number of independent directors, and non-executive directors shall be in a majority."

In accordance with this rule, the Viscofan Board comprises a majority of non-executive directors (independent and non-independent).

B.1.5. Indicate any powers delegated to the chief executive officer(s):

Director name or company name	Brief description
Not applicable	

B.1.6. Identify any directors who are directors or executives of other companies in the same group as the listed company:

Director name or company name	Company name of other group company	Position
JAIME ECHEVARRÍA ABONA	INDUSTRIAS ALIMENTARIAS DE NAVARRA, S.A.U.	CHAIRMAN
JAIME ECHEVARRÍA ABONA	NATURIN GMBH & CO. KG	CHAIRMAN
JAIME ECHEVARRÍA ABONA	STEPHAN & HOFFMAN AG	CHAIRMAN
JAIME ECHEVARRÍA ABONA	NATURIN INC (DELAWARE)	CHAIRMAN
JAIME ECHEVARRÍA ABONA	VISCOFAN USA INC.	CHAIRMAN
JAIME ECHEVARRÍA ABONA	VISCOFAN POLAND SP. Z O.O.	CHAIRMAN
JAIME ECHEVARRÍA ABONA	VISCOFAN CZ S.R.O.	CHAIRMAN
JAIME ECHEVARRÍA ABONA	VISCOFAN DE MÉXICO S. DE R.L. DE C.V.	CHAIRMAN
JAIME ECHEVARRÍA ABONA	VISCOFAN CENTROAMÉRICA COMERCIAL SOCIEDAD ANÓNIMA	CHAIRMAN
NÉSTOR BASTERRA LARROUDÉ	INDUSTRIAS ALIMENTARIAS DE NAVARRA, S.A.U.	DIRECTOR
NÉSTOR BASTERRA LARROUDÉ	NATURIN GMBH & CO. KG	DIRECTOR
NÉSTOR BASTERRA LARROUDÉ	VISCOFAN USA INC.	DIRECTOR
NÉSTOR BASTERRA LARROUDÉ	STEPHAN & HOFFMAN AG	VICE CHAIRMAN
JAIME ECHEVARRÍA ABONA	NATURIN LIMITED	CHAIRMAN
JAIME ECHEVARRÍA ABONA	VISCOFAN CANADA, INC	CHAIRMAN
JAIME ECHEVARRÍA ABONA	TEEPAK USA, LLC	CHAIRMAN
JAIME ECHEVARRÍA ABONA	VISCOFAN DO BRASIL SOCIEDADE COMERCIAL E INDUSTRIAL, LTDA	MEMBER OF ADVISORY BOARD
JAIME ECHEVARRÍA ABONA	TEEPAK DE MEXICO, S. DE R.L. DE C.V.	CHAIRMAN
JAIME ECHEVARRÍA ABONA	KOTEKS VISCOFAN	CHAIRMAN
JAIME ECHEVARRÍA ABONA	GAMEX CB S.R.O.	CHAIRMAN
JAIME ECHEVARRÍA ABONA	NATURIN CANADA VERTRIEBS GMBH	CHAIRMAN
JAIME ECHEVARRÍA ABONA	VISCOFAN DE MEXICO SERVICIOS, S. DE R. L. DE C.V.	CHAIRMAN
JAIME ECHEVARRÍA ABONA	TEEPAK HOLDING DE MEXICO, S. DE R.L. DE C.V.	CHAIRMAN
JAIME ECHEVARRÍA ABONA	ZACAPU POWER S. DE R.L. DE C.V.	CHAIRMAN
JAIME ECHEVARRÍA ABONA	TEEPAK SERVICIOS DE MEXICO S. DE R.L. DE C.V.	CHAIRMAN

B.1.7. Name any company directors who are also directors of companies outside your company group and listed on organised securities markets in Spain, as reported to the company:

Director name or company name	Listed company	Position
JAIME ECHEVARRÍA ABONA	IBERPAPEL GESTION, S.A.	CHAIRMAN
JOSE MARÍA CUEVAS SALVADOR	IBERPAPEL GESTION, S.A.	DIRECTOR
NÉSTOR BASTERRA LARROUDÉ	IBERPAPEL GESTION, S.A.	DIRECTOR
ÍÑIGO SOLAUN GARTEIZ-GOXEASCOA	IBERPAPEL GESTION, S.A.	DIRECTOR
GREGORIO MARAÑÓN BERTRAN DE LIS	PROMOTORA DE INFORMACIONES S.A.	DIRECTOR
GREGORIO MARAÑÓN BERTRAN DE LIS	SOGECABLE, S.A.	DIRECTOR
GREGORIO MARAÑÓN BERTRAN DE LIS	ALTADIS, S.A.	DIRECTOR
GREGORIO MARAÑÓN BERTRAN DE LIS	COMPAÑÍA DE DISTRIBUCIÓN INTEGRAL LOGISTA, S.A.	DIRECTOR
ALEJANDRO LEGARDA ZARAGÜETA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.	DIRECTOR

B.1.8. Fill in the following tables on total directors' pay accruing in the year:

a) At the company filing this report:

Remuneration item	Figures in thousands of euro
Fixed remuneration	0
Variable remuneration	0
Per diems	0
Consideration set forth under articles of association	609
Share options and/or other financial instruments	0
Other	0
Total:	**609**

Other benefits	Figures in thousands of euro
Advances	0
Loans granted	0
Pension funds and plans: contributions	0
Pension funds and plans: contracted obligations	0
Life insurance premiums	0
Guarantees created by the company in favour of directors	0

b) In respect of directorships and/or senior executive positions in other group companies:

Remuneration item	Figures in thousands of euro
Fixed remuneration	0
Variable remuneration	0
Per diems	0
Consideration set forth under articles of association	168
Share options and/or other financial instruments	0
Other	0
Total:	**168**

Other benefits	Figures in thousands of euro
Advances	0
Loans granted	0
Pension funds and plans: contributions	0
Pension funds and plans: contracted obligations	0
Life insurance premiums	0
Guarantees created by the company in favour of directors	0

c) Total pay by director class:

Director class	Company	Group
Executive	139	112
Non-independent, non-executive	178	56
Independent, non-executive	292	0
Other non-executive	0	0
Total:	**609**	**168**

d) In respect of profit attributable to shareholders of the parent company:

Total remuneration to directors (thousands of euro)	**777**
Total remuneration to directors / profit attributable to shareholders of the parent company (as a percentage)	**3,820**

B.1.9. Identify any senior executives who are not also executive directors; disclose their total pay accruing in the year:

Name or company name	Position
JOSÉ ANTONIO CANALES GARCÍA	GENERAL MANAGER, VISCOFAN GROUP
GABRIEL LARREA LALAGUNA	HEAD OF SALES, VISCOFAN GROUP
CESAR ARRAIZA ARMENDARIZ	HEAD OF FINANCE, VISCOFAN GROUP
JOSÉ IGNACIO RECALDE IRURZUN	HEAD OF R&D, VISCOFAN GROUP
JOSÉ VICENTE SENDÍN AZANZA	HEAD OF CONVERTING, VISCOFAN GROUP
PEDRO ERASO ZABALZA	HEAD OF EXTRUSION, VISCOFAN GROUP
ELENA CIORDIA CORCUERA	HEAD OF LEGAL DEPARTMENT, VISCOFAN GROUP
ARMANDO ARES MATEOS	HEAD OF INVESTOR RELATIONS AND COMMUNICATIONS, VISCOFAN GROUP
RICARDO ROYO RUIZ	HEAD OF FINANCE, VISCOFAN S.A.
JUAN JOSÉ ROTA ARRIETA	HEAD OF HUMAN RESOURCES, VISCOFAN S.A.
MANUEL NADAL MACHÍN	HEAD OF INFORMATION AND SYSTEMS, VISCOFAN S.A.
ANDRÉS DIAZ ECHEVARRIA	HEAD OF PRODUCTION, VISCOFAN S.A.
JOSÉ ANTONIO MORIONES GUINDA	TECHNICAL ADVISOR TO THE HEAD OF PRODUCTION, VISCOFAN S.A.
LUIS BERTOLI	GENERAL MANAGER, VISCOFAN DO BRASIL S. COM. E .IND. LTDA.
JOSÉ MARÍA FERNÁNDEZ MARTÍN	GENERAL MANAGER, VISCOFAN USA INC. AND TEEPAK USA LLC
ANTONIO ARMENDÁRIZ GARCÍA	GENERAL MANAGER, VISCOFAN DE MÉXICO S. DE R.L. DE C.V. AND TEEPAK DE MÉXICO S. DE R.L. DE C.V.
JUAN CARLOS GARCÍA DE LA RASILLA PINEDA	GENERAL MANAGER, KOTEKS VISCOFAN D.O.O.
WILFRED SCHOEBEL	HEAD OF PRODUCTION, NATURIN GMBH & CO. KG
JAN BAUER	GENERAL MANAGER, GAMEX S.R.O. AND VISCOFAN CZ S.R.O.
MIROSLAV KAMIS	HEAD OF PRODUCTION, GAMEX S.R.O. AND VISCOFAN CZ S.R.O.
ELY MIGUEL WEINSTEIN	HEAD OF PRODUCTION, VISCOFAN DO BRASIL S. COM E IND. LTDA.
DAVID LAMBERT	HEAD OF SALES, VISCOFAN USA INC. AND TEEPAK LLC
ALFRED BRUINEKOOL	HEAD OF SALES, NATURIN GMBH & CO. KG
WALDEMAR SZYMANSKI	GENERAL MANAGER, VISCOFAN POLAND SP. Z O.O.
YUNNY SOTO	GENERAL MANAGER, VISCOFAN CENTROAMERICA COMERCIAL, S.A.
JOSÉ DOMINGO OTAMENDI ZABALA	DIRECTOR AND ASSISTANT TO THE CHAIRMAN, INDUSTRIAS ALIMENTARIAS DE NAVARRA, S.A.U.
ALEJANDRO MARTÍNEZ CAMPO	GENERAL MANAGER, INDUSTRIAS ALIMENTARIAS DE NAVARRA, S.A.
JESÚS GAINZA GAINZA	GENERAL MANAGER, NATURIN LTD. UK.
ACHIM WALTER	HEAD OF ADMINISTRATION AND FINANCE, NATURIN GMBH & CO. KG (TO APRIL 2006)
MATTHIAS GOEHRIG	HEAD OF PRODUCTION, NATURIN GMBH & CO. KG (TO APRIL 2006)
JUAN IGNACIO VILLEGAS DÍAZ	GENERAL MANAGER, VISCOFAN GROUP (TO MAY 2006)

Total remuneration to senior executives (thousands of euro)	**2,808**

B.1.10. Disclose, in aggregate terms, any guarantee or 'golden parachute' clauses protecting company or group senior executives – including executive directors – in events of dismissal or change of control. State whether such contracts must be reported to and/or approved by company or group governing bodies.

Number of beneficiaries **2**

	Board of Directors	General Meeting
Body authorising such clauses	X	

	Yes	No
Are such clauses disclosed to the general meeting of the company?		X

B.1.11. Describe the process whereby directors' pay is decided on and cite the relevant clauses of the articles of association.

Article 27 of the articles of association: "Directors' pay shall consist of one point five percent of net pre-tax profit, subject to the requirements of article 130 of the Companies Act. Such remuneration shall be distributed to Directors in accordance with a resolution passed by the board in each case."

Article 30 provides the following on Executive Committee members' pay: "Executive Committee members' pay shall consist of one point five percent of net pre-tax profit, subject to the limits under article 130 of the Companies Act.

Such remuneration shall be distributed to Committee members in accordance with a resolution passed by the Board in each case." Moreover, within the Board there is a Remuneration Committee, whose role is to lay down and oversee policy on senior executives' pay and the proposed distribution of remuneration among Directors.

In 2006, remuneration was distributed to Directors and Executive Committee members on the basis of equal shares among all members.

B.1.12. Identify any directors who are also directors or senior executives of companies controlling major shareholdings in the listed company and/or in its group companies:

Director name or company name	Name or company name of major shareholder	Position
Not applicable		

Disclose any significant ties – other than those stated above – between directors and major shareholders and/or group companies:

Director name or company name	Name or company name of major shareholder	Relationship
Not applicable		

B.1.13. Indicate any changes to the rules and regulations of the board introduced in the year.

No changes were made in the year.

B.1.14. Indicate the procedures for appointment, reappointment, assessment and removal of directors. Detail the bodies in charge, the required steps and the criteria applicable to each procedure.

Article 26 of the articles of association provides as follows:

"The powers of representation and administration of the Company shall be entrusted to a Board of Directors, comprising not less than three or more than nine Directors.

The appointment of Directors shall rest with the General Meeting, in pursuance of article 137 of the Companies Act."

Article 27 prescribes that:

"A Director need not be a shareholder to be appointed. The term of office of Directors shall be six years from the date of appointment.

Directors' appointments shall expire when, their term of office having elapsed, the next general meeting is held or the legal period lapses for the meeting that must decide on the approval of the previous year's financial statements.

The General Meeting and, failing this, the Board itself, may appoint from among Directors a Chairman, a First Vice Chairman, a Second Vice Chairman, a Third Vice Chairman and a Secretary (who need not be a Director) of the Board, and those officers shall act in those same capacities in the General Meeting. The appointment of the Chairman and of any Vice Chairman by the Board shall conform to the requirements of article 141(2) of the Companies Act for the purposes of article 30 of these articles of association."

Article 6 of the Rules and Regulations of the Board provides as follows:

"The Board of Directors shall be made up of such number of Directors as the General Meeting determines, within the limits set by the articles of association.

The Board shall propose to the General Meeting such membership size as, according to the changing circumstances of the Company, best suits due representation on and effective operation of the Board."

Article 8 prescribes that:

"Directors shall be appointed by the General Meeting or by the Board itself in those events stipulated by law.

The Board shall lay before the General Meeting its nominations for appointment or re-election of Directors, within the limits set forth in the articles of association, on the basis of a proposal by the Appointments Committee. Such nominations shall include a reasonable number of independent Directors and shall seek to maintain a majority of non-executive Directors."

Moreover, article 14 of the Rules and Regulations of the Board of Directors prescribes the creation of the Appointments Committee, and prescribes as follows:

"Within the Board of Directors there shall operate an Appointments Committee.

The role of the Appointments Committee shall be to endeavour to ensure that Directors and senior executives are selected suitably and with integrity. Committee members shall be appointed by a plenary session of the Board, and shall not be fewer than three in number.

The appointment and removal of Committee members shall rest with the Board of Directors. Committee members shall cease to hold office automatically upon ceasing to hold their directorships."

B.1.15. Indicate under what circumstances directors are obliged to resign:

Article 27 of the Rules and Regulations of the Viscofan Board provides as follows:

"A Director shall tender his resignation to the Board and formalise such resignation if the Board thinks fit in the following events:

a) conflicts of interest or prohibition of holding office, as legally defined; or

b) his presence on the Board might pose a risk to the Company's interests, or the reasons for which he was appointed are no longer extant."

B.1.16. Indicate whether the role of chief executive of the company rests with the chairman of the board. If so, explain the steps taken to limit the risks of concentrating powers in a single person:

Yes	No
X	

The role of chief executive of the Company rests with the Chairman of the Board. All the Company's major transactions are previously assessed by the Executive Committee and, if appropriate, by the Board, and by every Committee within the assigned scope of activity of which those transactions fall.

B.1.17. Besides legally mandatory qualified majority voting, is a qualified majority required for a given kind of decision?

Yes	No
	X

Describe how the board of directors passes its resolutions, at least indicating the attendance quorum and the type of majority needed to carry a decision:

Adoption of resolutions

Resolution description	Quorum	Majority type
All	The Board is quorate if one half the membership and one member are present in person or by proxy.	Resolutions are carried by an absolute majority of Directors present. In a tied vote, the Chairman has the casting vote.

B.1.18. Indicate whether there are any specific requirements for appointment as chairman, other than those relating to directorships:

Yes	No
	X

Description of requirements

B.1.19. Indicate whether the chairman has the casting vote:

Yes	No
X	

Subjects to which casting vote applies

Article 28 of the articles of association:

"Resolutions are carried by an absolute majority of Directors present. In a tied vote, the Chairman has the casting vote."

Article 7 of the Rules and Regulations of the Board prescribes the same terms.

B.1.20. Indicate whether the articles of association or the rules of the board set an age limit on directorships:

	Yes	No
		X
Chairman's age limit		
Chief executive officer's age limit		
Director's age limit		

B.1.21. Indicate whether the articles of association or the rules of the Board set a limit on the term of office of independent directors:

	Yes	No
		X
Maximum years of office	**0**	

B.1.22. Disclose whether there are any formal processes for granting proxies in the board of directors. If so, briefly describe such procedures.

At its meeting of 9 May 2005 the Board of Directors passed the Rules on Remote Voting and Proxies, which set out the procedure for granting proxies in the Board. The procedure does not differ materially from the general procedure for granting proxies.

The procedure provides the option of granting a proxy:

a) by notice given electronically over the Company's website; or

b) by post.

B.1.23. State the number of board meetings held in the year. Also state the number of any board meetings held in the absence of the chairman:

Number of board meetings	**11**
Number of board meetings in absence of chairman	**0**
Indicate the number of meetings held in the year by each of the board committees:	
Number of executive committee meetings	**9**
Number of audit committee meetings	**6**
Number of appointments and remuneration committee meetings	**1**
Number of strategy and investments committee meetings	**0**
Number of committee meetings	**0**

B.1.24. Disclose whether the individual and consolidated annual financial statements submitted to board approval are previously certified:

	Yes	No

	X

If applicable, name the person(s) certifying the individual and consolidated annual financial statements for issue by the board:

Name	Position

B.1.25. Describe any mechanisms put in place by the board to prevent its individual and consolidated financial statements from being laid before the general meeting of the company with qualifications in the auditor's opinion.

To avoid having the financial statements it has prepared laid before the General Meeting with qualifications in the auditor's opinion, the Board follows a policy of preparing such financial statements in compliance with applicable accounting standards.

Prior to issue, the auditors review the financial statements in their pro forma version.

The Audit Committee meets with the auditors on a regular basis to ensure that they perform their duties independently and ensure that the accounts are prepared in compliance with applicable accounting standards so as to avoid qualifications in the auditors' report.

B.1.26. Describe the steps taken to ensure that information disclosed to the securities markets is reported fairly and in a symmetric way.

Article 34 of the Rules and Regulations of the Board sets out the Board's duties regarding communications with shareholders and securities markets: "The Board shall endeavour to ensure that Company shareholders and the market are reported to accurately and reliably on any particulars known to the Board on the Company's activities, its results, major shareholders, related-party transactions, shareholder agreements, treasury shares and any other such facts as must be publicly disclosed by law or under the Company's articles, and any other information the Board deems may be of public interest.

Regular financial reporting shall be standardised and reliable and subject, if appropriate, to the oversight of an appropriate committee."

Moreover, pursuant to additional provision four of the Ley 44/2002, de 22 de noviembre, de Medidas de Reforma del Sistema Financiero ("the Financial System Reform Act"), on 24 July 2003 the Board of Directors of Viscofan, S.A. passed the Company's Internal Code of Conduct on Matters Relating to the Securities Market, made available to shareholders and investors in the public register of CNMV (the Spanish securities market regulator) and on the Company's website (www.viscofan.com).

The Internal Code of Conduct specifies that any relevant information must be disclosed to the market forthwith by notice to CNMV, prior to disclosure by any other channel and as soon as a reportable fact becomes known, a reportable decision is made or a reportable agreement or contract is concluded with a third party.

Information reported to the market must be accurate, clear and complete and, where required by the nature of the information, stated in quantitative terms, in order not to mislead or deceive. The information shall also be disclosed on Viscofan's website.

If Viscofan takes the view that, in its legitimate interests, such information should not be disclosed, it shall apply to CNMV immediately to seek exemption from disclosure under article 91 of the Securities Act.

The Board of Directors seeks to ensure strict compliance with this Internal Code of Conduct which it has enacted for itself, and with any other generally applicable rules.

B.1.27.Is the secretary to the board a director?

Yes	No
	X

B.1.28. Describe any mechanisms put in place by the company to preserve the independence of the auditor, financial analysts,

investment banks and rating agencies.

The Company implemented audit partner rotation for the 2004 audit report, in pursuance of the Financial System Reform Act (Ley 44/2002, de 22 de noviembre). The auditors offer their full cooperation and make available any of the Company's and its Group's information.

Article 34 of the Rules and Regulations of the Board and compliance with applicable laws and regulations ensure that the independence is preserved of analysts and investment banks.

"Article 34. Communications with shareholders and securities markets.

The Board shall endeavour to ensure that Company shareholders and the market are reported to accurately and reliably on any particulars known to the Board on the Company's activities, its results, major shareholders, related-party transactions, shareholder agreements, treasury shares and any other such facts as must be publicly disclosed by law or under the Company's articles, and any other information the Board deems may be of public interest.

Regular financial reporting shall be standardised and reliable and subject, if appropriate, to the oversight of an appropriate committee.

The Board shall disclose to the public forthwith:

a) significant events that may materially influence stock exchange prices;

b) material changes to the Company's rules of governance; and

c) any treasury share policies the Company intends to operate using the authorities granted by the General Meeting.

For these purposes the Board shall use its best endeavours to keep up to date the information on the Company website and make the content thereof consistent with documents filed and deposited with public registers."

The Company has not sought to retain the services of any rating agency.

B.1.29. Indicate whether the audit firm does any work for the company and/or its group other than audit. If so, disclose the fees paid for such work, and the percentage such fees represent of total fees billed by the audit firm to the company and/or group.

Yes
X

	Company	Group	Total
Fees for work other than audit (thousands of euro)	1	42	43
Fees for work other than audit / Total fees billed by audit firm (%)	1.000	15.280	11.471

B.1.30. State for how many consecutive years the present audit firm has audited the annual financial statements of the company and/or its group. State the number of years audited by the present audit firm as a percentage of the total number of years over which the annual financial statements have been audited:

	Company	Group
Number of consecutive years	14	14

	Sociedad	Grupo
Number of years audited by the present audit firm / Total number of years over which the annual financial statements have been audited (%)	58.300	93.330

B.1.31. Disclose any holdings of company directors in companies whose objects are the same, similar or complementary to the objects of the company or of any group company, as reported to the company. Indicate any offices or functions of directors in those other companies:

Director name or company name	Name of other company	Ownership %	Office or functions
Not applicable			

B.1.32. IIndicate and describe any procedure whereby directors may obtain external advice:

Yes	No
X	

Details of the procedure

Article 18 of the Rules and Regulations of the Viscofan Board provides as follows:

"A Director may, by application to the Chairman, seek to retain such external advisors as he thinks fit for the proper performance of his duties as a Director.

It shall rest with the Board in plenary session to pass any applicable resolution on the provision or otherwise of such external advisory service, on the person or entity that shall provide such service, on the restrictions on access to the Company's confidential information that shall apply to such advisor and on the appropriation, if applicable, of the corresponding item of expenditure."

B.1.33. Indicate and describe any procedure whereby directors may obtain the information needed to prepare the meetings of governing bodies sufficiently in advance:

Yes	No
X	

Details of the procedure

Article 17 of the Rules and Regulations of the Board provides as follows:

"Directors shall receive the necessary information to perform their duties in a timely manner and to a level of detail appropriate to the issues in hand. Directors may procure further information if they see fit, which information shall be channelled through the Secretary to the Board."

Before each Board meeting, Directors receive the key information on the items on the agenda as far in advance as circumstances allow.

B.1.34. Indicate whether directors are covered by civil liability insurance.

Yes	No
X	

B.2. Committees of the board of directors

B.2.1. List the governing bodies:

Name of governing body	No of members	Functions
EXECUTIVE COMMITTEE	3	SET OUT AT POINT B.2.3
AUDIT COMMITTEE	3	SET OUT AT POINT B.2.3
APPOINTMENTS AND REMUNERATION COMMITTEE	3	SET OUT AT POINT B.2.3

B.2.2. Give details of all the committees of the board of directors and their membership:

EXECUTIVE OR DELEGATED COMMITTEE

Name	Position
JAIME ECHEVARRÍA ABONA	CHAIRMAN
JOSE MARÍA CUEVAS SALVADOR	MEMBER
NÉSTOR BASTERRA LARROUDÉ	MEMBER

AUDIT COMMITTEE

Name	Position
ÁGATHA ECHEVARRÍA CANALES	MEMBER
GREGORIO MARAÑÓN BERTRAN DE LIS	MEMBER
JOSÉ CRUZ PÉREZ LAPAZARÁN	CHAIRMAN

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position
JAIME ECHEVARRÍA ABONA	CHAIRMAN
JOSE MARÍA CUEVAS SALVADOR	MEMBER
JOSÉ CRUZ PÉREZ LAPAZARÁN	MEMBER

STRATEGY AND INVESTMENTS COMMITTEE

Name	Position

Not applicable

B.2.3. Describe the board committees' organisational and working rules and the duties entrusted to them.

i) Executive Committee

The Executive Committee is made up of three to five Directors. Members include the Chairman and Vice Chairman of the Board and one to three Directors appointed by the Board.

The Executive Committee passes its resolutions by a majority vote. The Chairman has the casting vote. The Chairman of the Committee is the Chairman of the Board. All powers of the Board are delegated permanently to the Executive Committee, except: sale, exchange and encumbrance of real property, industrial and commercial facilities and businesses of any kind; creation and variation of rights in rem in such real property, facilities and businesses; alienation, disposal, ownership and encumbrance of real property; creation and variation of mortgages on property; submission of a dispute to private arbitration; and those powers the law renders non-delegable.

The Executive Committee currently comprises one executive Director, one independent Director and one non-independent Director. All the classes of Director in the Company are thus represented.

ii) Audit Committee

The Audit Committee was created under a resolution of the Board dated 8 January 1999. The rules of the Committee were included in the Rules and Regulations of the Board itself under a resolution of the Board dated 30 March 1999. Later, the General Meeting of 5 May 2003 passed an amendment to article 30 of the Company's Articles to add the Audit Committee to the Articles in pursuance of article 47 of the Financial System Reform Act.

The functioning of the Committee is also governed by article 13 of the Rules and Regulations of the Board enacted by the Viscofan Board at its meeting of 23 February 2004 to bring them into conformity with the reforms under the Ley 26/2003, amending the Securities Market Act and the Companies Act, and its related laws and regulations, to the extent thought applicable to the Company.

The Audit Committee comprises at least three members, who are appointed by the Board. The Audit Committee appoints from among its membership a Committee Chairman. The Chairman is replaced every four years, but may be reappointed one year after his departure from office.

The Audit Committee meets whenever convened by the Committee Chairman, whenever so decided by the Board, on request by a majority of members, or when required by law or by the Company's articles.

Further to any other duties assigned to it by the Board, the Audit Committee is entrusted with the duty to:

• report to the General Meeting on any issues raised by shareholders within the Committee's remit;

• propose appointment under article 204 of the Companies Act of an external accounts auditor to the Board for submission in turn to the consideration of the General Meeting;

• oversee internal audit units, if applicable;

• review financial information processing and internal control systems;

• conduct relations with the external auditors so as to receive information on such issues as might pose a risk to the auditors' independence and any other matters relating to the performance of accounts audit, and keep up with the auditors all other correspondence required under audit laws and regulations and technical standards of audit;

The Audit Committee is made up of non-executive Directors only.

iii. Remuneration Committee

The role of the Remuneration Committee is to lay down and oversee policy on senior executives' pay and the proposed distribution of remuneration among Directors.

Committee members are appointed by a plenary session of the Board, and may not be fewer than three in number.

B.2.4. Indicate any powers of advice, consultation and delegation of each board committee:

Committee name	Brief description
EXECUTIVE COMMITTEE	SET OUT AT ABOVE POINT
AUDIT COMMITTEE	SET OUT AT ABOVE POINT
APPOINTMENTS AND REMUNERATION COMMITTEE	SET OUT AT ABOVE POINT

B.2.5. Indicate whether the board committees have rules and regulations, where such rules and regulations are available for reference, and any changes made to them in the course of the year. Further indicate whether any voluntary annual report has been issued on each committee's activities.

There are no separate rules and regulations for Board committees. The rules applicable to Board committees are set out in the Company's Articles and in the Rules and Regulations of the Board.

B.2.6. If there is an executive committee in existence, explain the extent to which it holds delegated powers and is independent to make decisions on the management and running of the company.

Article 30 of the articles of association provides as follows:

"All powers of the Board are delegated permanently to the Executive Committee, except: sale, exchange and encumbrance of real property, industrial and commercial facilities and businesses of any kind; creation and variation of rights in rem in such real property, facilities and businesses; alienation, disposal, ownership and encumbrance of real property; creation and variation of mortgages on property; submission of a dispute to private arbitration; and those powers the law renders non-delegable."

The Executive Committee meets prior to any Board meeting to allow greater independence in the appraisal of the business within its remit and the preparation of proposals the Committee thinks fit to lay before the Board.

The membership of the Executive Committee, in which all classes of Director are represented, ensures its independence from the Board.

B.2.7. Indicate whether the composition of the executive committee reflects the composition of the board in terms of the various classes of director:

Yes	No
	X

If not, explain the composition of the executive committee

The membership of the Executive Committee includes all the different classes of Director, but not in the same proportion as on the Board, because, to ensure the Committee operates effectively and efficiently, its size and membership should conform to its executive role, not merely replicate the Board.

B.2.8. If there is an appointments committee, indicate whether all its members are non-executive directors:

Yes	No
	X

C. RELATED-PARTY TRANSACTIONS

C.1. Disclose any significant transactions involving the transfer of resources or obligations between the company or any group company and any significant shareholder of the company:

Name or company name of significant shareholder	Name or company name of the company or group company	Nature of transaction	Transaction	Amount (thousands of euro)
Not applicable				

C.2. Disclose any significant transactions involving the transfer of resources or obligations between the company or any group

company and company directors or executives:

Name or company name of director or executives	Name or company name of the company or group company	Nature of transaction	Transaction	Amount (thousands of euro)

Not applicable

C.3. Disclose any significant transaction between the company and any other group company that is not eliminated in the process of drawing up consolidated financial statements or falls outside the company's ordinary business in its purpose or terms:

Company name of other group company	Brief description of the transaction	Amount (thousands of euro)

Not applicable

C.4. Identify any conflicts of interest involving company directors, as provided under article 127b of the Companies Act.

No conflict of interest has arisen.

C.5. Describe the mechanisms put in place to detect, determine and resolve any conflicts of interest between the company and/or its group and its directors, executives or major shareholders.

Article 22 of the Rules and Regulations of the Board binds Directors under a duty of fair dealing, which duty obliges them to "report to the Board, prior to its occurring or as soon as it becomes known to them, any event of conflict of interest with the Company and its Group. If such conflict persists or a Director's presence on the Board runs counter to the Company's interests, the Director shall resign forthwith.

Directors shall abstain from voting on any business in which they have an interest.

Any event of conflict of interest involving a Company Director shall be disclosed in the Corporate Governance Report for the year.

A Director may not, on his own behalf or through a third party, hold office of any kind in an enterprise or company in competition with Viscofan and its Group of companies, nor provide any such competitor with agency or advisory services.

The various aspects of a Director's duty of fair dealing further extend to activities carried on by the Director's related parties, as defined under these Rules and Regulations."

Under article 25 of the Rules and Regulations of the Board, furthermore, Directors are subject to a duty to refrain, whereby they "may not use the Company's name or their position to conclude transactions on their own behalf or on behalf of related parties.

A Director's duty to refrain involves not making private use of confidential information received in the performance of his office as Director and not concluding on his own behalf or on behalf of related parties any investment or commercial transaction arising in connection with the performance of such office.

A Director shall refrain from concluding or suggesting to any person that he conclude any transaction in securities of the Company or of its related companies on which he has privileged information by reason of his office."

Article 8 of the Internal Code of Conduct imposes on Directors a duty to: "report to the Board any economic, family or other ties that might give rise to a conflict of interest, for which purpose they shall especially consider events that may be thus defined.

At all events, any economic, family or other ties that might compromise the impartiality of the Director in question, even if he thinks otherwise, shall be treated as ties that may give rise to a conflict of interest."

D. RISK MANAGEMENT SYSTEMS

D.1. Provide a general description of the company's and/or group's risk policy, detailing and assessing the risks covered by the system and the rationale for the suitability of the systems for each type of risk.

The main risks faced by the Company are:

a) market risk; technological change;

b) credit risk;

c) exchange rate risk;

d) risk of damage to property;

e) risk of loss of profit through damage to property;

f) civil liability risk;

g) goods transport risk;

h) environmental risk;

i) labour-related risk.

In addition to the above risks, there are specific risks inherent to the Company's business that require special monitoring and control. Such risks are detailed below:

A. The Company's core business is food-related, specifically associated with the meat industry. Therefore, regard must be had to the risk of appearance of animal diseases that could cause a major contraction of demand, the risk of change in consumer habits, and the risk of scarcity of raw materials.

B. In the preserved foods division, the Company faces the risk of uncertain harvests, which could drive up raw material prices or cause a dearth of raw materials.

D.2. Indicate the control systems put in place to assess, mitigate and reduce the main risks faced by the company and the group.

Viscofan's policy is suitably to cover such risks when insurance is available on the market at an acceptable cost. Sometimes at the Group level and sometimes at the level of individual companies, policies are signed with insurers to arrange suitable cover for:

- risk of damage to property;

- risk of loss of profit through damage to property;

- civil liability risk;

- goods transport risk;

- credit risk.

The Group's policy on exchange rate risk is to insure receivables in currencies other than the operating currency of the subsidiary making the sale on a net balance basis, i.e., the balance of payments and collections to be made in one and the same currency. This net balance insurance is arranged when the right to collection accrues, i.e., upon delivery of the goods underlying the right to collection.

Exchange rate risk has a second facet: currency exchange rate movements. To reduce the Company's dependence on currencies and, in particular, on the United States dollar, Company policy is to spread production geographically and flexibly locate production processes on the basis of the target market of production so as to mitigate the effects of currency fluctuations as far as possible.

With regard to market risk and risks of technological change, the Company's departments of research and development are tasked with anticipating market demand by developing technical innovations and new products and methods that provide a competitive advantage over our competitors and enable us to operate at the forefront of the industry.

In addition, the Company's research and development units seek out new fields of research in ongoing cooperation with universities and other specialised research forums under joint research agreements.

Moreover, the Company retains a range of technology centres under contract to conduct technological tracking in the Group's fields of operation, so that it is aware of the lines of development that could affect its activities.

Finally, environmental risk is covered by the respective departments at manufacturing sites which, reporting to their respective heads of production, are responsible for compliance with applicable environmental requirements. Such environmental departments may, if necessary, halt production if advisable in the circumstances.

The Company's policy with regard to risks specific to the food industry in which the Company operates is to implement quality plans and management systems certified under the ISO 9001 standard. Such certified systems require prior planning of production processes, compliance monitoring and procedures to assure the quality of the end-product.

Given that the Company's business is related to the meat industry, the Company has put in place a system of product traceability that enables tracking every raw material from source so that any emerging problem can be identified.

In addition, the Company has implemented a hazard analysis and critical control point system and a range of hygiene rules to regulate the conditions prevailing during production and staff performance.

New methods of control and increased health-related monitoring systems have been introduced.

To minimise the effect of any food health crisis, the Company has sought reliable and competitive sources of raw materials and implements suitable diversification of suppliers to reduce exposure to food health crisis risk.

Company policy to minimise the effects any such food health crisis could have on demand for the Group's products is to diversify the markets in which Group products are sold, so that the Group can adapt to the circumstances of the given time.

Production units comprise occupational health and safety departments in their organisational structure. The Company has its own prevention department. Viscofan has conducted a risk assessment and preventive action planning process, involving the evaluation of processes exposed to risks and the taking of technical and human-resource measures as required to prevent such risks. The prevention system is then audited by an independent body.

D.3. If any of the risks faced by the company and/or the group has materialised, indicate the causes and whether the established risk management systems worked properly.

No risk has arisen in connection with the company and/or the group's business.

D.4. Indicate whether there is any committee or other governing body in charge of creating and overseeing these control mechanisms, and describe its duties.

The highest supervisory role rests with the Board. Within the Board, the Audit Committee oversees some of the above risks, with the support of the internal audit department (in the process of being set in motion) and the group's independent auditors.

D.5. Identify and describe the processes of compliance with the various laws and regulations affecting the company and/or group.

The Company has an in-house legal department which, in conjunction with outside advisors retained for specific matters, ensure compliance with the laws and regulations applicable to the Company and its subsidiaries.

E. GENERAL MEETING OF THE COMPANY

E.1. Indicate the quorum of the general meeting laid down in the articles of association. Describe any differences from the minimum requirements provided in the Companies Act.

Chapter VI of the Rules and Regulations of the General Meeting of Viscofan SA reads as follows:

Article 17

Quorum

The General Meeting of the Company shall be quorate at the originally fixed date and time where shareholders present in person or by proxy hold at least 25 percent of subscribed voting capital.

At the adjourned date and time, the General Meeting shall be quorate whatever the proportion of share capital in attendance.

For the purposes of the quorum of the General Meeting, shareholders casting votes by remote means shall be treated as present.

Article 18

Special quorum

However, for an ordinary or extraordinary General Meeting validly to pass resolutions on the issuance of bonds, increases or decreases of share capital, transformation, merger, split or winding-up of the Company or, in a general sense, any amendment to the articles of association, at the originally fixed date and time there must be present in person or by proxy shareholders owning at least 50 percent of subscribed voting share capital.

At the adjourned date and time, the presence of 25 percent of subscribed voting share capital shall suffice.

When shareholders representing less than 50 percent of subscribed voting share capital are in attendance, the resolutions to which the foregoing paragraph refers may be validly carried only by a vote in favour of two thirds of the capital in attendance or represented by proxy at the General Meeting."

The Articles of Association of Viscofan provide as follows:

Article 20: "The General Meeting of the Company shall be quorate at the originally fixed date and time where shareholders present in person or by proxy hold at least 25 percent of subscribed voting capital. At the adjourned date and time, the General Meeting shall be quorate whatever the proportion of share capital in attendance."

Article 21 of the Articles of Association: "The foregoing article notwithstanding, for an ordinary or extraordinary General Meeting validly to pass resolutions on the issuance of bonds, increases or decreases of share capital, transformation, merger, split or winding-up of the Company or, in a general sense, any amendment to the articles of association, at the originally fixed date and time there must be present in person or by proxy shareholders owning at least 50 percent of subscribed voting share capital.

At the adjourned date and time, the presence of 25 percent of subscribed voting share capital shall suffice.

When shareholders representing less than 50 percent of subscribed voting share capital are in attendance, the resolutions to which the foregoing paragraph refers may be validly carried only by a vote in favour of two thirds of the capital in attendance or represented by proxy at the General Meeting."

There are no differences from the minimum requirements provided in the Companies Act.

E.2. Explain how company resolutions are passed. Describe any differences from the minimum requirements provided in the Companies Act.

Article 22(c) of the Rules and Regulations of the General Meeting of Viscofan deals with the passage of resolutions and announcement of voting outcomes, as follows:

"C) Passage of resolutions and announcement of outcome.

1. Resolutions shall be carried by the following majorities:

a) As a general rule, resolutions shall be carried by a majority, i.e., a motion shall carry if the number of votes for exceeds the number of votes against (whatever the number of blank votes and abstentions).

b) Resolutions to issue bonds, increase or decrease share capital, on transformation, merger or split of the Company or, in a general sense, any amendment to the Articles of Association, must be carried by a two-thirds majority of shares present in person or by proxy, where there are in attendance shareholders owning less than fifty percent of subscribed voting share capital.

2. The Chairman shall declare a motion to have carried when he finds a sufficient majority of votes in favour, without prejudice to any declarations by shareholders present to the Notary or the Officers as to the way in which they voted.

3. The provisions of this article shall be without prejudice to events in which the law requires a vote in favour by all or a class of shareholders for certain resolutions to be valid or bars the passage of a resolution if opposed by shareholders owning a given percentage of share capital."

Furthermore, article 24 of the Articles of Association prescribes that "resolutions shall be carried by a majority of votes and shall be recorded in the Company's book of minutes.

Each share carries one vote.

The minutes shall be signed by the Chairman and the Secretary, and any certifications issued shall be authenticated by the signatures of both."

There are no differences from the minimum requirements provided in the Companies Act.

E.3. Indicate any shareholders' rights in connection with general meetings other than the rights laid down in the Companies Act.

Shareholders' rights to information, opposition, procedures, approval of minutes and other particulars relating to General Meetings are subject to the Companies Act, the Rules and Regulations of the General Meeting of Viscofan SA and other applicable laws and regulations.

E.4. Indicate any steps taken to encourage shareholder involvement in general meetings.

To encourage shareholder involvement in General Meetings, the Board resolved to pay out an attendance bonus of €0.005 per share at the General Meeting of 22 May 2006.

E.5. Indicate whether the chairman of the general meeting is also the chairman of the board of directors. If so, describe any steps taken to assure the independence and proper functioning of the general meeting:

Yes	No
X	

Details of measures taken

The chairmanship of the General Meeting rests with the Chairman of the Board. As regards measures to ensure independence and proper functioning, article 23(b) of the Rules and Regulations of the General Meeting of Viscofan deals with speaking rights and information, as follows:

"B) Speaking rights and information

1. Shareholders shall speak in the order in which they are called to do so by the meeting officers. Shareholders shall initially have five minutes for each speaking turn, which time limit the Chairman may elect to extend. The foregoing notwithstanding, if the

number of requests to speak or other circumstances make it expedient, the Chairman may fix a time limit per speaking turn of less than five minutes, always in accordance with equal treatment of shareholders and with the principle of non-discrimination.

2. Directors are under a duty to provide the information requested, except in the events set forth in article 13 above or if the information is unavailable at the General Meeting itself. In this last event, the information shall be provided in writing within the seven days following the end of the General Meeting, for which purpose the shareholder shall designate an address to which the information is to be sent.

3. The information or clarification requested shall be provided by the Chairman or, as applicable and on the Chairman's instructions, the Chairman of the Audit Committee, the Secretary, a Director or, if appropriate, any employee or expert on the subject present at the Meeting.

4. In the exercise of his powers to keep order in the conduct of the General Meeting, and without prejudice to other courses of action, the Chairman may:

(i) ask speakers to clarify any issues not fully understood or insufficiently explained in the speech;

(ii) call speakers to order so that they limit their speech to business relevant to the General Meeting and refrain from making inappropriate statements or exercise their rights in an unfair or obstructionist way;

(iii) advise speakers that their speaking time is close to ending so that they may adjust their speech accordingly. When the allocated time of a shareholder's speech is exhausted, or if he persists in any of the acts mentioned in (ii) above, the Chairman may end that shareholders' speaking turn."

E.6. Indicate any changes to the rules and regulations of the general meeting in the year.

The Rules and Regulations of the General Meeting were passed by the General Meeting on 14 June 2004.

The General Meeting of 22 May 2006 passed amendments of articles 6, 7 and 9 of the Rules and Regulations of the General Meeting to bring them into conformity with the changes introduced by the Ley 19/2005, de 14 de noviembre, sobre la sociedad anónima europea ("the European Companies Act"), which affected the Rules and Regulations.

Specifically, the notice period for calling a General Meeting was increased to one month before the intended date of the General Meeting, an ordinary General Meeting was to be deemed valid even if called or held outside deadlines, shareholders accounting for at least five percent of capital were given the option to require the release of a supplement to the notice of General Meeting including one or more items on the agenda, and the rules were laid down for the exercise of this right.

These amendments of the Rules and Regulations of the General Meeting were filed with the Registro Mercantil de Navarra (the registrar of companies of the region of Navarre) on 12 December 2006, and the text now in force is available on the website, www.viscofan.com

E.7. State the attendance figures for general meetings held in the year:

Attendance figures

Meeting date	% personal attendance	% proxy attendance	% remote voting	Total %
22-05-2006	0.370	56.090	12.190	68.650

E.8. Briefly indicate the resolutions passed at the general meetings held in the year, and the percentage of votes by which each resolution was carried.

The General Meeting of Viscofan, S.A. of 22 May 2006, quorate at the adjourned date and time, passed the following resolutions:

1.- There were approved the balance sheet, the profit and loss account, the notes to the accounts, the Directors' report and the Company management report for the year ended 31 December 2005 of the Company Viscofan S.A., and the balance sheet, the profit and loss account, the notes to the accounts, the Directors' report and the Company management report for the year ended 31 December 2005 of the Group of companies of which Viscofan, S.A. is the parent.

The General Meeting also approved the consolidated cash flow statement and the consolidated statement of changes in equity, which form part of the consolidated annual financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union.

The General Meeting resolved, with regard to the distribution of profits, to effect a partial refund of the share issue premium in the amount of €0.110 per share, payable to shareholders on 15 June 2006.

Taking into account the interim dividend of €0.078 per share paid in January and declared as final, and the bonus for attendance at the General Meeting of €0.005, total remuneration per share was €0.193.

The resolution was carried by a 99.48% majority of votes cast.

2.- The General Meeting resolved to amend article 18 of the Articles of Association in connection with the validity of the ordinary General Meeting and the calling of General Meetings, and to amend article 27 in connection with the term of office of Directors, in pursuance of final provision one of the European Companies Act.

The amendments thus passed refer to:

a) The validity of ordinary General Meetings even if called or held past deadline.

b) The extension of the notice period for calling a General Meeting to one month before the scheduled date of such General Meeting.

c) The ability of shareholders representing at least five percent of share capital to require that a supplement to the notice of Meeting be released containing one or more agenda items.

d) The extension of the maximum term of office of Directors to six years.

It was further laid down that Directors' appointments expire when, their term of office having elapsed, the next General Meeting is held or the legal period lapses for the meeting that must decide on the approval of the previous year's financial statements.

The resolution was carried by a 89.40% majority of votes cast.

3.- The General Meeting resolved to amend articles 6, 7 and 9 of the Rules and Regulations of the General Meeting to bring it into conformity with final provision one of the European Companies Act in connection with the validity of ordinary General Meetings and the calling of General Meetings.

Those changes relate specifically to the validity of ordinary General Meetings even if called or held past deadline, and the extension of the notice period for calling General Meetings to one month before the scheduled date of the given Meeting.

In addition, there was introduced the option of shareholders representing at least five percent of share capital to require that a supplement to the notice of Meeting be released containing one or more agenda items, and the rules of exercise of such right were laid down.

The resolution was carried by a 99.54% majority of votes cast.

4.- The General Meeting resolved to elect as Director Mr Alejanro Legarda Zaragüeta for a term of six years.

The resolution was carried by a 82.70% majority of votes cast.

5.- The General Meeting resolved to appoint as account auditor to Viscofan, Sociedad Anónima and auditor of the consolidated financial statements of the Group of companies of which Viscofan, S.A. is the parent, for 2006, the firm KPMG Auditores, S.L.

The resolution was carried by a 99.53% majority of votes cast.

6.- It was resolved to renew for a term of 18 months the authority given to the Board of Directors so that it may purchase and sell on the market shares of the Company itself, at the price quoted on the day of such transaction, in the maximum number of shares permitted by the Companies Act and its related statutes, at a price not less than 100% or more than 5000% of their nominal value.

The resolution was carried by a 99.54% majority of votes cast.

7.- Finally, the General Meeting resolved to delegate to the Board of Directors the appropriate interpretation, rectification, application, supplementing, implementation and performance of the resolutions passed and to authorise Mr Jaime Echevarría Abona and Mr José Antonio Canales García so that, jointly and severally and indistinctly, they may execute as a deed those resolutions passed so requiring and effect such filings of accounts and applications for registration as the law prescribes.

The resolution was carried by a 99.54% majority of votes cast.

E.9. Indicate, if applicable, the number of shares required for attendance at the general meeting, and whether in this respect there are any restrictions under the articles of association.

Chapter V of the Rules and Regulations of the General Meeting reads as follows:

"Article 14: Attendance rights.

In accordance with article 22 of these Articles, the right to attend a General Meeting shall rest with shareholders holding shares of a combined nominal value of at least €450 and extant in the appropriate register at least five days before the General Meeting. Shareholders not holding the amount of shares required for attendance may pool their holdings for the purposes of attendance.

Article 15: Accreditation of shareholders.

Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores SA (Iberclear, the Spanish securities market clearing and settlement body) or, as applicable, the entity or entities authorised to perform such function, or entities affiliated thereto, shall provide shareholders with appropriate certificates or any other document proving ownership of the shares after the release of the notice of Meeting."

Article 22 of the Articles of Association provides as follows:

"The right to attend a General Meeting shall rest with shareholders holding shares of a combined nominal value of at least €450 and extant in the appropriate register at least five days before the scheduled date of the General Meeting.

The securities clearing and settlement body or, as applicable, its affiliates shall provide appropriate certificates permitting the exercise of shareholder rights.

Shareholders not holding the amount of shares required for attendance may pool their holdings for the purposes of attendance.

E.10. Indicate and state the rationale for company policy on proxy voting at the general meeting.

Chapter V, article 16 of the Rules and Regulations of the General Meeting provides as follows:

"Proxies.

Any shareholder entitled to attend may be represented at the General Meeting by another person.

Such power of proxy shall be granted, specially for each General Meeting, in writing or by means of remote communication duly assuring the identity of the person exercising the shareholder's voting rights."

Article 23 of the Articles of Association is similar: "Any shareholder entitled to attend may be represented at the General Meeting by another person.

Such power of proxy shall be granted in writing or by means of remote communication, provided the identity of the person exercising the shareholder's voting rights is duly assured.

Such proxy shall be granted specially for each General Meeting."

E. 11. Indicate if the company is aware of institutional investors' policy on whether or not to participate in company decisions:

Yes	No
X	

Describe the policy

Some institutional investors have written to the Company on the occasion of each General Meeting with precise voting instructions on each item on the agenda. The Board or the Chairman, to whom such institutional investors granted proxies, followed those instructions in each case.

E.12. Indicate the URL and mode of accessing content relating to corporate governance on your website.

The Company's corporate governance information is publicly available on the Company website (www.viscofan.com) in the "Shareholders and Investors" section of the "Corporate Governance" tab.

F. EXTENT OF ADHERENCE TO CORPORATE GOVERNANCE GUIDELINES

Indicate the extent of the company's adherence or, as the case may be, non-adherence to existing corporate governance guidelines.

If you do not adhere to a given guideline, describe the recommendations, standards, practices or criteria followed by the company.

Until the single document posited by Order ECO/3722/2003 of 26 December 2003 is completed, in your response to this section you must refer to the recommendations of the Olivencia and Aldama Reports.

The Company's adherence to the recommendations laid down in the so-called Código de Buen Gobierno (the Olivencia paper) is indicated below:

A) Recommendation 1. Followed.

B) Recommendation 2. Followed.

C) Recommendation 3. Followed.

D) Recommendation 4. Followed.

E) Recommendation 5. Followed.

F) Recommendation 6. Followed.

G) Recommendation 7, as regards the membership proportions of the Executive Committee.

The membership of the Executive Committee includes all the different classes of Director, but not in the same proportion as on the Board, because, to ensure the Committee operates effectively and efficiently, its size and membership should conform to its executive role, not merely replicate the Board.

H) Recommendation 8. The Company deem the creation of a specific committee to assess the system of governance to be appropriate, because the Company takes the view that self-assessment of its performance should fall to the entire Board, so that all Directors are able and free to assess the performance of every other Director.

I) Recommendation 9. Followed.

J) Recommendation 10. Followed.

K) Recommendation 11. Followed.

L) Recommendation 12. Followed.

M) Recommendation 13. The Board takes the view that the ability and aptitude of the persons in question at a given time should determine the age of retirement or of change of duties, because ability and aptitude do not necessarily bear a relation to a person's age.

N) Recommendation 14. Followed.

Ñ) Recommendation 15. Followed.

O) Recommendation 16. Followed.

P) Recommendation 17. Followed.

Q) Recommendation 18. Followed.

R) Recommendation 19. Followed.

S) Recommendation 20. Followed.

T) Recommendation 21. Followed.

U) Recommendation 22. Followed.

G. OTHER RELEVANT INFORMATION

If there is any significant principle or aspect of the corporate governance practice of your company not elsewhere addressed in this report, please explain and elaborate below.

In this section you may include any further information, clarification or qualification on the earlier sections, provided it is relevant and does not merely reiterate points made elsewhere.

In particular, indicate whether the company is subject to a jurisdiction other than Spanish law with regard to corporate governance, and, if so, include any information you are obliged to provide that differs from the information required for this report.

This Corporate Governance Report was approved by the Company Board of Directors at its meeting of 10 May 2007.

Viscofan's business and financial information

Consolidated Annual Accounts and Directors' Report

VISCOFAN, S.A. AND SUBSIDIARIES

KPMG Auditores S.L.
Edificio Iruña Park
Arcadio M. Larraona, 1
31008 Pamplona

Auditors' Report on the Consolidated Annual Accounts

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

To the shareholders of
Viscofan, S.A.

1. We have audited the consolidated annual accounts of Viscofan, S.A. (the Company) and subsidiaries (hereinafter Viscofan Group or the Group), which comprise the consolidated balance sheet at 31 December 2006, the consolidated statements of income, cash flows and changes in equity for the year then ended and the notes thereto, the preparation of which is the responsibility of the Parent Company's board of directors. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on our audit which was conducted in accordance with generally accepted auditing standards in Spain, which require examining, on a test basis, evidence supporting the amounts in the consolidated annual accounts and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed. We have not examined the annual accounts of certain Viscofan Group companies identified in Appendix 1 to note 2 to the consolidated annual accounts for 2006, whose assets and net profit amount to Euros 123,525 thousand and Euros 5,274 thousand respectively. The aforementioned annual accounts have been examined by other auditors identified in the aforementioned Appendix. Consequently, our opinion on the consolidated annual accounts of Viscofan, S.A. and subsidiaries is based, insofar as it relates to the companies mentioned in Appendix 1, solely on the reports of the abovementioned other auditors.

2. In accordance with prevailing Spanish legislation, the consolidated balance sheet at 31 December 2006, the consolidated statements of income, cash flow and changes in equity for the year then ended and the notes thereto include comparative figures for 2005. We express our opinion solely on the consolidated annual accounts for 2006. On 31 March 2006 we issued our unqualified audit opinion on the consolidated annual accounts for 2005.

3. In our opinion, based on our examination and the reports of the auditors mentioned in Appendix 1, these consolidated annual accounts for 2006 present fairly, in all material respects, the consolidated equity and consolidated financial position of Viscofan, S.A. and subsidiaries at 31 December 2006 and the consolidated results of its operations and the changes in consolidated equity and consolidated cash flows for the year then ended, and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with EU-IFRS which have been applied on a basis consistent with the preceding year.

4. The accompanying consolidated directors' report for 2006 contains such explanations as the directors of the Parent Company consider relevant to the situation of the Viscofan Group, the evolution of its business and other matters, but is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2006. Our work as auditors is limited to the verification of the consolidated directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Viscofan, S.A. and subsidiaries.

KPMG AUDITORES, S.L.

Signed

Juan José Llorente
30 March 2007

KPMG Auditores S.L. firma española miembro de KPMG International, sociedad suiza

Reg. Mer Madrid, t. 11.961, f. 90, Sec. 8, H. M.-188.007, Inscrip. 9
C.I.F. B-78510153

Consolidated Annual Accounts and Directors' Report

Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.

Consolidated balance sheets at 31 December 2006 and 2005

(In thousands of Euros)

Assets	Note	2006	2005
Property, plant and equipment	7	285,990	240,521
Goodwill	6	-	2,301
Other intangible assets	8	11,373	7,936
Deferred tax assets	11	13,696	11,900
Trade and other receivables	10	-	336
Other financial assets	10	1,587	1,197
Total non-current assets		312,646	264,191
Inventories	12	132,968	112,959
Trade and other receivables	13	101,109	83,218
Other financial assets	10	152	41,787
Cash and cash equivalents	14	12,233	13,906
Total current assets		246,462	251,870
Total assets		**559,108**	**516,061**

Equity and Liabilities	Note	2006	2005
Capital	15	14,388	14,388
Share premium	15	49,406	54,654
Other reserves	15	3,281	3,283
Retained earnings	15	208,353	184,460
Treasury shares	15	(3,004)	(706)
Translation differences	15	(4,293)	(4,310)
Total equity	15	268,131	251,769
Deferred income	16	2,868	3,321
Borrowings and finance leases	17	61,165	80,301
Other financial liabilities	17	5,501	4,675
Deferred tax liabilities	11	34,783	22,035
Provisions	18	41,951	31,654
Total non-current liabilities		146,268	141,986
Borrowings and finance leases	17	63,026	53,472
Other financial liabilities	17	1,342	3,529
Trade and other payables	19	44,281	35,583
Provisions	18	6,676	9,218
Other current liabilities	19	27,597	18,644
Income tax liabilities	11	1,787	1,860
Total current liabilities		144,709	122,306
Total equity and liabilities		**559,108**	**516,061**

The accompanying consolidated notes form an integral part of the consolidated annual accounts.

Consolidated income statements for the years ended at 31 December 2006 and 2005

(In thousands of Euros)

	Note	2006	2005
Sales and services rendered	22	497,160	374,692
Other income	23	12,910	5,695
Change in inventories of finished goods and work in progress		(3,744)	4,899
Self-constructed assetss		298	99
Raw and other materials consumed	12	(149,398)	(131,132)
Personnel expenses	26	(128,223)	(104,703)
Amortisation and depreciation	7 y 8	(37,022)	(30,703)
Impairment losses on non-current assets	6	(2,301)	-
Other expenses	24	(135,781)	(92,142)
Financial income	27	9,956	5,289
Financial expenses	27	(17,975)	(7,623)
Profit before income tax		**45,880**	**24,371**
Income tax	11	(14,580)	(4,676)
Profit for the year		31,300	19,695
Basic earnings per share (Euros)	27	**0.6571**	**0.4096**
Diluted earnings per share (Euros)		-	-

The accompanying consolidated notes form an integral part of the consolidated annual accounts.

Consolidated cash flow statements for the years ended at 31 December 2006 and 2005

(In thousands of Euros)

	2006	2005
Cash flows from operating activities		
Profit for the year before tax	45,880	24,371
Adjustments:		
Amortisation and depreciation	37,022	30,703
Provisions	(12,898)	3,756
Payment of provisions	(8,821)	(3,354)
Goodwill impairment	2,301	-
Excess of net assets acquired over cost of acquisition of Teepak	(9, 611)	-
Capital grants	(425)	-
Loss on disposal of property, plant and equipment	909	3
Net translation differences	2,915	(2,647)
	57,271	52,832
Changes in working capital, excluding effect of acquisitions and translation differences		
Inventories	(7,027)	(2,406)
Trade and other receivables	(8,330)	3,139
Trade and other payables	699	8,634
Cash generated from operations	42,613	62,199
Income tax paid	(8,314)	(5,660)
Net cash from operating activities	**34,299**	**56,539**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(26,448)	(36,599)
Changes in consolidated group		(7,533)
Acquisition of financial assets	(252)	(37,798)
Proceeds from sale of fixed assets	4,540	824
Translation differences	4,749	(11,303)
Net cash from investing activities	**(17,411)**	**(92,409)**
Cash flows from financing activities		
Borrowings	(5,045)	39,600
Long-term debt of newly consolidated companies	-	4,941
Acquisition of treasury shares	(5,964)	(3,411)
Others	211	25
Dividends paid	(8,980)	(8,655)
Translation differences	(183)	5,422
Net cash from financing activities	**(19,961)**	**37,922**
Net increase (decrease) in cash and cash equivalents	(3,073)	2,052
Cash incorporations to the consolidated group	1,400	-
Cash and cash equivalents	13,906	10,380
Cash and cash equivalents at 31 December	**12,233**	**13,906**

The accompanying consolidated notes form an integral part of the consolidated annual accounts.

Consolidated statements of changes in equity for the years ended at 31 December 2006 and 2005

(In thousands of Euros)

	Capital	Share premium	Other reserves	Retained earnings	Treasury shares	Translation differences	Total
Balance at 1 January 2005	14,504	59,546	3,284	171,342	(250)	(13,522)	234,904
Reductions in capital	(116)	-	-	-	-	-	(116)
Net acquisition of treasury shares	-	-	-	-	(3,380)		(3,380)
Redemption of treasury shares	-	-	-	(2,924)	2,924		-
Translation differences	-	-	-	-	-	13,652	13,652
Tax effect of treasury shares provision deriving from translation differences (note 11)	-	-	-	-	-	(4,440)	(4,440)
Dividends	-	(4,892)	-	-	-	-	(4,892)
Application of revaluation reserve	-	-	(1)	-	-	-	(1)
Other movements	-	-	-	109	-	-	109
Distribution of profit / (application of loss) for the year							
Dividends	-	-	-	(3,762)	-	-	(3,762)
Profit for the year	-	-	-	19,695	-	-	19,695
Balance at 31 December 2005	**14,388**	**54,654**	**3,283**	**184,460**	**(706)**	**(4,310)**	**251,769**
Dividends	-	(5,248)	-	-	-	-	(5,248)
Application of revaluation reserve	-	-	(2)	-	-	-	(2)
Distribution of profit for the year							
Dividends	-	-	-	(3,732)	-	-	(3,732)
Other movements	-	-	-	(2)	-	-	(2)
Treasury shares provision	-	-	-	(3,673)	3,673	-	-
Treasury shares	-	-	-	-	(5,971)	-	(5,971)
Translation differences	-	-	-	-	-	(1,384)	(1,384)
Tax effect of treasury shares provision deriving from translation differences (note 11)	-	-	-	-	-	1,401	1,401
Profit for the year	-	-	-	31,300	-	-	31,300
Balance at 31 December 2006	**14,388**	**49,406**	**3,281**	**208,353**	**(3,004)**	**(4,293)**	**268,131**

The accompanying consolidated notes form an integral part of the consolidated annual accounts.

Notes to the Consolidated Annual Accounts

Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.

1. Nature and Principal Activities

Viscofan, S.A. (hereinafter the Company or the Parent Company) was incorporated with limited liability on 17 October 1975 as Viscofan, Industria Navarra de Envolturas Celulósicas, S.A. At a meeting held on 17 June 2002 the shareholders agreed to change the name of the Company to the current one.

Its statutory and principal activity consists of the manufacture of cellulose or artificial casings, mainly for use in the meat industry, as well as the generation of electricity by any technical means, both for own consumption and for sale to third parties. Its industrial installations are located in Cáseda and Urdiain (Navarra). The head and registered offices of the Company are located in Pamplona.

Viscofan, S.A. is the parent of a group of companies (the Viscofan Group or the Group) which carry out their activities mainly in the food and plastic and collagen casing sectors, as explained in more detail in Appendix 1, which forms an integral part of note 2.

Viscofan, S.A.'s shares are quoted on the Madrid stock exchange.

2. Viscofan Group

Details of the subsidiaries and associates comprising the Viscofan Group at 31 December 2006 and 2005, as well as certain additional information, are shown in Appendix 1, which forms an integral part of this note.

Changes in the Viscofan Group in 2006 were as follows:

-Acquisition of the Teepak Norteamérica business through the subsidiaries located in the United States and Mexico.

-Incorporation of the company Viscofan de México Servicios, S.R.L. de C.V.

-The companies Koteksprodukt AD, Teepak LLC and Teepak Inc, changed their names to Koteks Viscofan d.o.o., Teepak USA LLC and Viscofan Canada Inc, respectively.

-The Company fully subscribed a share capital increase by Koteks Viscofan d.o.o. for the equivalent of Euros 2,000 thousand in 2006.

Changes in the consolidated Viscofan Group in 2005 were as follows:

- Acquisition of the Serbian company Koteksprodukt AD

- Sale of the associate Tripasin, AB

3. Basis of Preparation

The accompanying consolidated annual accounts have been prepared on the basis of the accounting records of Viscofan, S.A. and the companies forming the Group. The consolidated annual accounts for 2006 have been prepared under EU-endorsed International Financial Reporting Standards (EU-IFRS) to present fairly the consolidated equity and consolidated financial position of Viscofan, S.A. and subsidiaries at 31 December 2006 and 2005, as well as the consolidated results from its operations, its consolidated cash flows and changes in consolidated equity for the year then ended. The Group adopted EU-IFRS on 1 January 2004 and applied IFRS 1 First-time Adoption of International Financial Reporting Standards at that date.

The directors of the Parent Company consider that the consolidated annual accounts for 2006, prepared on 29 March 2007, will be approved by the shareholders without significant changes.

3.1. Basis of preparation of the consolidated annual accounts

These consolidated annual accounts have been prepared on the historical cost basis except for derivative financial instruments, which have been recorded at fair value at 31 December 2006 and 2005.

3.2. Comparison of information

The consolidated annual accounts comprise the consolidated balance sheet and consolidated statements of income, cash flow and changes in equity and the consolidated notes thereto for 2006 and include comparative data for 2005, which formed part of the consolidated annual accounts approved by the shareholders at their annual general meeting on 22 May 2006.

The Viscofan Group's accounting policies described in note 4 have been consistently applied to the years ended 31 December 2006 and 2005.

3.3. Relevant accounting estimates, assumptions and judgements

The preparation of financial statements in conformity with EU-IFRS requires Group management to make judgements, estimates and assumptions and to apply relevant accounting estimates in the process of applying Group accounting policies.

Aspects which involved a greater degree of judgement or complexity in preparation of these consolidated annual accounts are detailed below.

(a) Relevant accounting estimates and assumptions

-Business combinations: see note 4.2

-Goodwill: see note 4.5

-Pension plans: see note 4.17

-Provisions: see note 4.18

-Useful lives of property, plant and equipment and intangible assets: see notes 4.4 and 4.5

(b) Changes in accounting estimates

Although estimates were based on the best information available at 31 December 2006, future events may require these estimates to be modified in subsequent years. The effects on the preliminary financial statements of any adjustment which may arise in subsequent years would be recognised prospectively.

3.4. Business combinations

All business combinations are accounted for by applying the purchase method. This consists of identification of the acquirer (the entity which obtains control over the other entities comprising the business combination), measurement of cost of the business combination and allocation, on the acquisition date, of the business combination's costs to the assets acquired and the liabilities and contingent liabilities assumed.

The cost of the business combination is measured as the aggregate of the fair values at the date of exchange, assets contributed, liabilities incurred or assumed (including contingent liabilities if these can be measured reliably) and net equity instruments issued by the acquirer, in exchange for control over the acquiree; plus any costs directly attributable to the business combination. Adjustments to the cost of a business combination contingent on future events are included in the cost of the combination provided that the amount of this adjustment is probable and can be measured reliably.

This criterion is not applicable to non-current assets or disposal groups classified as held for sale, which are stated at fair value, less selling costs.

The excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill. If the acquirer's interest in the net fair value of assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference remaining after reassessment is recognised by the acquirer in profit or loss.

4. Significant Accounting Principles

The consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations endorsed by the European Union (EU-IFRS).

A summary of the most significant principles is as follows:

4.1. Going concern and accruals basis

The consolidated financial statements have been prepared on a going concern basis.

Income and expenses are recognised on an accruals basis, irrespective of collections and payments.

4.2. Method of consolidation

All consolidated companies are subsidiaries.

Subsidiaries are entities controlled by the Company directly or indirectly through other subsidiaries. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Potential voting rights held by the Group or third parties that are presently exercisable or convertible are taken into account in assessing control.

The annual accounts or financial statements of subsidiaries are included in the consolidated annual accounts from the date that control commences until the date that control ceases. A breakdown of the nature of relations between the Parent Company and subsidiaries is included in the accompanying Appendix 1.

The Group has applied the exemption permitted by IFRS 1 First-time Adoption of International Financial Reporting Standards regarding business combinations. Consequently, only business combinations which occurred subsequent to 1 January 2004, the date of transition to EU-IFRS, have been recognised using the purchase method. Entities acquired prior to that date were recognised under the former Spanish general chart of accounts, once the necessary transition date adjustments and corrections were considered.

The cost of the business combination is determined on the acquisition date as the aggregate of the fair values of the assets contributed, liabilities incurred or assumed and net equity instruments issued by the Group in exchange for control over the acquired entity; plus any costs directly attributable to the business combination. Adjustments to the cost of a business combination contingent on future events are included in the cost of the combination provided that the amount of this adjustment is probable and can be measured reliably.

The cost of the business combination is distributed between the fair values of the assets acquired and liabilities and contingent liabilities assumed (identifiable net assets) of the acquired entity. This criterion is not applicable to non-current assets or disposal groups classified as held for sale, which are stated at fair value, less selling costs.

Any excess in the cost of the business combination over the Group's share of the fair value of the identifiable net assets of the acquired entity is recognised as goodwill, whereas any shortfall, once the cost of the combination and the fair values of the net assets acquired are remeasured, are recognised in the consolidated income statement.

(a) Provisionally determined amounts

If a business combination can only be determined provisionally, adjustments to the provisional values of net assets are recognised within the twelve-month period subsequent to the acquisition date as if its fair value had been known at this date. When this period has elapsed, any adjustment other than those related with contingent payments or deferred tax assets of the acquired entity not initially recognised are considered as corrections and recognised under the criteria established by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Potential tax benefits from tax losses and other deferred tax assets, which are not recognised at the date of acquisition, are subsequently recognised as recoverable income tax and a reduction in goodwill taken to the income statement. The goodwill adjustment is made up to the amount that would have been recognised at the date of acquisition, where it is probable that tax benefits will materialise in future years.

As can be seen in Appendix 1 to these consolidated notes, the Parent holds 100% of the share capital of all of its subsidiaries. Consequently, there are no minority interests.

Intragroup balances and transactions and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated on consolidation. Nevertheless, unrealised losses are considered as indicative of impairment of the transferred assets.

The accounting policies of subsidiaries have been adapted to those of the Group for transactions and other events in similar circumstances.

The financial statements of consolidated subsidiaries reflect the same reporting date and period as that of the Parent.

Associates are those entities in which the Company has significant direct or indirect influence, but not control over the financial and operating policies. Investments in associates are accounted for using the equity method. The Group's only associate was sold in 2005 (see note 9).

4.3. Effects of changes in foreign exchange rates

(a) Foreign currency transactions

The consolidated annual accounts are presented in thousands of Euros, which is the functional and presentation currency of the Parent Company.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the transaction date.

Monetary assets and liabilities expressed in foreign currencies have been translated into Euros at the year-end exchange rate, whereas non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the transaction date. Non-monetary assets denominated in foreign currencies measured at fair value are translated to Euros at the foreign currency exchange rate prevailing at the date the value was determined.

Cash flows from transactions in foreign currency are translated into Euros at the foreign exchange rate ruling at the transaction date. The effect of variations in exchange rates on cash and cash equivalents expressed in foreign currencies is presented separately in the cash flow statement as "Effect of exchange rate fluctuations on cash held".

Differences arising on settlement of transactions in foreign currency and on the translation to Euros of monetary assets and liabilities expressed in foreign currency are taken to the income statement. Exchange differences arising from the translation of monetary items forming part of the net investment in foreign operations are recognised as translation differences in equity.

Translation gains or losses related with monetary financial assets or liabilities expressed in foreign currency are also recognised in the income statement.

(b) Translation of foreign operations

Translation differences are recognised in the Group's equity. The translation to Euros of foreign operations, excluding foreign operations in hyperinflationary economies, is based on the following criteria:

- Assets and liabilities, including goodwill and adjustments to net assets deriving from the acquisition of businesses,

including comparative balances, are translated at the year-end exchange rate at each balance sheet date.

- The revenues and expenses of foreign operations, including comparative balances, are translated at the exchange rates ruling at each transaction date; and
- Foreign exchange differences arising from application of the above criteria are recognised under translation differences in equity.

Differences on translation of deferred tax assets and liabilities denominated in foreign currencies and deferred income taxes are included in the consolidated income statement.

In the consolidated cash flow statement, the cash flows, including comparative balances, from subsidiaries and jointly-controlled foreign businesses are translated to Euros applying the exchange rates prevailing at the date of the cash flows.

Exchange differences arising from the translation of the net investment in foreign operations recorded in equity are released into the consolidated income statement upon disposal.

4.4. Property, plant and equipment

(a) Initial recognition

Property, plant and equipment is stated at cost or deemed cost, less accumulated depreciation and any impairment losses. The cost of self-constructed assets is determined using the same principles as for an acquired asset, considering the principles established for the cost of production of inventories. The cost of production is capitalised with a charge to self-constructed assets in the consolidated income statement.

The Group elected to use previous GAAP revaluation of property, plant and equipment as deemed cost at 1 January 2004, as permitted by IFRS 1 First time Adoption of IFRS.

(b) Amortisation and depreciation

Property, plant and equipment is depreciated systematically over the useful life of the asset. The depreciable amount of intangible asset items is the cost of acquisition or deemed cost less the residual value. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation of items of property, plant and equipment is calculated using the straight-line basis over their estimated useful lives, as follows:

	Estimated useful life (years)
Buildings	30-50
Plant and equipment	8-15
Other installations, equipment and furniture	5-15
Other property, plant and equipment	4-15

The Group reassesses residual values, useful lives and depreciation methods at the end of each financial year. Changes to the initially established criteria are recognised as a change in accounting estimates.

(c) Subsequent recognition

Subsequent to initial recognition of the asset, only costs that will probably generate future economic benefits and which may be measured reliably are capitalised. Ordinary maintenance costs are expensed as they are incurred.

Replacements of property, plant and equipment which meet the requirements for capitalisation are recognised as a reduction in the carrying amount of the items replaced. Where the cost of the replaced items has not been depreciated independently and it has not been practical to determine the respective carrying amount, the replacement cost is used as indicative of the cost of items at the time of acquisition or construction.

(d) Impairment

The directors have not identified any indication of impairment as the recoverable amount of property, plant and equipment exceeds its carrying amount.

4.5. Intangible assets

(a) Goodwill

Goodwill on business combinations (see note 6) carried out from the transition date (1 January 2004) is recognised as the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or the jointly controlled business acquired.

Goodwill is not amortised but is subject to annual impairment testing or more frequently where events or circumstances indicate that an asset may be impaired. Goodwill on business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the business combination. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Internally generated goodwill is not recognised as an asset.

(b) Self-constructed assets

Expenditure on research activities is recognised in the consolidated income statement as an expense as incurred.

Expenditure on activities which cannot be clearly distinguished from costs attributable to the development of intangible assets is recognised in the consolidated income statement. Expenditure on development that was recognised initially as an expense is not recognised subsequently as part of the cost of an intangible asset.

(c) Intangible assets acquired through business combinations

From 1 January 2004 the cost of identifiable intangible assets acquired in business combinations, including research and development projects in progress, is their fair value at the date of acquisition, provided that this value can reliably be determined. Subsequent costs related to research and development projects are recognised as for self-constructed assets.

(d) Other intangible assets

Other intangible assets are stated at cost, less accumulated amortisation and impairment losses.

Software maintenance costs are expensed as incurred.

(e) Emission rights

Emission rights, which are recognised when the Group becomes entitled to such rights, are stated at cost less any accumulated amortisation and impairment losses. Rights acquired free of charge or at a price substantially below fair value, are stated at fair value, which is generally the market value of the rights at the beginning of the corresponding calendar year.

The difference between fair value and, where appropriate, the amount paid, is recognised as a capital grant. Recognition of capital grants is determined for the issues made in proportion to the total forecast issues for the full period to which they have been assigned.

Under the terms of Law 1 of 9 March 2005 governing greenhouse gas emission rights, emission rights deriving from a certified reduction in emissions or from a unit created to reduce emissions through clean development mechanisms or a pooling of rights, are measured at cost of production using the same criteria as for inventories.

Emission rights are not amortised.

Emission rights held for sale are recognised using the same criteria as for financial assets at fair value through profit and loss.

(f) Useful lives and amortisation rates

The Group evaluates whether the useful life of each intangible asset acquired is finite or indefinite. An intangible asset is considered to have an indefinite useful life where there is no foreseeable limit to the period over which it will generate net cash inflows.

Intangible assets with finite useful lives are amortised by allocating the depreciable amount systematically on a straight-line basis over the useful lives of the assets in accordance with the following criteria:

	Amortisation method	Estimated useful life (years)
Concessions, patents and licences	Straight line	10
Software	Straight line	5
Trademark and customer portfolio	Straight line	5

The depreciable amount of intangible asset items is the cost of acquisition or deemed cost less the residual value.

The Group reassesses residual values, useful lives and amortisation methods at the end of each financial year. Changes to initially established criteria are recognised as a change in accounting estimates.

4.6. Impairment of non-financial assets subject to depreciation or amortisation

The Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount.

Irrespective of whether any indication of impairment exists, the Group tests for the possible impairment of goodwill at least annually, this being the only intangible asset with an indefinite useful life.

Impairment losses in respect of goodwill cannot be reversed.

The recoverable amount of assets is the greater of their fair value less selling costs and value in use. An asset's value in use is calculated based on the expected future cash flows deriving from use of the assets, expectations of possible variations in the amount or timing of those future cash flows, the time value of money, the price for bearing the uncertainty inherent in the asset and other factors that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

4.7. Leases

(a) Finance leases:

The Group has the right to use certain assets through lease contracts.

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases, otherwise they are classified as operating leases.

The Group evaluates the economic substance of contracts to determine whether there are any implicit leases. A contract is or contains a lease if compliance with the agreement depends on the use of a specific asset or assets. In these cases, at the inception of the contract, based on fair values, the Group separates payments and consideration relating to the lease from those corresponding to the rest of the items incorporated in the agreement. Lease-related payments are recognised by applying the criteria described in this note.

At the inception of the lease term, the Group recognises finance leases as assets and liabilities at amounts equal to the lower of the fair value of the leased asset or the present value of the minimum lease payments. Initial direct costs are added to the carrying amount of the leased asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent payments are expensed in the years when they are incurred. Lease payment obligations, net of the finance charge, are recorded under financial liabilities.

The main accounting principles applied to assets under finance lease contracts are the same as those described in note 4.4. Nevertheless, if on commencement of the lease term there is no reasonable certainty that the Group will obtain ownership of the assets on termination of the lease period, these are amortised on a straight line basis over the shorter of useful life or the lease term.

(b) Operating leases

Lease payments under an operating lease, net of any incentives received are recognised as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit.

4.8. Financial instruments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. This classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition and re-evaluates this designation at every reporting date.

Conventional purchases and sales of financial assets are accounted for at the trade date, when the Group undertakes to purchase or sell the asset.

(a) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, when maturity is within 12 months of the balance sheet date.

Loans are initially recognised at fair value, including transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity. During the year, the Group has not sold or reclassified any investments in this category.

Held-to-maturity investments are initially recognised at fair value, including transaction costs that are directly attributable to the acquisition and are subsequently carried at amortised cost using the effective interest method.

(c) Offsetting principles

A financial asset and a financial liability can only be offset when the Group has a legally enforceable right to set off the recognised amounts or intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(d) Impairment and default of financial assets

A financial asset or group of financial assets is impaired and has generated an impairment loss if there is objective evidence of impairment as a result of an event or events which have occurred subsequent to initial recognition of the asset, and where the event or events causing the loss have an impact on the estimated future cash flows from the asset or group of financial assets which can be reliably estimated.

The Group recognises impairment losses and defaults on loans and other receivables and debt instruments through recognition of a corrective provision for financial assets. When impairment and default are considered irreversible, the carrying amount is written off against the amount of the provision. Reversals of impairment losses are also recognised against the amount of the provision.

(e)Derecognition of financial assets

The Group applies the criteria for derecognition of financial assets either to part of a financial asset (or a part of a group of similar financial assets) or to a financial asset (or a group of similar financial assets).

Financial assets are derecognised when the rights to receive cash flows from the investment have matured and the Group has substantially transferred the risks and rewards of ownership. Financial assets are derecognised in circumstances in which the Group retains the contractual rights to receive cash flows only where contractual obligations over payment of cash to one or more recipients exist and certain requirements are fulfilled.

On derecognition of a financial asset the difference between its carrying amount and the total amount received is taken to the income statement, net of transaction costs and including the assets obtained and liabilities assumed and any deferred profit or loss of income or expense recognised in equity.

(f) Financial liabilities

Financial liabilities, including trade and other payables, which are not classified at fair value through profit or loss, are initially recognised at fair value, less, as applicable, directly attributable transaction costs. Subsequent to initial recognition, the liabilities classified in this category are measured at amortised cost using the effective interest method.

4.9. Derivatives and hedge accounting

The Group uses derivative financial instruments to hedge exposure to foreign exchange and interest rate risks arising from its activities. In accordance with its treasury policy, the Group does not acquire or hold derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised directly in profit or loss under financial income or expense. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The Group does not use hedge accounting for derivative financial instruments and therefore changes in the fair value of these assets are recognised directly in the income statement.

4.10. Parent Company treasury shares

Treasury shares acquired by the Group have been presented separately as a reduction in equity in the consolidated balance sheet, irrespective of the purpose of their acquisition, and no gains or losses have been recorded as a result of transactions carried out with treasury shares.

The subsequent redemption of treasury shares result in a decrease in share capital for the par value of these shares and positive or negative differences between the acquisition price and the par value of the shares are debited or credited to retained earnings.

The Group also applies the following criteria when accounting for operations with its own equity instruments:

- Distributions to holders of own equity instruments are charged to equity once any tax effect has been considered;
- Transaction costs related with own equity instruments, including issue costs related with a business combination, are recorded as a reduction in equity, once any tax effect has been considered.
- Dividends are recognised as a reduction in equity when approved at the general meeting of shareholders.

4.11. Inventories

Inventories comprise non-financial assets which are held for sale by the consolidated entities in the ordinary course of business.

Inventories are measured at the lower of cost and net realisable value. Cost comprises all costs of acquisition, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventory conversion costs comprise the costs directly related with the units produced and a systematically calculated part of the indirect, variable or fixed costs incurred in the conversion process. Indirect fixed costs are distributed on the basis of the higher of normal production capacity or actual production.

The methods applied by the Group to determine inventory costs are as follows:

- Raw materials, other materials consumed and goods for resale: at weighted average cost.
- Finished and semi-finished products are stated at weighted average cost of raw and other materials and includes direct and indirect labour, other manufacturing overheads and depreciation of fixed assets at factories.

The Group uses the same cost formula for all inventories of the same nature and similar use within the Group.

The estimated value of returned products, net of impairment, are recognised as inventories on consignment at the date of the sale.

Volume discounts from suppliers are recognised when it is probable that the discount conditions will be met. Prompt payment discounts are recognised as a reduction in the cost of inventories acquired.

The cost of inventories is adjusted against profit or loss in cases where cost exceeds net realisable value. Net realisable value is considered as the following:

- Raw materials and other supplies: replacement cost. However, materials are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.
- Goods for resale and finished products: estimated sale price, less selling costs.
- Work in progress: estimated sale price for corresponding finished products, less the estimated costs for completion of their production and selling costs.

Write-downs and reversals of write-downs are recognised in the income statement. When the circumstances that previously caused the inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances the amount of the write-down is reversed against the captions changes in inventories of finished products and work in progress and consumption of materials and other supplies. Write-downs may be reversed to the limit of the lower of cost and the new net realisable value.

4.12. Trade and other receivables

Trade receivables are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method, less the provision for impairment losses.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due in accordance with the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. This provision is recognised in the consolidated income statement.

4.13. Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits with banks, other short-term highly-liquid investments with original maturities of three months or less, providing these are readily convertible to known amounts of cash.

Bank overdrafts which are recognised as financial liabilities on the consolidated balance sheet are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

The Group recognises interest and dividends received and paid under cash flow from operating activities, financing activities and investments.

4.14. Impairment of non-financial assets subject to depreciation or amortisation

The Group periodically evaluates whether there are indications of possible impairment losses on assets other than financial assets, inventories, deferred tax assets and non-current assets held for sale to determine whether their carrying amount exceeds their recoverable value (impairment loss). The criteria applied by the Group to verify impairment of the assets described in this section is shown in prior sections.

(a) Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling value and value in use. An asset's value in use is calculated based on the expected future cash flows deriving from use of the assets, expectations of possible variations in the amount or timing of those future cash flows, the time value of money, the price for bearing the uncertainty inherent in the asset and other factors that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Recoverable amounts are calculated for individual assets, unless the asset does not generate cash inflows that are largely independent from those corresponding to other assets or groups of assets. In this case, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

(b) Reversals of impairment

Impairment losses are only reversed if there has been a change in the estimates used to determine the recoverable amount. Impairment losses on goodwill are not reversible.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

The amount of the reversal of the impairment of a CGU is allocated to its assets, except goodwill, pro rata on the basis of the carrying amount of the assets, to the limit referred to in the previous paragraph.

4.15 Government grants

Government grants are recognised on the face of the balance sheet when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached.

(a) Capital grants

Government grants in the form of non-monetary assets are recognised at fair value in the consolidated balance sheet. Income from capital grants is recognised as other income in the income statement in line with the depreciation of the corresponding assets financed by the grants.

The accounting treatment of grants for emission rights is described in note 4.5 (e).

(b) Operating subsidies

Operating subsidies are recognised as other income in the consolidated income statement.

Operating subsidies received as compensation for expenses or losses already incurred, or for the purpose of providing immediate financial support unrelated with future expenses, are recognised as other income in the consolidated income statement.

(c) Interest rate subsidies

Financial liabilities with implicit interest rate subsidies in the form of below-market rates of interest are initially recognised at fair value. The difference between this value, adjusted where applicable by the costs of issue of the financial liability and the amount received, is recorded as an official grant based on the nature of the grant.

(d) Other subsidies

Tax deductions granted by public entities are recognised as a reduction in the income tax expense in accordance with the same general criteria as for government grants.

4.16. Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the loan obtained (net of

attributable costs) and redemption value being recognised in the income statement over the period of the borrowings on an effective-interest basis.

The Group derecognises the whole or part of a financial liability when the obligations included in the contract have been satisfied, cancelled or have expired.

4.17. Employee benefits

(a) Pension commitments

The Group has assumed commitments with personnel that comply with classification conditions for defined benefit and defined contribution plans.

(i) Defined benefit plans

Defined benefit plans include those financed by insurance premium payments for which a legal and implicit obligation exists to settle obligations with employees when they fall due or pay additional amounts in the event the insurer does not pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit liabilities recognised in the consolidated balance sheet reflect the present value of defined benefit plans at year end.

Defined benefit plan costs are recognised under employee benefits in the consolidated income statement and comprise current service costs, interest costs and any related payments plus the effect of any reduction or liquidation of the plan and, where applicable, the actuarial gains and losses and past services costs.

A description of each of the Group's defined benefit pension plans is included in note 18.

Liabilities for retirement benefits and other obligations correspond to a Group company in Germany and another in the United States.

Defined benefit assets and liabilities are recognised as current and non-current in accordance with the period of realisation or maturity of the corresponding benefits.

(ii) Defined contribution plans

The Parent Company has commitments with its employees for early retirement and length-of-service bonuses. To cover these obligations the Parent Company has externalised these commitments through insurance policies and premiums paid are recorded under personnel expenses.

(b) Termination benefits

The Group recognises benefits for termination unrelated to restructuring processes when it is demonstrably committed to terminating the employment of current employees before the normal retirement date. The Group is demonstrably committed to terminating the employment of current employees when a detailed formal plan has been prepared and there is no possibility of withdrawing or changing the decisions made.

Indemnities payable in over 12 months are discounted at interest rates based on market rates of quality bonds and debentures.

(c) Short-term employee benefits

Short-term benefits accrued by Group personnel are recorded in line with the employees' period of service. The amount is recorded as an employee benefit expense and as a liability net of settled amounts. If the contribution already paid exceeds

the accrued expense, an asset is recorded to the extent that it will reduce future payments or a cash refund.

The Group recognises the expected cost of short-term benefits in the form of accumulated compensated absences, when the employees render service that increases their entitlement to future compensated absences, and in the case of non-accumulating compensated absences, when the absences occur.

The Group recognises the expected cost of profit-sharing and bonus payments when it has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

4.18. Provisions

(a) General criteria

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, provided a reliable estimate can be made of the amount of the obligation.

The amounts recognised as a provision are the best estimate of the expenditure required to settle the present obligation at the consolidated balance sheet date, taking into account the risks and uncertainties related with the provision and, where significant, financial effect of the discount, provided that the expenditures required in each period can be reliably measured. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The financial effect of provisions are recognised under finance costs in the consolidated income statement.

Provisions do not include a tax effect

Reimbursement rights from third parties are recognised as a separate asset where it is practically certain that these will be collected. The income reimbursed, where applicable, is recognised in the consolidated income statement as a reduction in the associated expense and is limited to the amount of the provision.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed against the consolidated income statement item where the corresponding expense was recorded, and any excess is recognised as other income.

(b) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(c) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Provisions for restructuring only include payments directly related to the restructuring which are not associated to continuing activities of the Group.

(d) Emission rights provision

Provision is made systematically for expenses related to the emission of greenhouse gases. This provision is cancelled once the corresponding free-of-charge and market-acquired rights granted by public entities have been transferred.

Provision is made under the assumption that these obligations will be cancelled:

- Firstly, through emission rights transferred under a National Allocation Plan to the Company's account in the National Emission Rights Register, which are then used to cancel actual emissions in proportion to total forecast emissions for the entire period to which they have been allocated. The expense corresponding to this part of the obligation is determined based on the book value of the transferred emission rights.
- Secondly, through the remaining emission rights recorded. The expense corresponding to this part of the obligation is stated at the average weighted cost of the emission rights.
- If the emission of gases necessitates the acquisition or production of emission rights because actual emissions exceed those which can be cancelled through the transfer of emission rights under a National Allocation Plan, or through surplus emission rights, whether acquired or produced, provision is made for the shortfall in rights. The expense is determined using the best estimate of the amount necessary to cover the shortfall in emission rights.

4.19. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of VAT and any other amounts or taxes which are effectively collected on the behalf of third parties. Volume or other types of discounts for prompt payment are recorded as a reduction in revenues if considered probable at the time of revenue recognition.

(a) Goods sold

Revenues on the sale of goods are recognised when the following conditions have been satisfied:

- the Group has transferred the significant risks and rewards of ownership of the goods to the buyer.
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(b) Services rendered

When the outcome of a transaction involving the rendering of services can be estimated reliably revenues associated with the transaction are recognised in the income statement by reference to the stage of completion of the transaction at the balance sheet date.

4.20. Income tax

Income tax on the profit for the year comprises current and deferred tax.

Current tax is the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. Current tax assets or liabilities are measured for amounts payable to or recoverable from tax authorities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences, whereas deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses, and the carryforward of unused tax credits. Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the year except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

(a) Taxable temporary differences

Taxable temporary differences are recognised in all cases except where:

- Arising from the initial recognition of goodwill or an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit;
- Associated with investments in subsidiaries over which the Group is able to control the timing of the reversal of the temporary difference and it is probable that the timing difference will reverse in the foreseeable future.

(b) Deductible temporary differences

Deductible temporary differences are recognised provided that:

- it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.
- the temporary differences are associated with investments in subsidiaries to the extent that the difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Tax planning opportunities are only considered on evaluation of the recoverability of deferred tax assets and if the Group intends to use these opportunities or it is probable that they will be used.

(c) Measurement

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date and reflecting the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets or liabilities.

The carrying amounts of deferred tax assets are reviewed by the Group at each balance sheet date to reduce these amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of the deferred tax assets to be utilised. Deferred tax assets which do not comply with the abovementioned conditions are not recognised in the consolidated balance sheet. At year end the Group reassesses unrecognised deferred tax assets.

(d) Classification and offsetting

The Group only offsets current tax assets and liabilities if it has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group only offsets tax assets and liabilities where it has a legally enforceable right, where these relate to taxes levied by the same tax authority and on the same entity and where the tax authorities permit the entity to settle on a net basis, or to realise the asset and settle the liability simultaneously for each of the future years in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Deferred tax assets and liabilities are recognised on the consolidated balance sheet under non-current assets or liabilities, irrespective of the date of realisation or settlement.

4.21. Segment Reporting

A business segment is a distinguishable component of the Group that is engaged either in providing products or services which is subject to risks and rewards that are different from those of other segments.

A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

4.22. Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated balance sheet as current or non-current based on the following criteria:

- Assets are classified as current when they are expected to be realised, sold or traded in the Group's ordinary course of business within 12 months of the balance sheet date and when held essentially for trading. Cash and cash equivalents are also classified as current, except where they may not be exchanged or used to settle a liability, at least within the 12 months following the balance sheet date and before the consolidated annual accounts are prepared.
- Liabilities are classified as current when expected to be settled in the Group's ordinary course of business within 12 months of the balance sheet date and when essentially held for trading, or where the Group does not have an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date and before the consolidated annual accounts are prepared.
- Current liabilities such as trade creditors, personnel expenses and other operating costs are classified as current, even if maturing more than 12 months from the balance sheet date.
- Financial liabilities which must be settled within the 12 months following the balance sheet date are classified as current, even if the original maturity exceeded 12 months and a refinancing or restructuring agreement for long-term payments exists which has been finalised subsequent to the close and before the consolidated annual accounts have been prepared.

4.23. Environment

The Group takes measures to prevent, reduce or repair the damage caused to the environment by its activities.

Costs incurred from these activities are recognised under other operating costs in the year in which they are incurred.

Assets used by the Group to minimise the environmental impact of its activity and protect and improve the environment, including the reduction or elimination of future pollution caused by the Group's operations, are recognised in the consolidated balance sheet based on the criteria for recognition, measurement and disclosure detailed in note 4.4.

5. Segment Reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments is based on the Group's management and internal reporting structure, while geographical segments are considered to be secondary.

At 31 December 2006 the Group comprises the following business segments:

- Casings: manufacture and sale of all types of artificial casings for meat products and other uses.
- Preserves: production and marketing of food products.

The Group also produces and sells electrical energy through a cogeneration plant located at its Parent Company installations. These activities do not comprise segments which are deemed reportable.

Inter-segment pricing is determined on an arm's length basis.

The casings segment is managed on a worldwide basis, although the Group mainly operates in three geographical areas, comprising Europe, North America and South America.

In presenting information on the basis of geographical segments, segment revenue, expense, assets and liabilities are based on the geographical location of production and of assets.

Details of financial information by business and geographical segments for 2005 and 2004 are included in Appendix 2, which forms an integral part of these notes.

6. Business Combinations

6.1. Acquisition of Koteks Viscofan, d.o.o.

The public share offer through which the Company acquired the majority of voting rights in Koteksprodukt AD ended on 19 July 2005. The Company subsequently acquired 100% of the share capital in this company. In 2006 this company changed its name to Koteks Viscofan, d.o.o. The registered offices of the company Koteks Viscofan, are in Serbia and its principal activity is the manufacture and marketing of artifical casings. The Group incurred consolidated losses of Euros 480 thousand on this business combination from its date of acquisition to year end.

If the acquisition had taken place on 1 January 2005, ordinary income of the Group and consolidated losses for the year ended 31 December 2005 would have amounted to Euros 4,227 thousand and Euros 3,951 thousand, respectively.

The cost of acquisition of this investment amounted to Euros 3,889 thousand, which was settled in cash. Net assets acquired amount to Euros 975 thousand, according to this company's accounting records.

No relevant intangible assets were identified. The only balance sheet item identified for which fair value differs from the carrying amount is property, plant and equipment valued by an independent appraiser.

Consequently, the Group recognised property, plant and equipment at fair value, taking into account its tax effect.

6.2. Acquisition of Tripasin AB

On 30 September 2005 the Group sold 40% of its investment in Tripasin AB for one Euro while at the same time acquiring the machinery and all intangible assets of this company. Effectively, the business was acquired for Euros 4,500 thousand, with Tripasin AB subsequently ceasing its activities.

Intangible assets identified and measured at fair value comprise the trademark and customer portfolio, amounting to Euros 2,672 thousand (see note 8). The excess paid over the carrying amount of the machinery and customer portfolio, increased by the effect of the sale of the share capital of Tripasin AB was recognised initially as goodwill of Euros 2,301 thousand.

In 2006 the Group has confirmed that this goodwill has been impaired and the impairment losses have been recognised in full in the accompanying consolidated income statement.

6.3. Acquisition of the Teepak Norteamérica business

The Group has acquired the Teepak Norteamérica business with effect from 3 January 2006, through its subsidiaries Viscofan de México, S.R.L. de C.V. and Viscofan USA, Inc. This business includes the following companies:

- Teepak, LLC
- Teepak, Inc (*)
- Teepak Holdings de México S.R.L. de C.V.
- Teepak de México S.R.L. de C.V. (**)
- Zacapu Power S.R.L. de C.V. (**)
- Teepak Servicios de México S.R.L. de C.V. (**)

(*) Indirect shareholding through Teepak USA, LLC

(**) Indirect shareholding through Teepak Holding de México S.R.L. de C.V.

Details of these companies together with specific additional information is presented in the accompanying Appendix I.

In 2006 the subsidiaries Teepak, LLC and Teepak Inc changed their names to Teepak USA, LLC and Viscofan Canadá, Inc, respectively.

The Group generated consolidated profits of Euros 8,930 thousand on this business combination from its date of acquisition to year end. Given that the Group assumed effective control on 3 January 2006, these profits do not differ significantly from those which would have been obtained had control been assumed on 1 January 2006.

Details of the aggregate cost of the combination, the fair value of the net assets acquired and goodwill or the positive difference between the net assets acquired and the cost of the combination are as follows:

	Thousands of Euros		
	Teepak USA	Teepak Mexico	Total
Business combination cost	4,965	890	5,855
Fair value of net assets acquired	14,753	713	15,466
Difference between net assets acquired and the cost of acquisition	9,788	(177)	9,611 (note 23)

The most relevant factors which have contributed to the cost of the combination and have led to recognition of the positive difference between net assets acquired and the cost of acquisition have been the appraisals by independent experts of the intangible assets and property, plant and equipment of the group of companies acquired.

Amounts recognised at the date of acquisition of assets, liabilities and contingent liabilities are as follows:

	Thousands of Euros			
	Teepak USA		Teepak Mexico	
	Fair value	Carrying amount	Fair value	Carrying amount
Land and buildings	4,184	1,191	286	286
Plant and machinery	42,494	12,105	3,120	1,976
Other installations, equipment and furniture	8	9	79	79
Work in progress	-	-	441	441
Contracts	518	-	-	-
Technology	6,226	-	-	-
Other intangible assets	152	-	-	-
Legal expenses	-	-	-	1,309
Amortisation and depreciation	(7)	(7)	(120)	(286)
	53,575	13,298	3,806	3,805
Other assets	29,756	30,671	9,896	9,896
Total assets	**83,331**	**43,969**	**13,702**	**13,701**
Current liabilities	12,649	12,649	6,642	6,642
Pensions	26,793	1,857	-	-
Other liabilities	29,904	24,030	6,415	6,415
Total liabilities	**69,346**	**38,536**	**13,057**	**13,057**
Total net assets	**13,985**	**5,433**	**645**	**644**
Translation differences between the purchase date and year end	**768**		**67**	
Total net assets at acquisition date exchange rates	**14,753**		**712**	
Total cash paid	4,733		759	
Translation differences	232		131	
Total cash paid at acquisition date exchange rates	**4,965**		**890**	
Cash and cash equivalents from the acquired entity	698		702	
Translation differences	(276)		73	
Total cash from the acquired entity at acquisition date exchange rates	**422**		**775**	
Cash paid in acquisition	**4.543**		**115**	

7. Property, Plant and Equipment

Details of property, plant and equipment and movement in 2006 and 2005 are included in Appendix 3, which forms an integral part of these notes to these consolidated annual accounts.

The Group leases the following buildings under finance lease agreements, details are as follows

	Thousands of Euros	
	Present value of minimum payments	Depreciation
At 1 January 2005	1.374	(260)
Depreciation	-	(46)
At 31 December 2005	1.374	(306)
Depreciation		(46)
At 31 December 2005	**1.374**	**(352)**

These buildings comprise a warehouse for which a finance lease contract was signed on 8 March 1999. The duration of this contract is 180 months and the purchase option on this building amounts to Euros 360 thousand.

Details of minimum payments and current finance lease liabilities, by maturity date, are as follows:

	Thousands of Euros			
	2006		2005	
	Minimum payments (note 17)	Interest	Minimum payments (note 17)	Interest
Up to 1 year	69	30	66	31
Between 1 and 5 years	838	127	906	155
Total	**907**	**157**	**972**	**186**

Details of fully depreciated property, plant and equipment in use at 31 December 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Buildings	4,406	3,379
Plant and machinery	146,587	145,956
Other installations, equipment and furniture	20,853	19,843
Other property, plant and equipment	13,097	13,253
	184,943	**182,431**

The Group's buildings, plant and equipment were partly financed by government grants of Euros 9 thousand and Euros 876 thousand in 2005 and 2006, respectively (see note 16).

The Group has contracted various insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient.

8. Other Intangible Assets

Details of other intangible assets and movement in 2006 and 2005 are included in Appendix 4, which forms an integral part of these notes to these consolidated annual accounts.

Emission rights reflect rights allocated free-of-charge by the National Allocation Plan. The carrying amount of emission rights coincides with their fair value.

Details of emission rights allocated during the National Allocation Plan period and their annual distribution are as follows:

	Tonnes		Thousands of Euros	
	Free of charge	Remunerated	Free of charge	Remunerated
2005	53,140	-	1,188	-
2006	53,140	-	1,188	-
2007	53,140	-	1,188	-
Total	**159,420**	**-**	**3,564**	**-**

Details of the cost of fully amortised intangible assets in use at 31 December 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Software	2,332	1,816
Concessions, patents and licence	36	36
	2,368	**1,852**

The trademark and customer portfolio reflect the deemed cost of the acquisition of Tripasin AB (see note 6.2)

Technology and contracts comprise the value allocated to the purchase of the Teepak Norteamérica business (see note 6.3).

9. Investments accounted for using the equity method

Movements in investments accounted for by the equity method in 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Balance at 1 January	-	2,301
Disposals (note 6)	-	(2,301)
Balance at 31 December	**-**	**-**

Investments accounted for using the equity method comprise the associate Tripasin A.B, which was sold during 2005 (see note 6.2).

10. Other Current and Non-Current Financial Assets

Details of other current and non-current financial assets are as follows:

	Thousands of Euros	
	2006	2005
Loans receivable	-	336
Provisions for impairment losses	(1)	(21)
Other financial assets	1,588	1,218
Total non-current	**1,587**	**1,533**
Other financial assets	152	41,787
Total currente	**152**	**41,787**

Details of current and non-current financial assets held in foreign currencies are shown in note 20.

Details of and movement in the provision for financial assets is as follows:

	Thousands of Euros	
	2006	2005
Balance at 1 January	(21)	(75)
Cancellation of financial assets	20	75
Others	-	(21)
Balance at 31 December	**(1)**	**(21)**

At 31 December 2005 other current financial assets mainly comprised two deposits made by two Group companies, which were used in the acquisition of Teepak Norteamérica on 3 January 2006 (see note 6.3).

11. Income tax

Details of deferred tax assets and liabilities, by type, are as follows:

	Thousands of Euros					
	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Non-current assets	216	-	34,468	21,738	(34,252)	(21,738)
Current assets	971	1,313	315	297	656	1,016
Loss carryforwards	1,915	6,707	-	-	1,915	6,707
Pending deduction rights	4,033	673	-	-	4,033	673
Non-current liabilities	6,156	2,363	-	-	6,156	2,363
Current liabilities	405	844	-	-	405	844
	13,696	**11,900**	**34,783**	**22,035**	**(21,087)**	**(10,135)**

Details of non-current deferred tax assets for the years ended 31 December 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Capital gains on fixed assets	21,433	7,640
Differences in useful lives	7,900	10,062
Provisions for investments	2,937	2,463
Others	2.198	1.573
	34,468	**21,738**

Details of changes in deferred tax assets and liabilities, by type, which have been recognised as a deferred tax expense (income) in the consolidated income statement are as follows:

	Thousands of Euros	
	2006	2005
Non-current assets	(3,038)	(240)
Current assets	266	1,127
Loss carryforwards and deductions pending	1,306	4,236
Non-current liabilities	6,025	(1,504)
Current liabilities	441	(612)
	5.000	**3.007**

The Group has also included an amount of Euros 6,161 thousand in deferred tax liabilities corresponding to the tax effect of the acquisition of Teepak and which is shown in the accompanying consolidated income statement within the excess of net assets acquired over the cost of acquisition of the Teepak Group (see note 6.3).

Details of deferred tax assets and liabilities to be realised or reversed in a period exceeding 12 months are as follows::

	Thousands of Euros	
	2006	2005
Non-current assets	216	-
Non-current liabilities	6,156	2,363
Loss carryforwards	-	6,707
Rights for deductions and credits	4,033	673
Total assets	10,405	9,743
Deferred tax liabilities	(31,600)	(21,738)
Net	(21,195)	(11,995)

In 2006 and 2005 no deferred tax liabilities were charged directly to equity.

Details of the income tax expense/(income) are as follows:

	Thousands of Euros	
	2006	2005
Current tax expense		
Current year	8,241	5,984
Reversal of tax effect of provisions for conversion differences	1,401	(4,440)
Prior years' adjustments	844	11
Other items	-	298
Applied deduction rights		
• Generated in the year	(906)	-
• Generated in prior years	-	(184)
	9,580	1,669
Deferred taxes		
Origin and reversal of temporary differences	5,000	3,007
	14,580	**4,676**

A reconciliation of the tax expense (income) and the accounting profit is as follows:

	Thousands of Euros	
	2006	2005
Profit before tax	45,880	24,371
Tax at 35% of the Group companies in Spain	1,942	5,982
Tax rates of other companies	9,743	4,914
Deductions	(2,821)	(4,912)
Tax credits	(1,853)	(4,236)
Permanent differences	7,569	2,928
	14,580	**4,676**

A reconciliation of current tax liabilities with current income tax is as follows:

	Thousands of Euros	
	2006	2005
Current taxes	8,241	5,984
Payments on account	(6,454)	(4,124)
	1,787	**1,860**

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the tax authorities or before the inspection period of four years has elapsed. At 31 December 2006 the Parent Company and subsidiaries in

Spain have open to inspection by the tax authorities all applicable taxes since 1 January 2002 (1 January 2001 for income tax). The situation of foreign companies depends on the legislation prevailing in each country.

Due to the different possible interpretations of prevailing legislation, additional liabilities could be identified in the event of inspection. Nonetheless, Parent Company management considers that any additional liabilities that might arise would not have a significant impact on these consolidated annual accounts.

12. Inventories

Details of inventories at 31 December 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Goods for resale	23,204	23,696
Raw materials and other supplies	47,292	40,250
Semi-finished products	19,096	14,106
Finished products	43,376	34,907
	132,968	**112,959**

Raw materials and other supplies consumed in 2006 and 2005 amounted to Euros 149,398 thousand and Euros 131,132 thousand, respectively.

At 31 December 2006 and 2005 there are no inventories with a reimbursement period greater than 12 months from the consolidated balance sheet date.

Group companies have contracted various insurance policies to cover the risk of damage to inventories. The coverage of these policies is considered sufficient.

13. Trade and other receivables

Details at 31 December 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Trade receivables	91,039	74,338
Advances to suppliers	-	1,138
Other receivables	6,400	3,809
Advances to employees	96	80
Public entities	6,352	5,368
Provisions for bad debts	(2,778)	(1,515)
	101,109	**83,218**

14. Cash and cash equivalents

Cash and cash equivalents at 31 December 2006 and 2005 comprise cash balances with Group companies and banks. The Group does not have bank overdrafts at these dates and all balances are freely distributable.

15. Equity

15.1. Share capital

Movements in shares in circulation during 2006 and 2005 were as follows:

	Shares		Thousands of Euros	
	2006	2005	2006	2005
At 1 January	47,959,806	48,346,579	14,388	14,504
Reductions in capital	-	(386,773)	-	(116)
At 31 December	**47,959,806**	**47,959,806**	**14,388**	**14,388**

Share capital was reduced in 2005 to redeem own treasury shares.

At 31 December 2006 the share capital of the Parent Company is represented by 47,959,806 bearer shares of Euros 0.30 par value each, subscribed and fully paid. All shares have the same voting and profit sharing rights, except own shares.

All of the Parent Company's shares are listed on the official Stock Exchanges of Madrid, Barcelona and Bilbao under the automatic quotation system. All shares are freely distributable.

At 31 December 2006 the investment fund manager Bestinver Gestión SGIIC held 8.64% of share capital in the Company, through the different funds which it manages.

15.2. Share premium

This reserve is freely distributable.

15.3. Other reserves

Details and movement in other reserves are included in Appendix 5, which forms an integral part of these consolidated annual accounts.

(a) Revaluation reserve Navarre Regional Law 23/1996

As permitted by legislation prevailing at that time, in 1996 the Parent Company revalued its property, plant and equipment by Euros 9,282,000. The resulting revaluation reserve, which comprises the revaluation of items of property, plant and equipment, net of a 3% tax charge, amounts to Euros 9,003,000.

During 1999 this revaluation was inspected by the tax authorities and, accordingly, can be applied, free of tax, to:

- Offset prior years' losses.
- Increase share capital.
- Increase distributable reserves after 31 December 2006 to the extent that gains have been realised, that is, when the related assets have been depreciated, disposed of or otherwise written off.

(b) Merger reserves

These reserves derive from the merger by absorption of Inversiones Legazpi, S.A. by the Parent Company in 2002 and are subject to the same restrictions as voluntary reserves. Details of this operation are included in the consolidated annual accounts for the year the operation was carried out.

15.4. Retained earnings

Details and movement are included in Appendix 5, which forms an integral part of these consolidated annual accounts.

(a) Legal reserve

Companies registered in Spain are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital, in accordance with Article 214 of the Spanish Companies' Act. This reserve may only be used to offset losses if no other reserves are available. At 31 December 2006 and 2005 the Parent Company had appropriated to this reserve the minimum amount required by law.

(b) Voluntary reserves

These reserves are freely distributable.

15.5. Movement in treasury shares

Movement in treasury shares in 2006 and 2005 was as follows:

	2006		2005	
	Number of shares	Thousands of Euros	Number of shares	Thousands of Euros
Balance at 1 January	76,102	706	58,065	250
Acquisitions	507,459	5,971	409,041	3,411
Disposals	(2,490)	(27)	(4,231)	(31)
Redemptions	-	-	(386,773)	(2,924)
Provisions made	-	(3,646)	-	-
Balance at 31 December	**581,071**	**3,004**	**76,102**	**706**

At 31 December 2006 the Parent Company holds 581,071 treasury shares for which a reserve has been made equal to the carrying amount of these shares. This reserve is not distributable unless the shares are disposed of or redeemed by the Company.

15.6 Translation differences

Details of and movement in conversion differences generated by subsidiaries are as follows:

	Thousands of euros
Balance at 31 December 2004	13,522
Conversion differences on financial statements of foreign businesses	(16,723)
Tax effect of conversion differences on provisions for investments	(4,440)
Other conversion differences	3,331
Balance at 31 December 2005	4,310
Conversion differences on financial statements of foreign businesses	4,209
Tax effect of conversion differences on provisions for investments	(1,401)
Other conversion differences	(2,825)
Balance at 31 December 2006	**4,293**

15.7. Distribution of Dividends

Parent Company profits for the year ended 31 December 2005 were distributed, as approved by the shareholders at their annual general meeting held on 22 May 2006, as follows:

	Thousands of euros
Interim dividends	3,732
Voluntary reserves	30,577
Distributable profits	**34,309**

The proposed distribution of dividends is equivalent to Euros 0.078 per share.

Details of the distribution of the Parent Company's 2006 dividends proposed by the directors of the Parent Company, pending approval at the shareholders' general meeting, are as follows:

	Thousands of euros
Other reserves	14,209
Dividends	6,625
Distributable profits	**20,834**

The proposed distribution of dividends is equivalent to Euros 0.14 per share.

At 31 December 2006 and 2005 details of non-distributable reserves are as follows:

	Thousands of Euros	
	2006	2005
Legal reserve	2,935	2,935
Revaluation reserves	8,988	8,990
Conversion of share capital to thousands of Euros	25	25
Other consolidation reserves	25,762	40,385
	37,710	**52,335**

16. Deferred Income

Movement in deferred income during 2006 and 2005 was as follows:

	Thousands of Euros								
	01.01.05	Additions	Taken to income	31.12.05	Additions	Taken to income	Value adjustments	Sales	31.12.06
Capital grants	2,905	876	(499)	3,282	9	(435)	-	-	2,856
Grants for emission rights of greenhouse gases	-	1,188	(1,149)	39	1,413	(334)	(1,068)	(38)	12
Other deferred income	300	-	(300)	-	-	-	-		-
	3,205	**2,064**	**(1,948)**	**3,321**	**1,422**	**(769)**	**(1,068)**	**(38)**	**2,868**

Details of capital grants in 2006 and 2005 are as follows:

	Thousands of Euros		
Granting entity	2006	2005	Objective
Regional Government of Navarre	65	48	Software
Regional Government of Navarre	240	294	Buildings
Regional Government of Navarre	143	10	Plant
Regional Government of Navarre	606	975	Machinery
FEOGA	764	1,721	Buildings
FEOGA	893	234	Machinery
Regional Government of Extremadura	145	-	Machinery
	2,856	**3,282**	

17. Current and Non-Current Financial Liabilities

Details of current and non-current financial liabilities is as follows:

	Thousands of Euros	
	2006	2005
Non-current		
Borrowings	60,327	79,395
Finance lease liabilities (note 7)	838	906
Other financial liabilities	5,501	4,675
Total non-current	66,666	84,976
Current		
Borrowings	62,957	53,406
Finance lease liabilities (note 7)	69	66
Other financial liabilities	1,342	3,388
Financial liabilities at fair value through profit or loss	-	141
Total current	**64,368**	**57,001**

Details of the carrying amount of financial liabilities in foreign currency, their classification by maturity and effective interest rates are shown in note 20.

Loans and other credit facilities accrue interest at variable market rates.

Euros 23,611 thousand of the Euros 123,284 thousand total current and non-current borrowings corresponds to the fair value hedges mentioned in note 20.

At 31 December 2006 the Group has a limit on its credit facilities and discount lines of Euros 84,477 thousand (Euros 83,397 thousand in 2005) included under current and non-current borrowings, of which Euros 56,209 thousand has been drawn down at 31 December 2006 (Euros 36,218 thousand in 2005).

At 31 December 2006 and 2005 the Parent Company has extended guarantees of Euros 48,425 thousand and Euros 65,836 thousand in respect of the Group's loans and balances payable to third parties, respectively.

At 31 December 2006 the Group has extended bank guarantees of approximately Euros 3,107 (Euros 5,093,000 at 31 December 2005) mainly in respect of loans obtained from the Spanish Centre for the Development of Industrial Technology (CDTI), the Regional Government of Navarre and the Spanish Ministry of Science and Technology.

The Parent Company contracts financial derivatives mainly to eliminate or significantly reduce interest rate risks. At 31 December 2006 and 2005 the Company has contracted mainly interest rate swap agreements, which were in force at the following dates:

	2006	2005	
	I.R.S.	I.R.S. (Interest Rate Swap)	
Notional amount (thousands of Euros)	23,611	23,611	5,000
Date of contract	02.05.03	02.05.03	03.02.03
Inception date	06.05.03	06.05.03	03.02.03
Expiry	30.06.08	30.06.08	03.02.06
Interest rate paid by the Company	3%	3%	2.95%
Interest rate collected by the Company	Euribor at 3 months	Euribor at 3 months	Euribor at 3 months

The Group also contracts exchange rate insurance to hedge against exchange rate fluctuations.

Details of prevailing exchange rate insurance, by currency, at 31 December 2006 and 2005 are as follows:

	Total	
Currency	2006	2005
US Dollar	21,317,000	24,500,000
Norwegian Crone	1,503,914	514,000
Canadian Dollar	190,000	1,438,000
Japanese Yen	33,400,496	77,848,000
Polish Zloty	2,724,000	2,363,000
Pound Sterling	75,000	-

Details of the fair value measurement of derivative financial instruments contracted by the Group at 31 December 2006 and 2005 are as follows:

	Thousands of Euros		
	2006 Asset / (liability)	2005 Asset / (liability)	Variation expense / (income)
Exchange rate insurance	-	(127)	(127)
IRS (Interest Rate Swap)	60	(14)	(74)
	60	**(141)**	**(201)**

The Group has decided not to use hedge accounting on these contracts even though they hedge the exposure of risk to interest and exchange rate fluctuations. Consequently, these are recognised as if they were speculative.

The fair value of derivative financial instruments is based on the market value of similar instruments at the balance sheet date.

Other current and non-current financial liabilities mainly comprise loans with subsidised interest rates extended by such entities as the Regional Government of Navarre, the Centre for Development of Industrial Technology and the Spanish Ministry of Science and Technology. The Group recognises implicit interest on these loans in accordance with market rates.

Total current and non-current finance costs payable in respect of prior financial liabilities amount to Euros 60 thousand (Euros 163 thousand in 2005).

18. Current and Non-Current Provisions

Details at 31 December 2006 and 2005 are as follows:

	Thousands of Euros	
	31.12.06	31.12.05
Non-current		
Provisions for employee benefits	38,697	29,182
Taxes	567	67
Provisions for other litigation	2,687	2,405
Total non-current	**41,951**	**31,654**
Current		
Restructuring provision	1,516	3,051
Guarantees	1,013	1,950
Safety in the workplace provision	620	943
Emission rights	334	1,149
Others	3,193	2,125
Total current	**6,676**	**9,218**

18.1. Provisions for employee benefits

Details of and movement in provisions for defined benefit pensions are as follows:

	Thousands of Euros		
	Defined benefit	Defined contribution	Total
At 1 January 2005	20,309	6,413	26,722
Provisions recognised in the income statement	2,967	764	3,731
Payments	(1,218)	(53)	(1,271)
At 31 December 2005	22,058	7,124	29,812
Incorporations to consolidated group	27,581	2,073	29,654
Application	(13,411)	-	(13,411)
Translation differences	(2,049)	(208)	(2,257)
Provisions recognised in the income statement	1,724	845	2,569
Payments	(6,726)	(314)	(7,040)
At 31 December 2006	**29,177**	**9,520**	**38,697**

(a) Defined benefits

The Group contributes to four defined benefit plans, three in the United States through its subsidiary Teepak USA LLC and another in Germany through its subsidiary Naturin Gmbh & Co KG.

All the plans ensure pensions and a widowhood pension for retired employees. Two of the Group's three pension plans in the United States have been frozen and vary only on the basis of changes in discount rates and mortality tables.

Pension liabilities comprise defined benefit obligations. The main actuarial assumptions employed to calculate these liabilities are as follows:

	%	
	2006	2005
Annual discount rate	5,50 - 5,75%	4,2%
Forecast increase in salaries	0 - 2,5%	2,5%
	5,50 - 8,25%	6,7%

The mortality tables used to determine the defined benefits obligation are those generally accepted in Germany and the United States.

The total expense recognised in the consolidated income statement, by item, is as follows:

	Thousands of Euros	
	2006	2005
Current service costs	(12,581)	221
Interest costs	2,041	971
Actuarial losses (gains)	(1,147)	1,775
	(11,687)	2,967

In 2006 the company Teepak USA LLC reached an agreement with its employees and the relevant authorities to cancel one of its pension plans. As a result of this operation, the Group has obtained a profit of Euros 13,411 thousand.

The expense has been recognised under the following items in the income statement:

	Thousands of Euros	
	2006	2005
Personnel expenses (note 25)	(13,728)	1,996
Financial expenses	2,041	971
	(11,687)	2,967

(b) Defined contribution plans

The Group has contracted nine defined contribution plans, four in the United States through its subsidiary Teepak USA LLC, three in Germany through its subsidiary Naturin, GMBH & Co KG and two in Spain through the Parent Company Viscofan, S.A.

These plans are mainly based on early retirement, partial retirement, length-of-service rewards and supplementary pensions for certain employees.

In 2002 the Parent Company externalised pension commitments through life insurance policies through a single premium which was recognised under personnel expenses.

18.2. Provisions for other litigation

Movement at 31 December 2006 and 2005 is as follows:

	Thousands of Euros	
	2006	2005
Balance at 1 January	2,405	1,625
Translation differences	(248)	253
Allowances	539	639
Applications	(9)	(112)
	2,687	**2,405**

The provision for other litigation mainly covers claims brought against the Brazilian subsidiary by the Brazilian tax authorities and certain company employees. These claims are expected to be resolved after 2007. According to the directors' opinion and corresponding legal assessment, the result of this litigation is not expected to differ significantly from the amounts provided for at 31 December 2006.

18.3. Restructuring provision

A company-restructuring plan was undertaken for one of the Group companies during the year ended 31 December 2004 due to the slump in the market in which it operated. Representatives of the affected employees were duly informed of this plan. The total estimated recognised costs in 2004 were based on a breakdown of the employees affected by the plan. Approximately Euros 1,781 thousand has been used in 2006. In 2005 approximately Euros 1,100 thousand of the provision was used to pay indemnities and approximately Euros 1,816 thousand was cancelled (see note 23). The existing provision at 31 December 2006 will be applied during 2007 in accordance with the industrial plan established for this subsidiary.

18.4. Guarantees

The provision for guarantees mainly corresponds to products sold by the German subsidiary in the years ended 31 December 2006 and 2005. This provision has been estimated based on historical information of the Group.

18.5. Safety in the workplace provision

The safety in the workplace provision covers claims brought against the Group by certain employees in respect of occupational accidents. Rulings are expected to be issued in 2007. The directors and legal advisors of the Company do not expect the outcome of this litigation to differ significantly from the amounts provided for at 31 December 2006.

18.6. Emission rights provision

Gas emission expenses amounted to Euros 334 thousand in 2005.

The criterion for estimating these expenses consists of a market price valuation of the Company's emission rights in 2006.

19. Trade payables, Other Payables and Other Current Liabilities

Details of trade and other payables are as follows

	Thousands of Euros	
	2006	2005
Trade payables	44,281	35,583
Other current liabilities		
Salaries payable	9,414	5,303
Public entities	8,229	5,950
Other payables	9,954	7,391
	27,597	18,644

Other payables mainly comprise fixed asset suppliers.

20. Risk Management

20.1 Financial risks

The Group's activities are exposed to various financial risks: market risk (including exchange rate risk, fair value interest rate risk and price risk), credit risk, liquidity risk, and interest rate risk in cash flows. The Group's global risk management programme focuses on the uncertainty of financial markets and aims to minimise the potential adverse effects on the Group's profitability. Certain risks are hedged by derivative instruments.

Risk is managed by the Group in accordance with policies approved by the board of directors.

(a) Market risks

- Exchange rate risks

As the Group operates internationally, it is exposed to variations in exchange rates, particularly the US Dollar. The exchange rate risk arises from future commercial transactions, recognised assets and liabilities and net investments abroad.

Group entities use forward currency contracts negotiated with the Treasury Department of several Group companies to control exchange rate risks which arise from future commercial transactions, recognised assets and liabilities. Exchange rate risks arise where future commercial transactions, recognised assets and liabilities are denominated in a currency which is not the functional currency of the Company.

The risk management policy of the Group is to cover the net balance between collections and payments in currencies other than the functional currency through short-term currency contracts (of approximately 2 months).

Details of the Group's exposure to exchange rate risks at 31 December 2006 and 2005 are shown below. The tables reflect the carrying amount of financial instruments or classes of financial instruments of the Group which are denominated in foreign currency.

	US Dollar	Canadian Dollar	Pound Sterling	Czech Crone	Polish Zloty	Mexican Peso	Others	Total
At 31 December 2006								
Assets								
Other financial assets	780	-	-	-	-	372	2	1,154
Total non-current assets	780	-	-	-	-	372	2	1,154
Trade and other receivables	40,802	3,331	1,974	4,162	996	12,513	2,342	66,120
Other financial assets	150	10	-	-	4	-	-	164
Cash and cash equivalents	2,203	2,060	673	1,714	2	689	181	7,522
Total current assets	43,155	5,401	2,647	5,876	1,002	13,202	2,523	73,806
Total assets	43,935	5,401	2,647	5,876	1,002	13,574	2,525	74,960
Liabilities								
Borrowings	42,141	1,963	-	-	-	-	-	44,104
Other financial liabilities	166	-	-	-	-	-	-	166
Total non-current liabilities	42,307	1,963	-	-	-	-	-	44,270
Borrowings	4,932	-	-	10,953	61	-	-	30,366
Trade and other payables	19,427	2,862	185	2,335	218	6,345	865	32,237
Total current liabilities	24,359	2,862	185	13,288	279	6,345	865	62,603
Total liabilities	66,666	4,825	185	13,288	279	6,345	865	106,873

	US Dollar	Canadian Dollar	Pound Sterling	Czech Crone	Polish Zloty	Others	Total
At 31 December 2005							
Assets							
Other financial assets	1,317	-	-	-	-	17	1,334
Total non-current assets	1,317	-	-	-	-	17	1,334
Trade and other receivables	25,966	1,995	2,105	2,816	837	702	34,421
Other financial assets	41,775	-	-	-	-	-	41,775
Cash and cash equivalents	7,679	1,111	196	1,575	-	2,719	13,280
Total current assets	75,420	3,106	2,301	4,391	837	3,421	89,476
Total assets	**76,737**	**3,106**	**2,301**	**4,391**	**837**	**3,438**	**90,810**
Liabilities							
Borrowings	45,359	2,186	-	-	-	-	47,545
Other financial liabilities	169	-	-	-	-	-	169
Total non-current liabilities	45,528	2,186	-	-	-	-	47,714
Borrowings	4,891	1,530	-	7,100	172	-	13,693
Trade and other payables	9,245	1,355	253	2,701	61	987	14,602
Total current liabilities	14,136	2,885	253	9,801	233	987	28,295
Total liabilities	**59,664**	**5,071**	**253**	**9,801**	**233**	**987**	**76,009**

(b) Price risks

The Group is exposed to price risks relating to its main financial instruments.

(c) Credit risk

The Group does not have a significant concentration of credit risk. It is Group policy to ensure that products are sold to customers with an appropriate credit history. Sales to problematic customers are made in cash. Derivative operations are only entered into with banks with high credit ratings.

(d) Liquidity risk

The Group has a prudent policy to cover its liquidity risks which is focussed on having sufficient cash and marketable securities as well as the ability to draw down sufficient financing through its existing credit facilities to settle the market positions of its short-term investments. Given the dynamic nature of its underlying business, the Group aims to be flexible with regard to financing through drawdowns on its contracted credit lines.

(e) Interest rate risks in cash flows and fair value

As the Group does not have highly remunerated assets, income and cash flows of operating activities are not significantly affected by variations in market interest rates.

Interest rate risks arise from other long-term and short-term resources. Other resources issued at floating interest rates expose the Group to cash flow interest rate risks. At the 2006 and 2005 closes the Group had no significant other resources held at fixed interest rates.

The Group manages interest rate risks in cash flows through floating to fixed interest rate swaps. These interest rate swaps convert floating interest rates on external resources to fixed interest rates. Generally the Group obtains other long-term resources with floating interest rates and swaps these for fixed interest rates. These are generally at lower rates than those which would have been obtained had the resource been obtained directly with fixed interest rates. Interest rate swaps allow the Group to exchange the difference between fixed interest and floating interest with other parties periodically (generally quarterly). These swaps are calculated based on the contracted notional principal.

The carrying amounts of financial instruments or types of financial instruments classified by maturity are detailed as follows:

	Thousands of Euros						
	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years	Total
At 31 December 2006							
Assets							
Trade and other receivables	103,877	-	-	-	-	-	103,877
Other financial assets	152	-	-	-	-	1,587	1,739
Total assets	104,029	-	-	-	-	1,587	105,616
Liabilities							
Borrowings	63,026	20,951	13,305	9,083	8,269	9,557	124,191
Trade and other payables	39,625	-	-	-	-	-	39,625
Other financial liabilities	1,342	1,191	1,191	1,059	753	1,307	6,843
Total liabilities	103,993	-					170,659
At 31 December 2005							
Assets							
Trade and other receivables	83,218	-	-	-	-	-	83,218
Other financial assets	41,787	-	-	-	-	1,533	43,320
Total assets	125,005	-	-	-	-	1,533	126,538
Liabilities							
Borrowings	53,472	24,055	13,955	10,608	9,974	21,709	133,773
Trade and other payables	37,443	-	-	-	-	-	37,443
Other financial liabilities	3,529	1,286	975	919	754	741	8,204
Total liabilities	94,444	25,341	14,930	11,527	10,728	22,450	179,420

The table below shows interest accrued on monetary financial instruments, by currency, at 31 December 2006 and 2005:

	Thousands of Euros								
	Euros	US Dollar	Canadian Dollar	Pound Sterling	Czech Crone	Polish Zloty	Others	Mexican Peso	Total
At 31 December 2006									
Financial expenses	3,815	3,531	27	-	231	8	-	-	7,612
Financial income	602	15	34	9	45	-	14	420	1,319
At 31 December 2005									
Financial expenses	4,009	415	69	-	232	7	122	-	4,854
Financial income	854	151	9	6	43	-	15	-	1,078

21. Environmental Information

Details of costs and accumulated depreciation of property, plant and equipment in respect of the Group's environmental activities at 31 December 2006 and 2005 are as follows:

	Thousands of Euros			
	2006		2005	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Vapour boiler	1,091	(323)	1,091	(214)
Water-cooler circuit	697	(203)	697	(143)
Waste management plant	1,761	(852)	1,713	(618)
Gas washers	3,022	(1,861)	2,233	(1,265)
Purifier	1,574	(107)	-	-
Others	4,535	(2,006)	4,150	(1,397)
	12,680	(5,352)	9,884	(3,637)

During 2006 and 2005 the Parent Company incurred expenses for protection and improvement of the environment amounting to approximately Euros 952 thousand.

The directors of the Parent Company consider that no additional provisions are required to cover the possible expenses or risks derived from environmental activities.

22. Ordinary Income

Details of ordinary income by segment are included in note 5.

23. Other Income

Details of other income are as follows:

	Thousands of Euros	
	2006	2005
Government grants	814	866
Surplus provision for fixed assets - not applied (see note 7)	71	72
Surplus provision for restructuring - not applied (see note 18)	-	1,816
Gains on sale of fixed assets	175	215
Difference between fair value of Teepak net assets and cost of acquisition (see note 6.3)	9,611	-
Other income	2,239	2,726
	12,910	5,695

24. Other Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2006	2005
Research and development costs	660	500
Repairs and maintenance	21,006	17,891
Administrative and selling costs	45,699	35,596
Supplies	42,559	15,483
Losses on sale of fixed assets	1,083	364
Other expenses	24,774	22,308
	135,781	92,142

25. Personnel Expenses

Details of personnel expenses during 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Wages and salaries	110,530	80,403
Indemnity payments	3,203	476
Contributions to defined contribution plans (note 18.1)	845	764
Contributions to defined benefit plans (note 18.1)	(13,728)	1,996
Company social security contributions	26,584	19,383
Other welfare benefits and taxes	789	1,681
	128,223	104,703

The average headcount of the Group during 2006 and 2005, distributed by category, is as follows:

	2006	2005
Management	109	69
Technicians and department heads	627	527
Administrative staff	332	233
Specialised personnel	988	939
Labourers	2,382	1,578
	4,438	3,346

26. Financial Income and Expense

Details of financial income and expense are as follows:

	Thousands of Euros	
	2006	2005
Financial income		
Other financial income	1,296	1,078
Exchange gains	8,459	4,211
Net profits on adjustment to fair value of derivative financial instruments (note 17)	201	-
Total financial income	9,956	5,289
Financial expenses		
Net losses on adjustment to fair value of derivative financial instruments (note 17)	-	375
Other financial expenses	7,612	4,854
Exchange losses	10,363	2,394
Total financial expenses	17,975	7,623

27. Earnings per Share

27.1. Basic

The calculation of basic earnings per share is based on the profit for the year attributable to the shareholders of the Parent and a weighted average number of ordinary shares in circulation throughout the year, excluding treasury shares.

Details of the calculation of basic earnings per share are as follows:

	Thousands of Euros	
	2006	2005
Profit attributable to ordinary equity holders of the Parent	31,300	19,695
Weighted average number of ordinary shares in circulation	47,631,219	48,086,110
Basic earning per share (in Euros)	0,6571	0,4096

The weighted average number of ordinary shares issued is determined as follows:

	2006	2005
Weighted average number of ordinary shares in circulation	47,959,806	48,153,193
Effect of treasury shares	(328,587)	(67,083)
Average number of ordinary shares in circulation at 31 December	**47,631,219**	**48,086,110**

27.2. Diluted

Diluted earnings per share are calculated by dividing profit attributable to equity holders of the Parent by the weighted average number of ordinary shares in circulation considering the diluting effects of potential ordinary shares. As there are no potential ordinary shares, this calculation is unnecessary.

28. Information on the Board of Directors of the Parent Company and Key Group Personnel

The board of directors of the Company only accrue remuneration established in articles 27 and 30 of the Company's bylaws, equivalent to 1.5% of the Parent Company's profit before income tax for the board directors, which amounted to Euros 304,683 and Euros 600,699 for 2006 and 2005, respectively, and another 1.5% of the Parent Company's profit before income tax for the executive board, which amounted to Euros 304,683 and Euros 600,699 for 2006 and 2005, respectively. As established in the aforementioned articles, the board of directors and executive committee decide on the distribution of remuneration equally among the members.

Details of remuneration by director are as follows:

Name	Euros			
	Committee	Board	Other Group Companies Boards	Total
Mr. Jaime Echevarría Abona	101,561	38,086	111,988	251,635
Mr. José María Cuevas Salvador	101,561	38,086	-	139,647
Mr. Néstor Basterra Larroudé	101,561	38,086	55,994	195,641
Mr. Inigo Soláun Garteiz-Goxeascoa	-	38,085	-	38,085
Ms. Ágatha Echevarría Canales	-	38,085	-	38,085
Mr. José Cruz Pérez Lapazarán	-	38,085	-	38,085
Mr. Gregorio Marañón Bertrán de Lis	-	38,085	-	38,085
Mr. Alejandro Legarda Zaragüeta	-	38,085	-	38,085
	304,683	304,683	167,982	777,348

The Company has not given any advances or loans to the members of the board of directors and has no pension or life insurance commitments with the directors. The Group has extended no guarantees to any of the directors. Remuneration is not linked to the performance of Parent Company shares on the stock exchange.

During 2006 and 2005 the members of the board of directors have not carried out operations with the Company or the Group other than ordinary operations under market conditions.

Details of remuneration received by key management personnel, presented in appendix 6, are as follows

	Thousands of Euros	
	2006	2005
Short-term remuneration of employees, management	2,808	2,666

The directors of the Viscofan, S.A. hold no additional shares or management positions in companies with identical, similar or complementary activities to the Company other than those detailed below.

Name	Company	Position
Mr. Jaime Echevarría Abona	Naturin GmbH & Co KG	Chairman to the Board of Directors
	Naturin Limited	Chairman to the Board of Directors
	Gamex, C.B.s.r.o.	Chairman to the Board of Directors
	Viscofan CZ, s.r.o.	Chairman to the Board of Directors
	Viscofan USA Inc	Chairman to the Board of Directors
	Viscofan Poland Sp. Z.o.o.	Chairman to the Board of Directors
	Viscofan Centroamérica Comercial, S.A.	Chairman to the Board of Directors
	Viscofan de México S. de R.L. de C.V.	Chairman to the Board of Directors
	Koteks Viscofan, d.o.o.	Chairman to the Board of Directors
	Viscofan Canadá, Inc	Chairman to the Board of Directors
	Teepak USA, LLC	Chairman to the Board of Directors
	Teepak de Mexico, s. de R.L. de C.V.	Chairman to the Board of Directors
	Viscofan do Brasil soc. com. e ind. Ltda.	Member of Consultant Board
Mr. Néstor Basterra Larroudé	Naturin GmbH & Co	Director
	Viscofan USA Inc	Director

During 2006 and 2005 the members of the board of directors have not carried out operations with the Company or Group companies other than ordinary operations under market conditions.

29. Audit Fees

The auditors of the consolidated annual accounts of the Group and other related companies as defined in the fourteenth additional disposition of legislation governing the reform of the financial system have accrued fees for professional services for the years ended 31 December 2006 and 2005 as follows:

	Euros	
	2006	2005
Principal auditor		
Audit services	94,654	90,995
Other services	885	28,360
	95,539	**119,355**

Audit services detailed in the above table include the total fees for services rendered in 2006 and 2005, irrespective of the date of invoice.

Other companies related to the auditors have invoiced the Company and its subsidiaries as follows:

	Euros	
	2006	2005
Audit services	254,098	145,225
Other services	41,995	39,080
	274,677	**184,305**

Other auditors have also invoiced the Group Euros 150,369 in respect of audit services in 2006 (Euros 35,481 in 2005).

30. Subsequent Events

On 30 January 2007, as agreed by the directors at their meeting held on 25 January 2007, a gross interim dividend of Euros 0.14 per share was distributed for all shares comprising the share capital of the Parent Company.

The mandatory cash flow statement prepared by the directors of the Parent Company for the distribution of the dividend on account of 2006 profits, which includes treasury shares, is as follows:

	Thousands of Euros
Net profit of the Parent Company for the year ended 31 December 2006	20,834
Less, mandatory appropriations to the legal and statutory reserves	-
Maximum distributable profits	**20,834**
Dividend on account agreed by directors of the Parent Company	**6,625**
Forecast cash and cash equivalents	
Cash and cash equivalents at 25 January 2007	223
Projected collections for one year	123,281
Projected payments for one year, including dividend on account	(123,362)
Projected cash and cash equivalents at 25 January 2008	**142**

Consolidated Directors' Report (2006)

Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.

Business Performance and Situation of the Viscofan Group

In 2006 Viscofan has focused its efforts on integrating the companies and assets acquired in 2005 and at the beginning of 2006 and on restructuring the Group to adapt to its new size. This effort has been accompanied by progress in terms of the volume of metres of casings sold to the market and a certain recovery in prices in certain of the Company's main segments.

Viscofan has achieved an excellent profit of Euros 31.3 million for 2006, compared to the Euros 19.7 million obtained in the prior year, representing an improvement of 58.9%.

Viscofan Group sales totalled Euros 497.16 million, up 32.7% from 2005. By business lines, sales of casings amounted to Euros 416.1 million, compared to Euros 299.6 million the prior year, favoured by the larger size of the Viscofan Group following its latest acquisitions and the improvement, in harmonised terms, in the volume of metres sold in the Group's main families of casings, as well as a higher average sale price. The vegetable preserves business obtained income of Euros 81.1 million, 8.0% more than in the same period in the prior year.

The Group has promoted its strategy with a twofold aim; improvement in income and optimisation and streamlining of costs, in particular production costs. As a result of the strategic initiatives carried out in 2006, double figure growth in income has been achieved for the three main management areas (Europe, North America and Latin America), while production efficiency has also improved in all the Group's plants.

Consequently, despite the upward trend for certain raw materials and in energy costs, the EBITDA margin was raised by 0.9 percentage points in 2006 compared to the prior year, up to 16.8%.

EBITDA totalled Euros 83.6 million, 45.6% higher than the prior year. It should be indicated that this year, as a result of the logical restructuring inherent in the process of integrating newly acquired companies, and adaptation of the structure to a more efficient size within the Viscofan Group, non-recurrent profits with a net value of Euros 5.2 million have been obtained.

The valuation of the companies acquired by Viscofan has been tested in the last quarter of the year, with net gains detected due to the difference between the cost of acquisition of these assets and their fair value; specifically these are Euros 9.6 million for the higher value of the net assets of Teepak and the reversal of the goodwill from Tripasin for Euros 2.3 million. It should be noted that this valuation has not represented any cash movements.

The higher value of the assets has been reflected in associated depreciation, the total of which has increased to Euros 37.0 million, up 20.6% on accumulated depreciation in 2005, and in recognition of deferred tax assets associated with the higher value of these assets.

Accumulated EBIT before adjustments for the valuation of assets is Euros 46.6 million, up 74.4% compared to the prior year. Including adjustments for valuation of assets, EBIT is Euros 53.9 million, double that of 2005.

Financial losses are Euros 8.0 million, compared to Euros 2.3 million of losses in 2005. This is due to greater financial debt following the acquisition of Teepak at the end of 2005, together with a higher cost of the debt, and a worse result from exchange differences and other differences caused by the unfavourable trend in the US$ against the Euro in 2006, compared to a more favourable performance by this exchange rate in the same period in the prior year.

The tax impact of cancellation of the liability for retirement benefits in Danville (Teepak LLC) and improved operating results in countries with a higher nominal tax rate have led to a tax rate of 31.8% and taxes of Euros 14.6 million.

The rise in net debt compared to December 2005 is mainly due to the acquisition of Teepak Norteamérica in January 2006. However, consolidated net debt continued to be reduced from January 2006 and stood at Euros 111.8 million at the end of the year. Financial leverage was 41.7% at December 2006.

The Viscofan Group ends 2006 with favourable results from its casings business, with double-figure growth in key indicators, and the vegetable preserves business, in which the good performance of asparagus and upward trend in ready meals have led to a rise in income of 8.0%, while EBITDA was up 42.3% and net profits increased from Euros 527 thousand to Euros 1.4 million in 2006.

Important events

At 31 December 2005 the companies Teepak LLC (USA), Teepak Inc. (Canada), Teepak Holding de México S. de R.L. de C.V., were acquired and globally consolidated in the Viscofan Group with effect from 1 January 2006.

This acquisition has changed the sector, with Viscofan consolidating its leadership in the artificial casings market while incorporating fibrous casing production into the Group and thereby becoming the only producer of all types of artificial casings. This incorporation has also extended the number of factories in the US Dollar zone, which make Viscofan less vulnerable to future exchange rate fluctuations and allow it to regionalise production and markets, with consequent savings.

In July 2005 the company Koteksprodukt in Serbia joined the consolidated Viscofan Group and attempts have been made in 2006 to make the Serbian company more competitive.

Various welfare agreements were reached with the unions from the Danville plant in the USA in the first quarter of 2006, leading to: reduction in the retirement benefit liability; extension of the collective labour agreement until March 2010 with an annual increase in hourly cost of 0.25USD; and the possibility of reducing plant personnel by up to 25% following improvements in efficiency and productivity.

At the end of June 2006, in an attempt to make plastic casings production more efficient, production was transferred from the Weinheim plant in Germany to the Ceske Budejovice plant in the Czech Republic and the Itú plant in Brazil.

In December 2006 the collective labour agreement was signed with the employees of Naturin GmbH&Co. KG in Germany, valid until 2011. This agreement includes increasing annual working hours from 1,650 to 1,738, without any rise in salary; reduction by up to 4.94 percentage points of the salary increases established in the collective labour agreement for the chemical industry for the period from 2007 to 2009; as well as a 25% reduction in the special work conditions premium and cancellation of voluntary premiums for shift work at nights and on Sundays. The possibility of reducing the company's staff by up to 5.6%, for operating reasons, has also been agreed for the five years of the collective labour agreement's duration.

Outlook for the Viscofan Group Companies

a) Casings

Improved competitiveness in the artificial casings market and consolidation of Viscofan's leadership leave the Group in a very favourable position to capture market growth whilst continuing to implement measures aimed at improving its efficiency and therefore profitability.

The Group seeks to maximise the competitive advantages of having a global scale, with presence in the main world markets for artificial casings, and is redesigning its logistics to obtain savings in transport, customs duty and management costs while gaining more natural coverage between currencies of income and those of cost.

In 2007 the Group aims to continue improving production efficiency at its manufacturing centres, especially those acquired in 2005 and 2006, whilst making the products manufactured by the different production plants more consistent.

b) Vegetable preserves

The Group will continue with its current strategy, marketing products under the Carretilla brand, extending its range of health and convenience products while seeking to streamline costs.

Main Group investments and research and development activities

The Group has invested Euros 32.1 million during 2006.

Investments in the casings business have mainly been directed at increasing capacity and adapting the installations and machinery of the assets acquired in recent years to Viscofan's production standards.

For preserves, investments have been mainly aimed at adaptation to environmental and safety regulations and development of new production lines for ready meals.

Viscofan is implementing a more proactive policy in terms of research and development activities in both lines of business, supported by research and technology centres in various countries.

For casings, efforts are aimed at the development of new products or perfecting products already available to increase the market share for the main families of meat casings or other areas of strategic interest, while continuing innovation and improvement in production processes for industrial optimisation of these processes, and maximising production output through the introduction of technological advances and development of advanced engineering solutions.

For vegetable preserves, new products have continued to be developed, with ready-to-serve pre-prepared meals the business line with the best outlook from the point of view of growth and added value.

Acquisition of treasury shares

As authorised by its shareholders at their annual general meeting, the Parent Company has purchased treasury shares in 2006 and in specific operations in 2007.

Risk management

Due to the globalisation of its sales, the Group carries out a number of transactions in currencies other than Euros. General group policy is to hedge against commercial transaction risks by contracting exchange rate insurance to cover the collection period of the Group's product sales. Long-term insurance is not contracted. Group manufacturing companies, which deal with commercial entities or with customers exclusively in the functional currency of the area in which they operate, are most at risk from foreign exchange rate fluctuations.

The Company has not hedged exchange rates on investments in subsidiaries which operate in foreign currencies or their distributable profits. The Group has shown that it is capable of competing in highly competitive price markets and therefore does not consider this to be a factor of risk, albeit a determining factor in sales profitability.

The Group's level of leverage and the amounts drawn down on its credit facilities lead us to believe that the Company will be able to meet its financial needs.

The Parent Company has contracted several interest rate swap operations to mitigate the risks of exposure to interest rate fluctuations.

Operations with the board of directors or persons acting on their behalf, carried out during 2006, with the quoted company or a Group company when operations are different to the Company's ordinary activity or are not carried out in normal market.

In 2006 the directors have not participated in any operations other than the ordinary activity of the Company or Group companies or carried out in abnormal market conditions.

Subsequent events

At the meeting held on 25 January 2007, the board of directors of Viscofan agreed to distribute a dividend on account of the profit for 2006 for a gross amount of Euros 0.14 per share for all of the shares comprising the share capital of the Parent Company, representing a rise of 79.5% compared to the dividend on account of the 2005 profit distributed the prior year. The aforementioned dividend was paid on 30 January 2007.

CONSOLIDATED ANNUAL ACCOUNTS APPENDIX

APPENDIX I

Details of the Viscofan Group (31 December 2006)

		Percentage interest	
Group companies		Direct	Indirect
Industrias Alimentarias de Navarra, S.A.U.		100.00%	-
Naturin GmbH & Co. KG*	(i)	100.00%	-
Naturin Inc Delaware		100.00%	-
Naturin Verwaltungs GmbH	(i)	100.00%	-
Viscofan do Brasil, soc. com. e ind. Ltda.		100.00%	-
Viscofan Poland Sp.z.o.o		100.00%	-
Koteks Viscofan, d.o.o.		100.00%	-
Gamex, C.B. s.r.o.		100.00%	-
Viscofan USA Inc.		100.00%	-
Naturin LTD	(iii)	100.00%	-
Viscofan CZ, s.r.o.		100.00%	-
IAN Perú, S.A.		-	100.00%
Naturin Canadá Vertriebs GmbH	(i) and (ii)	-	100.00%
Stephan & Hoffmann AG	(i)	-	100.00%
Viscofan de México S.R.L. de C.V.		99.99%	0.01%
Viscofan Centroamérica Comercial, S.A.		99.50%	0.50%
Viscofan Mexico Servicios, S.R.L. de C.V.		99.8%	0.2%
Teepak Holdings de Mexico, S.R.L. de C.V.		-	100.00%
Teepak Mexico S.R.L. de C.V.		-	100.00%
Teepak Servicios de Mexico, S.R.L. de C.V.		-	100.00%
Zacapu Power S.R.L. de C.V.		-	100.00%
Viscofan Canadá Inc		-	100.00%
Teepak USA, LLC		-	100.00%

(i) Companies audited by Ernst&Young

(ii) Company audited by BDO Dunwoody LLP

(iii) Company audited by Perrys Chartered Accountants

(*) This German subsidiary is exempt from publishing its financial statements in accordance with the 264(b) article of the Code of Commerce of Germany..

Activity	Registered offices
Manufacture and marketing of tinned vegetables	Villafranca (Navarre)
Manufacture and marketing of artificial casings	Weinheim (Germany)
Financial activity	Dover (USA)
Financial activity	Weinheim (Germany)
Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Commercial activity	Krakow (Poland)
Manufacture and marketing of artificial casings	Novisad (Serbia)
Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Commercial activity	Seven Oaks (United Kingdom)
Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Asparagus production	Lima (Peru)
Commercial activity	Weinheim (Germany)
Holding company	Weinheim (Germany)
Manufacture and marketing of artificial casings	San Luis de Potosí (Mexico)
Commercial activity	San José (Costa Rica)
Services rendered	San Luis de Potosí (Mexico)
Holding	Zacapu Michoacan (Mexico)
Manufacture and marketing of artificial casings	Zacapu Michoacan (Mexico)
Services rendered	Zacapu Michoacan (Mexico)
Cogeneration plant	Zacapu Michoacan (Mexico)
Commercial activity	Quebec (Canada)
Manufacture and marketing of artificial casings	Danville Illinois (U.S.A)

Details of the Viscofan Group (31 December 2005)

Group companies		Percentage interest Direct	Indirect
Industrias Alimentarias de Navarra, S.A.U.		100.00%	-
Naturin GmbH & Co. KG	(i)	100.00%	-
Naturin Inc Delaware		100.00%	-
Naturin Verwaltungs GmbH	(i)	100.00%	-
Viscofan do Brasil, soc. com. e ind. Ltda.		100.00%	-
Viscofan Poland Sp.z.o.o		100.00%	-
Koteksprodukt AD		100.00%	-
Gamex, C.B. s.r.o.		100.00%	-
Viscofán USA Inc.		100.00%	-
Naturin LTD	(iii)	100.00%	-
Viscofan CZ, s.r.o.		100.00%	-
IAN Perú, S.A.		-	100.00%
Naturin Canadá Vertriebs GmbH	(i) and (ii)	-	100.00%
Stephan & Hoffmann AG	(i)	-	100.00%
Viscofan de México S.R.L. de C.V.		99.99%	0.01%
Viscofan Centroamérica Comercial, S.A.		100.00%	-

(i) Companies audited by Ernst&Young

(ii) Company audited by BDO Dunwoody LLP

(iii) Company audited by Perrys Chartered Accountants

This appendix forms an integral part of note 2 to the consolidated annual accounts, in conjunction with which it should be read.

Activity	Registered offices
Manufacture and marketing of tinned vegetables	Villafranca (Navarre)
Manufacture and marketing of artificial casings	Weinheim (Germany)
Financial activity	Dover (USA)
Financial activity	Weinheim (Germany)
Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Commercial activity	Krakow (Poland)
Manufacture and marketing of artificial casings	Novisad (Serbia)
Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Commercial activity	Seven Oaks (United Kingdom)
Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Asparagus production	Cañete (Peru)
Commercial activity	Weinheim (Germany)
Holding company	Weinheim (Germany)
Manufacture and marketing of artificial casings	San Luis de Potosí (Mexico)
Commercial activity	Lagunilla Heredia (Costa Rica)

APPENDIX II

Segment reporting (31 December 2006 and 2005)

(In thousands of Euros)

Business segments	Casings		Tinned food		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
Income and expenses								
Sales and services rendered	416,126	299,670	81,051	75,049	(17)	(27)	497,160	374,692
Materials consumed	(104,027)	(85,843)	(45,371)	(45,289)	-	-	(149,398)	(131,132)
Other operating income and expenses	(261,136)	(188,711)	(32,743)	(28,277)	17	133	(293,862)	(216,855)
	50,963	25,116	2,937	1,483	-	106	53,900	26,705
Financial loss	(6,778)	(1,478)	(1,242)	(856)	-	-	(8,020)	(2,334)
Income tax expense	(14,247)	(4,576)	(333)	(100)	-	-	(14,580)	(4,676)
Profit for the year	29,938	19,062	1,362	527	-	106	31,300	19,695
Total segment assets	484,880	436,490	74,228	79,592	-	(21)	559,108	516,061
Cash flows								
Cash flows from operating activities	25,127	50,989	9,172	5,550	-	-	34,299	56,539
Cash flows from investing activities	(15,378)	(93,453)	(2,033)	1,044	-	-	(17,411)	(92,409)
Cash flows from financing activities	(12,917)	44,771	(7,044)	(6,849)		-	(19,961)	37,922

Geographical segments	Europe		North America		South America		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
Ordinary income from external clients	272,763	246,769	175,678	85,641	48,719	42,282	497,160	374,692
Segment assets	354,823	356,218	142,964	100,111	61,321	59,732	559,108	516,061
Cash flows								
Cash flows from operating activities	38,729	40,175	(16,555)	(577)	12,125	16,941	34,299	56,539
Cash flows from investing activities	(18,671)	(34,122)	3,876	(45,760)	(2,616)	(12,527)	(17,411)	(92,409)
Cash flows from financing activities	(18,143)	(2,165)	8,663	42,748	(10,481)	(2,661)	(19,961)	37.922

This appendix forms an integral part of note 5 to the consolidated annual accounts, in conjunction with which it should be read.

APPENDIX III

Details and movement in property, plant and equipment (31 December 2006 and 2005)

(In thousands of Euros)

	01.01.05	Translation differences	Additions	Disposals	Transfers
Revalued cost					
Land and buildings	140,019	4,500	4,251	(574)	1,496
Plant and machinery	320,006	8,733	10,250	(3,049)	8,978
Other installations, equipment and furniture	66,075	3,545	2,789	(1,084)	1,950
Other property, plant and equipment	20,320	1,126	668	(643)	(15)
Advances and assets under construction	6,886	290	14,293	-	(12,409)
	553,306	18,194	32,251	(5,350)	-
Restated accumulated depreciation					
Buildings	(52,399)	(890)	(3,980)	141	-
Plant and machinery	(225,706)	(4,038)	(19,175)	2,662	4
Other installations, equipment and furniture	(37,964)	(1,311)	(4,960)	797	(28)
Other property, plant and equipment	(16,802)	(954)	(1,105)	583	12
	(332,871)	(7,193)	(29,220)	4,183	(12)
Provisions	(369)	-	-	72	-
	220,066	11,001	3,031	(1,095)	(12)

This appendix forms an integral part of note 7 to the consolidated annual accounts, in conjunction with which it should be read.

31.12.05	Translation differences	Changes in consolidated group	Additions	Disposals	Transfers	31.12.06
158,515	800	4,459	2,407	(1,109)	18,342	183,414
357,087	906	45,137	14,092	(24,870)	7,233	399,585
73,481	(332)	200	2,465	(4,107)	(12,951)	58,756
22,404	(666)	6	1,161	(1,338)	(1,155)	20,412
9,060	97	811	12,028	(313)	(13,186)	8,497
620,547	805	50,613	32,153	(31,737)	(1,717)	670,664
(58,692)	(70)	(2)	(4,250)	847	86	(62,081)
(258,285)	(620)	(108)	(23,462)	22,504	481	(259,490)
(43,651)	188	(23)	(5,240)	3,272	1,185	(44,269)
(19,101)	574	-	(1,100)	1,077	(58)	(18,608)
(379,729)	72	(133)	(39,052)	27,700	1,694	(384,448)
(297)	-	-	-	71	-	(226)
240,521	**877**	**50,480**	**(1,899)**	**(3,966)**	**(23)** (note 6)	**285,990**

APPENDIX IV

Details and movement in intangible assets (31 December 2006 and 2005)

(In thousands of Euros)

	01.01.05	Translation differences	Additions	Disposals	Transfers
Cost					
Technology and contracts	-	-	-	-	-
Trademark and customer portfolio	-	-	2,672	-	-
Software	8,983	133	447	(78)	-
Concessions, patents and licences	165	-	1,801	-	-
Issue rights	-	-	1,188	-	-
	9,148	133	6,108	(78)	-
Accumulated amortisation					
Technology and contracts	-	-	-	-	-
Trademark and customer portfolio	-	-	(178)	-	-
Software	(5,835)	(46)	(1,084)	78	12
Concessions, patents and licences	(104)	-	(221)	-	-
	(5,939)	(46)	(1,483)	78	12
	3,209	**87**	**4,625**	**-**	**12**

This appendix forms an integral part of note 8 to the consolidated annual accounts, in conjunction with which it should be read.

31.12.05	Translation differences	Incorporaciones consolidated group	Additions	Disposals	Transfers	31.12.06
-	-	6,896	-	-	-	6,896
2,672	-	-	-	-	-	2,672
9,489	31	-	290	(37)	23	9,796
1,966	-	-	-	-	-	1,966
1,188	-	-	1,414	(2,256)	-	346
15,315	31	6,896	1,704	(2,293)	23	21,676
-	47	-	(1,020)	-	-	(973)
(178)	-	-	(534)	-	-	(712)
(6,876)	(35)	-	(1,403)	34	-	(8,280)
(325)		-	(13)	-	-	(338)
(7,379)	12	-	(2,970)	34	-	(10,303)
7,936	43	6,896	(1,266)	(2,259)	23 (note 7)	11,373

APPENDIX V

Details of movement in other reserves and retained earnings for the years ended (31 December 2006 and 2005)

(In thousands of Euros)

	Other Reserves			
	Reserve for conversion to IFRS	Revaluation reserves	Merger reserves	Total
Balance at 1 January 2005	**(5,826)**	**8,991**	**119**	**3,284**
Distribution of profit / (application of loss) for the year				
Reserves	-	-	-	-
Dividends	-	-	-	-
Redemption of treasury shares	-	-	-	-
Application of revaluation reserve	-	(1)	-	(1)
Other movements	-	-	-	-
Profit for the year	-	-	-	-
Balance at 31 December 2005	**(5,826)**	**8,990**	**119**	**3,283**
Distribution of profit / (application of loss) for the year				
Reserves	-	-	-	-
Dividends	-	-	-	-
Redemption of treasury shares	-	-	-	-
Application of revaluation reserve	-	(2)	-	(2)
Other movements	-	-	-	-
Profit for the year	-	-	-	-
Balance at 31 December 2006	**(5,826)**	**8,988**	**119**	**3,281**

This appendix forms an integral part of note 15 to the consolidated annual accounts, in conjunction with which it should be read.

	Retained earnings				
Legal reserve	Special reserve	Voluntary reserves	Other consolidation reserves	Profit / (loss) for the year	Total
2,935	**25**	**113,720**	**40,862**	**13,800**	**171,342**
-	-	4,698	5,339	(10,037)	-
-	-	-	-	(3,763)	3,763
-	-	(2,924)	-	-	2,924
-	-	-	-	-	-
-	-	100	10	-	110
-	-	-	-	(19,695)	19,695
2,935	**25**	**115,594**	**46,211**	**19,695**	**184,460**
-	-	26,911	(10,948)	(15,963)	-
-	-	-	-	(3,732)	(3,732)
-	-	-	(3,673)	-	(3,673)
-	-	-	-	-	-
-	-	-	(2)	-	(2)
-	-	-	-	31,300	31,300
2,935	**25**	**142,505**	**31,588**	**31,300**	**208,353**

APPENDIX VI

Viscofan Group Management (31 December 2006 and 2005)

Name	Position	Company
Mr. José Antonio Canales García	General manager	Viscofan Group
Dª. Elena Ciordia Corcuera	Legal Department manager	Viscofan Group
Mr. Gabriel Larrea Lalaguna	Sales manager	Viscofan Group
Mr. César Arraiza Armendariz	Chief financial officer	Viscofan Group
Mr. Armando Ares Mateos	Communication and investor relations manager	Viscofan Group
Mr. Pedro Eraso Zabalza	Extrusion manager	Viscofan Group
Mr. José Vicente Sendin Azanza	Converting manager	Viscofan Group
Mr. Iñaki Recalde Irurzun	Research and development manager	Viscofan Group
Mr. Andrés Díaz Echevarria	Production manager	Viscofan S.A.
Mr. José Antonio Moriones Guinda	Production management technical advisor	Viscofan S.A.
Mr. Juan José Rota Arrieta	Human resources manager	Viscofan S.A.
Mr. Manuel Nadal Machin	Information and systems manager	Viscofan S.A.
Mr. Ricardo Royo Ruiz	Chief financial officer	Viscofan S.A.
Mr. Jan Bauer	General manager	Gamex Cb Sro., Viscofan Cz, S.R.O.
Mr. Miroslav Kamis	Production manager	Gamex Cb Sro., Viscofan Cz, S.R.O.
Mr. Juan Carlos García De La Rasilla	General manager	Koteks Viscofan, D.O.O.
Mr. Wilfred Schobel	Production manager	Naturin Gmbh & Co. Kg
Mr. Alfred Bruinekool	Sales manager	Naturin Gmbh & Co. Kg
Mr. Jesus Gainza Gainza	General manager	Naturin Uk, Ltd.
Mr. Yunny Soto	General manager	Viscofan Centroamérica Comercial, S.A.
Mr. Antonio Armendariz García	General manager	Viscofan De México S.R.L. de C.V, Teepak de México S.R.L. de C.V
Mr. Luis Bertoli	General manager	Viscofan Do Brasil S. Com. E Ind. Ltda.
Mr. Ely Miguel Weinstein	Production manager	Viscofan Do Brasil S. Com. E Ind. Ltda.
Mr. Waldemar Szymanski	General manager	Viscofan Poland Sp.Z.O.O.
Mr. José Maria Fernandez Martin	General manager	Viscofan Usa Inc., Teepak Usa Llc.
Mr.David Lambert	Sales manager	Viscofan Usa Inc., Teepak Usa Llc.
Mr. Alejandro Martinez Campo	General manager	Industrias Alimentarias de Navarra, S.A.U.
Mr.José Domingo Otamendi Zabala	Vice-chairman	Industrias Alimentarias de Navarra, S.A.U.
Mr.Juan Ignacio Villegas Diaz	General manager	Viscofan Group (until May 2006)
Mr.Achim Walter	Finance and administration manager	Naturin Gmbh & Co. Kg (until April 2006)
Mr. Matthias Göhrig	Production manager	Naturin Gmbh & Co. Kg (until April 2006)

Viscofan's business and financial information

Annual Accounts and Directors' Report

VISCOFAN, S.A.

KPMG Auditores S.L.
Edificio Iruña Park
Arcadio M. Larraona, 1
31008 Pamplona

Auditors' Report on the Annual Accounts

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

To the Shareholders of
Viscofan, S.A.

We have audited the annual accounts of Viscofan, S.A. (the Company), which comprise the balance sheet at 31 December 2006, the related statement of profit and loss for the year then ended and the notes thereto, the preparation of which is the responsibility of the Company's board of directors. Our responsibility is to express an opinion on the annual accounts taken as a whole, based on our examination which was conducted in accordance with generally accepted auditing standards in Spain, which require examining, on a test basis, evidence supporting the amounts in the annual accounts and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed.

In accordance with prevailing Spanish legislation, these annual accounts also include, for each individual caption in the balance sheet, statement of profit and loss and disclosure of source and application of funds, comparative figures for the previous year. We express our opinion solely on the annual accounts for 2006. On 31 March 2006 we issued our unqualified audit report on the 2005 accounts.

In our opinion, the annual accounts for 2006 present fairly, in all material respects, the shareholders' equity and financial position of Viscofan, S.A. at 31 December 2006 and the results of its operations and source and application of funds for the year then ended, and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with generally accepted accounting principles in Spain applied on a basis consistent with that of the preceding year.

The accompanying directors' report for 2006, contains such explanations as the directors consider relevant to the situation of the Company, the evolution of its business and other matters, but is not an integral part of the annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the annual accounts for 2006. Our work as auditors is limited to the verification of the directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the Company's accounting records.

KPMG AUDITORES, S.L.

Signed

Juan José Llorente
30 March 2007

KPMG Auditores S.L. firma española miembro de KPMG International, sociedad suiza

Reg. Mer Madrid, T. 11.961, F. 90, Sec. 8, H. M.-188.007, Inscrip. 9
C.I.F. B-78510153

Viscofan, S.A. Annual Accounts and Directors' Report

Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.

Balance Sheets at 31 December 2006 and 2005

(Expressed in thousands of Euros)

Assets	2006	2005
Fixed assets		
Intangible assets (note 5)	1,424	2,759
Tangible assets (note 6)	41,934	45,951
Investments (note 7)	203,688	202,142
	247,046	250,852
Deferred expenses	4	3
Current assets		
Stocks (note 8)	14,777	14,267
Debtors (note 9)	43,389	30,422
Short-term investments	512	12
Own shares (note 10 (e))	3,004	367
Cash in hand and at banks	228	507
Prepayments	95	137
	62,005	45,712
	309,055	296,567

Shareholders' Equity and Liabilities	2006	2005
Shareholders' equity (note 10)		
Share capital	14,388	14,388
Share premium	49,406	54,654
Reserves	154,573	127,332
Profit for the year	20,834	34,309
	239,201	230,683
Deferred income (note 11)	115	168
Long-term creditors		
Loans (note 12)	9,959	13,165
Other creditors (note 13)	4,862	4,881
	14,821	18,046
Current liabilities		
Loans (note 12)	25,013	25,966
Group companies (note 14)	12,176	6,051
Trade creditors (note 15)	8,436	7,744
Other creditors (note 16)	8,919	6,734
Trade provisions	40	25
	54,584	46,520
Provisions for charges and liabilities (note 4 (o)	334	1,150
	309,055	296,567

The accompanying notes form an integral part of the annual accounts for 2006.

Statements of Profit and Loss for the years ended 31 December 2006 and 2005

(Expressed in thousands of Euros)

Expenses	2006	2005
Operating expenses		
Materials consumed (note 8)	50,127	51,310
Personnel expenses (note 19)	28,978	26,421
Amortisation and depreciation (notes 5 and 6)	8,525	10,245
Changes in trade provisions (notes 8 and 9)	(350)	(51)
Other operating expenses		
External services	30,136	18,783
Local taxes	658	722
Other management expenses, current (note 4(o))	334	1,150
	118,408	108,580
Operating profit	**8,684**	**1,845**
Financial expenses		
Interest and similar expenses (note 20)	1,317	1,086
Changes in provisions for investments	(7)	7
Exchange losses	1,278	1,283
	2,588	2,376
Net financial income	**11,028**	**3,630**
Profit on ordinary activities	**19,712**	**5,475**
Extraordinary losses and expenses		
Changes in provisions for tangible and intangible assets and own shares (notes 5,6 and 7)	397	(32,872)
Losses on fixed assets and own shares	-	767
Extraordinary expenses	88	53
	485	(32,052)
Net extraordinary income	**-**	**33,370**
Profit before income tax	19,703	38,845
Income tax (note 17)	(1,131)	4,536
Profit for the year	**20,834**	**34,309**

Income	2006	2005
Operating income		
Net sales (note 18)	126,432	109,549
Increase in stocks of finished products and work in progress	346	341
Other operating income	314	535
	127,092	110,425
Financial income		
Dividends (note 14)	12,377	4,419
Other interest and similar income	460	449
Exchange gains	779	1,138
	13,616	6,006
Extraordinary profit and income		
Profit on sale of fixed assets	11	2
Extraordinary income	426	1,251
Capital grants taken to income (note 11)	39	65
	476	1,318
Net extraordinary expense	9	-

The accompanying notes form an integral part of the annual accounts for 2006.

Notes to the Viscofan, S.A. 2006 Annual Accounts

Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.

1. Nature and Principal Activities

Viscofan, S.A. (hereinafter the Company) was incorporated with limited liability on 17 October 1975 under the name of Viscofan, Industria Navarra de Envolturas Celulósicas, S.A. At their general meeting held on 17 June 2002 the shareholders agreed to change the name of the Company to the current one.

Its statutory and principal activity consists of the manufacture of cellulose, plastic and collagen casings, mainly for use in the meat industry, as well as the generation of electricity by any technical means, both for own consumption and for sale to third parties.

Its industrial installations are located in Cáseda and Urdiáin (Navarre, Spain). The head and registered offices of the Company are located in Pamplona (Navarre, Spain).

The Company is the parent of a group of companies which operate mainly in the food and cellulose, plastic and collagen casing sectors.

2. Basis of Presentation

The accompanying annual accounts have been prepared by the directors of the Company to present fairly the shareholders' equity, financial position, results of operations and changes in financial position for 2006, and to present the proposed distribution of profit for the year.

These annual accounts have been prepared on the basis of the auxiliary accounting records of the Company and in accordance with the criteria established in the Spanish General Chart of Accounts.

These annual accounts for 2006 will be submitted for approval by the shareholders within the periods established by prevailing legislation. The directors consider that the annual accounts will be approved without significant changes.

As required by Spanish accounting principles, the balance sheet, statement of profit and loss and disclosure of source and application of funds for 2006 include comparative figures for 2005, which formed a part of the annual accounts approved by the shareholders at their annual general meeting held on 22 May 2006. As permitted by such principles, the Company has opted to omit comparative data for 2005 from the notes to the accounts for 2006.

The directors have prepared the consolidated annual accounts for 2006 separately under International Financial Reporting Standards adopted by the European Union (IFRS-EU).

3. Distribution of Profit

The board of directors will propose to the shareholders at their annual general meeting that the profit for the year ended 31 December 2006 be distributed as follows:

	Thousands of Euros
Interim dividend (note 24)	6,625
Voluntary reserves	14,209
	20,834

4. Significant Accounting Principles

These annual accounts have been prepared in accordance with accounting principles established in the Spanish General Chart of Accounts, the most significant of which are as follows:

(a) Intangible assets

Intangible assets are stated as follows:

- Software is stated at cost and amortised on a straight line basis over the five-year period of expected use. Software maintenance costs are expensed when incurred.

- The rights to use and the option to purchase tangible assets contracted through lease financing are recorded at the cash value of the asset at the time of acquisition. These rights are amortised on a straight line basis over the useful lives of the leased assets. The total lease instalments and the amount of the purchase option are recorded as a liability. The initial difference between the total debt and the cash value of the asset, equivalent to the financial cost of the operation, is recorded under deferred expenses and expensed over the term of the contract using the interest method. When the purchase option is exercised, the cost and accumulated depreciation of these goods is transferred to the corresponding tangible asset category.

- The Company follows the policy of registering CO_2 emission rights as intangible assets that cannot be amortised. Freely received rights under the National Assignation Plan are stated at the market price prevailing at the time they were received with deferred income booked for the same amount.

  During 2005 the Company received free emission rights equivalent to 53,140 tonnes under the Nation Assignation Plan 2005-2007 approved by Royal Decree 1866/2004. This plan also stipulates that the same emission rights be assigned in 2007 as in 2005 and 2006. During 2006 the Company used emission rights amounting to 50,604 tonnes (see notes 4(i) and 4(o)).

(b) Tangible assets

Tangible assets are stated at cost, revalued in 1996, as permitted by legislation prevailing at that time, net of the corresponding depreciation.

Depreciation is provided on a straight line basis over the estimated useful lives of the related assets as follows:

Buildings	30
Plant and machinery	10
Other installations, equipment and furniture	10
Other tangible assets	5-15

Repairs and maintenance costs which do not improve the related assets or extend their useful lives are expensed when incurred.

(c) Investments

Interest in group and associated companies are stated at cost, which includes costs of acquisition.

Provision is made for decline in value of investments under the following circumstances:

- For quoted shares, when market value is below cost. Market value is determined as the lower of the average quotation of the last quarter and the closing quotation.
- For remaining investments, where circumstances so dictate. In the case of share capital holdings, where cost exceeds the underlying net book value, adjusted to take into account any latent unrecorded goodwill at year end.

Dividends received from group companies and other long-term investments are booked as income when their distribution is approved by the corresponding board of directors or annual general meetings of shareholders.

(d) Stocks

Stocks are stated at the lower of cost and market value. The cost of stocks is determined as follows:

- Raw and other materials consumed and goods for resale are stated at weighted average cost, including costs incurred in transporting goods to factories or warehouses.
- Finished and semi-finished goods are stated at weighted average cost of raw and other materials, and includes the applicable portion of direct and indirect labour, other manufacturing overheads and depreciation of fixed assets at factories.

Provision is made for stocks where cost exceeds market value or when circumstances indicate doubtful recovery of such costs.

(e) Debtors

In accordance with common business practice in Spain, a part of the Company's sales are collected by means of accepted or unaccepted notes. Notes receivable are generally discounted at banks with full recourse and are included in the accompanying balance sheet under trade debtors with an equivalent credit balance in short-term loans.

Discounting costs are expensed when incurred and are not deferred over the discount period, as the effect of such deferral would be immaterial to operating results.

Provision is made to cover possible losses arising on the settlement of balances receivable. The Company makes provision for doubtful accounts in respect of overdue balances and when circumstances indicate doubtful collection.

(f) Foreign currency transactions

Foreign currency transactions are accounted for in Euros at the rates of exchange prevailing at the transaction date. Exchange gains or losses arising on settlement of balances are taken to profit or loss when they arise.

Balances receivable and payable in foreign currency at year end are expressed in Euros at the rates of exchange prevailing at 31 December. Unrealised foreign exchange losses are charged to expenses, while unrealised exchange gains are deferred. Balances subject to exchange rate insurance are stated at the insured rates of exchange.

(g) Current/long-term

Assets and liabilities are classified as current if maturing within twelve months and long-term if maturing more than twelve months from the balance sheet date.

(h) Compensation for termination of employment

Except in the case of justifiable cause, companies are liable to pay indemnities to employees whose services are discontinued. Indemnity payments, if they arise, are expensed when the decision to terminate employment is taken.

(i) Deferred income

Capital grants are initially recorded as deferred income in the accompanying balance sheet. Income from capital grants is recognised in the statement of profit and loss on a straight line basis over the useful lives of the fixed assets for which the grants have been received.

CO_2 emission rights received free of charge under the National Assignation Plan (see note 4(a)) are recorded as intangible assets and deferred income when received at the prevailing market price and taken to extraordinary income when the related CO_2 emissions occur.

(j) Income tax

Income taxes are calculated based on profit reported for accounting purposes, adjusted for permanent differences with fiscal criteria and taking into consideration any applicable credits and deductions. The effects of timing differences, where applicable, are included in deferred tax assets or liabilities.

Following prudent criteria, tax credits in respect of loss carryforwards and deductions and credits pending application due to insufficient taxable profits are recognised as deferred tax assets when they comply with prevailing accounting requirements and to the extent of forecast reversals within the carryforward period.

(k) Income and expense

Income and expenses are recognised on an accruals basis, irrespective of collections and payments.

Nevertheless, in accordance with prudent criteria, the Company only records realised gains at year end, while expected liabilities and estimated losses are recognised as soon as they become known.

(l) Pension commitments

The Company has commitments with employees in respect of early retirement and seniority bonuses. The Company has externalised these commitments through insurance policies, the cost of which are booked under personnel expenses.

(m) Environmental issues

Long term assets used by the Company to minimise the environmental impact of its activity and protect and improve the environment are recorded as tangible assets at their cost of acquisition or production, as appropriate. Depreciation is provided on a straight line basis over the estimated useful lives of the assets as detailed in note 4 (b).

Expenses incurred on activities to protect the environment from effects of Company operations are considered environmental expenses, as are those derived from environmental commitments. These amounts are charged as other operating expenses.

Provision is made for environmental expenses which at year end are considered likely or certain to be incurred although the exact amount or the date they will materialise is undetermined. Consequently, these provisions are best estimates made on the basis of the information available at the closing date.

(n) Financial instruments

Company policy is to contract hedging operations to mitigate the risk of exchange rate fluctuations on certain financing operations.

Interests receivable and payable is calculated applying the interest method in line with the interest payable on hedged items, and the resulting net amount is charged to financial expenses.

(ñ) Own shares

Own shares are stated at average cost of acquisition, which is the lower of the total balance paid on purchase and market value. As these shares are acquired without prior approval by the shareholders at their annual general meeting to reduce share capital, it is understood that they could be subsequently disposed of or, alternatively used to reduce share capital. Consequently, their market value is considered to be the lower of the average quotation of the last quarter of the year, the closing quotation. Provision is made for the difference between the cost of acquisition and the lower of the closing quotation or the average quotation for the last quarter of the year with a charge to profit and loss and for the difference between the quotation and underlying net book value with a charge to reserves.

(o) Provisions for emission rights

Since 2006 the companies included in the National Assignation Plan whose activities produce CO_2 emissions must provide CO_2 emission rights equivalent to emissions produced during the year in the opening months of the following year (see notes 4(a) and 4 (i)).

The obligation to provide CO_2 emission rights for emissions produced during the year are recognised as short-term provisions under provisions for liabilities and charges in the balance sheet and under other operating expenses in the statement of profit and loss. The value of this obligation is equivalent to the relevant CO_2 emission rights booked under intangible assets in the balance sheet (see note 4 (a)).

5. Intangible Assets

Details and movement in 2006 are as follows:

	Thousands of Euros				
	31.12.05	Additions	Disposals	Transfers	31.12.06
Cost					
Research and development costs	14,738	-	-	-	14,738
Software	4,972	61	(2)	64	5,095
Concessions, patents and licences	36	-	-	-	36
Rights over leased assets	63	34	-	-	97
Greenhouse gas emission rights	1,188	1,414	(2,256)	-	346
Software in progress	61	21	-	(64)	18
	21,058	1,530	(2,258)	-	20,330
Accumulated depreciation					
Research and development costs	(14,738)	-	-	-	(14,738)
Software	(3,523)	(581)	1	-	(4,103)
Concesiones, patentes y licencias	(36)	-	-	-	(36)
Concessions, patents and licences	(2)	(16)	-	-	(18)
	(18,299)	(597)	1	-	(18,895)
Provisions	-	(34)	23	-	(11)
	2,759	899	(2,234)	-	1,424

At 31 December 2006 intangible assets include fully amortised items with a cost of Euros 16,908,880.

Greenhouse gas emission rights include free of charge rights allocated by the National Assignation Plan (see notes 4(a), 4(i) and 4(o)).

6. Tangible Assets

Details of the revalued cost of tangible assets and restated accumulated depreciation at 31 December 2006 and movement for the year are as follows:

	Thousands of Euros				
	31.12.05	Additions	Disposals	Transfers	31.12.06
Revalued cost					
Land and buildings	19,716	78	-	187	19,981
Plant and machinery	131,220	2,001	(29)	272	133,464
Other installations, equipment and furniture	26,257	382	-	721	27,360
Other tangible assets	8,080	103	(29)	-	8,154
Advances and tangible assets under construction	1,180	1,289	-	(1,180)	1,289
	186,453	3,853	(58)	-	190,248
Restated accumulated depreciation					
Buildings	(7,849)	(753)	-	-	(8,602)
Plant and machinery	(107,554)	(5,402)	29	-	(112,927)
Other installations, equipment and furniture	(17,298)	(1,553)	-	-	(18,851)
Other tangible assets	(7,506)	(220)	15	-	(7,711)
	(140,207)	(7,928)	44	-	(148,091)
Provisions	(295)	-	72	-	(223)
	45,951	(4,075)	58	-	41,934

As permitted by relevant legislation, in 1996 the Company revalued its tangible assets for a total of Euros 9,282,000 (see note 10 (d)) as permitted by Navarra Regional Law 23/1996. At 31 December 2006 the net book value of the revalued assets is Euros 943,000 and the related depreciation charge for the year Euros 141,000.

Details of tangible assets used in environmental activities are included in note 26.

Details of fully depreciated tangible assets in service at 31 December 2006 are as follows:

	Thousands of Euros
Buildings	1,406
Plant and machinery	80,599
Other installations, equipment and furniture	11,697
Other tangible assets	6,984
	100,686

At 31 December 2006 plant and machinery include assets used for carrying out research and development projects (see note 5), as follows:

	Thousands of Euros
Cost	8,834
Accumulated depreciation	(7,847)
	987

Details of assets acquired from group companies at 31 December 2006, are as follows:

	Thousands of Euros
Cost	2,198
Accumulated depreciation	(1,785)
	413

7. Investments

Details and movement in 2006 are as follows:

	Thousands of Euros			
	31.12.05	Additions	Disposals	31.12.06
Interests in group companies	235,829	2,003	-	237,832
Short-term securities portfolio	42	-	-	42
Guarantee deposits	4	1	-	5
	235,875	2,004	-	237,879
Provisions	(33,733)	(4,699)	4,241	(34,191)
	202,142	(2,695)	4,241	203,688

Details of direct and indirect interests held in Group and Associated companies, and other information, are included in Appendix I. The directors have opted to omit certain information regarding Group companies as they consider that inclusion of this information could damage its interests and would not provide relevant information for the understanding of these annual accounts.

During 2006 the Company has subscribed a Euros 2,000,000 share capital increase carried out by Koteks Viscofan, d.o.o.

Details of foreign currency investments at 31 December 2006 are as follows:

	Thousands of Euros
US Dollars	101,174
Czech Crowns	18,001
Serbian Dinar	11,311
Pounds Sterling	1,841
Polish Zloty	447
	132,774

None of the group or associated companies are listed on the stock exchange.

8. Stocks

Details at 31 December 2006 are as follows:

	Thousands of Euros
Goods for resale	966
Raw materials and other supplies	6,776
Finished products	3,840
Semi-finished products	3,830
	15,412
Provisions	(635)
	14,777

Changes in the provision for obsolescence during 2006 are as follows:

	Thousands of Euros
Balance at 1 January 2006	941
Allowance for the year	4,263
Recoveries for the year	(4,569)
Balance at 31 December 2006	635

The total cost of materials consumed in 2006 was as follows:

	Thousands of Euros
Raw and other materials consumed and goods for resale	
Net purchases	50,576
Change in stocks	(449)
	50,127

Details of purchases made from group companies are shown in note 14.

9. Debtors

Details at 31 December 2006 are as follows:

	Thousands of Euros
Trade debtors	19,070
Group companies	20,272
Sundry debtors	288
Personnel	12
Public entities	3,846
	43,488
Provisions for bad debts	(99)
	43,389

Details of balances receivable in foreign currencies are as follows:

	Thousands of Euros
Trade debtors	16,119
Group companies	9,553
	25,672

Debtor balances with public entities include the following:

	Thousands of Euros
Navarra Regional Government, VAT	152
Tax authorities, income tax (note 17)	363
Tax authorities, deductions pending application (note 17)	1,703
Tax authorities, loss carryforwards pending offset (note 17)	1,628
	3,846

Changes in the provision for bad debts during 2006 are as follows:

	Thousands of Euros
Balance at 1 January 2006	167
Allowance for the year	56
Recovery of balances	(100)
Balances written-off	(24)
Balance at 31 December 2006	99

10. Shareholders' Equity

Details of shareholders' equity and movement during the year ended 31 December 2006 are shown in Appendix II, which forms an integral part of this note.

(a) Share capital

At 31 December 2006 share capital is represented by 47,959,806 bearer shares of Euros 0.30 par value each, subscribed and fully paid. All shares have the same voting and profit sharing rights, except own shares.

The percentage of own shares held by the Company is within the limits established by prevailing legislation.

All of the Company's shares are listed on the Spanish Stock Exchange.

At 31 December 2006 the Company was aware of the following shareholders who each hold an interest of above 5%:

Name	% interest
Bestinver Gestión SG IIC	8.64

(b) Share premium

This reserve is freely distributable, subject to the same restrictions as those for the voluntary reserves.

(c) Legal reserve

Companies are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital. This reserve may only be used to offset losses if no other reserves are available. At 31 December 2006 the balance of this reserve exceeds the minimum amount required by law.

(d) Revaluation reserve Navarra Regional Law 23/1996

As permitted by legislation prevailing at that time, at 31 December 1996 the Company revalued its tangible assets by Euros 9,282,000 (see note 6). The resulting revaluation reserve, which comprises the revaluation of fixed assets, net of a 3% tax charge, amounts to Euros 9,003,000.

During 1999 this revaluation was inspected by the tax authorities and, accordingly, can be applied, free of tax, to:

- Offset prior years' losses.
- Increase share capital.
- Increase distributable reserves after 31 December 2006 to the extent that gains have been realised, that is, when the related assets have been depreciated, disposed of or otherwise written off.

(e) Own shares reserve

At 31 December 2006 the Company holds 581,071 own shares, for which a reserve has been made equal to the book value of these shares. This reserve is not distributable unless the shares are disposed of or redeemed by the Company.

Details of movement in own shares during 2006 is as follows:

	Number of shares	Thousands of Euros
Balance at 31 December 2005	76,102	367
Acquisitions	507,459	5,971
Disposals	(2,490)	(27)
Provisions made	-	(3,307)
Balance at 31 December 2006	581,071	3,004

(f) Merger reserve

These reserves derive from the merger by absorption of Inversiones Legazpi, S.A. by the Company in 2002 and are subject to the same restrictions as voluntary reserves. Details of this operation are included in the notes to the annual accounts for the year in which this operation was carried out.

(g) Voluntary reserves

These reserves are freely distributable to shareholders at 31 December 2006.

11. Deferred Income

Details and movement within deferred income at 31 December 2006 are as follows:

	Thousands of Euros					
	31.12.05	Additions	Value adjustments	Transfer to profit	Sales	31.12.06
Capital grants	130	12	-	(39)	-	103
Grants for greenhouse gas emission rights	38	1,414	(1,068)	(334)	(38)	12
	168	1,426	(1,068)	(373)	(38)	115

Details of capital grants are as follows:

	Thousands of Euros
Original grants	
Received in prior years	2,229
During the year	12
	2,241
Income recognised	
At the beginning of the year	(2,099)
During the year	(39)
	(2,138)
	103

Grants for rights over emission of greenhouse gases comprise amounts pending use by the Company (see notes 4 (a), 4 (i) and 4 (o)).

12. Short and Long-Term Loans

Details at 31 December 2006 are as follows:

	Thousands of Euros	
	Long-term	Short-term
Credit facilities	4,213	18,612
Loans	5,746	6,293
Interest on loans	-	108
	9,959	25,013

Long-term maturities of loans at 31 December 2006 are as follows:

Maturity	Thousands of Euros
2008	8,359
2009	800
2010	800
	9,959

Loans and credit facilities bear interest at variable market rates.

The Company has credit and discount facilities with a total limit of Euros 41,818 thousand.

The Company utilises financial derivative products mainly to eliminate or significantly reduce the risk of interest rate fluctuations which are, therefore, considered to be hedging operations. At 31 December 2006 the Company has contracted the following interest rate swap agreements:

	I.R.S. (Interest rate Swap)
Notional amount (thousands of Euros)	23,611
Date of contract	02.05.03
Inception date	06.05.03
Maturity date	30.06.08
Interest rate paid by the Company	3%
Interest rate received by the Company	Euribor 3 months

13. Other Long-Term Creditors

Details at 31 December 2006 are as follows:

	Thousands of Euros
Loans received	6,059
Short-term maturities (note 16)	(1,197)
	4,862

Loans received mainly comprise those obtained by the Company from the CDTI (Centre for the Development of Industrial Technology), the Government of Navarra and the Ministry of Science and Technology to finance research and development projects. The majority of these loans are interest-free and are guaranteed by financial entities (see note 23).

Long-term maturities are as follows:

	Thousands of Euros
2008	1,092
2009	1,069
2010	906
2011	569
Thereafter	1,226
	4,862

14. Balances and Transactions with Group Companies

Balances due to group companies at 31 December 2006 are expressed in Euros and the following currencies:

	In thousands of corresponding currency	Thousands of Euros
Euros	-	11,972
US Dollars	264	204
		12,176

Transactions carried out with group companies during the year ended 31 December 2006 are as follows:

	Thousands of Euros
Income	
Sales and services rendered	57,373
Dividends	12,377
Other operating income	37
Expenses	
Materials consumed	29,948
Other operating expenses	489

15. Trade Creditors

Trade creditors at 31 December 2006 comprise balances in respect of purchases or services rendered.

This balance includes approximately Euros 1,163,191 in US Dollars.

16. Other Creditors

Details at 31 December 2006 are as follows:

	Thousands of Euros
Public entities	2,252
Other debts	4,677
Salaries payable	1,990
	8,919

Details of balances due to public entities at 31 December 2006 are as follows:

	Thousands of Euros
VAT and personal income tax	21
Social security	697
Other items	317
German tax authorities, income tax (note 17)	1,217
	2,252

Details of other debts are as follows:

	Thousands of Euros
Purchases of fixed assets	797
Current portion of loans received (note 13)	1,197
Other creditors	2,683
	4,677

17. Taxation

The Company presents annual income tax returns. The standard rate of tax is 35%, which may be reduced by certain credits.

Due to the treatment permitted by fiscal legislation of certain transactions, the accounting profit differs from the profit for fiscal purposes. A reconciliation of accounting profit for the year with the taxable income that the Company expects to declare after approval of the annual accounts is as follows:

	Thousands of Euros
Accounting income, before tax	19,703
Permanent differences	
Dividends from subsidiaries	509
Provisions in subsidiaries	(4,308)
Tax exempt dividends	(12,292)
Other items	176
Taxable accounting income	3,788
Tax at 35%	1,326
Deductions	
Investment, research and development and job creation	(1,326)
Total income tax	-
Withholdings and payments on account	(363)
Income tax recoverable (note 15)	(363)

Tax exempt dividends reflect those received from the subsidiaries Gamex CB, S.r.o., Viscofan do Brasil and Naturin GmbH & Co, which are tax exempt.

The income tax revenue for the year is calculated as follows:

	Thousands of Euros
Tax at 35%	1,326
Deductions pending application	
- Generated during the year	(1,146)
- Generated in prior years	(1,148)
Expense for Naturin Gmbh & Co (note 16)	1,217
Capitalisation of Naturin Gmbh & Co loss carryforwards	(1,628)
Other items	248
Income tax	(1,131)

During the year deductions of Euros 2,294,000 were capitalised under the standard and special tax deduction regimes of the Regional Government of Navarra, Euros 1,326,000 of which have been applied.

At 31 December 2006 the Company has recorded tax credits for deductions pending application, as they directly affect the future tax charge and because the directors consider that recoverability is reasonably guaranteed.

In accordance with German legislation, the Company pays part of the income tax of the German subsidiary Naturin Gmbh & Co. The Company has therefore estimated an expense of Euros 1,217,000 in this respect.

During 2006 the Company capitalised Euros 1,628,000, representing the part of the tax credits generated by its German subsidiary Naturin Gmbh & Co. applicable to the Company, considering that their future utilisation is reasonably assured (see note 9).

Details of deductions applicable in the short term for investment, job creation and research and development, which are booked under public entities, are as follows:

Year of origin	Maturity	Thousands of Euros
2003	2013	172
2004	2014	1,273
2005	2015	19
2006	2016	239
		1,703
		(note 9)

The above amount relates entirely to credits pending application under the standard tax regime in Spain.

The Company is obliged to maintain fixed assets for which credits have been taken for a period of five years.

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the tax authorities or before the inspection period of four years has elapsed. At 31 December 2006 the Company has open to inspection by the tax authorities all main applicable taxes since 1 January 2003 (1 January 2002 for income tax). The directors do not expect that significant additional liabilities would arise in the event of inspection.

18. Net Sales

The directors of the Company consider that the disclosure of a breakdown of net sales by geographical market may be of detriment to the Company. Accordingly, as permitted by prevailing legislation the directors have opted to omit such information.

Sales to group companies during the year ended 31 December 2006 are shown in note 14.

19. Personnel Expenses

Details are as follows:

	Thousands of Euros
Wages and salaries	22,980
Social charges	5,998
	28,978

The average headcount, distributed by category, is as follows:

Management	12
Technicians and department heads	93
Administrative staff	35
Specialised personnel	100
Other employees	376
	616

Employee remuneration is not linked to the performance of Company shares on the stock exchange.

20. Interest and Similar Expenses

Details are as follows:

	Thousands of Euros
Interest on long-term debt	395
Interest on short-term debt	908
Other financial expenses	14
	1,317

21. Transactions in Foreign Currency

Details for the year ended 31 December 2006 are as follows:

	Thousands of Euros
Income	
Sales	67,862
Expenses	
Purchases of raw and other materials consumed	7,925
Other operating expenses	2,359
Personnel expenses	112

22. Information Relating to the Directors

As foreseen in articles 27 and 30 of its bylaws, the board of directors of the Company receive remuneration equivalent to 1.5% of profit before tax, which amounted to Euros 304,683. In accordance with the same articles, the executive committee receive 1.5% of profit before tax amounting to Euros 304,683. In accordance with the aforementioned articles, the board of directors and the executive committee decide on the distribution of this remuneration among the members of these bodies. In both cases it was unanimously agreed that remuneration would be distributed equally among the members.

Details of remuneration by director are as follows:

			Euros	
Name	Committee	Board	Other Group Companies Boards	Total
Mr. Jaime Echevarría Abona	101,561	38,086	111,988	251,635
Mr. José María Cuevas Salvador	101,561	38,086	-	139,647
Mr. Néstor Basterra Larroudé	101,561	38,086	55,994	195,641
Mr. Inigo Soláun Garteiz-Goxeascoa	-	38,085	-	38,085
Ms. Ágatha Echevarría Canales	-	38,085	-	38,085
Mr. José Cruz Pérez Lapazarán	-	38,085	-	38,085
Mr. Gregorio Marañón Bertrán de Lis	-	38,085	-	38,085
Mr. Alejandro Legarda Zaragüeta	-	38,085	-	38,085
	304,683	304,683	167,982	777,348

The Company has not given any advances or loans to the members of the board of directors and has no pension or life insurance commitments with the directors. The Group has extended no guarantees to any of the directors and remuneration is not linked to the value of shares.

During 2006 the members of the board of directors have not carried out operations with the Company or Group companies other than ordinary operations under market conditions.

The directors of the Company hold no shares, management positions or functions in companies with statutory activities identical, similar or complementary to that of the Company, other than the following:

Name	Company	Position
Mr. Jaime Echevarría Abona	Naturin GMBH & Co KG	Chairman, Board of directors
	Naturin Limited	Chairman, Board of directors
	Gamex, CB, s.r.o.	Chairman, Board of directors
	Viscofan CZ	Chairman, Board of directors
	Viscofan USA Inc	Chairman, Board of directors
	Viscofan Poland Sp. Z.o.o.	Chairman, Board of directors
	Viscofan Centroamérica Comercial	Chairman, Board of directors
	Viscofan Canada, Inc	Chairman, Board of directors
	Teepak USA, LLC	Chairman, Board of directors
	Viscofan Do Brasil	Member, Consultative Council
	Teepak de Mexico, S. de R.L. de C.V.	Chairman, Board of directors
	Viscofan de México, S. de R.L. de C.V.	Chairman, Board of directors
	Koteks Viscofan d.o.o.	Chairman, Board of directorsn
Mr. Néstor Basterra Larroudé	Naturin GMBH & Co KG	Director
	Viscofan USA Inc	Director

23. Guarantees, Commitments and Contingent Liabilities

a) At 31 December 2006 the Company had extended guarantees of approximately Euros 48,425,027 to Group companies. It has also extended bank guarantees of Euros 3,107,280, mainly for loans received from the CDTI, the Government of Navarra and the Ministry of Science and Technology (see note 13).

b) The Company has contracted exchange rate insurance of US Dollars 21,317,000, Norwegian Crowns 1,503,914, Canadian Dollars 190,000, Japanese Yen 33,400,496, Pounds Sterling 75,000 and Polish Zlotys 2,724,000 for collections to be made in respect of sales in 2006.

24. Subsequent Events

On 30 January 2007, as agreed by the directors of the Company at their meeting held on 25 January 2007, a gross interim dividend of Euros 0.14 per share was distributed for all shares comprising the share capital of the Company.

The legally required cash flow statement prepared by the directors of the Company for the distribution of the dividend on account of 2006 profits, which considers own shares, is as follows::

	Thousands of Euros
Net profit of the Company for the year ended 31 December 2006	20,834
Less, mandatory appropriations to the legal and statutory reserves	-
Maximum distributable profits	20,834
Interim dividend agreed by directors of the Company (note 3)	6,625
Forecast cash and cash equivalents	
Cash and cash equivalents at 25 January 2007	223
Projected collections for one year	123,281
Projected payments for one year, including interim dividend	(123,362)
Projected cash balances at 25 January 2008	142

25. Source and Application of Funds

The statements of source and application of funds for the years ended 31 December 2006 and 2005 are shown in Appendix III, which form an integral part of this note.

26. Environmental Issues

The Company has certain tangible assets involved in environmental projects, the cost and accumulated depreciation of which total Euros 9,345,000 and Euros 4,393,000 respectively.

During 2006 the Company has incurred expenses for environmental protection and improvements amounting to approximately Euros 952,000.

The directors of the Company consider that no additional provisions are required to cover the possible expenses or risks derived from environmental activities.

27. Other Information

KPMG Auditores, S.L., the auditors of the annual accounts of the Company and other related companies as defined in the fourteenth additional disposition of legislation governing the reform of the financial system have agreed with the Company fees for professional services for the year ended 31 December 2006 amounting to Euros 79,001. These amounts include the total fees for 2006, irrespective of invoice date.

Viscofan, S.A. Directors' Report (31 December 2006)

Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.

Business performance and situation of the Viscofan Groupn

Viscofan S.A. has made considerable progress in trade and operations in 2006. Sales have reached Euros 126.4 million, 15.4% up on the same period in the prior year.

Sales have benefited from a more rational competitive environment with a certain recovery following the slump in average prices of a number of products affecting the sector in recent years. Accordingly, the average price of cellulose and collagen casing has risen on the prior year which, together with increased volume of demand, have resulted in improved sales.

The recovery of sales and greater productivity during the year have mitigated the rise in energy costs in 2006, primarily due to the increase in the price of petrol, and better operating profits.

Operating profit has increased from Euros 1.8 million in 2005 to Euros 8.6 million this year due to a rise in sales volume, greater efficiency and a decrease in amortisation and depreciation charges.

Dividends received from Viscofan S.A. subsidiaries have generated net financial income of Euros 11.0 million in 2006 compared to Euros 3.6 million the previous year.

In 2006 the Group has recognised a net extraordinary expense of Euros 9 million, in contrast with the Euros 33.4 million net extraordinary income booked in 2005, due to the application of financial provisions of Euros 32.5 million that year.

Consequently, profit before income tax is down from Euros 38.8 million in 2005 to Euros 19.7 million in 2006 in spite of the aforementioned improvement in operating profit and net financial income.

The capitalisation of tax deductions has reduced income tax expense for the year by Euros 1.1 million compared to the Euros 4.5 million income tax expense in 2005.

Net profit is down from Euros 34.3 million to Euros 20.8 million in 2006 mainly because of the aforementioned application of investment provisions.

Important events

At 31 December 2005 the companies Teepak LLC (USA), Teepak Inc. (Canada), Teepak Holding de México S. de R.L. de C.V., were acquired and fully consolidated in the Viscofan Group with effect from 1 January 2006.

This acquisition has changed the sector, with Viscofan consolidating its leadership in the artificial casings market while incorporating fibrous casing production into the Group and thereby becoming the only producer of all types of artificial casings. This incorporation has also extended the number of factories in the US Dollar zone, which make Viscofan less vulnerable to future exchange rate fluctuations and allow it to regionalise production and markets, with consequent savings.

In May and September 2006 Viscofan S.A. signed the collective labour agreements for its Navarra (Spain) production centres which are applicable for the period from 2005 to 2009, both inclusive. These agreements maintain the 1,712-hour work period and establish salary increases of between 0.3 and 0.75 percentage points each year above the CPI increase.

Outlook for the Company

Improved competitiveness in the artificial casings market and consolidation of Viscofan's leadership leave the Group in a very favourable position to capture market growth whilst continuing to implement measures aimed at improving its efficiency and therefore profitability.

In order to maximise economies of scale of the Viscofan Group, during the coming year, distribution of the cellulose casing production of Viscofan S.A. will be aimed at providing services mainly to customers in Europe, Asia and Africa.

This new distribution of production and sales will affect the Company's activity and require additional effort from Viscofan personnel.

Furthermore, the installation of new co-generation plants has been started in 2007, which will increase the energy capacity of Viscofan and at the same time replace old co-generation plants, which have been fully depreciated, and contribute to the improvement in the environmental impact of the production process.

Main Group investments and research and development activities

During the year Viscofan S.A. has made investments of approximately €3.9 million essentially on improving Company efficiency and performance and environmental protection.

Through its R&D department in Navarra, Viscofan S.A.'s research and development activities are focussed on a drive for greater production efficiency and the creation of new products in the meat-processing sector in which the Company operates.

In the field of research and development the Company has obtained important institutional support both from the Regional Government of Navarra and the Spanish Ministry if Industry (CDTI).

Patents are applied for where considered relevant by technicians and experts.

Acquisition of treasury shares

At their annual general meeting the shareholders agreed to acquire treasury shares in 2006, which were acquired in 2007.

Risk management

Due to the globalisation of its sales, the Group carries out a number of transactions in currencies other than Euros. General group policy is to hedge against these companies' commercial transaction risks by contracting exchange rate insurance to cover the collection period of the Group's product sales. Long-term insurance is not contracted.

No exchange hedges are contracted to cover Parent company investments in subsidiaries which operate with other currencies or profits contributed by these companies. The Group has shown that it is capable of competing in competitive price markets and therefore does not consider this to be a factor of risk, albeit a determining factor in sales profitability.

The Group's level of leverage and the amounts drawn down on its credit facilities lead us to believe that the Company will be able to meet its financial needs.

The Parent company has contracted several interest rate swap operations to mitigate the risks of exposure to interest rate fluctuations.

Operations with the board of directors s or persons acting on their behalf, carried out during 2005, with the quoted company or a Group company when operations are different to the Company's ordinary activity or are not carried out in normal market.

In 2006 the directors have not participated in any operations other than the ordinary activity of the Company or Group companies or carried out in abnormal market conditions.

Subsequent events

At the meeting held on 25 January 2007, the board of directors of Viscofan agreed to distribute a dividend on account of profit for 2006 for a gross amount of Euros 0.14 per share for all of the shares comprising the share capital of the Parent Company, representing a rise of 79.5% compared to the dividend on account of the 2005 profit distributed the prior year. The aforementioned dividend was paid on 30 January 2007.

ANNUAL ACCOUNTS APPENDIX

APPENDIX I

Details of Direct Shareholdings in Group and Associated companies (31 December 2006)

		Cost	Shareholders' equity	
Group companies	Percentage interest	Thousands of Euros	Currency	Amounts in thousands
Industrias Alimentarias de Navarra, S.A.U.	100.00%	15,602	EUR	34,422
Naturin GmbH & Co. KG	100.00%	89,436	EUR	60,935
Naturin Inc Delaware	100.00%	7,219	USD	1,007
Naturin Verwaltung, GmbH	100.00%	21	EUR	24
Viscofan do Brasil, soc. com. e ind. Ltda.	100.00%	53,138	USD	67,763
Viscofan Poland Sp.z.o.o.	100.00%	447	PLN	2,002
Gamex CB Sro	100.00%	7,498	CZK	316,380
Viscofán USA Inc.	100.00%	34,729	USD	37,841
Naturin LTD	100.00%	1,841	GBP	2,055
Viscofan CZ, S.r.o.	100.00%	10,503	CZK	398,923
Viscofan de México S.R.L. de C.V.	99.99%	5,918	MXP	82,174
Viscofan Centramérica Comercial, S.A.	99.50%	166	USD	209
Koteks Viscofan, d.o.o.	100.00%	11,311	CSD	552,241
Viscofan de México Servicios, S.R.L. de C.V.	99.80%	3	MXP	50
		237,832		

Details of Indirect Shareholding in Group Companies (31 December 2006)

	Percentage interest
IAN Perú S.A.	100,00%
Naturin Vertriebs GmbH	100,00%
Naturin Canadá Vertriebs GmbH	100,00%
Stephan & Hoffmann AG	100,00%
Viscofan de México S.R.L. de C.V.	0,01%
Viscofan de México Servicios, S.R.L. de C.V.	0,20%
Teepak Holdings de México, S.R.L. de C.V.	100,00%
Teepak de México, S.R.L. de C.V.	100,00%
Teepak Servicios de México, S.R.L. de C.V.	100,00%
Zacapu Power, S.R.L. de C.V.	100,00%
Viscofan Canadá Inc.	100,00%
Teepak USA, LLC	100,00%
Viscofan Centroamérica Comercial, S.A.	0,50%

This Appendix forms an integral part of note 7 to the annual accounts for 2006, in conjunction with which it should be read.

Activity	Registered offices
Manufacture and marketing of tinned vegetables	Villafranca (Navarra)
Manufacture and marketing of artificial casings	Weinheim (Germany)
Financial activity	Dover (USA)
Financial activity	Weinheim (Germany)
Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Commercial activity	Cracovia (Poland)
Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic))
Manufacture and marketing of artificial casings	Montgomery (USA)
Commercial activity	Seven Oaks (UK)
Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic))
Manufacture and marketing of artificial casings	San Luis de Potosí (Mexico)
Commercial activity	San José (Costa Rica)
Manufacture and marketing of artificial casings	Novi Sad (Serbia)
Provision of services	San Luis de Potosí (Mexico)

Activity	Registered offices
Asparagus production	Cañete (Peru)
Commercial activity	Weinheim (Germany)
Commercial activity	Weinheim (Germany)
Holding company	Weinheim (Germany)
Manufacture and marketing of artificial casings	San Luis de Potosí (Mexico
Provision of services	San Luis de Potosí (Mexico)
Holding company	Zacapu Michoacán (Mexico)
Manufacture and marketing of artificial casings	Zacapu Michoacán (Mexico)
Provision of services	Zacapu Michoacán (Mexico)
Operation of co-generation plant	Zacapu Michoacán (Mexico)
Commercial activity	Quebec (Canada)
Manufacture and marketing of artificial casings	Danville, Illinois (USA)
Commercial activity	San José (Costa Rica)

APPENDIX II

Detail and Movement in Shareholders' Equity (31 December 2006)

(In thousands of Euros)

	Share capital	Share premium	Legal reserve	Own shares reserve
Balances at 31 December 2005	14,388	54,654	2,935	367
Distribution of 2005 profit				
• Voluntary reserves	-	-	-	-
• Interim dividends and distribution of share premium	-	(5,248)	-	-
Release of revaluation reserve	-	-	-	-
Transfer to own share reserve				
• Creation	-	-	-	5,971
• Write-back	-	-	-	(27)
Provision for own shares	-	-	-	(3,307)
Profit for 2006	-	-	-	-
Balances at 31 December 2006	**14,388**	**49,406**	**2,935**	**3,004**

This Appendix forms an integral part of note 10 to the annual accounts for 2006, in conjunction with which it should be read.

Reserves					
Special reserve	Merger reserves	Voluntary e reserves	1996 revaluation reserve	Profit for the year	Total
25	119	114,896	8,990	34,309	230,683
-	-	30,577	-	(30,577)	-
-	-	-	-	(3,732)	(8,980)
-	-	-	(2)	-	(2)
-	-	(5,971)	-	-	-
-	-	-	-	-	(27)
-	-	-	-	-	(3,307)
-	-	-	-	20,834	20,834
25	119	139,502	8,988	20,834	239,201

APPENDIX III

Source and Application of Funds (for the years ended 31 December 2006 and 2005)

(In thousands of Euros)

Applications	2006	2005
Acquisitions of fixed assets		
Intangible assets	1,530	1,527
Tangible assetss	3,853	5,077
Investments	2,004	9,327
Deferred expenses	1	3
Write-down of revaluation reserve on disposal of fixed assets	2	1
Share capital reduction	-	2,924
Dividends	8,980	8,654
Provision for own shares	3,307	339
Disposal of own shares	27	-
Cancellation or transfer to short term of long-term debt	4,403	8,015
Disposal or adjustment to the value of emission rights	1,106	-
Total applications	25,213	35,867
Increase in working capital	9,045	-
	34,258	35,867

This Appendix forms an integral part of note 25 to the annual accounts for 2006, in conjunction with which it should be read.

Sources	2006	2005
Funds generated from operations		
Profit for the year	20,834	34,309
Amortisation and depreciation	8,525	10,245
Net profit on disposal of fixed assets	(11)	(2)
Changes in provisions for intangible assets	11	(276)
Changes in provisions for tangible assets	(72)	(72)
Changes in provisions for investments	458	(32,524)
Deferred income	(373)	(1,215)
	29,372	10,465
Long-term debt	1,178	4,401
Net capital grants received	12	6
Grants for emission rights	1,414	1,188
Disposal of fixed assets		
Intangible assets	2,257	-
Tangible assets	25	7
Investments	-	3,899
Total sources	4,886	19,966
Decrease in working capital	-	15,901
	34,258	35,867

Movement in working capital

(Expressed in thousands of Euros)

	2006		2005	
	Increases	Decreases	Increases	Decreases
Stocks	510	-	1,049	-
Debtors	12,967	-	-	3,074
Current liabilities	-	8,064	-	13,311
Short-term investments	500	-	-	-
Own shares held in the short-term	2,637	-	117	-
Cash in hand and at banks	-	279	436	-
Prepayments	-	42	32	-
Provisions for liabilities and charges	816	-	-	1,150
	17,430	8,385	1,634	17,535
Movement in working capital	-	9,045	15,901	-
	17,430	17,430	17,535	17,535

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