Viscofan

Annual Report 12



02

VISCOFAN GROUP

04 KEY PERFORMANCE INDICATORS

06 LETTER FROM THE CHAIRMAN

10 VISCOFAN TODAY
10 Viscofan Worldwide
11 2012 highlights
12 History

14 CORPORATE GOVERNANCE
14 Shareholdings structure
15 Board of Directors
20 Group structure
21 Good governance practices

34 STRATEGY
34 Strategic Pillars
35 Be More Strategy

78 DIRECTORY

OUR STAKEHOLDERS

43 SHAREHOLDERS
43 Financial Highlights
44 Business performance
52 Viscofan in the stock market

58 MARKET: CUSTOMERS AND SUPPLIERS
58 Products
60 Brands
61 Quality, service and food safety

66 EMPLOYEES
66 A multicultural group of people
68 Development of talent a committed team

70 SOCIETY AND SUSTAINABILITY
70 Research, Development and Innovation
74 Viscofan and sustainability

OUR FINANCIAL STATEMENTS

80 CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

191 VISCOFAN SA FINANCIAL STATEMENTS AND MANAGEMENT REPORT

245 ANNUAL CORPORATE GOVERNANCE REPORT

KEY PERFORMANCE INDICATORS

Viscofan understands corporate responsibility and the way it relates to its stakeholders: shareholders, the market (from suppliers to customers), employees and society.

Commitment born in the mission of the company, "the needs of the global food industry, using artificial casings, that create value for our stakeholders," and is performed through specific initiatives and tasks tracking.

For these reasons 2012 Annual Report is distributed in three parts that intend to demonstrate in an integrated and global way the value proposition of Viscofan Group: from the descriptive explanation of the Group to its relationship with each of the Interest Groups, which are reflected in the end year financial statements.

Our corporate governance practices are, therefore, a dynamic activity which is led by the Board of Directors. It promotes continuous dialogue with all necessary stakeholders and let know their expectations and concerns.

Shareholders

Market capitalization 31 Dec. 2012 (million of €)	Proposed remuneration per share (€)	Turnover (million of €)	EBITDA (million of €)	EBITDA margin	Adjusted net profit (million of €)	Investments (million of €)	Net bank debt (million of €)
1,995.1	1.10	752.8	185.0	24.6%	105.1%	74.0	64.7
↑ +49%	↑ +10%	↑ +13%	↑ +14%	↑ +0.3 p.p.	↑ +7%	↑ +14%	↑ +5%

Society and environment

Waste and sub products (thousands of tons)	CO_2/km produced (base 2009)	% of valued subproduct	Protection and environmental improvement current expenses (million of €)
37.4	81.1	60%	1.0
↑ -4%	↑ -2%	↑ -4 p.p.	↑ +13%

Corporate Responsability

Market: Suppliers and customers

Estimates share in the casings market	Global growth of the casings market	Number of countries with productive presence	Number of countries with comercial presence	Casings product range	Vegetable food product range
27%	+8%	8	100	cellulose, collagen, fibrous and plastic	asparagus, tomato sauce, olive, canned vegetables and ready-cooked meals

Employees

Average workforce (People)	Personnel expenses (millions of €)	Training hours	% Women over total workforce
4,377	150	115,000	32%
↑ +7%	↑ +9%	↑ +8%	↑ +2 p.p.



The results obtained are brought about by the dreams, dedication and know-how of every single one of the 4,377 people who make up the Viscofan Group. It is not enough to have the best technology available; it is also necessary to be able to depend on the entire human team being capable of using this technology to its maximum potential

LETTER FROM THE CHAIRMAN

Dear shareholder,

2012 has been an exciting year for the Viscofan Group, with a multitude of projects at our industrial facilities that have helped to create what is today a more solid Group, and one that is able to face the opportunities for growth offered by our market.

We have experienced intense commercial and operational activity to establish the foundations of the "Be MORE" strategy, running from 2012 to 2015, with special emphasis on ensuring that these initiatives improve our competitive position for the future.

This effort is hugely important, because we find ourselves faced with a historic opportunity for growth in the casings market. Added to the solid foundations for growth in our sector, based on population increases and the greater presence of animal protein in people's everyday diet, is the challenge to the meat industry of incorporating efficient production processes that provide easier access to this protein in emerging markets, particularly China, Southeast Asia, Latin America and Eastern Europe. Together, these regions already represent more than 45% of the total market and are destined to be the main casings markets in the future.

All this is taking place in an environment that is seeing an increase in the price of the raw materials used in meat production and labour costs. These trends are shared by both developed and emerging economies, making artificial casings a necessary alternative so that our clients can reduce their costs, be more productive and increase their quality standards.

Viscofan, as market leader, has the responsibility of meeting these demands from our clients, and this is why, within our "**M**arket growth" initiatives, we have carried out ambitious expansion plans that have changed the company profile.

These projects cover a wide spectrum, from the implementation of new factories to consolidating expansion in capacity by using our best technology at centres of excellence in Spain and Germany; from increasing the workforce due to organic growth at our facilities in Spain, Serbia and China to rescaling teams in the Czech Republic and Brazil, thanks to process automation; and from improving efficiency in an already consolidated cogeneration plant in Spain to replacing the energy source used in Mexico with one that is cleaner and more efficient.

Among all the projects we have carried out, I would like to highlight the installation of our collagen extrusion plant in China, in operation since February 2013, because I believe the new factory in this country is a good example of the values represented by Viscofan and also its excellent human team.

It is certainly not easy to start a new activity from scratch. In a country that is over 9,000 km away from our benchmark production plants, where technical and logistical problems are combined with the challenges of cultural diversity and the speed needed by a project that has taken less than 24 months to become reality, it is with good reason that China is currently the largest collagen market in the world, with growth of over 15% each year.

Today we can say that Viscofan is even more global; our products are sold in over 100 countries from our facilities in Europe, North America, Latin America and Asia.

This global vision and our commitment to placing the client at the centre of our business decisions are the reasons why, at the beginning of 2014, we will be the first company in the world to produce collagen casings in Latin America, in Uruguay, to more efficiently serve this continent.

This measured business expansion takes care not to put the financial strength needed to be a leader in this sector at risk, and is undertaken with solid accounts that give us the flexibility to continue addressing growth projects.

To grow, it is also necessary to carry out intense internal improvement, or "**O**ptimisation", activities that counteract stresses related to raw materials, energy and wage rises. We are dedicating new human and material resources to these initiatives, with the aim of continually increasing the profitability of our operations, which have proven over recent years to be the best route to improving Viscofan's competitiveness in an increasingly demanding environment.

In an ever more global world, environmentally sustainable management becomes even more necessary. The Board of Directors is promoting initiatives in which the search for profitability is accompanied by projects that aim to minimise the impact of our activity on the environment, increase quality and food safety requirements, and provide safe work environments that mean the skills of the excellent Viscofan Group human team can be developed. An added challenge, taking into account the heterogeneous nature of the cultures where we operate and the disparate regulations and legislation in different countries.

Even in a context of intense activity with pressure on costs, in 2012 we have fulfilled the ambitious goals we set the year before. We have obtained double-digit growth in income and EBITDA, +13% and +14%, respectively, up to €753 million and €185 million, while net profit reached a new high when it passed the €105 million mark.

This evolution has been reflected by the stock market, with share price appreciation of 49% during the year. Creating value would not have been possible without the Board of Director's firm commitment to managing the company according to best practices in Corporate Governance. This process is in constant evolution and, headed by the Board itself, in 2012 it has led to the incorporation of a new, independent director, Mr. José Maria Aldecoa, greater support for the duties and responsibilities entrusted to the

Audit Committee and the Appointments and Remuneration Committee, and greater dedication from the Executive Committee.

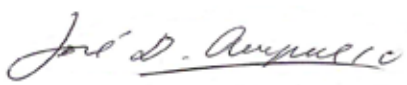
In one way or another, all these achievements and initiatives influenced the inclusion of Viscofan in the Ibex 35, the benchmark index for listed companies in Spain, which in these first few months of the year, has led to significant growth in contract volume and greater liquidity.

The strength of these results has led us to propose to the Shareholders' Meeting an additional dividend of €0.694 per share, to be paid on 4 June. This will put total shareholder remuneration charged to 2012 income at €1.10, 10% higher than last year and equivalent to 49% of net results.

The casings market keeps its growth prospects intact, which coexist with an environment of production cost pressure. For this reason, in the 2013 financial year, we will continue to advance in our expansion and optimisation plans. These are linked to a significant investment effort (€100 million), but will also be accompanied by growth in the main financial figures: from +6% to +7% in income, from +7% to +8% in EBITDA and from +3% to +4% in net income, despite greater tax pressure.

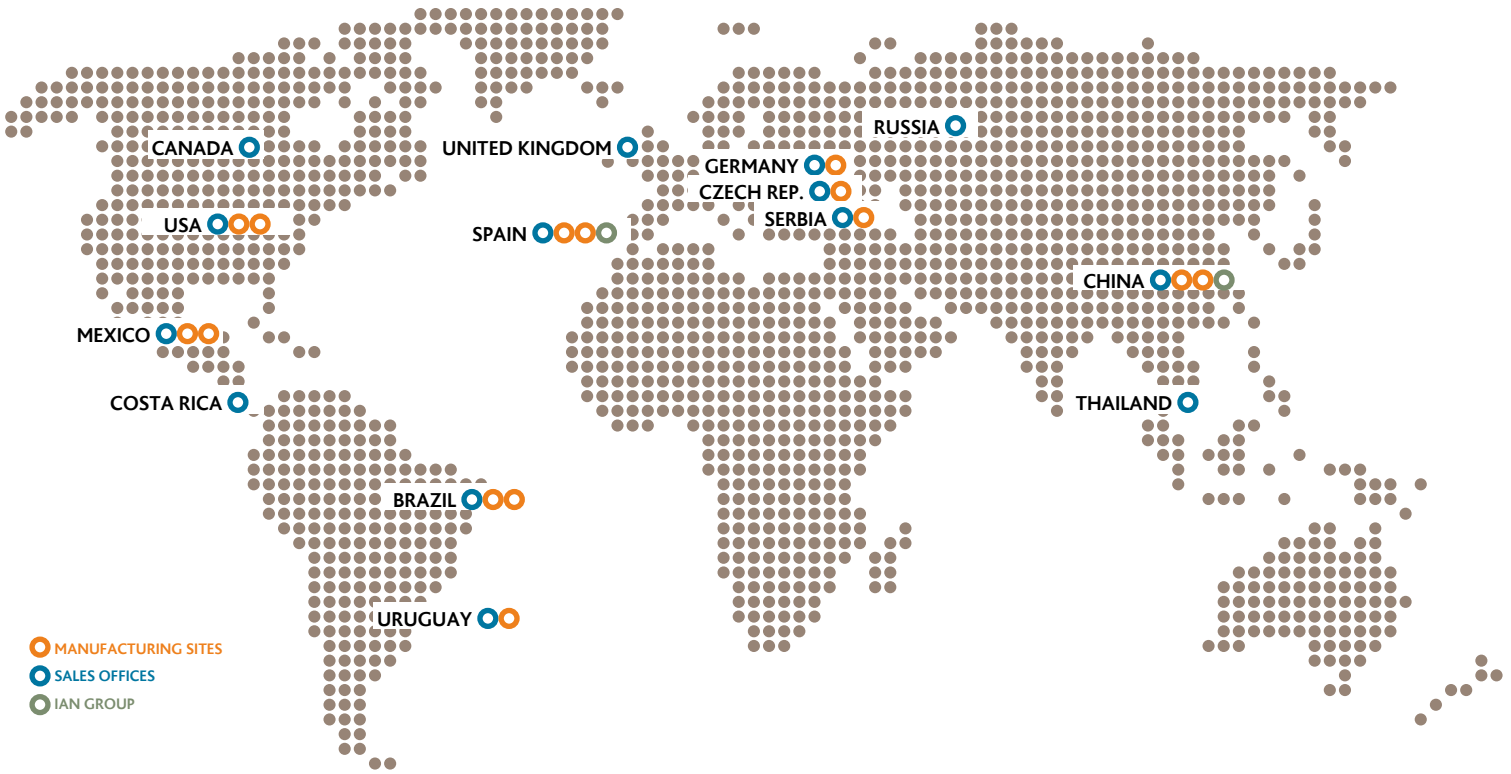
The results obtained are brought about by the dreams, dedication and know-how of every single one of the 4,377 people who make up the Viscofan Group. It is not enough to have the best technology available; it is also necessary to be able to depend on the entire human team being capable of using this technology to its maximum potential.

Nor would these results have been possible without the support, trust and stability that you as a shareholder have given us this year, when the current economic context has pressurised the management of some companies into taking a short-term view, frequently putting the survival of these companies at risk. For this reason, on behalf of the entire Board of Directors, I would like to thank you for your support during this period, and to reiterate our commitment to ensuring that the Viscofan Group will continue to create value for its shareholders, particularly those with a long-term vision.



JOSÉ DOMINGO DE AMPUERO Y OSMA

VISCOFAN WORLDWIDE



NORTH AMERICA
869 employees
Revenue: €209 million
Extrusion and converting of cellulose and fibrous casings
4 Manufacturing sites
3 Sales offices

SOUTH AMERICA
459 employees
Revenue: €100.7 million
Extrusion and converting of cellulose, collagen and plastic casings
3 Manufacturing sites (one is under construction)
3 Sales offices

EUROPE/ASIA
2,448 employees
Revenue: €339,5 million
Extrusion and converting of cellulose, collagen and plastic casings
7 Manufacturing sites
8 Sales offices

IAN Group
601 employees
Revenue: €103.6 million
Production and sale of preserved vegetables
3 Manufacturing sites
1 Sales office

2012 HIGHLIGHTS

February

Publication of **results for 2011** and strategic plan "Be MORE" 2012-2015.

March

The **IAN Group extends his range of plates** ready to serve for restoration.

April

Publication of results for the **first quarter of 2012.**

May

Viscofan 2012 **General Shareholders' Meeting.**

Payment of a complementary dividend of **€0.634 per share gross**.

Incorporation of **Viscofan Uruguay SA** to build the first collagen extrusion plant in Latam.

June

Mr José Maria Aldecoa accepts his appointment as independent director, and joins to the Audit Committee.

July

Publication of results for the **first half of 2012.**

October

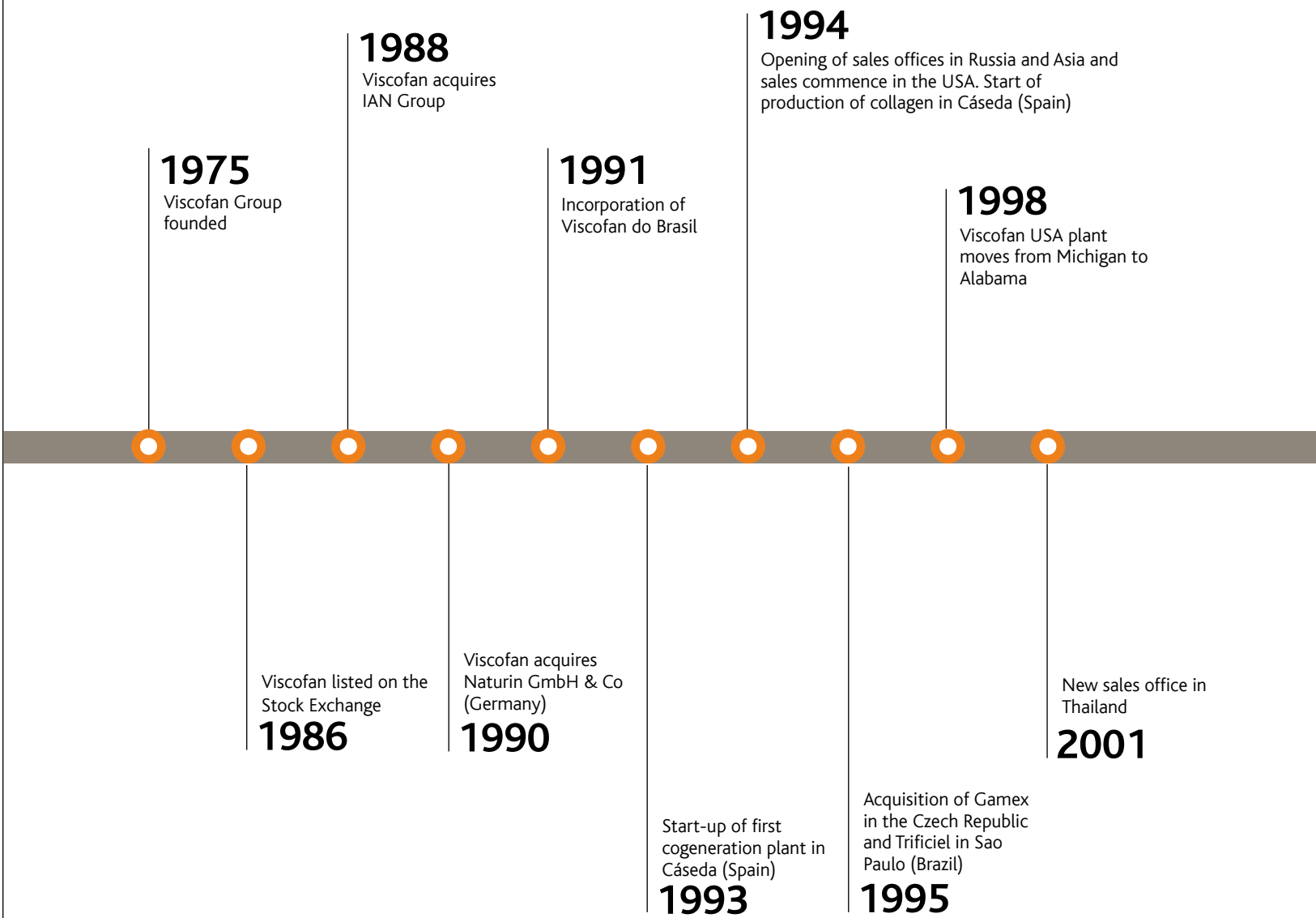
The IAN Group launches three new recipes of his family of ready plates of meat.

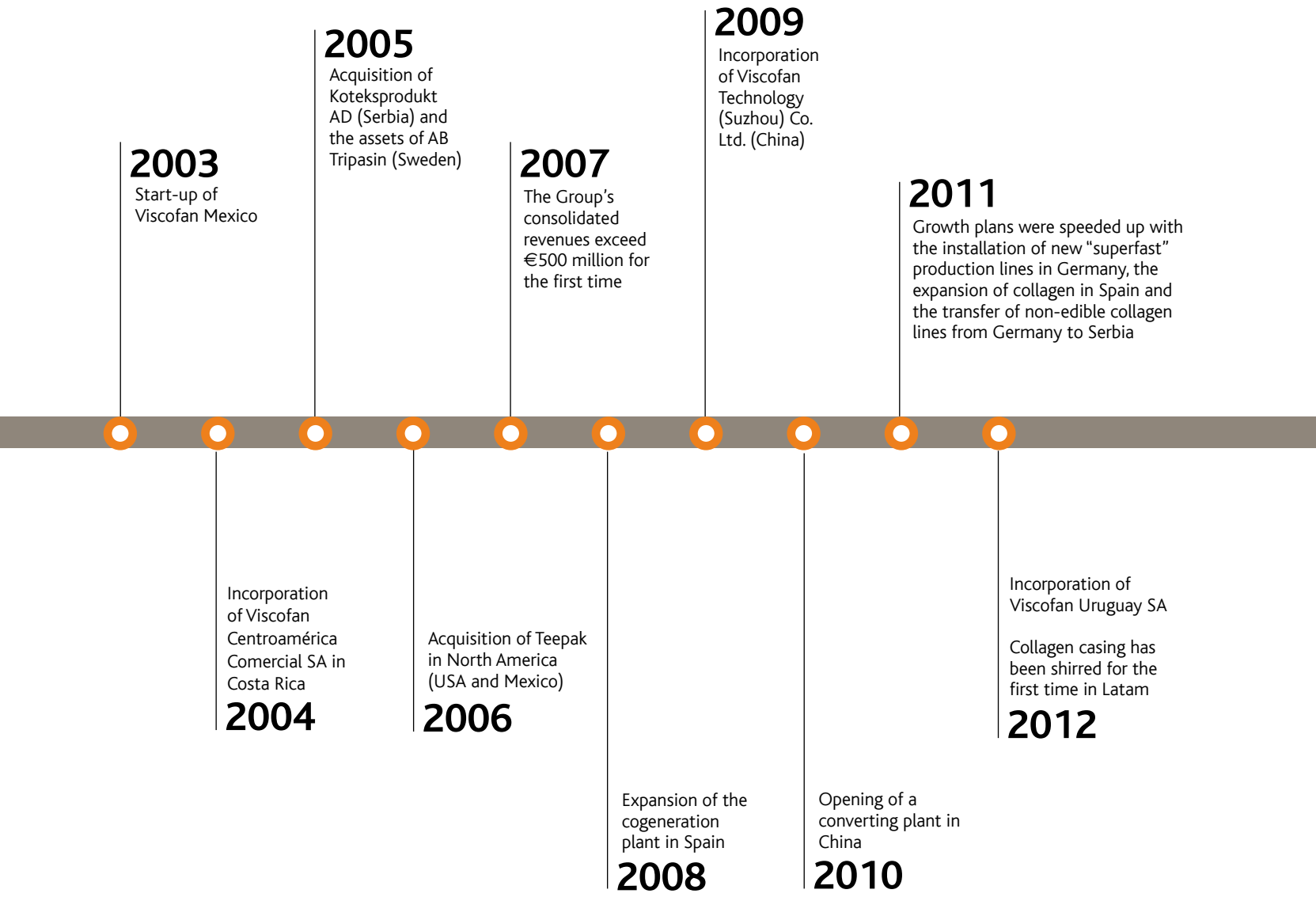
Publication of results for the **third quarter of 2012.**

December

Interim dividend paid out of profits for 2012 agreed by the Company's Board of Directors, in the sum of **€0.40 per share, gross.**

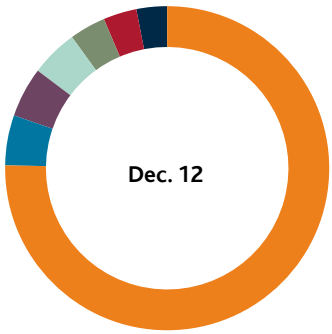
MILESTONES IN THE HISTORY OF VISCOFAN




2003
Start-up of Viscofan Mexico
2004
Incorporation of Viscofan Centroamérica Comercial SA in Costa Rica
2005
Acquisition of Koteksprodukt AD (Serbia) and the assets of AB Tripasin (Sweden)
2006
Acquisition of Teepak in North America (USA and Mexico)
2007
The Group's consolidated revenues exceed €500 million for the first time
2008
Expansion of the cogeneration plant in Spain
2009
Incorporation of Viscofan Technology (Suzhou) Co. Ltd. (China)
2010
Opening of a converting plant in China
2011
Growth plans were speeded up with the installation of new "superfast" production lines in Germany, the expansion of collagen in Spain and the transfer of non-edible collagen lines from Germany to Serbia
2012
Incorporation of Viscofan Uruguay SA
Collagen casing has been shirred for the first time in Latam

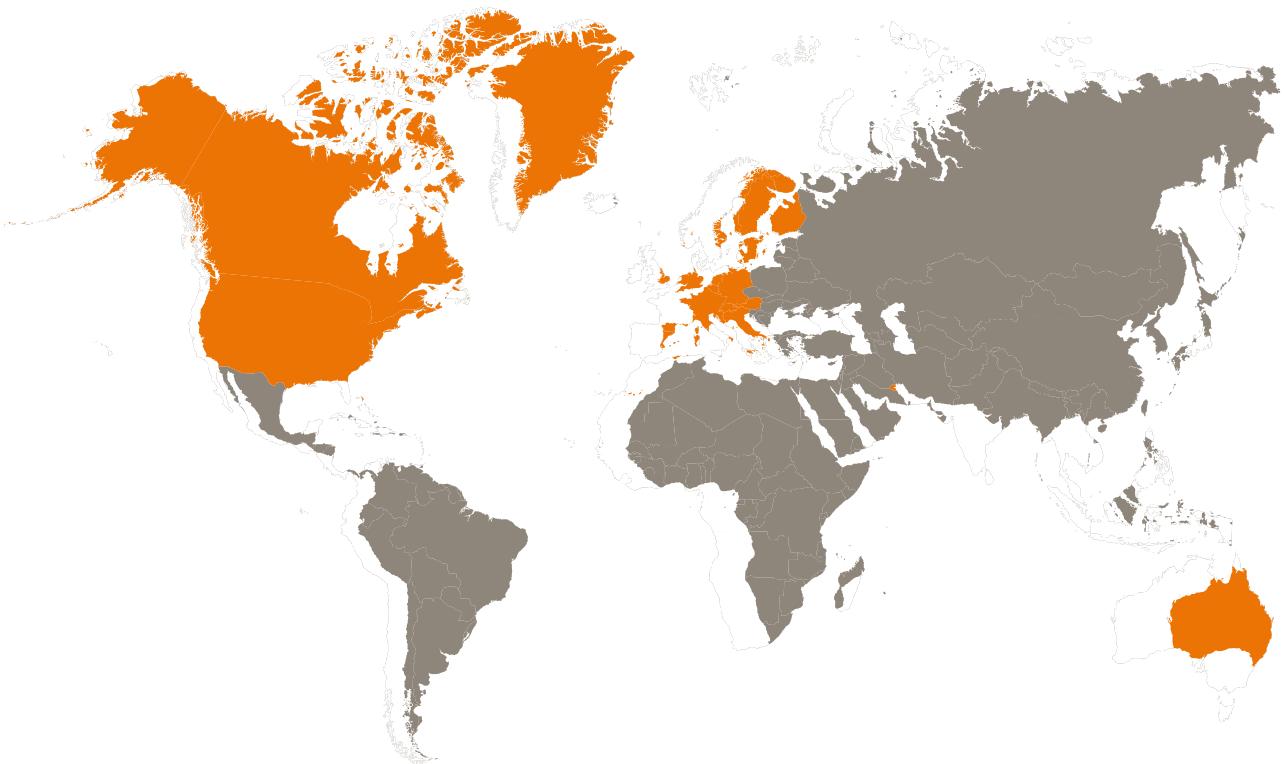
SHAREHOLDINGS STRUCTURE

SIGNIFICANT SHAREHOLDINGS



ONCHENA, S.L.: 5.077%
MARATHON ASSET MANAGEMENT, LLP: 4.930%
GOVERNANCE FOR OWNERS LLP: 4.798%
WILLIAM BLAIR & COMPANY, LLC: 3.648%
BLACKROCK INC: 3.140%
BNP PARIBAS S.A.: 3.029%
FREE FLOAT: 75.378%

SHAREHOLDERS PRESENCE (22 COUNTRIES)



BOARD OF DIRECTORS



SECRETARY (NON-VOTING):
JUAN MARÍA ZUZA

JOSÉ DOMINGO DE AMPUERO
CHAIRMAN

Executive Director
Industrial Engineering and Master of Business Administration.
University of Southern California. Los Angeles. U.S.A.

His long professional career has led him to occupy various positions such as Vice President of Naviera Vizcaína, President of SA de Alimentación,, Vice-President of BBVA Bancomer (Mexico), Chairman of Bodegas y Bebidas, Vice Chairman of Banco Bilbao Vizcaya Argentaria SA, Vice President of Iberdrola, and President of Cementos Lemona SA.

He is currently Chairman of Autopista Vasco-Aragonesa SA. He is also member of the Board of Directors of the "Círculo de Empresarios Vascos" (Basque businessmen 's association) which he formerly chaired. Mr. Ampuero is member of the Board of Directors of the "Asociación para el progreso de la dirección" (Association for the Advancement of Management) and Chairman of the Board of Santa y Real Casa de Misericordia de Bilbao.

NESTOR BASTERRA
FIRST VICE PRESIDENT

Independent Director
Law degree and Economics graduate from the University of Deusto. He also has an MBA from IESE.

He spent most of his career working in corporate banking both internationally and in Spain as responsible in capital market and corporate department in Bank of America and Banco Santander.
He is currently Vice-president of Iberpapel Gestion SA, partner and member of the Board of Director of Amistra SGIIC S.A. and member of the Executive Committee of Viscofan, S.A., Director of Naturin Viscofan GmbH , and Industrias Alimentarias de Navarre, S.A.U.

ÁGATHA ECHEVARRÍA
SECOND VICE CHAIRWOMAN

Independent Director
Law degree from ICADE (Universidad Pontificia de Comillas) and is a Business Studies graduate from the same university.

She has broad professional experience in a number of multi-nationals; including the audit firm Touche & Ross, S.A., British Petroleum España, S.A. and the investment bank Charterhouse Limited in which she was Managing Director and Director of its Spanish subsidiary. Founder and director of D+A Documentación y Análisis S.A. where she currently acts as a business strategy adviser to family firms.
Member of the Board of Directors of Viscofan, S.A., of its Executive Committee and Audit Committee.

JOSÉ CRUZ PÉREZ
DIRECTOR

Independent Director
Agricultural Engineering graduate from the Universidad Politécnica of Madrid.

With broad experience in government service at the Ministry of Agriculture, with postings in Spain and abroad, and deputy in the general courts of the Spanish State.
He has held the positions of Director General of Agri-food Organization and Industry in the Government of La Rioja, Minister for Agriculture, Livestock and Forestry in the Government of Navarre, was Chairman of the Boards of various listed companies and professor in the Food Technology and Projects Departments of the University of Saragossa and the Public University of Navarre.
Former senator and currently Deputy of the Congress he has been very active as member of the various committees of the Congress. He is a recipient of the Gran Cruz del Merito Agrario y Pesquero.
He is member of the Board of Directors of Viscofan, S.A, and member of its Appointments and Remuneration Committee.

GREGORIO MARAÑÓN
DIRECTOR

Independent Director
Marqués de Marañón,
Law graduate from the Universidad Complutense in Madrid and completed the Senior Executive Programme at the IESE.

He has broad experience working in the legal profession and in the financial sector, where he was Managing Director of Banco Urquijo, Chairman of Banif and Director of Argentaria and BBVA.
He is currently Chairman of Roche Farma, of Universal Music Spain, of Logista, S.A; Director of Prisa and member of its Executive Committee, President of its Appointments and Remuneration Committee and member of its Corporate Government Committee; member of the Board of Director of Prisa TV, and of its Audit Committee and president of its Appointments and Remuneration Committee; member of the board of Altadis; Chairman of Advisory Board of Spencer Stuart and member of the Advisory Board of Vodafone and Aguirre & Newman.
In the culture sphere he is President of the Teatro Real, the Foundation Greco 2014, and Real Fábrica de Tapices; Vice-president and president of the Executive committee of the Ortega-Marañon Foundation; director of Santillana Foundation, Altadis Foundation, Real Fundación de Toledo, Army Museum and Toledo International center for the peace. He is a permanent member of the San Fernando Real Academia de Bellas Artes, and has been member of the International Council of the Tate Gallery.
He holds the Grand Cross of Alfonso X El Sabio and Officer of the French Legion of Honor, and Adopted Son of the city of Toledo.
Director of Viscofan and member of the Audit Commission.

ALEJANDRO LEGARDA
DIRECTOR

Independent Director
Industrial engineering graduates from the Escuela Superior de Ingenieros Industriales in San Sebastian and holds a Masters in Economics and Business Administration from IESE (Barcelona).

With broad experience in industry, in 1989 he was appointed Financial and Administrative Director of Construcciones Auxiliares de Ferrocarriles, S.A. (CAF) where he subsequently became General Managing in 1992.
In 2006 he joined the Board of Viscofan, S.A. as an independent Director and he is Chairman of the Audit Committee.

JOSÉ MARÍA ALDECOA
DIRECTOR

Independent Director
Graduate in Technical Electronic Engineering from the Polytechnic School of Mondragón. PADE Graduate from the Executive Management Programme at IESE.

Throughout his long professional career, he has held various posts at Copreci (1971-1982).
He was Managing Director of Fagor Electrónica and member of the Board of Directors of Fagor, S. Coop. (1982-1991).
Between 1984 and 1991, he was Vice-Chairman of ANIEL (National Association of Electronic Industries) and Chairman of the Components Board. He was also member of the Board of Directors of the European Electronic Components Association (EECA) between 1986 and 1991.
Between 1992 and 2012, he held various positions at Mondragón Corporacion and, in 2007, he was appointed Chairman of the General Board, a position he held until July 2012.
He has a wealth of experience in the international industrial world, especially in Asia, including the creation of Fagor Electrónica in Hong Kong, the integration of the production plants of Orkli, Orbea, Mondragón Automoción in the industrial park of Kunshan, China and the opening of the (industrial Park) of Pune in India. He has sat on the Board of Directors of various automotive and components companies (Copreci-Czech Republic, Copreci-Mexico, Vitorio Luzuriaga, Fagor Ederlan-Brazil, Paranoa-Cicautxo-Brazil, FPK, Fagor Ederlan-Slovakia), and director (1992-2006) and Chairman (2007-2012) of Mondragón Inversiones.
He was also Chairman of the Engineering Faculty of the University of Mondragón (1998-2002).
He is currently an independent director and member of the Delegate Executive Committee of Gamesa Corporación Tecnológica, S.A.
He is member of the Audit Committee of Viscofan.

IGNACIO MARCO-GARDOQUI
DIRECTOR

Independent Director
Economics degree from Deusto University.

Mr. Marco Gardoqui has a long professional career, he has worked for financial entities, and his activities have covered teaching, consulting, and the press world ,where he has a strong reputation for his actively contribution as economic expert and columnist, he belongs to the Publishing Committee of Vocento Group.
He also has developed a wide experience in several industrial companies, belonging to multiples Board of Directors.
Currently he is Director of Schneider Electric España, Progénika Biopharma, Minerales y Productos Derivados, Tubacex SA and Iberdrola Ingeniería y Construcción (IBerinco) SA.
Previously, he has belonged, among others, to the Board of Director of Técnicas Reunidas, Banco de Comercio, IBV, and Banco de Crédito Local, and chairman of Naturgás.
He is chairman of the Appointments and Remuneration Committee of Viscofan.

LAURA GONZÁLEZ
DIRECTOR

Independent Director
Graduate in Pharmaceuticals from the "Universidad Complutense de Madrid", Executive MBA from the "Instituto de Empresas", she holds several graduate degrees at prestigious Universities such as Harvard Business School, Insead, IMD, and Kellog Business School.

Chairman of Merck in Latam and CEO of the Merck Group in Spain. Independent Director of the Leche Pascual Group.
She is leading the integration process of Milipore to the Merck Group, with experience in the integration process with the biotechnology company Serono, a company with which she has been linked, in different posts, since 1999, and in which she was Vice-Chair of Serono Iberia and Nordic countries when purchased by the Merck group. She was previously Managing Director of Farmacéutica Essex from the Schering-Plough Group, and Laboratorios Farmacéuticos Guerbert, S.A, as well as sales director for Roche, S.A.
Currently she is member of the Board of Directors of the Circulo de Empresarios, APD, and Adecco.
Her career has also been recognised by numerous prizes and awards in recognition of her work as a notable director.
She is member of the he Appointments and Remuneration Committee of Viscofan.

BOARD SECRETARY
JUAN MARÍA ZUZA
SECRETARY NON-DIRECTOR

Law degree from the Universidad de Navarre.

Practising lawyer with his own law office, working mainly in the area of civil and mercantile private litigation, and qualified in Navarre Local Law. He has been a faculty member of the two law schools, Escuelas de Práctica Jurídica, in Navarre since they were first created; and currently lectures at the EPJ at the Public University of Navarre.
He is on the list of arbitrators in mercantile law of the Arbitration Court of the Chamber of Commerce and Industry in Navarre and has been Treasurer for the Governing Committee of the Professional Association of Lawyers (Colegio de Abogados) in Pamplona for ten years.
He has experience as a legal advisor to, and member of, many Boards of Directors in the business world, and specially as a Secretary in many of them.

GROUP STRUCTURE

BOARD OF DIRECTORS

Chief Executive Officer
José Antonio Canales

CORPORATE MANAGEMENT

DIVISIONS OF GROUP MANAGEMENT

Chief Operating Officer
Andrés Díaz

Chief R&D Officer
Iñaki Recalde

Chief Commercial Officer
Gabriel Larrea

Chief Financial Officer
César Arraiza

DIVISIONS OF GROUP SERVICES

Chief Human Resources Officer
Juan José Rota

Chief Legal Officer
Elena Ciordia

Chief IR & Corporate Communication Officer
Armando Ares

Chief Strategic Projects Officer
José Vicente Sendín

Chief Skinless Extrusion Officer
Pedro Eraso

Chief European Collagen Unit Officer
Ricardo Royo

REGIONAL MANAGEMENT

SPAIN
Viscofan S.A.

GERMANY
General Manager:
Bertram Trauth
Naturin Viscofan GmbH

CEZCH REPUBLIC
General Manager:
Miloslav Kamis
Viscofan CZ s.r.o
& Gamex CB s.r.o.

SERBIA
General Manager:
Andrej Filip
Koteks Viscofan d.o.o

USA
General Manager:
José María Fernández
Viscofan USA Inc,

MEXICO
General Manager:
Óscar Ponz
Viscofan de México S.R.L. de C.V.

BRAZIL
General Manager:
Luis Bertoli
Viscofan do Brasil. soc,
come. E ind. Ltda

URUGUAY
General Manager:
Ángel Maestro
Viscofan Uruguay S.A.

CHINA
General Manager:
Juan Negri
Viscofan Technology
Suzhou Co. Ltd.

UNITED KINGDOM
Commercial Office

RUSSIA
Commercial Office

CANADA
Commercial Office

COSTA RICA
Commercial Office

THAILAND
Commercial Office

GOOD GOVERNANCE PRACTICES

Viscofan places great importance on good corporate governance, namely the ethical code of the administrative and managerial bodies of listed companies. The main aim of corporate governance is to coordinate the current structure of the company and its business aims with the protection of shareholders' rights.

This generates a high degree of trust in shareholders who understand that the protection of their rights is compatible with the current structure of the company and its business aims, which is the main objective of the Good Corporate Governance Code applied, as a general rule, to listed Spanish companies. Viscofan's commitment to corporative governance and its continuous improvement has helped it achieve a high level of compliance with the Unified Code of Good Corporate Governance, complying with 98% of the applicable recommendations.

Viscofan has intensified dialogue and the dissemination of those aspects that raise awareness about the company, its evolution and its future corporate governance plans. In this way, given the internationalisation of the company's shareholders, Viscofan is also incorporating international good governance recommendations in cases that could help develop the company and its business, while providing shareholders with better guarantees.

It therefore introduced amendments to the Regulations of the Board in order to adopt the recommendation of establishing a limited term for independent directors, which included the proposal to incorporate the same regulation into the company's Articles of Association, thereby guaranteeing compliance with this regulation and anticipating its incorporation into Spanish legislation.

It has also increased the number of independent directors by the General Shareholders' Meeting appointing a new member of the Board of Directors who was also included in the Audit Committee, increasing the resources available for its growing control tasks.

In turn, the Appointments and Remuneration Committee was updated in 2012 to give it greater independence, particularly in this financial year when its increased commitments in terms of remuneration have made its work far more significant.

In line with work begun in 2011, Viscofan issued information about the appointment of an external expert, Spencer Stuart, who provided assessment on the remuneration policy of the Board and senior management, as the rapid growth of the Group in recent years made it necessary to establish a new remuneration model that would balance the work of the Board's various committees, their responsibilities and the greater complexity of the Group. The new remuneration system will be presented at the 2013 General Meeting which, in addition to complying with the aforementioned aims, also took international good governance recommendations into consideration.

Given the internationalisaton of the company's shareholders, Viscofan is also incorporate international good governance recommendations

Viscofan has several internal bodies that are necessary to guarantee operation in accordance with good governance recommendations:

SHAREHOLDERS AND THE GENERAL MEETING

The General Meeting of Shareholders 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. Viscofan has established the principle of "one share, one vote" which promotes equality among all of the company's shareholders.

Furthermore, there is only one class of shares, giving the same rights and obligations to all of the Company's shareholders.

In recent years, Viscofan has been promoting a series of initiatives to improve transparency, communication and shareholder participation. Among these initiatives, one highlight is the assistance premium paid to duly authorised shares present or represented at the General Meeting. For the 2013 financial year, a new premium of 0.006 euros per share was proposed. Similarly, and for the same purpose, Viscofan also provides its shareholders the right to absentee voting or, where applicable, electronic proxy voting.

As a result of these measures, 75.8% of the Company's share capital participated of the last General Meeting, held on May 2012, against 76.3% last year, reflecting the high percentage of General Meetings held in the last 5 years with a participation percentage greater than 75% of the share capital. This percentage is particularly significant taking into account the company has a free-float of 100%.

These figures firmly establish a high rate of shareholder participation at Viscofan General Meetings over recent years, above the average for listed companies.

Viscofan website

In addition, Viscofan has a web site www.viscofan.com that is used to provide instant and direct information, accessible to all shareholders, regardless of their geographical location. Viscofan publishes timely information on its website on financial reports, results and strategic plans, corporate governance structure with detailed information about its internal bodies and their members, the company's internal regulations, information on General Meetings, and any developments, changes or relevant events that may occur linked to the Group's activity, its corporate governance and structure.

Similarly, to assist communication between shareholders with a view to the General Meeting, the company hosts an on-line forum on its website where the following can be published:

- Any supplementary proposals to the agenda announced in the notice of the General Meeting.
- Requests of support for such proposals.

• Initiatives to achieve the percentage needed to allow a minority right established by law to be exercised.
• Offers or requests to act as a voluntary proxy.

Finally, shareholders have a specific email address: info-inv@viscofan.com and telephone number for shareholder services: +34 948 198 436. There is also the Shareholders' Office, which aims to maintain shareholders informed and attend to any of their needs as shareholders.

BOARD OF DIRECTORS

The Board of Directors is the body in charge of representing and managing the Company. The Board's key function is to supervise all aspects of Viscofan and its group of companies.

Pursuant to the Company's articles, the Board of Viscofan must comprise a maximum of nine and a minimum of three Directors. After the appointment of Mr José Maria Aldecoa as an independent director in May 2012 following a proposal by the Appointments and Remuneration Committee, the Board presently consists of nine directors. Of these, one, the Chairman, is executive, and the remaining eight are independent, thereby complying with current recommendations on good corporate governance, as 88.9% are independent directors. The secretary to the Board is not a Director.



Viscofan has a website that is used to provide instant and direct information, accessible to all shareholders, regardless of their geographical location: www.viscofan.com

To carry out its duties with the necessary rigour, the Board of Directors of the company holds periodic meetings. Directors are provided with the necessary information sufficiently in advance including, where applicable, minutes or reports from the Board's various committees. During 2012, the Board met 12 times.

When the Board considered it appropriate, senior management or other employees of the company or its subsidiaries attended these meetings.

The Board and its various committees also carry out a yearly assessment process, coordinated by the Secretary and including the Chief Executive of the company. This assessment analyses formal and material aspects of their activity and the performance of directors, the chairpersons of each committee and the Board itself, subsequently incorporating observations that may help to improve their work.

The profiles of the different directors, their committee membership and shares in the company are also published on the company website, while details of their individual remuneration are included in the Remuneration Report submitted to the General Meeting for its approval by an advisory vote, together with the remuneration policy in force each year.



BOARD COMMITTEES

To improve operation, the Board established three committees:

EXECUTIVE COMMITTEE

This committee consists of three directors, one of whom is an executive Director and two Deputy Chairmen. This Committee is entrusted with all the decision-making powers of the Board, except those which cannot be delegated, and the sale, exchange and encumbrance of real property and industrial facilities.

This Committee performs extensive work as the permanent delegation of the Board, studying in further depth those areas that require closer analysis, monitoring and preparation, and helping to establish the aims, strategies, control and monitoring of these areas.

It also has more direct contact with senior management in the various industrial locations, providing the Board with more detailed information about the daily reality of Grupo Viscofan's activity and monitoring the duties entrusted to senior management by the Board. The Executive Committee, which met on 13 occasions in 2012, must in timely fashion report to the Board on its discussions and resolutions.

AUDIT COMMITTEE

The Audit Committee is currently comprised of four directors, following the appointment of Mr José María Aldecoa in 2012. The Chairman is independent director Mr. Alejandro Legarda.

The functions of the Audit Committee include: to supervise the internal audit service; to supervise the Company's financial reporting process and its internal control processes; to propose the external auditor; to review the audit plan and its results and to check that senior management takes its recommendations into account; to report on the Annual Accounts and interim reports, commenting on internal control systems, the control of their supervision and compliance through the internal audit, as appropriate, and the accounting criteria applied. It must also report to the Board on any change in accounting criteria and balance sheet and off-balance sheet risks.

Audit committee met 10 times during 2012.

APPOINTMENTS AND REMUNERATION COMMITTEE

The Appointments and Remuneration Committee is made up of three Directors, all are independents.

This Committee proposes the appointment of independent directors and provides information about the remaining directors, and senior management appointments and resignations. It informs the Board about matters related to gender equality and proposes the remuneration system for Directors and senior

management to the Board, as well as the remuneration policy for shares and options, where applicable, and the long-term remuneration of directors and senior management.

During 2012, the Committee worked, with the advice and close collaboration of external expert Spencer Stuart, to draw up a proposal which, as corroborated by Spencer Stuart, was in line with his expert recommendations and included international corporative governance best practices, while also adhering to the principles and foundations that must form the basis of the Grupo Viscofan remuneration system.

Appointments and Remuneration committee met 9 times during 2012.

The composition, duties, rules for organisation and operation, as well as the responsibilities allocated to each of the Committees of the Board of Directors are detailed in the company regulations and articles of association and in the Annual Corporate Governance Report that is available for review at www.viscofan.com.

DIRECTORS' PAY

The Articles of Association of Viscofan, S.A. approved by the General Shareholders' Meeting establish that remuneration of the Board is 1.5% of pre-tax net earnings, distributed among its members as the Board sees fit. Similarly, Executive Committee remuneration is 1.5% of pre-tax net earnings, distributed among its members as the Committee sees fit. In the 2012 financial year, the total remuneration paid to the Board of Directors by the company and its subsidiaries, as per the Articles of Association and applicable fees, was €2.4 million. In turn, in 2012, Senior Management received a total remuneration of €4.1 million.

In accordance with its commitment to its shareholders, the company has included in the Remuneration Report that will be submitted to the 2013 General Meeting the remuneration policy for 2013 and subsequent years, approved by the Board following a proposal by the Appointments and Remuneration Committee and drawn up with from the advice of external expert Spencer Stuart, including international corporate governance best practices.

As a result of this remuneration policy, and for its application, the Board has proposed to the General Meeting an amendment to its Articles of Association related to the remuneration system, which essentially includes the following changes with regard to the previous remuneration system:

- Fixed remuneration.
The duties of non-executive directors and their responsibilities are separated from Company results.

- Remuneration for dedication.
Increased dedication to the Board and its committees from directors is rewarded with fees, remuneration for membership of the various committees in accordance with their requirements and greater remuneration for committee chairpersons.

- Remuneration of the Executive Committee.
Remuneration as a company director is separated from remuneration as Chief Executive, the latter being linked to the company's short and long-term results.
Detailed information about remuneration of the Board can be found in the consolidated accounts of Viscofan S.A. and dependent companies (see page 73) or in the report on remuneration of the Board in 2012 and the remuneration policy for 2012 and subsequent years (click link to view more).

Report on the Board's remuneration

INTERNAL REGULATIONS

The internal regulations that govern how the above bodies function, and which complement applicable regulations to guarantee a suitable system of corporate governance at Grupo Viscofan are available to shareholders and the general public on the company's website (www.viscofan.com), as well as the mandatory publications and registrations on the CNMV and Companies Register of Navarre websites respectively.

The internal regulations are principally comprised of:

- The Articles of Association: Basic rules that govern the company and all its bodies. They include the main characteristics and principles of action of the General Shareholders' Meeting, the Board of Directors, the Executive Committee and the Audit Committee.

- Regulations of the General Meeting: Basic principles that govern the General Shareholders' Meeting with a view to boosting transparency and guaranteeing the rights of shareholders and their access to company information. It governs how the General Shareholders' Meeting functions in terms of calls for meetings, attendance, procedure, minutes and access by shareholders to advance information and information about the General Meeting itself.

- Regulations of the Board of Directors: Determine the principles of action of the Board of Directors, including the assessment mechanism, its organisational and operational rules, rules of behaviour of members and the general principles that govern their activity. They also govern the committees that stem from the Board of Directors, their organisational and operational rules, mission and authority.

- Code of conduct: Contains the main ethics for action and behavioural guidelines that should be followed by directors and employees of Grupo Viscofan when carrying out their professional activity. The main general ethics of this code can be summarised as: Respect and Defence of Human Rights, Sustainability, Integrity, Responsibility and Transparency, Respect and Anti-discrimination, Efficiency, and Loyalty.

- Internal Regulation on Behaviour in Matters Related to the Securities Market: Behavioural guidelines necessary to ensure that institutional and personal activity by company directors and employees is carried out in strict compliance with current legislation, to boost transparency in the markets and to protect the interests of investors at all times.

RISK-MANAGEMENT, CONTROL AND SUPERVISION

The company's risk-management policy is reflected in its internal regulations, both in the process that governs this management and the various internal regulations of the bodies that are involved in risk, which are mainly the following:

BOARD OF DIRECTORS

Powers exclusively reserved for the Board include the control and risk-management policy, and the periodic monitoring of internal information and control systems.

AUDIT COMMITTEE

The Audit Committee, through its duties on internal information and control systems, is responsible for supervising the preparation and control of financial information, in general, and all processes implemented for this purpose. It is also responsible for reviewing the internal control and risk-management systems, in order for the main risks to be properly identified, managed and communicated.

INTERNAL AUDIT

The Internal Audit Department reports to the Audit Committee with its aims including the identification and assessment of any type of risk the organisation may face. For this purpose it is authorised to examine and assess the systems and procedures for the control and mitigation of all risks, as well as the methodologies used.

CORPORATE RESPONSIBILITY AND COMPLIANCE COMMITTEE

The Corporate Responsibility and Compliance Committee supervises specific risks to the company related to criminal liability or any other type of non-compliance (both, internal and external).

SENIOR MANAGEMENT

Senior Management is responsible for identifying and assessing risks faced by the Group during the course of its activity, and undertaking the measures necessary to prevent the appearance of these risks, or, should they occur, reducing or eliminating their impact. Therefore, it is in charge of designing and implementing the control mechanisms, and for encouraging compliance throughout the organisation. To achieve this, various multi-disciplinary committees have been established: Global Risk Committee, Investment Committee and the Credit Risk Committee.

EMPLOYEES

Finally, Viscofan Group employees must comply with the measures established in the control and risk prevention systems and, where applicable, provide information about any behaviour they believe could pose a risk to Grupo Viscofan.

ETHICS COMMITTEE

The Ethics Committee is responsible for initiating, ex officio or at the request of a third party, investigations into any situation that may put Viscofan Group at risk, whether due to non-compliance with Grupo Viscofan internal regulations or any other circumstances.

In order to prevent the possible appearance of risks, Viscofan has established a system of internal regulations that include a series of manuals, protocols and policies that refer to specific aspects of activity. They are all disseminated throughout the organisation and published on the Group intranet for access by employees. The Code of Conduct is also available on the Group intranet and on the company website (www.viscofan.com) (click on link to view the Code of Conduct).

It has also appointed local managers at its various locations who are responsible for training, interpreting and disseminating internal regulations.

Viscofan also has a complaints channel that can also be accessed by all employees and used by them to communicate any signs of behaviour that they consider a possible risk.

The main risks identified by the company as being most likely to occur or have an impact in 2012, described in section D) of the Annual Corporate Report (see pag.45), and which have seen increased measures to prevent their occurrence or impact are the following:



Code of Conduct



Corporate Governance Report

Strategic risks	
COMPETITIVE SECTOR ENVIRONMENT	Viscofan has continued with its strategy as a global producer in the casings sector, consolidating its offer throughout the range of products currently existing on the market and increasing its operations with production plants in Asia and America to guarantee supply from all geographical areas to customers worldwide with a criterion of closer proximity that encourages a more local service and better adaptation to the needs of each market.
	In the canned vegetables sector, Viscofan has maintained its presence in China for the production of canned asparagus and, in 2012, it extended its business in the country to the local production of other canned vegetables, maintaining compliance with quality standards in accordance with Spanish market requirements in an environment of cost control and resource maximization to guarantee its leadership in Spain.
	IAN, S.A.U. has also developed a plan to defend the industrial property developed to protect some of its products to achieve a competitive advantage in the canned food sector as provided by said industrial property.
COUNTRY RISK	Political or social instability, economic cycles, currency devaluations, risk of terrorism, etc. in the countries with which Viscofan has production or commercial relations is a country risk that may affect Viscofan's commercial relations and lead to a loss of a direct investment.
	The geographical dispersion of the wrappings market helps mitigate this risk and compensate the negative cycles of some countries with the positive cycles of others and to have complementary production centres to supply, if needed, to customers in the same country from different centres in different regions for the most relevant business lines.
	Accordingly, the main efforts focus on controlling credit risks in high-risk countries and foster the exchangeability of production processes between different production plants.
ENVIRONMENTAL RISK	The risk policies include environmental risks so that they can be identified and controlled. Accordingly, based on the environmental management systems and monitoring work at the production facilities, investments and maintenance expenses are repeatedly made to reduce the environmental impact of our business. Viscofan Group also continues to work on dialogue channels and is in permanent collaboration with the regulating bodies and players that are affected. It also takes out the corresponding insurance policies.

Financial risks	
INTEGRITY OF THE PREPARATION OF THE FINANCIAL INFORMATION	In 2012, the audit committee, in coordination with the internal and corporate financial departments put in place a plan for monitoring and controlling the evolution of the control system, proposing corrective measures where necessary and verifying their effectiveness.
PROFITABILITY AND SUCCESS OF THE INVESTMENTS THAT HAVE BEEN MADE	In accordance with the "Be MORE" 2012-2015 strategy, during this period, important investments are to be made, such as the new collagen wrapper extrusion plants in China and Uruguay, which require exhaustive control and monitoring to guarantee fulfilment with the targets set for the Viscofan Group.
	Owing to the special relevance of the investments that were to be made, the Group has channelled its coordination through its Strategic Projects Division, appropriately planning the construction, installation of machinery and training of the human resources required for starting of the new installations.
EXCHANGE RATE RISK	The Group's entities use foreign exchange forward contracts, negotiated with the Corporate Treasury Department, to control the exchange rate risk stemming from future commercial transactions, in addition to the natural hedging of business as the production centres draw closer to the main markets, from a commercial point of view, favouring sales and acquisitions in the same currency.
	To do this, exchange contracts are formalized during the process of preparation of the annual budget, taking as a basis the expected EBITDA for the coming year, the forecast net level of exposure and the level of risk that the Group is prepared to take on.
CREDIT RISK	The Group does not have any significant concentrations of credit risk. For its part, the Risks Committee regularly monitors customer risks and fulfillment of the policies in place to reduce said risk. It also proposes corrective measures in areas in which opportunities for improvement arise.
	Furthermore, the Company has put in place control, authorization and follow-up procedures for all the customers to which it sells from any company in the Group to reduce the possibility of risk and, where applicable, minimize impact.
	On its behalf the Group has credit risk cover policies that cover most of the balances receivable from customers.
LIQUIDITY RISK	Control of financial leverage in recent years and maintenance of streamlined financial statements accompanied by favorable operating results have helped to reduce this risk and its impact in the event of it occurring and have made it possible to carry out careful management of the liquidity risk, based on the maintenance of sufficient cash and negotiable securities, the availability of financing through sufficient committed credit facilities and sufficient capacity for settling market positions.
	The current situation enables adequate finance for the investment projects included in the "Be MORE" Strategy 2012-2015, maintaining satisfactory remuneration for shareholders without the need for any relevant increases to current debt levels.
INTEREST RATE RISK IN CASH FLOWS AND REASONABLE VALUE	The Group formalizes hedging agreements to mitigate part of the risk of a possible rise in interest rates. In any case, the Viscofan Group's leverage percentage is low, which makes the impact of a possible rise in interest rates irrelevant.
	Financing at variable interest rates is mainly referenced to the Euribor and the Libor-dollar.

Legal risks	
TEMPORARY AMENDMENTS TO LEGISLATION	The current circumstances of the Spanish economy have led to the approval of temporary measures to help economic recovery and revitalisation. However, the provisional nature of said measures, together with their clear purpose of providing immediate partial solutions in a specific environment and the absence of subsequent legislative development for their interpretation and application hinder compliance and, where applicable, use when they may work in the Company's favour. All this also leads to a climate of legal uncertainty and volatility that may complicate the taking of strategic decisions. Furthermore, the approval of measures to increase private contribution to re-establishing the economic balance, mainly in the area of taxation and business subsidies, may have an impact on the company's results. In the case of Viscofan, owing to its international presence and the relative weight of the business in Spain in the Group's results, the effect of this risk is reduced. However, measures have been implemented for the appropriate monitoring of the modifications that may arise and experts are consulted in each of the areas that may be affected. The behaviour of other affected parties are observed and the Company's actions are coordinated, where applicable, with the decisions that are considered the most appropriate in accordance with the information that is available at any given time.
LEGISLATIVE PROTECTIONISM	The world instability caused largely by the economic crisis has led to a desire for protectionism by national legislators that has brought about the implantation of legal measures to favour local economies, hindering access by foreign investment or the commercialisation of products from other countries. Viscofan Group continuously monitors legislative amendments in the countries in which it operates and in the main countries in which it carries on its commercial business to ensure the actions that are required to adapt to said changes to the preparation of new products, local implantation or the intensification of commercial actions that help remove barriers.
CRIMINAL LIABILITY OF BODIES CORPORATE	After implanting and disseminating the measures for preventing and detecting criminal liability in all the companies in the Viscofan Group, it has been disseminated through publication on the corporate intranet and the publication of news on specific related issues. Control actions have also been taken in coordination with the internal audits department to check compliance with the various policies, manuals and procedures in different areas, fostering the implantation of improvement measures, where applicable. Furthermore, at least two local managers have been appointed and trained at each of the Group's companies and their responsibilities consist of the local monitoring of knowledge and compliance with the Group's internal regulations. This includes measures for preventing and detecting the criminal liability of all their company's employees and acting as a link with the Corporate Responsibility and Regulatory Compliance Committee.

Operational risks	
SUPPLY OF RAW MATERIALS AND ENERGY	During 2012, the Viscofan Group has continued to investigate identification and selection of raw materials suppliers of various origins who are located in different geographical areas and the search for suitable technology solutions for the incorporation of alternative raw materials to guarantee continuity of the production level.
	In addition, with respect to the energy supply, in recent years, cover was arranged to partially cover the above-mentioned volatility. As part of an energy optimisation plan in place at the Group's plants, investments have also been made to allow optimum energy use and reduce dependence on the supply.
MATERIAL DAMAGES AND PRODUCTION CONTINUITY	Grupo Viscofan has achieved significant improvements in all Group production plants as a result of the engineering project and the investment directed at following its recommendations.
	On the other hand, the Viscofan Group is continuing its strategy of implementation in different countries, which favours diversification and the subsequent reduction of risk by increasing production alternatives in the hypothetical case of material damage that affects continuity of production.
LABOUR CONFLICTS	Labour conflicts are solved after negotiations between the workers' trade union representatives and the representatives of the companies in the Viscofan Group. The purpose of the negotiations is to reach an agreement on the labour conditions applicable to all the workers in the area covered by the talks.
	In the hypothetical case of a strike caused by labour conflict, as described for the business continuity risk, the implantation in different countries favours diversification and increases alternatives for production.

STRATEGIC PILLARS

MISSION

To meet the needs of the worldwide food industry with artificial casing, generating value for our stakeholders.

STRATEGY PLAN 2012-2015

Be MORE

Market growth **Optimization** **Returns** **Excellence**

VALUES

Teamwork
Pioneers
Focus on Results
Quality
Service

GENERAL ETHICAL PRINCIPLES

Human Rights
Sustainability
Respect and non-discrimination
Efficiency
Loyalty
Integrity, responsibility and transparency

VISION

We want to be THE GLOBAL LEADER in the artificial casing market.

This vision means...

→ The global leader focuses its efforts to create value to our shareholders in a sustainable way.
→ The global leader is a benchmark in efficiency and productivity in all the artificial casing technologies.
→ The global leader is the reference for our customers for our good practises, quality and service.
→ The global leader attracts and keep talented people and develops their capacities: a leader that build up a team that is committed with Group goals and vision, a team that foster innovation and best practises, a team that encompasses hard work and seamless collaboration between Group members.

Be MORE STRATEGY (2012-2015)

THE MARKET AND ITS ENVIRONMENT

The Viscofan Group is the world leader in casings for the meat industry, also known as artificial casings due to the fact that this type of product has been traditionally replacing the natural casings (mainly intestines and bladders) that meat processors use for stuffing meat.

The Viscofan Group is the world leader in casings for the meat industry

The casings industry dates back to the early 20th century when, due to of the difficulties of obtaining natural casings, price volatility and the difficulties this involved for the industrialization of sausage production, alternatives arose in different countries based on different materials that could be used in the production of sausages and other meats as an alternative to natural casings. This change was a highly significant, qualitative leap for meat processors, helping them achieve higher quality and productivity standards.

Today meat producers have a wide range of technological alternatives for sausage production according to their production characteristics and the product itself, combining an improved range of casings with major production savings.

At present, the main casings technologies are:

Cellulose casings: Cellulose casings are made from natural cellulose. They are used primarily in the manufacture of industrially cooked sausages (frankfurters, Vienna sausages, hot-dogs, etc.).

The casing is generally used only as a cooking mould, and the manufacturer peels off the casing before sale to the end consumer.

Using a complex manufacturing process, the cellulose molecules are chemically and mechanically depolymerised and subsequently repolymerised in either cylindrical or tubular form, according to the customer's requirements.

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 such as mortadella, ham and pepperoni.

Collagen casings: These casings use collagen as their raw material. Collagen is obtained from cow and pig hides and processed using sophisticated technology so that it can be shaped into casings.

Collagen casings are of two kinds: small calibre or edible (e.g. fresh sausages, Bratwurst etc.) and large calibre or non edible (e.g. salami, Bierwurst etc.). 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.

Market share

27%

Viscofan is the only producer with the technology needed to be able to produce all the product categories

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.

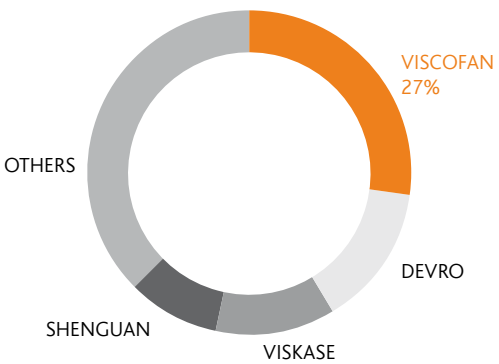
Natural casings: Animal intestines are used following a cleaning process; they may be from different animals, mainly sheep, pigs and cows.

The estimated size of this market is more than €4.2 billion, approximately 50% of which are casings made from animal intestines, while 50% are casings made using cellulose, fibrous, plastic or collagen technologies.

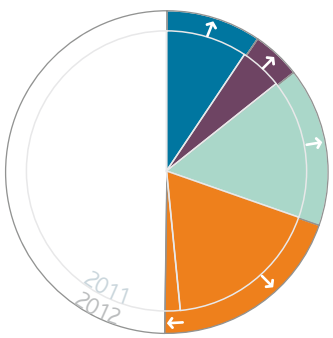
Viscofan is the market leader in artificial casings with an estimated 27% share of the €2.1 billion artificial casings market, and it is the only producer with the technology needed to be able to produce all the product categories.

Over the last 6 years the market has been growing steadily above its historic range, 5.6% in terms of constant compound annual growth rate. As a whole, in 2012 the artificial casings market has grown by 8% compared with last year, which demonstrates the acceleration tendency in growth seen in recent years.

CASING MARKET SHARE
Source:Viscofan



CASING MARKET COMPOSITION
Source:Viscofan



CELLULOSE
FIBROUS
PLASTIC
COLLAGEN
NATURAL CASING +1%

+8%

This growth rate is due, on the one hand, to the increase in population and the globalisation of consumption patterns and, on the other, to the sophistication of meat processors, who are transforming their processes by incorporating cellulose, collagen, plastic or fibrous casings to obtain improved productivity levels, food safety and cost control; as well as greater product differentiation for a sustainable competitive advantage.

It is thus easy to see sausages in practically every country on the planet supported by the improved economy of sausage meat (fresh and processed), which allows access to animal protein for disadvantaged population segments, especially in countries with emerging economies or in developed economies that are undergoing an economic downturn, and also enables new, increasingly widespread convenience eating habits, such as ready meals or takeaways.

Furthermore, natural casing prices are highly volatile and have become more expensive in the short term due to their scarcity in the market as a result of the decline in the quality sheep population due to natural catastrophes, especially in Oceania or industrialisation in developed countries where the production economy is abandoning the primary sector.

In this context, the demand for artificial casings is growing all over the world. A clear example of this trend is the increase in the average per capita global spending on artificial casings, with a total 20% increase in the last three years to 0.30€, and a wide disparity between the average spending in developed countries (around €1 per capita) compared to emerging countries where both Latin America and Asia and Africa are below their potential.



The demand for artificial casings is growing all over the world

Per capita global average expenditure in casings

+20%

2012 vs 2009

"Be MORE" STRATEGY: (2012-2015)

In this market, Viscofan has a clear commitment to global leadership, with its ambition to be the industry reference in terms of production efficiency and quality, placing the customer at the heart of our decisions.

This is why we have designed a new strategic plan for 2012-2015 known as "Be MORE" which is based on these four strategic cornerstones:

- **M**arket growth
- **O**ptimization
- **R**eturns
- **E**xcellence

MARKET GROWTH

Artificial casings market

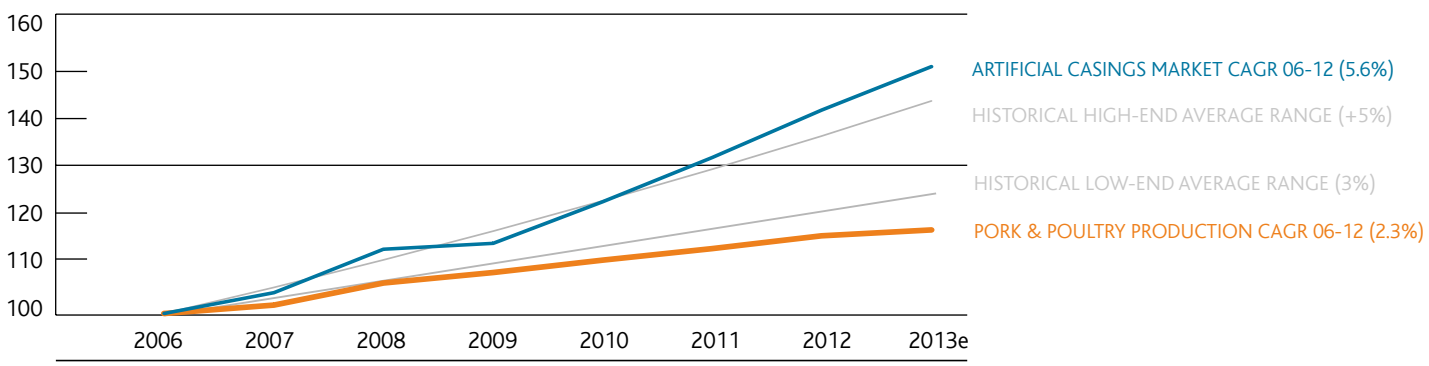
+8%

y-o-y

The casings market has been experiencing solid growth in recent years, mainly as a result of the incorporation of artificial casings in the preparation of sausages in emerging markets, and an increase in the use of collagen casings, which provide improved productivity for meat processors.

In this context, the global casings market grew by 8% in the 2012 financial year, led by the collagen segment with increases in volume of over 10% in comparison with the previous year. This is because it combines the natural growth seen in all the casings families with the replacement of natural casings, essentially the replacement of sheep and pig intestines by edible collagen casings with similar properties.

HISTORICAL EVOLUTION OF MARKET GROWTH (BASE 100 ON YEAR 2006)



This growth above the historical average has created the need to provide the market with hundreds of millions of metres in relative terms, pressurising the capacity of all the categories.

This is why at present Viscofan has a major growth opportunity and is therefore working hard on internal improvement which, coupled with increased investment effort, it aims to supply the market with volumes to meet the rise in demand, increasing production capacity in all technologies, although with special emphasis on the collagen segment where the Viscofan Group is focusing on changing over from a regional production model in Europe to a global production model with production also taking place in Asia and Latin America.

As a result of this expansion plan, in the 2012 financial year Viscofan invested €29 million to establish a new collagen extrusion centre in Suzhou, 80 km from Shanghai. This plant has been operative since February 2013, and is used by Viscofan Group to complement the converting stage production centre that started activity in 2010 with notable success, doubling its sales volume in China with regard to the previous year and exceeding €20 million in 2012.

In China, the evolution seen in recent years is confirming the excellent growth prospects of a market that has multiplied by almost 8 times in the last six years, increasing from €30 million to over €230 million in 2012. Even so, Viscofan is relatively small, around 9% of the total estimated market, and there is space for a second leading producer in China, with a maximum market share of between 15% and 20% by the end of 2015.

In turn, during the course of the year work began on opening a new extrusion centre in Uruguay, which complements the collagen converting activity established in Brazil in 2012. To carry out this project, Viscofan Uruguay will invest €28 million during the 2013 financial year and production is predicted to start in the first quarter of 2014.

This project will be a new landmark in the history of Viscofan because it will become the first company in the sector to have a collagen production centre in Latin America, turning Viscofan into a truly global collagen producer with production centres in South America, Europe and Asia.

The "Be MORE" expansion plan is not just limited to the collagen segment; as a world leader of artificial casings, Viscofan Group is committed to responding to the needs of our clients in the other categories. To achieve this, investment and improvement plans are being implemented that will increase production capacity in cellulose, fibrous and plastic casings to meet the expected growth in the use of these products, particularly in the emerging areas of Southeast Asia, Latin America and Africa.

Viscofan has a major growth opportunity and is therefore working hard on internal improvement which, coupled with increased investment effort, it aims to supply the market with volumes to meet the rise in demand

China's investments 2012

29M€

New collagen extrusion plant in Suzhou

Uruguay's investments 2013

28M€

New collagen extrusion plant in Uruguay

OPTIMIZATION

In such a dynamic and demanding environment as the casings sector, with customers in more than 100 countries on all the inhabited continents of the planet, Viscofan has new initiatives planned that involve an additional effort to strike a balance between technological leadership and costs, implementing production and service.

Therefore, by the end of the "Be MORE" period, Viscofan will be a group with global production in all families, with special emphasis on the globalisation of collagen.

Production capacity by technology

	Cellulose	Collagen	Plástics	Fibrous
Europe	✓	✓	✓	✓
Asia	✓	✓		
North America	✓		✓	✓
LATAM	✓	✓ Extrusion capacity in 2014	✓	✓

✓ Converting

To achieve this balance, Viscofan will further develop its ongoing product improvement model based on different roles in the production centres.

On the one hand, centres of excellence will continue to lead technological improvements that are justified by offering higher value-added products and technology transfer services to other subsidiaries.

The US project is part of this and includes changes to organisation and processes with the aim of merging the Group's benchmark production techniques and services in the most important artificial casings market.

The globalisation of Viscofan also corresponds to the strong increase in demand in emerging areas, with a more personalised offer

Investment will also improve the automation of processes in the Czech Republic and Brazil, with better sizing of the workforce. This workforce is seeing rapid salary increases, so failing to act in this way would lead to a loss of competitiveness.

In 2012 we focused on transferring non-edible collagen production from Germany to Serbia and in 2013 we need to consolidate this production.

On the other hand, the globalisation of Viscofan also corresponds to the strong increase in demand in emerging areas, with a more personalised offer which will require better management of the supply chain to capture synergies. To do this, we have enhanced the operations area in order to be more efficient in our working capital needs, although the expansion of demand, and the setting up of new factories logically entail the need for capital in the short term.

Returns

Viscofan is facing a historic opportunity for growth and is shifting its major initiatives towards this goal. However, this commitment to growth is not incompatible with commercial discipline and cost control to ensure sustainable value creation in the long term.

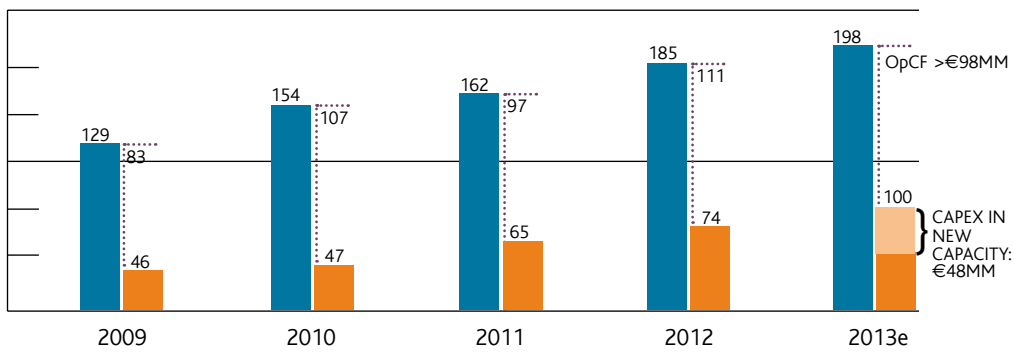
It is true that this growth plan will probably exert increased pressure on the gross margin, with an unfavourable environment in the early years of the "Be MORE" in terms of inflation of raw materials and energy prices, which coexist with expansion in less affluent countries and which would probably affect the gross margin.

To counter this trend, the Viscofan Group is developing initiatives aimed at expanding the supplier base of its principal raw materials, as well as energy optimisation and cogeneration. Austerity, cost control and a light structure will counter this pressure on the gross margin and allow the increase in revenues to be passed on as an increase in EBITDA, as well as establishing in the medium term the bases for a higher level of competitive advantage, both in technology and cost, to meet with some degree of optimism the challenges in the medium term.

Proof of this ambitious of creating value are investment plans in this period. In 2012 the Viscofan Group invested €74 millions, including €29 millions in the construction of the new factory in China. In 2013, with the idea to continue to respond to increased demand from our customers, we want to spend about €100 millions, a record level of investments in the Viscofan Group, and include among other €28 million in the construction of the new factory in Uruguay and other €20 millions in increase production capacity in all the Group.

However, operating cash flow (defined as EBITDA-Capex) will be solid and will remain around 100 millions euros, giving one more year, returns above the cost of capital.

OpCF = EBITDA – Capex (MM €)



Austerity, cost control and a light structure will counter this pressure on the gross margin and allow the increase in revenues to be passed on as an increase in EBITDA

Total investments 2012

74M€

Excellence involves a constant flow of people and ideas in all centres with initiatives aimed at supporting and promoting the development of talent among our people

EXCELLENCE

With the pillar of excellence the Viscofan Group wishes to summarise a method in its relations with all of its stakeholders: shareholders, employees, suppliers, customers and other players in the market and society.

Artificial casings are apparently simple products that conceal a great complexity of technical properties that require a specific know-how that is difficult to access, which makes this sector especially competitive and dynamic, while also offering our customers high added value.

We are talking about a product that in general terms reaches the end consumer either as an edible casing or as a casing that gives the sausage its appearance, and their decision to purchase will be influenced by this appearance, but at the same time, it has to satisfy the meat producers whose main decision-making parameters are easily measurable and very different to the consumer's experience: we are combining productivity and savings for our customers with a perfect, safe finish for our consumers.

This attitude includes a very proactive R&D activity, which seeks solutions, either technological or applications-based, which allow us to maintain, as a competitive advantage, a proprietary and constantly evolving technology.

All this is supported by an exceptional workforce, with a spirit of constant improvement, aware of the challenges brought by Viscofan's leadership and the need for further improvement in competitiveness every day. Excellence involves a constant flow of people and ideas in all centres with initiatives aimed at supporting and promoting the development of talent among our people.

GUIDANCE FOR 2013

"Be MORE" strategy is made up of multiple projects with different time horizons, and represents a significant commitment from all members of the Viscofan Group.

The result of this commitment are the guideline financial results expected for 2013. The company expects to obtain consolidated revenus of between €800 and €805 million (equivalent to interannual growth of between 6% and 7%), with an EBITDA of between €198 and €200 million (7% to 8% growth), and a net profit of between €108 and €109 million (an increase from 3% to 4% with respect to the 2012 adjusted net profit).

These targets include as a condition an average US$/€ exchange rate of 1.30, due to the fact that 39% of the revenues of the Viscofan Group are in US$ while 22% of the expenses are in this currency.

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS 2012

	First year "Be MORE" Strategy	Strategy "Be ONE" Period				
	2012	2011	2010	2009	Dif 12/11	TACC 2009-12
Millions of euros						
Revenue	**752.8**	666.8	633.7	583.4	12.9%	8.9%
EBITDA	**185.0**	162.1	154.1	129.0	14.1%	12.8%
EBITDA margin	**24.6%**	24.3%	24.3%	22.1%	0.3 p.p.	2.5 p.p.
EBIT	**140.0**	120.1	110.4	91.3	16.6%	15.3%
Margen EBIT	**18.6%**	18.0%	17.4%	15.6%	0.6 p.p.	3.0 p.p.
Profit before taxes	**133.0**	127.9	105.7	86.0	4.0%	15.7%
Net profit	**105.1**	101.2	81.3	64.3	3.8%	17.8%
Adjusted Net Profit (*)	**105.1**	98.4	81.3	64.3	6.8%	17.8%
Capital expenditure	**74.0**	64.7	47.4	46.4	14.4%	16.9%
Total equity	**498.6**	449.4	406.4	345.2	10.9%	13.0%
Net bank debt	**64.7**	61.5	59.8	90.5	5.2%	-10.6%
Market capitalisation at year-end	**1,995.1**	1,335.7	1,321.7	827.7	49.4%	34.1%
Average headcount	**4,377**	4,081	3,816	3,899	7.3%	3.9%
Net bank debt/total equity (%)	**13.0**	13.7	14.7	26.2	-0.7 p.p.	-13.2 p.p.
ROE(**) (%)	**22.2**	23.0	21.6	19.8	-0.8 p.p.	2.4 p.p.
Euros						
Year-end share price	**42.8**	28.7	28.4	17.8	49.4%	34.1%
Earnings per share	**2.254**	2.172	1.745	1.379	3.8%	17.8%
Proposed remuneration per share (***)	**1.100**	1.000	0.800	0.623	10.0%	20.9%

(*) Adjusted net profit excludes a one-off gain of €2,843 thousand, recognised in June 2011, related to an out-of-court settlement in Serbia in connection with the financial liability with Vojvodanska banka a.d.
(**) Net profit / Average total equity
(***) Includes dividends, capital reimbursement, refund of issue premium and bonus for attending General Meeting of Shareholders

BUSINESS PERFORMANCE

KEY CONCLUSIONS OF THE JANUARY-DECEMBER 2012 RESULTS

- +13% year-on-year growth in consolidated revenue to €752.8 million, driven by strong volumes.
- +14% year-on-year growth in consolidated EBITDA[1] to €185.0 million, with the EBITDA margin rising by +0.3 p.p. to 24.6%.
- +7% year-on-year growth in recurring net profit[2] to €105.1 million.
- Net bank debt[3] totalled €64.7 million, up 5.2% vs. December 2011 as a result of the higher investments linked to the growth plan and dividend hike.



1 EBITDA = Operating (EBIT) + Depreciation and amortisation charges
2 Adjusted net profit excludes a one-off gain of €2,843 thousand, recognised in June 2011, related to an out-of-court settlement in Serbia in connection with the financial liability with Vojvodanska banka a.d.
3 Net bank debt = Non-current bank borrowings + current bank borrowings – cash and cash equivalents

CONSOLIDATED 2012 RESULTS

Viscofan Group consolidated income statement ('000 €)

	Jan-Dec' 12	Jan-Dec' 11	Variation
Revenue	752,784	666,812	12.9%
EBITDA	185,033	162,142	14.1%
EBITDA margin	*24.6%*	*24.3%*	*0.3 p.p.*
EBIT	140,023	120,092	16.6%
Net profit	105,063	101,245	3.8%
Adjusted Net Profit [1]	105,063	98,402	6.8%

1 Adjusted net profit excludes a one-off gain of €2.84 million, recognised in June 2011, related to an out-of-court settlement in Serbia in connection with the financial liability with Vojvodanska banka a.d.

Viscofan Group shows the eighth consecutive year of growth, with net turnover up 12.9% to €752.8 million, on the back of an especially robust performance by the casings division, which posted 15.0% growth in the year, and by the vegetable foods division which, against a backdrop of recession in the domestic market, saw sales grow by 1.3%.

Excluding the impact of exchange rate fluctuations[4], consolidated revenue in 2012 increased by 10.4% compared with 2011.

This growth was recorded in a context of considerable raw materials cost inflation. This trend began in the second half of 2011 and continued throughout 2012, especially with regard to the main raw materials used in the casings division: cellulose, collagen skins and cogeneration gas. Accordingly, costs of consumption[5] rose by 16.1% year-on-year, to €243.4 million in 2012.

Consequently, the gross margin[6] was 67.6% in 2012, vs. 68.6% in the same period one year previously.

Personnel expenses in 2012 rose by 9.2% year-on-year to €150.3 million, with an average headcount of 4,377, i.e. 7.3% more than in 2011. The headcount increase was due to the incorporation of the workforce of Lingbao Baolihao Food Industrial Co. Ltd. in China, fully consolidated since July 2011. Excluding this change in consolidation scope, the average headcount was 2.4% higher, due primarily to increased activity in the casings division.

4 Constant exchange rate growth: for comparative purposes, growth excluding foreign exchange differences excludes the impact of the various exchange rates applied in the consolidation of financial statements, as well as the impact of US$ fluctuations on trade transactions

5 Since 2012, the net purchases figure has included energy consumption associated with electricity production from the cogeneration plants in Spain and Mexico, formerly recognised under Other operating expenses. The impact of this reclassification in 2011 is €28.8 million of higher costs of consumption and a lower figure in Other operating expenses
Cost of consumption = Change in inventories + net purchases.

6 Gross margin = (Revenue – cost of consumption) / revenue

Based on this performance, the Viscofan Group has exceeded its guidance for financial year 2012 in revenue, EBITDA and net profit

In this connection, the company made a considerable effort in the final quarter of the year to deploy personnel to China to launch the Group's new collagen plant.

The increase in the average headcount was accompanied by production improvements and enhanced competitiveness at the Viscofan Group, boosting the productivity margin[7] by 0.6 p.p. in the year and partly offsetting the decline in the gross margin.

Other operating costs were 6.9% higher at €179.6 million, driven by a 8.6% year-on-year increase in energy costs.

EBITDA in the year amounted to a record €185.0 million, an increase of 14.1% from 2011. Sizeable volumes in the casings division, cost control, productivity gains and appreciation of the US$ against the € (7.6%) boosted the EBITDA margin by 0.3 p.p. vs. 2011 to 24.6%, despite the pressure on the unit costs of raw materials and energy, and the work in 4Q12 for the launch of the China operations.

Stripping out the exchange rate effect, 2012 year-end EBITDA growth was 7.1% compared to 2011.

Depreciation and amortisation charges amounted to €45.0 million in 2012 (+7.0% vs. 2011), bringing consolidated EBIT to €140.0 million in 2012, up 16.6%, compared with the same period one year previously.

Viscofan reported a net financial loss of €7.0 million in 2012, compared to net financial profit of €7.9 million in 2011, owing to the one-off impact of the €3.3 million recognised in June 2011 related to the cancellation of a liability with Vojvodanska banka and to exchange gains of €6.6 million recognised in 2011, compared to exchange losses of €4.2 million in 2012.

Profit before tax amounted to €133.0 million in 2012. Tax in the year totalled €27.9 million and was equivalent to an effective tax rate of 21.0%

Consequently, 2012 net profit rose 3.8% year-on-year to €105.1 million, and was up 6.8% excluding non-recurring results.

Based on this performance, Viscofan Group has exceeded its guidance for financial year 2012 in revenue, EBITDA and net profit.

7 Productivity margin = (Revenue – Personnel expenses) / Revenue

Net bank borrowings totalled €64.7 million, up 5.2% vs. December 2011, as a result of the higher investments linked to the growth plan and dividend hike. Thus, the Viscofan Group's financial leverage[8] was 13.0%, vs.13.7% in December 2011.

In 2012, the company invested €74.0 million, compared with €64.7 million in 2011, earmarked mainly for the increase in collagen production capacity. The amount of the investment notably includes the new extrusion plant in China, which has just been in operation since February 2013, which will help meet the requirements of the world's largest collagen casings market more directly and efficiently.

The improvement in results, coupled with the strong cash flow generated by Viscofan's operations, have enabled this increase in investment to be combined with an improvement in shareholder remuneration. At its meeting of 28 February 2013, the Board of Directors agreed to submit to shareholders a proposal to pay a final dividend of €1.10 per share, vs. the €1.00 in the previous year, comprising:

- Interim dividend of €0.400 per share paid on 20 December 2012.
- Proposed final dividend of €0.694 for approval at the General Shareholders' Meeting and payable on 4 June 2013.
- Bonus of €0.006 per share for attending the General Shareholders' Meeting.



8 Financial leverage = Net bank debt/Equity

The improvement in results, coupled with the strong cash flow generated by Viscofan's operations, have enabled this increase in investment to be combined with an improvement in shareholder remuneration

Shareholders total remunerations

1.10 €/share

CASINGS: 2012 RESULTS

Casings income statement ('000 €)

	Jan-Dec' 12	Jan-Dec' 11	Variation
Revenue	649,176	564,544	15.0%
EBITDA	177,343	153,597	15.5%
EBITDA margin	*27.3%*	*27.2%*	*0.1 p.p.*
EBIT	135,633	114,646	18.3%
Net profit	101,200	97,068	4.3%
Adjusted Net Profit [1]	101,200	94,225	7.4%

1 Adjusted net profit excludes a one-off gain of €2.84 million, recognised in June 2011, related to an out-of-court settlement in Serbia in connection with the financial liability with Vojvodanska banka a.d.

The globalisation of food habits, coupled with the quest for productivity and savings by meat processors, have translated into strong growth in the casings market throughout 2012, not only in emerging economies, but also in more developed economies.

Growth is being sustained in all casings families, with particular vigour in the collagen segment, and in all of the Group's reporting regions

In this context of growth, Viscofan Group has launched an ambitious plan called "Be MORE" for 2012-2015, in order to consolidate its global leadership in the casings market, and this has boosted production capacity thanks to new machinery and better technology at current plants, and has also driven a plan to expand collagen production in China and Uruguay, with new facilities in operation in 2013 and 2014, respectively.

As a result of the production capacity increase in the second half of 2011 and throughout 2012, revenues at the casings division grew by 15.0% vs. 2011 to €649.2 million, of which €54.4 million (+20.3% vs. 2011) were cogeneration energy sales and €594.8 million (+14.5% vs. 2011) were casings sales.

This growth is being sustained in all casings families, with particular vigour in the collagen segment, and in all of the Group's reporting regions. In this context, in 2012 revenue at Viscofan by region[9] broke down as follows:

- In Europe and Asia, revenue rose 16.5% on 2011 to €339.5 million.
- In North America, revenue rose 13.2% to €209.0 million.
- In Latin America, revenue rose 13.7% year-on-year to €100.7 million.

Casing income

+15%

€649.2MM

9 Revenue by origin of sales

Stripping out the impact of the foreign exchange rates applied in consolidation, net turnover grew by 12.0% year-on-year in 2012.

The strong sales volumes and market growth came in a very adverse context for unit prices of both energy used at the cogeneration plants in Spain and North America and the main raw materials (principally cellulose, collagen hides and, to a lesser extent, certain auxiliary raw materials). Costs of consumption[5] amounted to €183.3 million in the year as a whole (+22.8% vs. 2011).

This increase in raw material costs caused the gross margin to erode, to 71.8% in 2012 (-1.7 p.p. vs. 2011).

The "Be MORE" strategic plan in place at the Viscofan Group has implied a huge effort to increase production, which has given rise to new personnel requirements, bringing the average headcount at the casings division to 3,776, i.e. 2.1% higher than in December 2011.

This growth in staff has focused mainly on China, with the increase in shifts and new hirings for the launch of the new collagen plant, on Serbia, due to the transfer of non-edible collagen production from Germany, and on Spain, with increases in capacity and central services. These growth initiatives were partially offset by downsizing in Germany and the Czech Republic, where processes are being increasingly automated.

In the final quarter of the year, the Viscofan Group accelerated activities to launch the new collagen extrusion plant in China, deploying staff from its various subsidiaries to install and launch the machinery developed for this purpose. At the same time, the staff deployed are providing important training to employees of Viscofan Technology Suzhou. Ltd., set to continue throughout 2013, for an adequate launch and productive consolidation of the China operations.

Personnel expenses totalling €138.1 million, i.e. 9.1% higher than in the same period one year earlier, due to the aforementioned launch, in the last quarter, of the China operations.

However, the company achieved sizeable savings in other operating expenses in the final quarter of the year, due to the investments in Mexico to optimise energy and to the better gas prices in Spain.

The "Be MORE" strategic plan in place at the Viscofan Group has implied a huge effort to increase production, which has given rise to new personnel requirements

Casings average headcount

+2.1%

3,776 people

As a result of these projects, during November and December 2012 liquefied gas was introduced into part of the production process in Mexico, generating significant savings in the country's energy bill. At the same time, gas hedging projects in Spain brought the price per MW in line with gas prices in last quarter 2011. These two effects kept gas supply expenses stable in last quarter 2012 vs. same period last year, contrasting with the 7.7% rise in energy costs for the year as a whole.

In 2012 Other operating costs climbed 7.4% year-on-year to €155.2 million, spearheaded by the aforementioned 7.7% increase in energy costs.

EBITDA in the year exceeded €177.3 million, a 15.5% gain on the previous year, with an EBITDA margin of 27.3%, i.e. 0.1 p.p. higher than the previous year's figure, despite the inflation in raw materials and energy costs, and the work to launch the new plant in China, offset by robust sales volumes, commercial discipline, cost containment and favourable currencies, especially the US$ (7.6%, vs. 2011 against the €).

Stripping out the exchange rate effect, 2012 year-end EBITDA growth was 8.1% compared to 2011.

Depreciation and amortisation charges amounted to €41.7 million in 2012 (+7.1% vs. 2011), bringing EBIT for the year as a whole to €135.6 million (+18.3% vs. 2011).

Net profit in the year totalled €101.2 million, up 4.3% vs. 2011, 7.4% higher excluding non-recurring revenue in 2011.



IAN GROUP: 2012 RESULTS

Ian Group Income statement ('000 €)

	Jan-Dec' 12	Jan-Dec' 11	Variation
Revenue	103,608	102,268	1.3%
EBITDA	7,690	8,545	-10.0%
EBITDA margin	*7.4%*	*8.4%*	*-1.0 p.p.*
EBIT	4,390	5,446	-19.4%
Net profit	3,863	4,177	-7.5%

The vegetable foods division managed to boost revenue by 1.3% year-on-year to €103.6 million, despite the economic crisis in the Spanish market, which is strangling household consumption in the country.

Against this backdrop, the IAN Group has shown solid leadership, with a notable improvement in revenue in the last quarter.

This growth was driven by product range diversification, prospection for external markets, adaptation to emerging consumer habits and the sharp growth in the ready-made meals segment of over 22% year-on-year, offsetting the decline in sales of asparagus.

Although net turnover exceeded the 2011 figure, pressure on sale prices at retail chains, coupled with production cost inflation, translated into a 1.0 p.p. decline in the yearly EBITDA margins, which were 7.4%. Consequently, EBITDA in the year totalled €7.7 million, i.e. 10.0% less than in 2011. Net profit totalled €3.9 million, down 7.5% vs. 2011.



VISCOFAN IN THE STOCK MARKET

Viscofan finished 2012 with an appreciation of 49.4%, significantly above the world appreciation average, and closed the year at €42.81, achieving the highest share price in its history

2012 was the fifth consecutive year of the over-indebtedness crisis, characterised by uncertainty over the outcome of the sovereign debt crisis in the Eurozone, which in turn created currency tension and a debate over whether or not certain Eurozone countries should remain in the euro. This led to significant tension in the markets and a growing concern over the lack of economic growth.

The high level of financial leverage and the need to contain spending by governments and businesses are making it difficult to adopt measures that boost sustainable economic growth, and are creating a spiral of lost profit and increasing debt that is hard to balance.

In Spain, there were two clear trends in 2012. During the first half of the year, doubts over Spanish banking and uncertainty over the ability to control the public sector peaked in July, when the public debt risk premium was over 7 percentage points and the Ibex was at a level of approximately 6,000 points, a fall of 30%.

Subsequently, once financial aid for Spain was approved and the ECB declared it would play a more active role in preserving the euro, leading to the implementation of the European Financial Stability Facility, tensions in the sovereign debt markets were alleviated, relaxing the risk premium in those countries that found themselves in difficulties, including Spain. In the second half of the year, the Ibex managed to climb back up to 8,000 points, even though as a whole the reference rate dropped by 4.7% compared to the previous year.

The world's other main stock markets closed the year on a positive note, resuming the path to recovery that was lost in 2011: the German DAX closed up by 29%, the French CAC by 15%, the British FTSE 100 by 5.6%, the Italian FTSE MIB by 7.8%, the Euro Stoxx 50 by 13.8%, and similarly the US S&P 500 by 13.4% and the Nasdaq 100 up by 16.8%.

In this context, Viscofan finished 2012 with an appreciation of 49.4%, significantly above the world appreciation average, and closed the year at €42.81, achieving the highest share price in its history. This positive evolution by Viscofan took place in relation to the different indexes in which the company participated up to December 2012. The IGBM (Madrid Stock Exchange General Index) dropped by 3.8%, and the positive behaviour of the Ibex Medium Cap (+13.8%), the Euro Stoxx 600 (+14.4%) and the food sub-sector index (+25%) were below Viscofan appreciation.

This performance was supported by the solid foundations of Grupo Viscofan, which leads a growing market, where in the first year of the "Be MORE" strategy it exceeded the main financial targets established for the year.

These solid growth foundations and transparent and fluid relationship with the financial community have allowed it to maintain high levels of trading. During the year, over 41.3 million Viscofan shares were traded, 89% of the total number of shares in circulation with a turnover of 1.427 bn euros. This is equivalent to a daily average of 5.6 million euros, an increase of 12% compared to the previous year's turnover, despite

the unfavourable environment that led to a 24% decrease in trading volume as recorded by the Spanish stock market.

Taking all this into account, Viscofan finished the year with a market capitalisation of 1.995 bn euros, and the IBEX 35 Expert Committee deciding to include Viscofan, from January 2013 onwards, in the select reference rate of listed companies in Spain.

Comparative returns on investments in Viscofan vs. Ibex 35 (%)

Buying (31/12)		Selling (31/12)										
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	CAGR
2002	Viscofan	9.0%	15.1%	43.4%	120.9%	123.8%	117.3%	174.5%	338.3%	343.0%	561.7%	**20.8%**
2002	*Ibex 35*	*28.2%*	*50.4%*	*77.8%*	*134.3%*	*151.5%*	*52.3%*	*97.8%*	*63.3%*	*41.9%*	*35.3%*	*3.1%*
2003	Viscofan		5.7%	31.6%	102.7%	105.4%	99.4%	151.9%	302.3%	306.5%	507.2%	**22.2%**
2003	*Ibex 35*		*17.4%*	*38.7%*	*82.8%*	*96.2%*	*18.9%*	*54.3%*	*27.4%*	*10.7%*	*5.6%*	*0.6%*
2004	Viscofan			24.6%	91.8%	94.4%	88.7%	138.4%	280.7%	284.7%	474.6%	**24.4%**
2004	*Ibex 35*			*18.2%*	*55.8%*	*67.2%*	*1.3%*	*31.5%*	*8.6%*	*-5.7%*	*-10.1%*	*-1.3%*
2005	Viscofan				54.0%	56.0%	51.5%	91.4%	205.6%	208.8%	361.3%	**24.4%**
2005	*Ibex 35*				*31.8%*	*41.4%*	*-14.3%*	*11.2%*	*-8.1%*	*-20.2%*	*-23.9%*	*-3.8%*
2006	Viscofan					1.3%	-1.6%	24.3%	98.5%	100.6%	199.6%	**20.1%**
2006	*Ibex 35*					*7.3%*	*-35.0%*	*-15.6%*	*-30.3%*	*-39.4%*	*-42.3%*	*-8.7%*
2007	Viscofan						-2.9%	22.7%	95.9%	97.9%	195.6%	**24.2%**
2007	*Ibex 35*						*-39.4%*	*-21.4%*	*-35.1%*	*-43.6%*	*-46.2%*	*-11.7%*
2008	Viscofan							26.3%	101.7%	103.8%	204.5%	**32.1%**
2008	*Ibex 35*							*29.8%*	*7.2%*	*-6.8%*	*-11.2%*	*-2.9%*
2009	Viscofan								59.7%	61.4%	141.0%	**34.1%**
2009	*Ibex 35*								*-17.4%*	*-28.3%*	*-31.6%*	*-11.9%*
2010	Viscofan									1.1%	51.0%	**22.9%**
2010	*Ibex 35*									*-13.1%*	*-17.2%*	*-9.0%*
2011	Viscofan										49.4%	**49.4%**
2011	*Ibex 35*										*-4.7%*	*-4.7%*

SHAREHOLDER REMUNERATION

Over the last decade, Viscofan has been one of the companies that has created the most value for its shareholders, with an average yearly return of 20% in the last ten years. Shareholders that invested at the end of 2002 and kept their shares until the close of 2012 have seen the value of their investment multiply by 6.6, or 7.4 times if you count shareholder remuneration during these financial years.

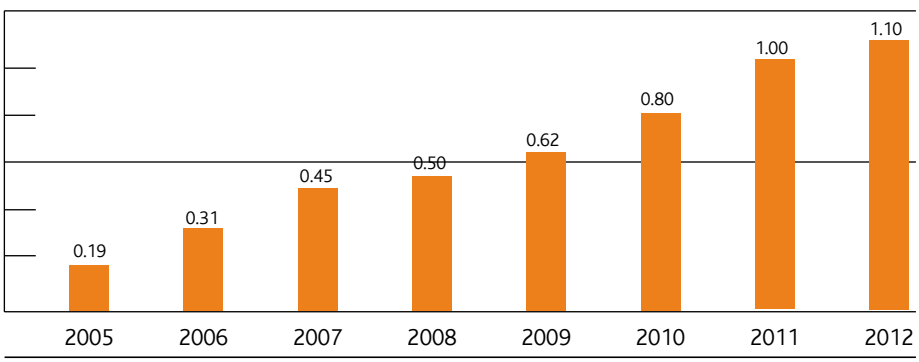
Direct remuneration through the payment of cash dividends, share premium refunds and reductions in capital have been a constant feature at Viscofan Group.

A clear example is the distribution of income approved by the General Shareholders' Meeting on 23 May 2011, for the 2011 financial year, which was equal to €1.00 per share, of which €0.36 corresponded to the interim dividend, €0.634 to the supplementary dividend and €0.006 to the attendance premium. Similarly, by the time the "Be ONE" strategic plan, which ran from 2009 to 2011, had finished, shareholder remuneration had increased from €0.50 per share to €1.00, at the same time as the share price doubled, increasing from €14.06 at the close of 2008 to €28.66 at the close of 2011.

Now the duration of this strategic plan has drawn to a close, Viscofan Group is immersed in a new plan known as "Be MORE", characterised by increased expansion of Viscofan Group.

This expansion is accompanied by new improvements to shareholder remuneration. Remuneration per share, proposed for approval at the 2013 General Shareholders' Meeting, is up to €1.10 per share, of which €0.40 corresponds to the interim dividend, €0.694 to the complementary dividend and €0.006 to the assistance premium. This sum means shareholder remuneration is equivalent to a pay-out of 48.8% of net profit.

Shareholder remuneration per share (€)



VISCOFAN, ITS SHAREHOLDERS AND INVESTORS

Through its Investor Relations department and the Shareholder's Office, Viscofan includes among its objectives the aim to create value for the investment community by improving information transparency and making relevant information available for better understanding of the company, its results, strategy and operations.

The main communication channels consisted of the company presentations at seminars and events organised by the financial community, road shows with institutional investors promoted by the company or by brokers, earnings presentations, the General Shareholders' Meeting, organised visits to Viscofan's head office, telephone calls to a dedicated investor and shareholder helpline (+34 948 198 436), a special e-mail address (info-inv@viscofan.com), information published on the website www.viscofan.com, and the notifications and regular public information submitted to the CNMV (Spanish National Securities Market Commission).

Viscofan is in constant contact with the financial markets, so in 2012 a total of 18 national and international analysis companies repeatedly covered the company:

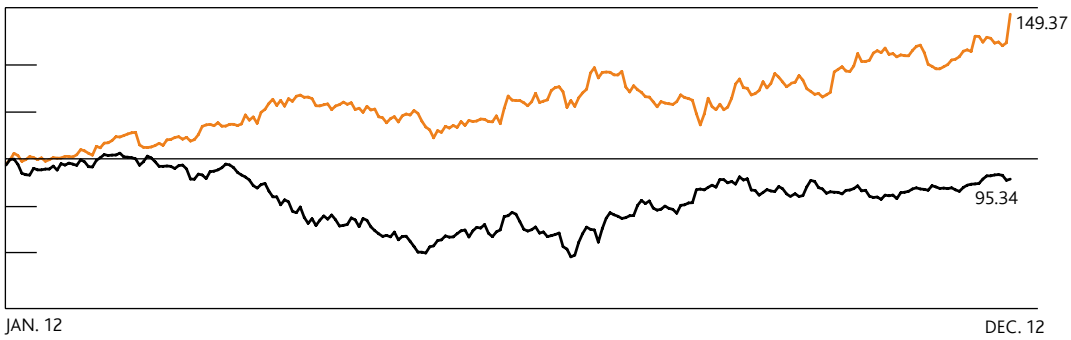


Furthermore, there were 207 meetings held with investors (212 in 2011 and 170 in 2010) in 11 financial centres (11 in 2011 and 10 in 2010).

This commitment, and open dialogue, between Viscofan and the investment community is also in some way reflected in trading volume, with one of the highest turnover rates for shares in companies with small to medium market capitalisation. In recent years this has exceeded 85% of the total number of shares admitted to trading.

The communication effort in recent years was recently acknowledged by the financial community and Viscofan was awarded the prize for "Best IR Professional" for the "sell-side" of the European food sector, by Institutional Investor at its "All European Executive team 2012 awards".

Share price performance vs Ibex 35



STOCK EXCHANGE HIGHLIGHTS

	First year "Be MORE" strategy	Strategy "Be ONE" Period		
Share price €	**2012**	**2011**	**2010**	**2009**
Year-end price	**42.81**	28.66	28.36	17.76
Year high	**42.81**	30.59	29.65	18.20
Year low	**28.45**	22.51	17.64	12.81

Viscofan in the stock market evolution	**Year end 2012**	**Year end 2011**	**Year end 2010**	**Year end 2009**
% annual change Viscofan	**49.4%**	1.1%	59.7%	26.3%
% annual change IGBM	**-3.8%**	-14.6%	-19.2%	27.2%
% annual change IBEX 35	**-4.7%**	-13.1%	-17.4%	29.8%
% annual change Euro STOXX 600	**14.4%**	-11.3%	8.6%	28.0%
% annual change Medium Cap	**13.8%**	-20.7%	-5.6%	13.8%
% annual change Sub sector Food and beverages IGBM	**25.0%**	-6.3%	25.3%	7.0%

Stock market trading data	**2012**	2011	2010	2009
Market capitalization at year-end (millions of €)	**1,995.10**	1,335.66	1,321.68	827.68
Traded volume (million of €)	**1,426.9**	1,274.1	925.4	663.1
Daily average trading volume (million of €)	**5.6**	5.0	3.6	2.6
Traded shares	**41,360,939**	47,049,517	41,668,063	42,112,723
Daily average of traded shares	**161,566.17**	183,787.18	162,765.87	165,798.12

Share ratios	**Year end 2012**	**Year end 2011**	**Year end 2010**	**Year end 2009**
Listed shares	**46,603,682**	46,603,682	46,603,682	46,603,682
Earnings per share[1]	**2.254**	2.172	1.745	1.379
Remuneration per share[2]	**1.100**	1.000	0.800	0.623

(1) Net earnings per share is calculated by dividing net profit by the average weighted number of ordinary shares in circulation during the year, excluding treasury stock
(2) Includes: dividends, capital reimbursement, refund of issue preimium and bonus for attending the General Meeting

DIVISIONS AND PRODUCT FAMILIES

SUPPLIERS → VISCOFAN → CUSTOMERS

CASINGS

CELLULOSE CASINGS

Cellulose casings are made from natural cellulose. They are used primarily in the manufacture of industrially cooked sausages (frankfurters, Vienna sausages, hot-dogs, etc). The casing is generally used only as a cooking mould, and the manufacturer peels it off before sale to the end-consumer. Using a complex manufacturing process, the cellulose molecules are chemically and mechanically depolymerised and subsequently repolymerised in cylindrical or tubular form according to the customer's requirements.

COLLAGEN CASINGS

These casings use collagen as their raw material. Collagen is obtained from cow and hog hides and processed using sophisticated technology so that it can be shaped into casings. Collagen casings are of two kinds: small calibre (e.g. fresh sausages, Bratwurst, etc.) and large calibre (e.g. salami, Bierwurst, etc.). 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. Viscofan also uses collagen to make edible film wrap to encase various meat products (hams, roulades, etc.).

PLASTIC CASINGS

Plastic casings are made from a range of polymers. Viscofan makes a wide variety of plastic cases for different product applications. Viscofan's plastic casings offer highly effective barrier properties, mechanical strength, thermal shrinkage, peeling, slicing and heat resistance.



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 such as mortadella, ham and pepperoni.

MACHINERY SOLUTIONS

Specially designed to facilitate our customers the use of Viscofan's casings.
The machines sold by Viscofan have been developed thinking in special casings that cannot be applied by conventional meat machinery.

VEGETABLE FOOD

IAN GROUP

IAN Group distributes a wide range of preserved vegetables, including asparagus, tomato products, olives and vegetable-based ready-cooked meals, salads, chicken and pasta recipes.
Carretilla is the leader brand in Spain.

BRANDS

CASINGS

Viscofan Koko CoffiNet Naturin

Colfan Tripan Betan Coffi

VEGETABLE FOODS

CARRETILLA iAn COMARC

ALESVES RESTAURACIÓN MORENITA

A COMMITMENT TO QUALITY, SERVICE AND FOOD SAFETY

THE CUSTOMER AT THE CENTRE OF OPERATING DECISIONS

Viscofan Group places the customer at the centre of its operational decisions, continuously trying to provide them with the best value proposition in order to strengthen their competitive advantages and help them to improve the efficiency and productivity of their operations.

In this respect, Viscofan is able to boast the largest commercial network in the industry and a level of service by its technicians that is widely recognised throughout the market.

As experts in artificial casings, we are the only company in the sector that offers a total, comprehensive service to our clients and are able to offer the casings solution that best adapts to their needs.

In its continuous improvement model, and via multidisciplinary teams from its sales, operations and R&D departments, Viscofan Group identifies those areas of most concern to the meat industry, developing and incorporating related improvements.

Maintaining our leadership position in the global market in an environment as dynamic as the current one would be impossible without Viscofan's excellent level of service and diversification; as a result of our presence in 14 countries we are able to provide suitable casing solutions to more than 2,000 customers in 100 countries around the globe.



Proof of this was the recent award for progress in Internationalisation given to Viscofan by the Business Circle, together with the Wharton University of Pennsylvania, which follows the export award received previously from the Navarre Chamber of Commerce and Industry.

In recent years, aiming to offer the best service to our clients, important changes have been implemented to the ordering system, including the creation of the Supply chain department, in order to optimize working capital, improve and standardise management tools in the supply chain and strengthen the coordination of corporate teams. This simplifies the number of representatives between orders and claims, taking advantage of a scale that is unique to the casings market and helps accelerate processes and improving the service offered to our clients.

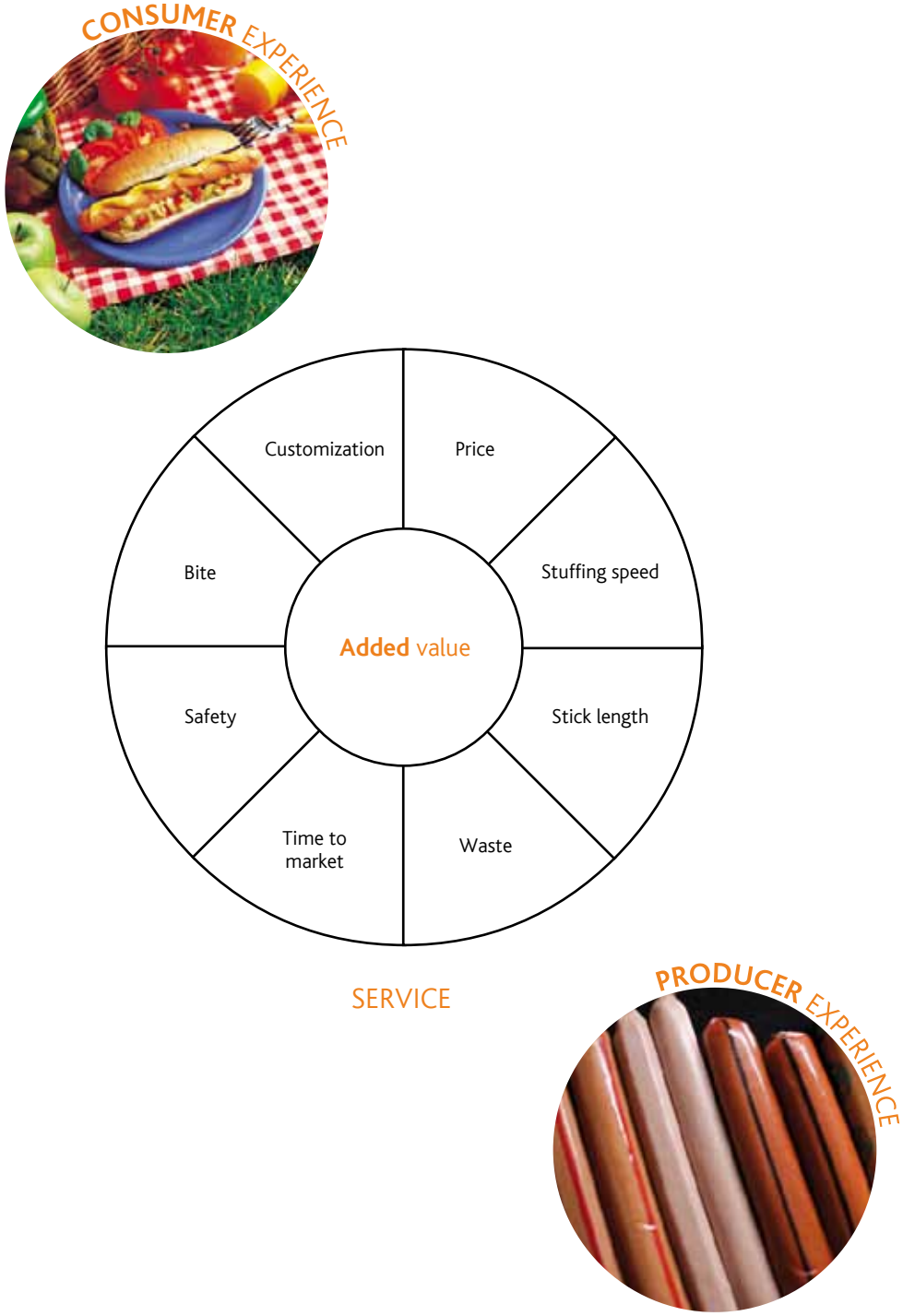
To efficiently implement our proposal to create value for our clients, we maintain an open communication channel and fluid client relationships, mainly through:

1.- Seminars and events organised by Viscofan.
2.- A technical assistance and continuous service telephone number.
3.- Active attendance of industry fairs, particularly the IFFA in Germany, the largest food sector fair in the world held every three years in Frankfurt.
4.- Visits to clients.
5.- Local presence directly by the company or through agents and suppliers.

Based on that commitment, Viscofan Group companies have managed to renew each year their Quality certifications based on Quality Management Standard ISO 9001:2008. At present the Suzhou plant in China is in the process of implementing quality procedures and it is expected to obtain quality certification by 2014.

ISO 9001:2008: CERTIFICATION TABLE	
Spain	✔
Germany	✔
Cezh Republic	✔
Serbia	✔
USA	✔
Mexico	✔
Brazil	✔
China	Prev. 2014

ADDED VALUE MATRIX



Viscofan has a product and food hygiene safety system that covers every relevant aspect from its own production installations built in accordance with food safety regulations, to training programmes in food hygiene and product safety, quality control of raw materials, which must comply with specifications established with authorised suppliers, systems for detecting unsuitable materials during the production process, pest control, control of dangerous materials, staff hygiene and a visitors' policy

PRODUCT SAFETY AND FOOD HYGIENE FROM THE SUPPLIER TO THE CONSUMER

As a manufacturer related to 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 quality and food hygiene takes the form of our mandatory processes applied throughout the production process and involves stringent working practices that are audited both internally and externally.

This commitment begins with the selection of raw materials, from the principal elements (cellulose, collagen hides, abaca paper, polyamides and natural gas) to auxiliary components used in the chemical and mechanical transformation of these raw materials during the production process.

To make this selection, Viscofan Group has established a supplier approval system, and suppliers need to comply with demanding quality, safety and cost criteria. This system establishes impartial and objective treatment in the supplier and contractor selection process.

Aware of the strategic importance of a suitable supply of raw materials and services, Viscofan Group is committed to its suppliers and establishes relationships founded on reciprocal contribution, mutual respect, trust and the quality of products and services.

In turn, to guarantee the excellence of its products and services at all times, as a guarantee for both its clients and the end consumer, Viscofan has a product and food hygiene safety system that covers every relevant aspect from its own production installations built in accordance with food safety regulations, to training programmes in food hygiene and product safety, quality control of raw materials, which must comply with specifications established with authorised suppliers, systems for detecting unsuitable materials during the production process, pest control, control of dangerous materials, staff hygiene and a visitors' policy.

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. The Company formed an inter-disciplinary team that assesses every step of the production process to detect possible hazards, identify critical control points, establish relevant controls and take any required corrective action. The system is updated annually in line with any changes in the production process.

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 and even sub-unit sold, from receipt of raw materials to product use by our customers. In Europe, Viscofan fully implements a food traceability system under European Community Directive 178/2002 and its related legislation.

Viscofan Group also has Halal and Kosher certifications for its entire product range and so it is able to supply products to any market in the world.

AUDIT AND CERTIFICATION

To ensure that our product safety and food hygiene systems comply with requirements, our production processes are audited internally on a regular basis. Furthermore, the production facilities are continuously audited by the health authorities, numerous customers and, when applicable, by the certifying bodies, as is the case with all of the European plants, which are successfully certified each year in accordance with the strictest market standards (British Retail Consortium Standards).

This certification has been expanded to other non-European factories, such as those in Mexico and the United States, and it is predicted that in 2013 the installations in Brazil and then China will also be incorporated.



A MULTICULTURAL GROUP OF PEOPLE

Average workforce

4,377

3,776 in casings
601 in vegetable food

In 2012 the Viscofan Group had an average workforce of 4,377 people, 3,776 of whom belonged to the casings division and 601 to the plant food division. It is precisely the people who make up Viscofan that constitute its best asset for creating value for the company and are the main reason for its leadership.

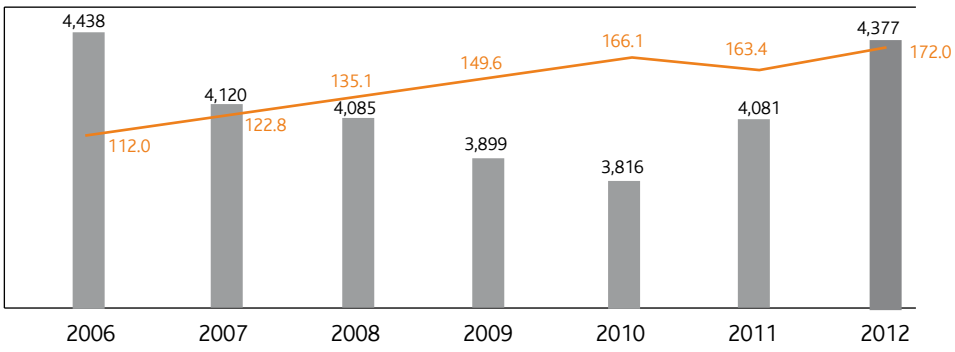
Its workforce is spread widely over various countries in which the company has a strategic presence : Spain, Germany, Brazil, Canada, China, Costa Rica, the United States, Mexico, the United Kingdom, the Czech Republic, Russia, Serbia, Thailand and Uruguay, and this represents a rich and complex multicultural environment and also presents a challenge and an opportunity for international development for the Group's employees, with numerous projects to transfer knowledge between the different production plants and the development of specific global training seminars for Group employees.

The average workforce increased by 7% compared to the previous year, due to the overall integration, from July 2011, of the Lingbao Baholihao Food Industrial Co. workforce in China which belongs to the vegetable foods division. Excluding this change in scope, the average workforce increased by 2%, reflecting greater activity in the casings division, most notably the incorporation of staff at the Chinese collagen extrusion factory which opened in February 2013, signifying intense start-up activity in the last quarter of the year.

This growth in the average workforce was accompanied by greater productivity and increased competitiveness in the Viscofan Group team. Employee expenses increased by 9% to exceed 150 million euros, but with a continued improvement in the average income generated per employee of 5.3% year-on-year.

Greater productivity is particularly important in the current context, in which production capacity and volume have been increased in a pressurised environment of rising raw material and energy costs.

AVERAGE WORKFORCE AND PRODUCTIVITY



WORKFORCE EVOLUTION
REVENUE PER EMPLOYEE (THOUSAND €)

The multinational nature of the Viscofan Group's business means that it needs to implement local human resource policies which are coordinated through the corporate Human Resources department in order to provide the best possible identification, development and retention of talent based on its priority competences, both locally and in the Group as a whole.

The Viscofan Group seeks to improve the internationalisation of its employees, facilitating the transfer of knowledge among subsidiaries through international meetings and by developing new posts for people of different nationalities within the Group.

For this, there are programmes that search for talent and export of know-how. Their aim is to facilitate and benefit from mutual enrichment, growth, motivation and development of talent among the people who make up Viscofan Group.

AVERAGE WORKFORCE BY REGION 2012



EUROPE AND ASIA: 56%
NORTH AMERICA: 20%
LATAM: 10%
IAN GROUP: 14%



DEVELOPMENT OF TALENT AND A COMMITTED TEAM

Hours of trainings

115,000

+8% more than in 2011

In order to achieve its objectives -in which its people are a source of competitive advantage for maintaining leadership and creating value- the Viscofan Group, through the Human Resource departments of its various subsidiaries, promotes training of its employees throught internal and external courses to provide the skills necessary for the job.

Accordingly, last year the corporate and local human resources team processed more than 115,000 hours of training, 8% more than in 2011, and set up initiatives such as induction training for short-term stays at our Chinese subsidiary.

The industrial process is characterised by the high number of specialised operators and staff, while some positions require a certain level of studies. Approximately 10% of the workforce has a university degree, 5% has a specialised Master's degree and 0.6% a PhD. The number of staff with a university degree at Viscofan Group increased by 6% compared to the previous year.

To support the initiative to improve training, during 2012 Viscofan Group worked closer with university institutions and incorporated 34 members of staff through grants and end of course projects, in comparison to 18 in 2011. This represents a clear commitment to encouraging university collaboration by hiring young graduates in the company's different departments.

At the close of 2012, the average number of employees per category was as follows:

AVERAGE NUMBER OF EMPLOYEES PER CATEGORY



HEADS: 2%
TECHNICIANS AND DEPARTMENT: 16%
ADMINISTRATIVE STAFF: 8%
SPECIALIZED PERSONNEL: 12%
OPERATIVES: 62%

Viscofan Group is committed to respecting and defending the human rights proclaimed in international agreements such as the International Bill of Human Rights or the United Nations Global Compact.

Within the code of conduct, Viscofan Group employees shall seek, within their area of action, to respect and protect human rights and shall oppose any conduct contravening them that they detect in the pursuit of their duties.

In particular, within their geographical and cultural diversity, Viscofan Group employees shall abstain from any conduct that involves discrimination on the grounds of race, sex, nationality, language, faith, ideology or any other individual, social o personal characteristic (disability, financial position, trade union membership, etc.) and shall pursue their duties within a work climate that prevents any form of exploitation.

Accordingly, 83% of Group employees are covered by collective bargaining agreements that establish general conditions to regulate their work activity, thereby improving the minimum conditions established by employment law.

Viscofan Group continues to be committed to its equal opportunities and diversity policy. During 2012, within the framework of its corporate equality policy, this plan continued to be implemented and included awareness and selection process modification sessions. At the close of the year, 31.7% of the average workforce were women, compared to 29.8% the previous year.

The human resources area, in collaboration with local production departments, encouraged measures and investment to improve the working conditions of our employees. In 2012, these measures led to a 9% decrease in the total number of work hours lost due to accidents, compared to the previous year. This work is still in progress, and new initiatives are planned for 2013 that aim to reduce the number of work accidents.

Viscofan Group expansion in recent years has made it necessary to incorporate more staff at the headquarters in Spain, with greater support in the corporate human resources area, in order to implement, in 2013, an international management tool for managing area selection, contracting, international mobility and internal expatriation processes.

RESEARCH, DEVELOPMENT AND INNOVATION

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.

The small calibre sausage production industry requires products with extremely high quality features at competitive prices, in order to make the large scale production of sausages possible. Responding to this demand implicitly requires an enormous technological and developmental challenge that Viscofan successfully meets as the largest supplier of cellulose casings for hot-dog-style sausages and one of the main suppliers of edible collagen for a wide variety of regional specialities.

In the large calibre range, used in dry, boiled and delicatessen-style sausages, the company responds by developing customised solutions to meet demands from manufacturers around the world. An extensive variety of collagen films, reinforced fibrous casings and plastic structures make it possible to reach the demanding and diverse world market with its enormous variety of classic and innovative meat products: sliced, pre-smoked, boiled, cured, etc.

For this reason, Viscofan takes the view that its leading position in the highly competitive world market can only be sustained by cutting-edge efforts in Research, Development and Investigation of its technology and products. Only through the application of this philosophy will Viscofan be able to continue advancing in its leadership of innovation in the global artificial casings market, creating value for all of 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 in each process and casing type. The average staff headcount is 55. The corporate research and development centre in Spain coordinates and supports the specific research and development activities conducted at each production plant, and coordinates the multidisciplinary teams which exchange best practices, technological knowledge and ideas across product sites.

The Cáseda site in Spain is a centre of excellence for cellulose and is the main research and development centre for this technology; the Weinheim site in Germany is the main Research And Development centre for collagen technology; the Danville site in the USA directs its efforts at fibrous technology; whilst plastics production technology is concentrated in both the Czech Republic and Brazil.

There is a technological spin-off from the centres with technology development units, both for products and processes, to the rest of the group's plants. The aim is to harmonise and standardise production

standards at world level, based on the most advanced concepts and processes both in terms of manufacturing technologies and in the philosophies of control, quality and product characteristics that have made Viscofan what it is today.

At present there are several strategic product and technology development projects across the entire casings range in progress (cellulose, collagen, fibrous and plastic casings), as well as other diversification products aimed at developing applications that equip Viscofan with the product range required to reinforce its presence in the world market. On-going and completed research and development projects focus mainly on:

- Development of various products, new agreements with the target markets defined in the expansion plan, and new generation creations designed and aimed at offering customers products that stand out due to their performance and characteristics.
- Development of active and functional casings capable of transferring properties or functionalities to the meat product processed in them.
- The development of production alternatives through technological breakthroughs which allow an increase in added value or significantly reduce production costs for artificial casings through modernisation, streamlining and simplification, improving Viscofan's competitiveness.
- Research into raw materials, focused on the development of technological processes that make it possible to expand the range of materials suitable for manufacturing casings.
- Technological support for improving existing products and processes, and the international expansion of the company; all compliant with Viscofan technological and quality standards and current regulations, as well as for optimisation of production costs.

IAN Group has 8 employees dedicated to R&D, whose main task is to continue the process of achieving greater diversification in the product portfolio through the launch of new products offering greater added value. This has resulted in the launch of new recipes for refrigerated and nonrefrigerated ready-cooked meals and salads, and activities to identify new ways to optimise production costs.

This division has a patented plate production system prepared under the "Exclusive and patented preservative-free trolley process" which is based on a 4 stage process: 1) Rapid steam cooking (HTST (high temperature-short time) system; 2) Use of technologically advanced packaging developed by the Trolley R&D&I Department together with a leading Technology Centre; 3) Low intensity stabilization technology to guarantee food safety during its useful life and avoid the organoleptic deterioration frequently caused by other packaging systems; 4) Quality control carried out on all products produced.

Grupo IAN's commitment to quality, health and food safety has led it to become a member of the Spanish Nutrition Foundation (FEN), the most important national body in the nutrition science sector.

SUPPORT FROM INTERNATIONAL RESEARCH CENTRES

Viscofan has a long track record of working with public and private research centres, Spanish and international, to foment specialization 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, and Germany on food safety, analysis of materials, process and food industry engineering, advanced physical and chemical analysis, basic research into alternative materials and uses, etc.

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

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. Among these associations are:

- 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.
- AINIA. Food technology centre based in Spain that provides support for the research and development carried out by its members, mainly in the areas of quality, food safety, sustainability, environment and design and industrial production.
- AICE. The Spanish Meat Industry Association is the largest meat association in Spain and advises, represents and defends the interests of the meat industry.

VISCOFAN BIOENGINEERING, OUR TECHNOLOGY AT THE SERVICE OF RESEARCH AND MEDICINE

Viscofan Bioengineering combines natural sciences and engineering to provide innovative products based on collaged as new solutions for cellular biology, tissue engineering and regenerative medicine.

Collagen is animal protein which can be extracted from different tissues with different morphologies. The versatility of this product means that it has enormous possibilities for manufacturing and use. This, combined with the excellent biocompatibility inherent in collagen, makes this biopolymer a very versatile material for customised solutions in the fields of biomedical research and development.

2012 saw important advances in the optimisation, development, manufacture and use of collagen moulds for cells (CCC) and biocompatible collagen membranes. Good results have continued in concept tests in various experimental areas of regenerative medicine, which definitively confirm the real technical potential of our collagen membranes in the area of tissue and organ repair. At the same time, new collagen-based products have been developed as solid bases of interest in cosmetic experimentation.

These advances have been accompanied by renewed commercial, promotional and marketing activity, resulting in the first commercial ltransactions for this business. In addition, biomedical research contracts have also been renewed.

More information on Viscofan-bioengineering can be found at www.viscofan-bioengineering.com.

www.viscofan-bioengineering.com



VISCOFAN AND SUSTAINABILITY

Viscofan understands that business management should adopt criteria that make the efficiency of the production and economic activity compatible with criteria that contribute to sustainable development.

Viscofan Group and its employees are committed to conducting business operations according to sustainable and economically viable principles and criteria, complying with current legislation on the environment and with the commitments voluntarily acquired in order to optimise its available resources and minimise the potential environmental impact of its activity.

This commitment is a significant challenge, taking into account Viscofan Group's production activity in 9 countries on different continents, and sales offices in 14 countries, operating in heterogeneous cultures with significantly different regulations and legislations.

This is why, in its position as a leader, it is working on two basic cornerstones on which its environmental projects are based:

- Sustainable use of resources
- Climate change prevention

Furthermore, its production centres carry out monitoring activities and maintain contact with stakeholders on matters concerning the environment and legislation, which also help to reduce the potential environmental and penalty risks of our activity. Viscofan Group also has insurance policies that cover environmental contingencies.

In order to improve its environmental management, in 2013 it has launched a project to create a new company environmental dashboard which, by providing useful and relevant information, will aid the monitoring activity and improve the proactive and preventative activity of the Group.



SUSTAINABLE USES OF RESOURCES

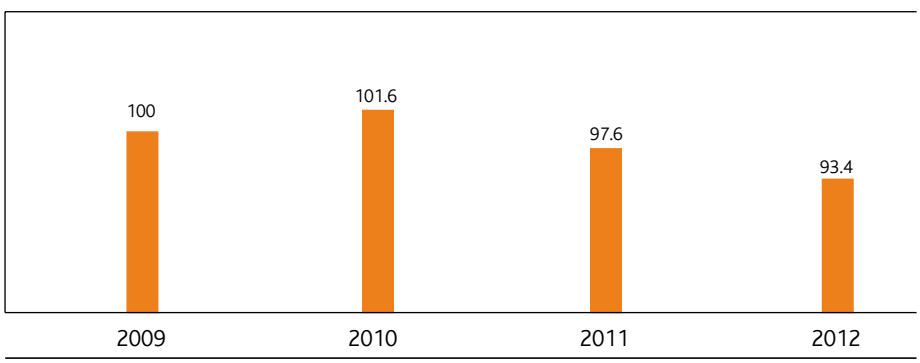
Viscofan is continuing to progress in its environmental and management policies, in which production excellence and economic development must continue to respect the environment; to this end, the Group analyses the environmental impact of its production activities and implements solutions wherever possible to avoid or minimize their environmental impact.

Investment was made during 2012 with this aim, most notably the investment of €2 million euros in a new wastewater plant in China, providing this installation with one of the most robust water treatment systems available which minimises the environmental impact of the new production centre, at a size that can absorb the expected growth in this region. Furthermore, in 2012 €0.8 million were also invested in a liquid waste recovery plant in Cáseda (Navarre), related to an expansion in the collagen capacity of this centre. This investment will increase the future value of Viscofan Group subproducts created during the manufacturing process at this factory.

The company has a continuous commitment to reducing its environmental impact, and in 2013 plans to install a new wastewater treatment system in Serbia, completing the industrial transformation which, for Koteks, has meant the transfer of non-edible collagen to this country. Similarly, the 2013 investment plan includes the implementation in Zacapu (Mexico) of the first stage of improvements to the current liquid waste system, for an approximate sum of €0.3 million.

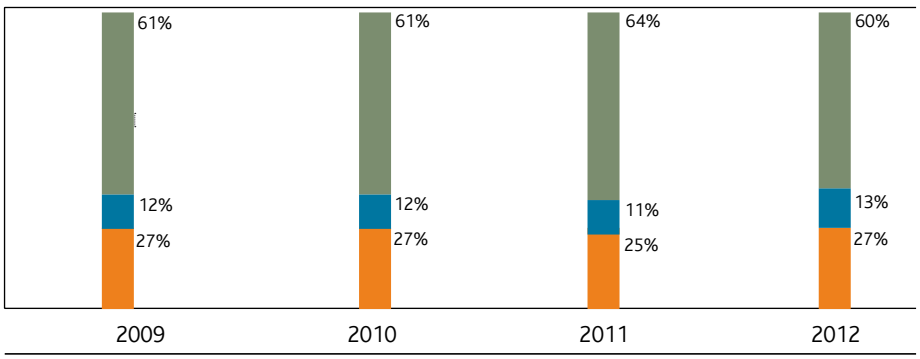
In 2012 the Group, generated 36.4 thousand tonnes of waste, compared to 37.6 thousand tonnes in 2011, 4.3% less despite the increase in activity that took place during the year.

WASTE AND SUBPRODUCTS EVOLUTION (BASE 2009)



Of the waste generated in the period, 60% was recovered for new uses and transactions; 13% was destroyed; and 27% went to landfill management. Investment over recent years has improved waste management, finding new forms of recovery and implementing systems which reduce the environmental impact of each tonne of waste.

WASTE AND SUBPRODUCTS MANAGEMENT



RECOVERY
DESTRUCTION
LANDFILL

Viscofan Group's European plants, in compliance with current legislation and as part of its commitment to the environment, are entered in the European Register of chemical substances (REACH, 1907/2006/ec), in which we have also asked our suppliers to preregister.

CLIMATE CHANGE

In Spain, the new National Allocation Plan for greenhouse gas emission rights laid down more stringent requirements for the period 2008-2012 than in the previous phase. Concerning these requirements, Viscofan is making significant investments with the purpose of improving the energy yield at its facilities and reducing CO_2 emissions.

For the new 2013-2020 period, the Group is working to continue to find the best alternatives that ensure it falls within its allocated emissions.

The expansion of our cogeneration plant in Cáseda (Spain), completed in two stages (2008 and 2009), and the subsequent installation of new and semi-new motors in 2010, 2011 and 2012, has helped it achieve a capacity of 48MW.

This new cogeneration plant has led to a change in our relationship with energy, as we now simultaneously generate electricity and heat, significantly contributing to savings in primary energy in the energy mix while also meeting the thermal and electrical energy requirements of the tripe production plant in Cáseda (Navarre), and generating electricity that can be distributed in the network.

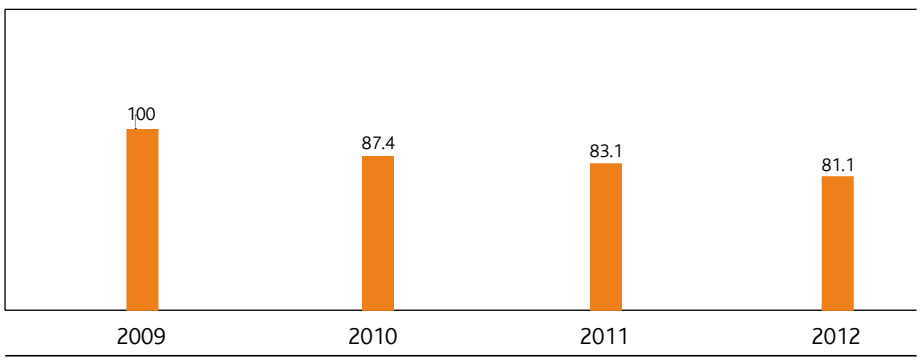
With this new cogeneration plant, Viscofan Group contributes to reducing the volume of CO_2 released to the atmosphere in comparison to other valid thermo-electric generation alternatives of equivalent power.

The reduction of greenhouse gases is a general line of action for all the Group's plants, where specific energy-saving projects are implemented, not only at the sites in the European Union, but also in Mexico, the United States and Serbia.

In Mexico, as part of the continuous improvement taking place, in 2012 we started to search for the best solutions from an environmental sustainability point of view that would reduce greenhouse gas emissions. The best alternative to the fuel used as the energy source in our steam boilers was gas. Approved investment in 2012 exceeded €1.1 million and the project is planned to continue throughout 2013.

Therefore, during the period of the "Be ONE" strategy, the aim to reduce the volume of CO_2 emitted per kilometre has been met, a trend that will continue in the 2012 financial year as part of the "Be MORE" strategic plan.

CO_2 EVOLUTION - TON/KM PRODUCED (BASE 2009)



Within this strategic plan, in addition to the energy replacement project in Mexico, in 2013 Viscofan Group is working to replace the use of steam bought from third parties in its German production centre with high performance boilers that will be purchased by Viscofan and installed in Weinheim, thereby creating a self-managed energy model with greater energy efficiency.

The result of this undertaking is the Viscofan Group energy consumption profile, in which 90% of Group factories use natural gas instead of other fossil fuels that are more harmful to the environment, with the commitment that, by the end of 2013, all Group factories will use gas.

DIRECTORY OF VISCOFAN SITES

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Cáceres (Spain)

Grupo Alimentario IAN
Yangjiawan. Xiyan. Lingbao.
Henan Province. P.R.China

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Financial Statements and Management Report

Prepared under International Financial Reporting Standards Endorsed by the European Union

31 December 2012 and 2011

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

AUDIT REPORT

VISCOFAN, S.A. AND SUBSIDIARIES
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2012

(Translated from the original in Spanish)

ERNST & YOUNG

Ernst & Young, S.L.
Avda. Pío XII, 22
31008 Pamplona
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Fax: 948 178 085
www.ey.com/es

Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
VISCOFAN, S.A.

We have audited the consolidated financial statements of VISCOFAN, S.A. (the Parent Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position at December 31, 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year then ended. As indicated in Note 3 to the accompanying consolidated financial statements, the directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group. Our responsibility is to express an opinion on the aforementioned consolidated financial statements taken as a whole, based upon work performed in accordance with prevailing audit regulations in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the consolidated financial statements, and the evaluation of whether their presentation, the accounting principles and criteria applied and the estimates made are in agreement with the applicable regulatory framework for financial information.

In our opinion, the accompanying 2012 consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of VISCOFAN, S.A. and subsidiaries at December 31, 2012, and the consolidated results of operations and consolidated cash flow for the year then ended, in conformity with IFRS, as adopted by the European Union, and other applicable provisions in the regulatory framework for financial information.

The accompanying 2012 consolidated management report contains such explanations as the directors of VISCOFAN, S.A. consider appropriate concerning the situation of the Group, the evolution of its business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the 2012 consolidated financial statements. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of VISCOFAN, S.A. and its subsidiaries.

ERNST & YOUNG, S.L.

(Signed on the original)

Javier Ezcurra Zubeldía

February 28, 2013

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid
Inscrita en el Registro Mercantil de Madrid al
Tomo 12749, Libro 0, Folio 215, Sección 8ª,
Hoja M-23123, Inscripción 116. C.I.F. B-78970506

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated statements of financial position
as at 31 December 2012 and 2011
[Thousands of euros]

Assets	Note	2012	2011
Property, plant and equipment	6	344,536	322,293
Intangible assets	7	16,342	17,545
Deferred tax assets	10	11,023	11,155
Other non-current financial assets	9	1,360	838
Total non-current assets		373,261	351,831
Inventory	11	197,837	175,076
Trade and other receivables	12.1	136,942	128,081
Receivable from public administrations	12.2	16,632	13,389
Tax assets receivable	10	2,323	-
Prepayments		2,299	2,654
Other current financial assets	9	3,412	11,517
Cash and cash equivalents	13	44,863	14,748
Total current assets		404,308	345,465
Total assets		777,569	697,296

Equity and liabilities	Note	2012	2011
Share capital	14.1	32,623	32,623
Share premium	14.2	12	12
Other reserves	14.3	386,858	334,575
Profit for the year		105,063	101,245
Interim dividend	14.6	(18,641)	(16,777)
Currency translation differences		(8,471)	(744)
Hedge transaction reserves	14.4	1,125	(1,498)
Total equity		498,569	449,436
Loans and borrowings	16.1	19,000	16,654
Other non-current financial liabilities	16.1	6,856	5,405
Provisions	17	26,772	28,461
Grants	15	5,434	6,444
Deferred tax liabilities	10	25,315	26,692
Total non-current liabilities		83,377	83,656
Loans and borrowings	16.1	90,516	59,563
Other current financial liabilities	16.1	11,596	10,043
Trade and other payables	16.2	62,458	63,654
Other current liabilities	16.2	8,807	8,019
Payable to public administrations	16.3	8,977	9,221
Current tax liabilities	10	9,435	8,564
Provisions	17	3,834	5,140
Total current liabilities		195,623	164,204
Total equity and liabilities		777,569	697,296

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated income statements
for the years ended 31 December 2012 and 2011
[Thousands of euros]

	Note	2012	2011
Sales and services rendered	21	752,784	666,812
Other income	22	5,549	9,091
Changes in inventories of finished goods and work in progress		29,502	4,093
Work performed by the Group on non-current assets		428	1,601
Consumption of raw material and other consumables		(272,943)	(213,734)
Employee benefits expense	24	(150,319)	(137,635)
Depreciation and amortization	6 & 7	(45,010)	(42,050)
Other operating expenses	23	(179,578)	(168,045)
Impairment and gains (losses) on disposal of non-current assets		(390)	(41)
Operating profit		140,023	120,092
Share of results from associates - net of tax	25	-	(80)
Finance revenue	25	691	1,389
Finance costs	25	(3,518)	(3,491)
Exchange differences	25	(4,201)	6,648
Impairment and gains (losses) on disposal of financial instruments	25	-	3,326
Profit before tax		132,995	127,884
Income tax expense	10	(27,932)	(26,639)
Profit for the year		105,063	101,245
Basic earnings per share (in euros)	26	2.2544	2.1725
Diluted earnings per share (in euros)	26	2.2544	2.1725

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated statement of comprehensive income
for the years ended December 31, 2012 and 2011
[Thousands of euros]

	Note	2012	2011
Net profit for the year		105,063	101,245
Profit (loss) recognized directly in equity			
In other reserves			
Actuarial gains (losses) on pension plans			
Germany		(2,702)	(666)
United States		(1,500)	(3,292)
Tax effect		1,564	782
	14.3	(2,638)	(3,176)
Hedges taken to reserves			
Remeasurement of hedge derivatives		3,561	(5,162)
Tax effect		(938)	1,387
	14.4	2,623	(3,775)
Translation differences		(7,727)	(11,428)
Other comprehensive income for the year, net of tax		(7,742)	(18,379)
Total comprehensive income for the year, net of tax		97,321	82,866

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated statement of changes in equity
for the years ended 31 December 2012 and 2011
[Thousands of euros]

	Equity attributed to the parent							
	Share Capital (note 14.1)	Share Premium (note 14.2)	Reserves (Note 14.3)	Interim Dividend (note 14.6)	Profit (loss) attributable to the parent	Unrealized gains (losses) reserve (note 14.4)	Translation differences	Total equity
Balance at January 01, 2011	**13,981**	**12**	**312,050**	**(13,981)**	**81,346**	**2,277**	**10,684**	**406,369**
Total recognized income and expense	**-**	**-**	**(3,176)**	**-**	**101,245**	**(3,775)**	**(11,428)**	**82,866**
Transactions with shareholders and owners	**(13,515)**	**-**	**-**	**(2,796)**	**(23,488)**	**-**	**-**	**(39,799)**
Capital increases / (decreases)	(13,515)	-	-	-	-	-	-	(13,515)
Dividends paid	-	-	-	(2,796)	(23,488)	-	-	(26,284)
Other changes in equity	**32,157**	**-**	**25,701**	**-**	**(57,858)**	**-**	**-**	**-**
Transfers between equity accounts	32,157	-	25,701	-	(57,858)	-	-	-
Balance at December 31, 2011	**32,623**	**12**	**334,575**	**(16,777)**	**101,245**	**(1,498)**	**(744)**	**449,436**
Total recognized income and expense	**-**	**-**	**(2,638)**	**-**	**105,063**	**2,623**	**(7,727)**	**97,321**
Transactions with shareholders and owners	**-**	**-**	**-**	**(1,864)**	**(46,324)**	**-**	**-**	**(48,188)**
Dividends paid	-	-	-	(1,864)	(46,324)	-	-	(48,188)
Other changes in equity	**-**	**-**	**54,921**	**-**	**(54,921)**	**-**	**-**	**-**
Transfers between equity accounts	-	-	54,921	-	(54,921)	-	-	-
Balance at December 31, 2012	**32,623**	**12**	**386,858**	**(18,641)**	**105,063**	**1,125**	**(8,471)**	**498,569**

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated statements of cash flows
for the years ended 31 December 2012 and 2011
[Thousands of euros]

	2012	2011
Cash flows from operating activities		
Profit before tax	132,995	127,884
Adjustments to reconcile profits before tax with net cash flows		
Depreciation and amortization (Notes 6 and 7)	45,010	42,050
Asset impairment (Note 6)	223	(57)
Changes in provisions	(38)	(2,072)
Capital grants (Note 15)	(843)	(996)
Gain (loss) on disposal of non-current assets	167	41
Interest income	(691)	(1,389)
Interest expenses	3,518	3,491
Foreign currency translation differences (net)	4,201	(6,648)
	184,542	162,304
Changes in working capital		
Inventory	(25,545)	(18,193)
Trade and other receivables	(22,674)	(8,069)
Trade and other payables	4,752	(2,252)
Funds obtained from operations	141,075	133,790
Income tax receipts (payment)	(29,228)	(19,396)
Ordinary contributions to pension plans and other payments	(7,635)	(2,156)
Cash flows from operating activities	104,212	112,238
Cash flows from investing activities		
Payments for acquisition of property, plant and equipment and intangible assets	(69,238)	(65,994)
Proceeds from/(payments on) acquisitions of financial assets	9,983	(6,976)
Proceeds from disposals of property, plant and equipment	274	644
Interest received	691	-
Acquisition of a subsidiary, net of cash acquired	-	886
Cash flows from investing activities	(58,290)	(71,440)
Cash flows from financing activities		
Interest-bearing loans and borrowings		
Issuance	54,039	10,905
Repayment and redemption	(20,074)	(51,039)
Compensation to shareholders		
Dividends	(48,188)	(26,284)
Return of share capital (Note 14.1)	-	(13,515)
Interest paid	(3,390)	(5,401)
Collections related to financing activities	-	1,412
Other financial liabilities (net)	1,595	(1,651)
Grants (Note 15)	237	2,274
Cash flows from financing activities	(15,781)	(83,299)
Impact of changes in exchange rates on cash and cash equivalents	(26)	(52)
Net increase (decrease) in cash and cash equivalents	30,115	(42,553)
Cash and cash equivalents	14,748	57,301
Cash and cash equivalents at December 31	44,863	14,748

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the consolidated financial statements
as at December 31, 2012 and 2011

(1) Nature and Principal Activities

Viscofan, S.A. (hereinafter the Company or the Parent) 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, to a lesser extent, 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). Its main offices and registered address are located in Tajonar (Navarra).

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, cellulose, fibrous, plastic and collagen casing sectors, as explained in more detail in Note 2.

Viscofan, S.A.'s shares are quoted on the Madrid, Barcelona, and Bilbao stock exchanges, and the Spanish electronic trading platform (continuous market). The Company is in the IBEX 35 index as of January 2, 2013.

(2) Viscofan Group

The main corporate transactions carried out by the Viscofan Group in 2011 and 2012 are described below.

During the course of 2012, the Group initiated construction of a new production plant through its new subsidiary, Viscofan Uruguay S.A. The plant will produce casings and is located in the Pando municipality (Uruguay).

In 2011 the Group acquired 50% of Lingbao Baolihao Food Industrial Co. Ltd. (China). Since it already owned the other 50%, it now wholly owns the company. This transaction had no significant impact on the Group's income statement or consolidated equity (Note 8).

In 2011, Naturin Uk Ltd.'s name was changed to Viscofan UK Ltd.

Details of the subsidiaries and associates comprising the Viscofan Group at 31 December 2012 and 2011, as well as certain additional information is the following:

Year 2012

Group companies	Percentage interest		Activity	Registered offices
	Direct	Indirect		
Industrias Alimentarias de Navarra, S.A.U.	100.00%	-	Manufacture and marketing of tinned vegetables	Villafranca (Navarra)
Naturin Viscofan GmbH	100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Viscofan Canadá Inc	-	100.00%	Commercial activity	Quebec (Canada)
Viscofan do Brasil, soc. com. e ind. Ltda.	100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Zacapu Power S.R.L. de C.V.	-	100.00%	Cogeneration plant	Zacapu Michoacán (Mexico)
Koteks Viscofan, d.o.o.	100.00%	-	Manufacture and marketing of artificial casings	Novi Sad (Serbia)
Gamex, C.B. s.r.o.	100.00%	-	Lease of an industrial warehouse (to the Group) / Other services	Ceske Budejovice (Czech Republic)
Viscofan USA Inc.	100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Viscofan UK Ltd.	100.00%	-	Commercial activity	Sevenoaks (United Kingdom)
Viscofan Uruguay, S.A.	100.00%	-	Manufacture and marketing of artificial casings	Montevideo (Uruguay)
Viscofan CZ, s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan Technology (Suzhou) Co. Ltd.	100.00%	-	Manufacture and marketing of artificial casings	Suzhou (China)
IAN Perú, S.A.	-	100.00%	Asparagus production	Lima (Peru)
Lingbao Baolihao Food Industrial Co. Ltd	-	100.00%	Asparagus production	Lingbao (China)
Viscofan de México S.R.L. de C.V.	99.99%	0.01%	Manufacture and marketing of artificial casings	San Luís de Potosí (Mexico)
Viscofan Centroamérica Comercial, S.A.	99.50%	0.50%	Commercial activity	San José (Costa Rica)
Viscofan de México Servicios, S.R.L. de C.V.	99.99%	0.01%	Services rendered	San Luís de Potosí (Mexico)

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the consolidated financial statements
as at December 31, 2011

Year 2011

Group companies	Percentage interest		Activity	Registered offices
	Direct	Indirect		
Industrias Alimentarias de Navarra, S.A.U.	100.00%	-	Manufacture and marketing of tinned vegetables	Villafranca (Navarra)
Naturin Viscofan GmbH	100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Viscofan Canadá Inc	-	100.00%	Commercial activity	Quebec (Canada)
Viscofan do Brasil, soc. com. e ind. Ltda.	100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Zacapu Power S.R.L. de C.V.	-	100.00%	Cogeneration plant	Zacapu Michoacán (Mexico)
Koteks Viscofan, d.o.o.	100.00%	-	Manufacture and marketing of artificial casings	Novi Sad (Serbia)
Gamex, C.B. s.r.o.	100.00%	-	Lease of an industrial warehouse (to the Group) / Other services	Ceske Budejovice (Czech Republic)
Viscofan USA Inc.	100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Viscofan UK Ltd.	100.00%	-	Commercial activity	Sevenoaks (United Kingdom)
Viscofan CZ, s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan Technology (Suzhou) Co. Ltd.	100.00%	-	Manufacture and marketing of artificial casings	Suzhou (China)
IAN Perú, S.A.	-	100.00%	Asparagus production	Lima (Peru)
Lingbao Baolihao Food Industrial Co. Ltd.	-	100.00%	Asparagus production	Lingbao (China)
Viscofan de México S.R.L. de C.V.	99.99%	0.01%	Manufacture and marketing of artificial casings	San Luís de Potosí (Mexico)
Viscofan Centroamérica Comercial, S.A.	99.50%	0.50%	Commercial activity	San José (Costa Rica)
Viscofan de México Servicios, S.R.L. de C.V.	99.99%	0.01%	Services rendered	San Luís de Potosí (Mexico)

(3) Basis of Preparation

The consolidated Financial Statements have been prepared on the basis of the accounting records of Viscofan, S.A. and the companies forming the Group. The consolidated Financial Statements for 2012 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 2012 and 2011, as well as the consolidated results from its operations, its consolidated cash flows and consolidated recognized income and expenses 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 parent's directors expect these 2012 consolidated financial statements, which were prepared on February 28, 2013, to be approved by the shareholders in general meeting without modification.

New and amended standards and interpretations

The accounting policies utilized are consistent with those applied in the previous year except for the following standards and interpretations, applicable for years beginning on January 1, 2012 inclusive:

- IAS 12 - Income tax - Recovery of underlying assets: The amendment clarifies the determination of deferred taxes arising from real estate investments measured at fair value. It introduces a presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It also introduces a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The amendment is applicable for years beginning on January 1, 2012 and had no impact whatsoever on the Group's financial position and results or the information disclosed.

- IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters: The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

Published standards which are not applicable

The Group has not early adopted any standard, interpretation or amendment issued but not effective.

The Group is evaluating the impact that the following standards and interpretations, which have been published by the IASB and approved by the European Union but are not yet applicable, will have on its accounting policies, disclosures, financial position and performance: The Group intends to adopt the following standards when they become effective:

- *IAS 1 - Presentation of items of other comprehensive income:* Amendments to IAS 1 changes the grouping of headings presented under other comprehensive income Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The amendment only affects presentation of financial statements, and has no impact on the Group's financial position or performance. The amendment becomes effective for the years starting July 1, 2012.

- *Amendment to IAS 19 - Employee Benefits:* The IASB has published many amendments to IAS 19, ranging from basic changes such as eliminating the corridor approach and the concept of expected return on plan assets, to simple clarifications and rewording. The Group does not employ the corridor approach, but rather, recognizes the entirety of actuarial gains and losses under other comprehensive income. However, this amendment will affect net expenses incurred for benefits since the expected returns on plan assets will be calculated utilizing the same interest rate as that applied when calculating benefit obligations. These amendments become effective for the years starting January 1, 2013.

- *IAS 28 Investments in associates and joint ventures (as amended in 2011):* The Group does not have any investments in associated companies, and it does not participate in joint ventures; therefore, the above amendments are not applicable.
- *IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32:* These amendments clarify when" an entity has a legally enforceable right to set off the amounts." These amendments also clarify the application of offsetting criteria for settlement systems (such as centralized cash register systems) which apply offsetting mechanisms for gross amounts in connection with balances that do not arise simultaneously. These amendments are not expected to have any impact on the Group's financial position or results and will become effective for years beginning on January 1, 2014.
- *IFRS 1 Government loans – Amendments to IFRS 1:* This amendment requires IFRS first-time adopters to apply the stipulations of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans entered into on or after the date of transition to IFRSs. Companies can opt to apply IFRS 9 (or IAS 39, whichever is applicable) and IAS 20 to government loans retrospectively, if the necessary information was obtained on the date that the loans in question were originally recognized. This exception allows IFRS first-time adopters not to measure government loans with below-market interest rates retrospectively. The amendment becomes effective for the years beginning on January 1, 2013. This amendment will not have any impact on the Group.
- *IFRS 7 Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7:* These amendments require disclosure of information on offsetting rights and similar agreements (for example, collateral agreements). The disclosure will provide useful information for users to evaluate the effect of presenting these agreements in net amounts for the entity's financial position. The new disclosures are mandatory for all those financial instruments that have been offset in accordance with the stipulations of IAS 32. These amendments are not expected to have any impact on the Group's financial position or results and will become effective for years starting from January 01, 2013.

- *IFRS 10 Consolidated Financial Statements:* IFRS 10 replaces the consolidation requirements in IAS 27 *Consolidated and Separate Financial Statements*. It also includes topics dealt with in SIC-12 *Consolidation - Special purpose entities* and IFRS 12 *Disclosure of interests in other entities*. These standards will be effective for years beginning January 1, 2013, and will have no impact on the Group.
- *IFRS 11 Joint agreements: IFRS 11 substitutes IAS 31 Interests in joint ventures, and SIC 13 Jointly-controlled entities - non-monetary contributions*. IFRS 11 makes it impossible to account for jointly-controlled entities using the proportional consolidation method. Instead, jointly-controlled companies that fulfill the definition of a joint venture are accounted for using the equity method. Since the Group holds no interest in joint ventures, application of this standard will have no impact.

- *IFRS 12: Disclosure of Interests in Other Entities:* IFRS 12 includes all the disclosures that previously appeared in IAS 27 relating to consolidated financial statements, as well as all the disclosures previously included in IAS 31 and IAS 28. These disclosures refer to interest held in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 also requires additional disclosures, but none of them will have any impact on the Group's financial position or results. This standard goes into effect for the years beginning on January 1, 2013. Since the Group holds no interest in joint ventures, application of this standard will have no impact.

- *IFRS 13 Fair value measurement:* IFRS 13 does not introduce any changes to when fair value must be used, but offers guidelines on how to measure an asset or a liability at fair value in accordance with IFRSs when this is stipulated or allowed. The Group does not expect this standard to have any significant impact.

Annual improvements - May 2012

These improvements will not have any impact on the Group, but include:

- *IFRS 1 – First-time Adoption of IFRS:* This improvement clarifies when an entity that has ceased applying IFRSs in the past but opts or is obliged to apply IFRSs, has the choice to reapply IFRS 1. If the entity in question opts not to reapply IFRS 1, the entity must restate its financial statements retrospectively as though it had never stopped applying IFRSs.
- *IAS 1 Presentation of Financial Statements:* This improvement clarifies the difference between voluntarily providing comparative information and minimum comparative requirements. In general, mandatory comparative information equates to comparative information in respect of the preceding period.
- *IAS 16 – Property, Plant, and Equipment:* This improvement clarifies that the main items comprising accessories and spare parts which meet the definition of property, plant, and equipment, are not inventory.
- *IAS 32 - Financial Instruments - Presentation:* This improvement clarifies that income tax relating to distribution of dividends to shareholders must be recognized in accordance with IAS 12 *Income taxes*.
- *IAS 34 Interim Financial Reporting:* The improvement unifies disclosure requirements for interim financial reporting in connection with segment information for total assets and liabilities. This clarification also aligns interim disclosures with annual disclosures.

These improvements become effective for years starting January 1, 2013.

Policies used by the Group when several options are permitted

International Financial Reporting Standards occasionally contemplate more than one alternative accounting treatment for a transaction. The criteria adopted by the Group for its most relevant transactions are the following:

- Capital grants can be recognized reducing the cost of the assets for which financing was granted or as deferred income, which was the Group's choice. They are recognized in the income statement under "Other income."
- Pension plan actuarial gains and losses can be deferred under certain conditions. The Group recognizes them during the year they are produced directly in equity.
- Certain property, plant, and equipment may be measured at market value or historical cost less amortizations and impairment loss. Viscofan has chosen the latter criteria.

(3.1) Comparison of information

These consolidated financial statements present for comparative purposes, for each of the headings on the consolidated statement of financial position, the consolidated income statement, the consolidated comprehensive income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and the notes to the consolidated financial statements, in addition to the consolidated figures for 2012 the corresponding figures for 2011.

(3.2) Relevant accounting estimates, assumptions and judgments

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

Aspects which involves a greater degree of judgment or complexity in preparation of these consolidated Financial Statements are detailed below.

(a) Relevant accounting estimates and assumptions

- Pension plans: Note 4.14
- Provisions: Note 4.15
- Useful lives of property, plant and equipment and intangible assets: Notes 4.4 and 4.5
- Assessment of impairment of assets: Note 6
- Recoverability of deferred tax assets: Note 10
- Measurement of derivatives: Note 4.8

(b) Changes in accounting estimates

Although estimates were based on the best information available at 31 December 2012, future events may require these estimates to be modified in subsequent years. The effects on the financial statements of any adjustment which may arise in subsequent years would be recognized prospectively.

(c) Sources of uncertainty

The main sources of uncertainty which could affect profit (loss) for the year in the future are due to contingent assets and liabilities (Note 17.7).

No uncertainties due to the current global economic climate were perceived which would have required special analysis or the solution of which would significantly have affected the Group's consolidated financial statements.

(3.3) 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.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes separation of embedded derivatives from the main contracts held by the acquiree. If the business combination takes place in stages, interest previously held in the acquiree's equity is measured at fair value on the date of acquisition and resulting profit or loss is recognized in the income statement.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as financial assets and liabilities in accordance with IAS 39 *Financial Instruments*: The fair value is taken, recognizing changes in fair value as profit or loss or change in other comprehensive income. In those instances where contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the relevant IFRS. If the contingent consideration is classified as equity, it is not measured and any subsequent liquidation is recognized in equity.

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 recognized 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 recognized by the acquirer in profit or loss.

(3.4) Changes in accounting classifications

The amount corresponding to consumption of gas utilized for cogeneration activities was reclassified to "Consumption of raw materials and other consumables" in 2012. This amount had been classified under "Other operating expenses" until last year. The reclassification is meant to enhance fair presentation.

The Group carried out this reclassification retrospectively, modifying the 2011 figures. The amount corresponding to gas consumed for cogeneration at the plants in Cáseda (Spain) and Zacapu (Mexico) in 2011 totaled 28,829 thousand euros. Thus, the amounts recognized under "Consumption of raw materials and other consumables" and "Other operating expenses" in 2011 totaled 213,734 thousand and 168,045 thousand euros respectively, compared to 184,905 thousand and 196,874 thousand euros respectively in the previous year's financial statements.

(4) Significant Accounting Principles

The consolidated Financial Statements 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) Accruals principle

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

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

(4.2) Method of consolidation

All the subsidiaries were consolidated using the full consolidation method.

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 Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases. Subsidiaries are excluded from the consolidation scope from the moment control is lost. Note 2 breaks down the nature of the relationships between the parent and its subsidiaries.

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 recognized using the purchase method. Entities acquired prior to that date were recognized under the former Spanish general chart of accounts, once the necessary transition date adjustments and corrections were considered.

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

The accounting policies of subsidiaries have been adapted to those of the Group.

The Financial Statements of consolidated subsidiaries reflect the same reporting date and period as that of the Parent.

Business combinations

Jointly controlled companies which by virtue of a contractual agreement are managed and controlled by more than two partners are consolidated by the equity method.

Under the equity method, investments in jointly controlled companies are recognized on the consolidated statement of financial position at cost plus any post-acquisition changes in the Group's investment based on its share of the investee's net assets, less any impairment losses. The result of measuring investments in associates using the equity method (after eliminating intra-group transactions) is recognized under "Other reserves" and "Share of results from associates -net of tax" on the consolidated statement of financial position and consolidated income statement, respectively.

(4.3) Effects of changes in foreign exchange rates

(a) Foreign currency transactions

The consolidated Financial Statements are presented in thousands of euros, which is the functional and presentation currency of the Parent.

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.

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 recognized as translation differences in equity.

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

(b) Translation of foreign operations

Translation differences are recognized 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 recognized under translation differences in equity.

The Group does not carry out business in hyperinflationary countries.

Translation differences related to foreign businesses recognized in equity are recognized on one line in the consolidated income statement when these are recognized in profit (loss) at the time such businesses are sold.

(4.4) Property, plant and equipment

(a) Initial recognition

Property, plant and equipment is stated at 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 to determine the cost of production. The cost of production is capitalized with a charge to work performed by the Group on non-current assets in the consolidated income statement.

The cost of assets which have long installation periods includes finance costs accrued prior to their being put to use. Such costs meet the capitalization requirements described above.

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) Amortization and depreciation

Property, plant and equipment is depreciated systematically over the useful life of the asset. The depreciable amount of tangible asset items is the cost of acquisition 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	10
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 recognized 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 capitalized. Ordinary maintenance costs are expensed as they are incurred.

Replacements of property, plant and equipment which meet the requirements for capitalisation are recognized 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) Investment property

At 2012 and 2011 year end the Viscofan Group had no assets which by their nature must be classified as investment property.

(4.5) Intangible assets

(a) Self-constructed assets

Expenditure on research activities is recognized 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 recognized in the consolidated income statement. Expenditure on development that was recognized initially as an expense is not recognized subsequently as part of the cost of an intangible asset. The Group has not capitalized any development expenses.

(b) 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 recognized as for self-constructed assets.

(c) Other intangible assets

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

Software maintenance costs are expensed as incurred.

(d) Emission rights

The Viscofan Group recognizes emission rights when it owns them. Rights assigned free of charge to each plant under each national emission rights assignment plan are initially measured at market value on the date granted and are recognized as a credit to "Grants" (*note 4.13*) on the consolidated statement of financial position. Rights acquired from third parties are recognized at their acquisition cost.

These assets are measured using the cost method. At each year end they are analyzed for any indications of impairment of their carrying amounts.

These emission rights are eliminated from the statement of financial position when they are sold, delivered, or have expired. Should the rights be delivered, they are derecognized from the provision made when the CO_2 emissions take place.

(e) Useful lives and amortization 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. At December 31, 2012 and 2011, the Group had no intangible assets with indefinite useful lives.

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

	Estimated useful life (years)
Concessions, patents and licences	10
Software	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 amortization methods at the end of each financial year. Changes to initially established criteria are recognized as a change in accounting estimates.

(4.6) Leases

(a) Finance leases

The Viscofan Group classifies as finance leases all lease agreements in which the lessor substantially transfers to the lessee all the risks and rewards incidental to ownership of the asset. All other leases are classified as operating leases.

Assets acquired under finance leases are recognized as non-current assets according to their nature and purpose. Each asset is depreciated/amortized over its useful life when the Group considers there to be no doubt that it will acquire ownership of the assets at the end of the lease term. The assets are recognized at the lower of the fair value of the leased item and the present value of future lease payments.

(b) Operating leases

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

(4.7) Financial instruments - Initial recognition and subsequent measurement

(a) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives designated as hedging instruments in "effective hedges,"as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Measurement after recognition

Subsequent measurement of financial assets depends on their classification, as described below:

Financial assets at fair value through profit or loss:

This category includes financial assets held for trading and any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are recognized in the statement of financial position at fair value. Net changes are presented as financial expenses (net negative changes in fair value) or financial income (net positive changes in fair value) in the income statement.

Financial assets are designated on initial recognition as measurable at fair value with fair value changes in profit or loss only if at the date of initial recognition the criteria described in IAS 39 are fulfilled. The Group has not designated any financial assets as measurable at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these financial assets are remeasured at amortized cost using the effective interest rate method, less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest. Interest accrued in accordance with the effective interest rate are included in "Finance income" in the consolidated income statement. The losses arising from impairment are recognized as "Finance costs" for loans and in "Other operating expenses" for receivables.

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 and which are recognized at amortized cost.

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

Interest accrued in accordance with the effective interest rate are included in "Finance income" in the consolidated income statement. The losses arising from impairment are recognized under "Finance costs" in the consolidated income statement.

Available-for-sale financial assets

Available-for-sale financial investments include equity investments and debt securities. Equity investments value through classified as available for sale are those that are neither classified as held for trading nor designated at fair profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. The Group held no debt securities classified under this category during 2011 and 2012.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the consolidated income statement, or if the investment is found to be impaired the cumulative loss is reclassified to "Financial expense" in the income statement. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

(b) Impairment and irrecoverability of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized , the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the income statement.

Available for sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity instruments classified as available-for-sale, objective evidence would include significant or prolonged decreases in the investment's fair value to below its cost. When there is evidence of impairment, cumulative losses (considered as the difference between acquisition cost and present fair value less any impairment loss on the investment previously recognized in the income statement) are eliminated from "Other comprehensive income" and recognized in the income statement. Impairment losses on equity instruments are not reversed through the income statement and increases in their fair value after impairment are recognized directly in "Other comprehensive income."

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

(c) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization. The Group had no financial guarantee contracts in 2012 and 2011.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the income statement.

(d) Offsetting financial instruments

Financial assets and liabilities can be offset with the corresponding net amount presented in the statement of financial position, if:

- There is a current legally enforceable right to offset the recognized amounts, and
- The entity intends to liquidate the net amount, or realize the assets and liquidate the liabilities simultaneously.

(4.8) Derivatives and hedge accounting

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative under IAS 39 is recognized in the income statement as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

When arranging each hedge transaction the Viscofan Group formally documents each transaction for which hedge accounting will be applied. The documentation identifies the hedge instrument, the item hedged, the nature of the risk to be hedged and how the effectiveness of the hedge will be measured. Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges are recognized as follows:

- Changes in the market value of hedging derivatives are recognized, in the case of the ineffective portion of the hedges in the consolidated income statement. Those related to the effective portion are recognized under "Unrealized gains (loss) reserve" in the consolidated statement of financial position. The cumulative gain or loss recognized in these headings is transferred to the related consolidated income statement heading (i.e. the heading affected by the hedged item) as it impacts profit or loss in the year in which the item is sold.
- When hedging of futures transactions gives rise to a non-financial asset or non-financial liability, their amount is taken into account when determining the initial carrying amount of the asset or liability which gives rise to the transaction hedged.
- When hedging futures transactions gives rise to a financial asset or liability, this balance is recognized under "Unrealized gains (loss) reserve" until the risk hedged in relation to the futures transaction impacts the consolidated income statement.
- If the hedged transaction does not give rise to an asset or liability, the amounts debited or credited to "Unrealized gains (loss) reserve" in the consolidated statement of financial position are taken to the consolidated income statement in the same period as the hedged transaction.
- When the hedge is discontinued, the cumulative gain or loss recognized in "Unrealized gains (loss) reserve" is held under this heading until the hedged transaction is carried out, at which time the gain or loss on the transaction is adjusted by the cumulative gain or loss. If the forecast transaction is no longer expected to occur, the gain or loss previously recognized in this heading is taken to the consolidated income statement.

Fair value hedges are recognized as follows:

- The change in fair value of a hedging derivative is recognized in the income statement under "Financial expenses." The change in fair value of the hedged item attributable to the hedged risk is recognized as part of the hedged item's carrying amount and in the income statement under "Financial expenses."

- In the case of fair value hedges related to items recognized at amortized cost, any adjustments to the carrying amounts are recognized in the income statement for the remaining life of the hedge using the effective interest rate method. Effective interest rate amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

- If the hedged item is derecognized, the unamortized fair value is recognized immediately in the consolidated income statement.

All the hedging instruments used by the Viscofan Group in 2012 and 2011 were derivatives not traded in organized financial markets. Consequently, these are measured using assumptions based on market conditions at year end:

- The fair value of interest rate swaps is measured as the value of the rate swap spreads discounted to present value at market interest rate.

- Exchange rate futures contracts are measured by discounting to present value future cash flows based on forward exchange rates at year end.

The market value of purchase-sale agreements of non-financial items to which IAS 39 is applicable, is calculated from the best estimate of the future price curves of these items available at year end.

(4.9) Parent treasury shares

Treasury shares acquired by the Group have been presented separately as a reduction in equity in the consolidated statement of financial position, 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 results 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 Reserves, with no recognition in the consolidated income statement.

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

- 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 recognized as a reduction in equity when approved at the general meeting of shareholders.

(4.10) Inventories

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

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 normal production capacity or actual production.

Indirect fixed costs distributed to each production unit are not increased as a result of a low level of production or idle production capacity. Indirect costs that are not distributed are recognized as expenses for the financial year in which they are incurred. In periods of abnormally high production, the amount of indirect costs distributed to each production unit is decreased so that inventories are not measured above cost. Variable indirect costs are distributed to each production unit on the basis of the actual use of the production facilities.

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 labor, other manufacturing overheads.

Volume discounts from suppliers are recognized when it is probable that the discount conditions will be met. Prompt payment discounts are recognized 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 realizable value. Net realizable value is considered as the following:

- Raw materials and other supplies: replacement cost: The Group only makes adjustments if the finished products in which the raw materials are incorporated are expected to be sold at a price equivalent to their production cost or lower;
- 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 recognized in the consolidated income statement for the year. 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 realizable 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 realizable value.

(4.11) 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.

(4.12) Impairment of non-financial assets subject to depreciation or amortization

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 amortization, if no impairment had been recognized.

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.

(4.13) Government grants

Government grants are recognized 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 recognized at fair value in the same way, with a debit to deferred income. They are transferred to "Other income" in the consolidated income statement in line with the depreciation of the related asset.

Non-repayable grants related to emission rights are initially recognized at market value on the date granted under "Grants," and are recognized in the consolidated income statement as they are used. They are recognized in "Other income" on the consolidated income statement.

(b) Operating subsidies

Operating subsidies are recognized 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 recognized 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 recognized 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.

(4.14) Employee benefits

(a) Liabilities for retirement benefits and other 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 commitments 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 recognized in the consolidated statement of financial position reflect the present value of defined benefit plans at year end, less the fair value of the assets related to those benefits.

Defined benefit plan costs are recognized under "Employee benefits expense" in the consolidated income statement and comprise current service costs plus the effect of any reduction or liquidation of the plan. Interest expense for the related obligation and the financial income arising from the expected return on plan assets are recognized at their net amount in "Financial results" under “Finance costs."

Actuarial gains and losses are recognized directly in equity as set out in IAS 19.93A.

A description of each of the Group’s defined benefit pension plans is included in Note 17.1.

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

(ii) Other benefits

The Parent has commitments with its employees for early retirement and seniority bonuses. To cover these commitments the Parent externalized these commitments through insurance policies.

(b) Termination benefits

The Group recognizes 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 recognizes 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 recognizes 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.

(d) Equity-settled transactions

The Viscofan Group does not have any share option plans or any programs which would lead to equity-settled payments with Board members, senior executives or employees.

(4.15) Provisions

(a) General criteria

A provision is recognized 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 recognized as a provision in the consolidated statements of financial position 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 is recognized under finance costs in the consolidated income statement.

Reimbursement rights from third parties are recognized as a separate asset where it is practically certain that these will be collected. The income reimbursed, where applicable, is recognized in 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 where the corresponding expense was recorded.

(b) Onerous contracts

A provision for onerous contracts is recognized 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 expenses

A provision for restructuring is recognized 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 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.

(4.16) 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 recognized 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 and incurred costs or to be incurred 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 recognized in the income statement by reference to the stage of completion of the transaction at the balance sheet date.

(4.17) 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 recognized 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 recognized, in the same or a different year, directly in equity, or from a business combination.

(a) Taxable temporary differences

Taxable temporary differences are recognized 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, or
- 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 recognized provided that:

- It is probable that taxable profit will be available against which the deductible temporary difference can be utilized, 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 utilized.

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 realized 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 utilized.

Deferred tax assets which do not comply with the aforementioned conditions are not recognized in the consolidated statement of financial position. At year end the Group reassesses unrecognized 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 recognized amounts and intends either to settle on a net basis, or to realize 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 realize 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 recognized on the consolidated statement of financial position under non-current assets or liabilities, irrespective of the date of realization or settlement.

(4.18) Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to the parent by the weighted number of ordinary shares outstanding during that year, excluding the average number of shares of the Parent, Viscofan, S.A. held by any of the Group companies.

Diluted earnings per share are calculated by dividing net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares which would be in issue if all potential ordinary shares were converted into ordinary shares of Viscofan, S.A.

In the case of the Viscofan Group's financial statements for the years ended December 31, 2012 and 2011 there is no difference in basic earnings per share and diluted earnings per share as there were no instruments potentially convertible into ordinary shares during those years.

(4.19) Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated statement of financial position as current or non-current based on the following criteria:

- Assets are classified as current when they are expected to be realized, 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.

- 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.

- 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 finalized subsequent to the close and before the consolidated Financial Statements have been prepared.

(4.20) 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 recognized under "Other operating costs" in the year in which they are incurred.

Assets used by the Group to minimize 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 recognized in the consolidated balance sheet based on the criteria for recognition, measurement and disclosure detailed in Note 4.4.

(4.21) Non-current assets and disposal groups held for sale

The Group classifies as "Non-current assets held for sale" assets whose carrying amount is expected to be realized through a sale transaction, rather than through continuing use, when the following criteria are met:

- When they are immediately available for sale in their present condition, subject to the normal terms of sale; and

- When it is highly probable that they will be sold.

Non-current assets held for sale are accounted for at the lower of their carrying amount and fair value less costs to sell, except deferred tax assets, assets arising from employee benefits and financial assets which do not correspond to investments in group companies, joint ventures and associates, which are measured according to specific criteria. These assets are not depreciated/amortized and, where necessary, the corresponding impairment loss is recognized to ensure that the carrying amount does not exceed fair value less costs to sell.

Disposal groups held for sale are accounted for using the same criteria described above. The disposal group as a whole is then remeasured at the lower of the carrying amount and fair value less costs to sell.

Related liabilities are classified as "Liabilities associated with non-current assets held for sale."

At 2012 and 2011 year end the Group had no assets or liabilities which must be classified in these categories.

(4.22) Discontinued operations

In the last two years the Group has not discontinued or disposed of any business area or significant geographic area.

(4.23) Related-party disclosures

Related-party transactions are recognized according to the measurement bases described within this Note 4. The only transactions with related parties are described in Note 27 of "Information on the Board of Directors of the Parent and Key Group Personnel".

(4.24) Dividends

The interim dividends approved by the Board of Directors in 2012 and 2011 are included as a reduction of the Viscofan Group's equity.

(5) Segment Reporting

IFRS 8: "Operating segments" establishes that an operating segment is a component of an entity:

a) when it engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

b) when its operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

c) for which discrete financial information is available.

Given the characteristics of the Viscofan Group's activities, its reported segments relate to strategic business units which are defined by the products manufactured and sold. Management oversees the operating results of its business units separately, so as to be able to make decisions regarding fund allocation and performance rating. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

The Viscofan Group's operating segments are as follows:

- 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 electricity through its cogeneration plants in Spain and Mexico. Its cogeneration activities have three aims: to decrease the cost of electricity for the casings segment, while remaining self-sufficient and at the same time reducing CO_2 emissions. These activities are not contemplated as business units to be reported on per se, but rather are included within the casings with the related financial information.

Inter-segment pricing is determined on an arm's length basis.

The casings segment is managed internationally and operates basically in three geographic areas; Europe and Asia, North America and South America. The vegetable products segment mainly operates in Europe, chiefly in Spain.

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 2012 and 2011 are included in Note 21.

(6) Property, Plant and Equipment

The breakdown and movements in property, plant, and equipment during 2012 and 2011 are as follows:

	Thousand of euros											
	1/1/2011	Translation differences	Business combinations (note 8)	Additions	Disposals	Transfers	12/31/2011	Translation differences	Additions	Disposals	Transfers	12/31/2012
Revalued cost												
Land and buildings	185,160	(1,293)	2,132	2,130	(7)	7,161	195,283	(2,470)	1,091	-	1,029	194,933
Plant and machinery	499,934	(5,797)	644	31,276	(7,468)	26,723	545,312	(8,523)	16,498	(2,069)	19,887	571,105
Other installations, equipment and furniture	77,667	(142)	213	2,742	(1,105)	1,116	80,491	27	2,203	(415)	(2,967)	79,339
Other property, plant and equipment	23,583	(129)	17	995	(283)	(1,878)	22,305	(235)	1,291	(736)	781	23,406
Advances and assets under construction Revalued cost	21,171	(269)	22	25,923	(24)	(33,971)	12,852	(1,634)	50,061	-	(19,270)	42,009
	807,515	(7,630)	3,028	63,066	(8,887)	(849)	856,243	(12,835)	71,144	(3,220)	(540)	910,792
Restated accumulated depreciation												
Buildings	(82,528)	649	-	(5,257)	1	(192)	(87,327)	726	(4,864)	-	235	(91,230)
Plant and machinery	(348,256)	3,289	-	(28,378)	6,888	(2,352)	(368,809)	5,987	(31,487)	1,927	(907)	(393,289)
Other installations, equipment and furniture	(56,626)	150	-	(4,453)	1,024	(46)	(59,951)	(31)	(3,939)	357	891	(62,673)
Other property, plant and equipment	(19,252)	200	-	(1,184)	273	2,590	(17,373)	195	(1,408)	489	(219)	(18,316)
	(506,662)	4,288	-	(39,272)	8,186	-	(533,460)	6,877	(41,698)	2,773	-	(565,508)
Provisions	(552)	5	-	(254)	311	-	(490)	(35)	(261)	38	-	(748)
	300,301	(3,337)	3,028	23,540	(390)	(849) (*)	322,293	(5,993)	29,185	(409)	(540)	344,536

(*) The amount of net transfers corresponds to other intangible assets (Note 7).

Investments made during 2012 were mainly focused on the new collagen plant in China, construction of the new plant in Uruguay, and an increase in the Group's production capacity, especially in Spain and the Czech Republic. Furthermore, investing for the optimization of energy use has continued in different Group subsidiaries.

Details of fully depreciated property, plant and equipment in use at 31 December 2012 and 2011 are as follows:

	Thousands of euros	
	2012	2011
Buildings	27,783	27,526
Plant and machinery	267,150	266,576
Other installations, equipment and furniture	37,882	34,915
Other property, plant and equipment	13,167	12,748
	345,982	341,765

The Group's buildings, plant and equipment were partly financed by government grants of 237 and 2,274 thousand euros in 2012 and 2011, respectively (see Note 15).

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.

Firm commitments to purchase non-current property, plant and equipment at year end 2012 and 2011 amounted to 17,760 thousand euros and 14,449 thousand euros, respectively. 2012 commitments basically relate to expansion plans in China, commencing operations in Uruguay, the energy optimization plan in Germany, as well as growth in production capacity and improvements to production in all the casings divisions (cellulose, collagen, plastics, and fibrous). 2011 commitments were mainly related to a new collagen extrusion plant in China, as well as energetic and environmental efficiency.

Finance leases

The Group has buildings and other items contracted under finance leases, as follows:

	Thousands of euros	
	Cost	Depreciation
At 1 January 2011	1,544	(986)
Additions	970	(86)
At 31 December 2011	2,514	(1,072)
Net movement	(23)	(189)
At 31 December 2012	2,491	(1,261)

The main item included under "Property, plant and equipment" is a vegetable foods warehouse. The lease agreement is dated March 8, 1999, has a duration of 180 months and the purchase option is 360 thousand euros.

Details of minimum payments and current finance lease liabilities, by maturity date, are as follows:

	Thousands of euros			
	2012		2011	
	Minimum payments (note 16)	Interest	Minimum payments (note 16)	Interest
Up to 1 year	243	47	275	58
Between 1 and 5 years	1,066	92	1,301	139
Total	1,309	139	1,576	197

Operating leases

The Group leases various warehouses and other PP&E items in various countries. The future minimum payments for these operating leases at year end are as follows:

	Thousands of euros	
	2012	2011
Up to 1 year	1,409	1,033
Between 1 and 5 years	2,871	1,773
More than 5 years	4,158	3,171
	8,438	5,977

Nevertheless, the only lease agreement which entails significant future minimum payments relates to its headquarters in Tajonar (Navarra), signed in December 2009 and in effect until December 15, 2028. The lease may be extended when both parties agree to this in writing at least six months before it expires.

Impairment test

No evidence of impairment were detected in any of the Group's cash-generating units, as they are generally performing well; therefore, it was not considered necessary to perform any impairment tests.

(7) Other Intangible Assets

The breakdown and movements in other intangible assets during 2012 and 2011 are as follows:

	Thousand of euros										
	1/1/2011	Translation differences	Additions	Disposals	Transfers	12/31/2011	Translation differences	Additions	Disposals	Transfers	12/31/2012
Cost											
Software	19,851	(86)	1,401	-	1,245	22,411	(276)	2,371	-	780	25,286
Concessions, patents and licenses	15,196	297	-	-	-	15,493	(159)	4	-	-	15,338
Issue rights	3,519	-	3,269	(2,448)	-	4,340	-	1,485	(2,533)	-	3,292
Prepayments	550	(12)	246	-	(396)	388	(25)	454	-	(240)	577
	39,116	199	4,916	(2,448)	849	42,632	(460)	4,314	(2,533)	540	44,493
Accumulated amortization											
Software	(11,641)	-	(1,889)	-	(1,442)	(14,972)	140	(2,369)	-	-	(17,201)
Concessions, patents and licenses	(10,557)	(111)	(889)	-	1,442	(10,115)	108	(943)	-	-	(10,950)
	(22,198)	(111)	(2,778)	-	-	(25,087)	248	(3,312)	-	-	(28,151)
	16,918	88	2,138	(2,448)	849 (*)	17,545	(212)	1,002	(2,533)	540	16,342

(*) The amount of net transfers recognized corresponds to items in property, plant, and equipment (Note 6)

In 2012 and 2011, the Group received free emission rights equivalent to 236,339 tons per year, as per the 2008-12 National Allocation Plan approved by Royal Decree 1370/2006. The emission rights consumed by the Company during 2012 and 2011 amounted to 210,065 and 179,426 tons, respectively.

Details of the cost of fully amortized intangible assets in use at 31 December 2012 and 2011 are as follows:

	Thousands of euros	
	2012	2011
Software	11,803	10,374
Concessions, patents and licences	5,135	5,097
	16,938	15,471

Impairment tests

In 2012, no impairment tests were carried out, as there was no goodwill or other intangible assets with indefinite useful lives. The entirety of advances were for new software.

(8) Business combinations

On May 23, 2011, the Group acquired 50% of the shares of Lingbao Baolihao Food Industrial Co. Ltd. located in China; it already owned the other 50% (see note 2). The company is devoted to packing and commercializing asparagus. All of its production was and continues to be owned by Grupo Industrias Alimentarias de Navarra, S.A.U.

Assets acquired and liabilities assumed

(Thousands of euros)	**Fair value recognized during acquisition**
Assets	
Property, plant and equipment (note 6)	3,028
Cash and cash equivalents	2,313
Accounts receivable	601
Inventories	1,025
	6,967
Liabilities	
Trade and other payables	(1,431)
Bank borrowings	(2,682)
	(4,113)
Total net assets identifiable at fair value	**2,854**
Total acquired from third parties (50%)	**1,427**
Consideration transferred	**1,427**

The fair value of identifiable assets and liabilities at the date of acquisition was similar to the amount paid for them; therefore, no goodwill was generated, with no effect on the Group's income statement or equity. There were no contingent payments related to this transaction, nor had any contingent assets or liabilities been identified in the entity. The tax bases of assets and liabilities and their respective carrying amounts were the same.

The historical costs of all the machinery installed over recent years was used to measure property and equipment items at fair value.

(9) Investments in associates and Other Financial Assets under Current and Non-current Assets

The breakdown of these headings is as follows:

	Thousands of euros	
	2012	2011
Non-current assets - Other financial assets		
Loans and receivables		
Guarantees and deposits	898	771
Other receivables	377	-
Available-for-sale financial assets		
Unlisted shares	85	67
Total, non-current	1,360	838
Other current financial assets		
Loans and receivables		
Guarantees and deposits	201	105
Short-term deposits	437	11,000
Financial assets at fair value through profit or loss in "Other comprehensive income"		
Cash flow hedges (Note 18)	2,774	412
Total, current	3,412	11,517

The section on short-term deposits includes time deposits with maturities exceeding three months from their contract date, at a nominal fixed interest rate of between 2.9% and 3.8%.

(10) Income tax

Details of deferred tax assets and liabilities, by type, are as follows:

	Thousands of euros					
	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Temporary differences						
Non-current assets	3,063	1,338	23,885	25,336	(20,822)	(23,998)
Current assets	1,758	1,814	964	221	794	1,593
Non-current liabilities	4,300	5,348	-	1,135	4,300	4,213
Current liabilities	1,902	2,354	466	-	1,436	2,354
	11,023	10,854	25,315	26,692	(14,292)	(15,838)
Other borrowings						
Tax credits for loss carryforwards	-	301	-	-	-	301
	-	301	-	-	-	301
	11,023	11,155	25,315	26,692	(14,292)	(15,537)

Deferred tax liabilities arising from non-current assets for the years ended December 31, 2012 and 2011 mainly relate to the application of different amortization rates by certain Group subsidiaries (mostly in the USA) than those used for tax purposes. Also included is the tax effect of net unrealized gains that are maintained at the closing of each year on assets acquired in different business combinations (Germany and Serbia).

The deferred tax assets on current assets are basically generated by provisions in respect of inventories which are not tax deductible in certain countries. The tax effect of eliminating the margin on inventory stock acquired between Group companies is likewise included. Deferred tax assets on non-current deferred tax liabilities relate mainly to provisions at different Group companies that will be used for tax purposes when applied. A large number of the provisions described in Note 17 have led to adjustments in tax assessment basis in the different countries

The breakdown of changes during the year in recognized deferred tax assets and liabilities arising from temporary differences recognized as income tax expense/(income) on the consolidated income statement and as "Other profit / loss" on the consolidated comprehensive income statement is as follows:

	Thousands of euros	
	2012	2011
Consolidated income statement		
Non-current assets	(6,836)	(4,224)
Current assets	4,560	868
Non-current liabilities	1,447	1,308
Current liabilities	115	2,338
	(714)	290
"Other comprehensive income" on the consolidated statement of comprehensive income		
Non-current assets	(111)	466
Current assets	11	(91)
Non-current liabilities	(1,534)	(928)
Current liabilities	802	(1,284)
	(832)	(1,837)
Total changes in taxes and deferred tax liabilities due to temporary differences	(1,546)	(1,547)

The breakdown of deferred taxes charged directly against "Other comprehensive income" on the consolidated income statement is as follows:

	Thousands of euros	
	2012	2011
Actuarial gains (losses) on pension plans		
United States	(837)	(600)
Germany	(727)	(182)
Unrealized gains (losses) on cash flow hedges	938	(1,387)
Changes due to translation differences	(206)	332
	(832)	(1,837)

The major components of income tax expense for the years ended December 31, 2012 and 2011 are as follows:

	Thousands of euros	
	2012	2011
Current income tax		
Income tax expense for the year	28,682	26,231
Adjustment to income tax from prior years	(337)	(916)
	28,345	25,315
Deferred income tax		
Change in deductions pending application	-	267
Change in unused tax credits	301	767
Origination and reversal of temporary differences	(714)	290
	(413)	1,324
	27,932	26,639

A reconciliation between tax expense / (income) and the product of profit before tax multiplied by the tax rate prevailing in Spain at December 31, is as follows:

	Thousands of euros	
	2012	2011
Profit before tax for the year	132,995	127,884
30% tax rate	39,899	38,365
Effect of application of tax rates in each country	(3,342)	(1,728)
Deductions generated	(7,144)	(7,628)
Adjustment to income tax from prior years	(337)	(916)
Impact of permanent differences	(1,144)	(1,454)
	27,932	26,639

Income tax payable was calculated as follows:

	Thousands of euros	
	2012	2011
Current tax	28,682	26,231
Withholdings and payments on account	(21,570)	(17,667)
	7,112	8,564

This amount is broken down in the consolidated statement of financial position as follows:

	Thousands of euros	
	2012	2011
Tax assets receivable	2,323	-
Tax liabilities payable	(9,435)	(8,564)
	(7,112)	(8,564)

At 31 December 2012 the Group has unused and unrecognized tax credits amounting to 5.9 million euros (2011: 5.0 million euros) corresponding to Koteks Viscofan, d.o.o. These unused credits were not recognized, since Serbian legislation stipulates that these credits have a 33% quota limit, are valid for a 10-year period, and every year the company must first apply the credits generated in the current year. Due to these factors, as well as the Serbian tax rate and investments foreseen for the subsidiary in future years, it is likely that the majority of them will not be utilized.

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 2012 the Parent and subsidiaries in Spain have open to inspection by the tax authorities all applicable taxes to which they are liable and for which the corresponding inspection periods have yet to expire. 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 management considers that any additional liabilities that might arise would not have a significant impact on these consolidated financial statements.

(11) Inventories

Details of inventories at 31 December 2012 and 2011 are as follows:

	Thousands of euros	
	2012	2011
Goods for resale	137	7,166
Raw materials and other supplies	54,321	52,278
Semi-finished products	42,342	34,647
Finished products	99,728	79,554
Prepayments to suppliers	1,309	1,431
	197,837	175,076

At 31 December 2012 and 2011 there are no inventories with a reimbursement period greater than 12 months from the consolidated statement of financial position.

In 2012, 596 thousand euros were recognized for expenses related to the recognition of inventories at their net realizable value; during 2011 these amounted to (1,526) thousand euros, which were recognized in "Changes in inventories of finished goods and work in progress."

Group companies have contracted various insurance policies to cover the risk of damage to inventories. The coverage of these policies is considered sufficient.

(12) Trade and other receivables

(12.1) Trade and other receivables:

The breakdown for "Trade and other receivables" at December 31, 2012 and 2011 is as follows:

	Thousands of euros	
	2012	2011
Trade receivables	135,459	124,978
Other receivables	3,612	4,477
Advances to employees	290	124
Provisions for bad debts	(2,419)	(1,498)
	136,942	128,081

At December 31, 2012 and 2011, the age of accounts receivable on sales by maturity is as follows:

	Thousands of euros					
	Total	Not due	< 30 days	30-60 days	60-90 days	> 90 days
2012	135,459	116,494	12,004	2,348	1,319	3,294
2011	124,978	111,821	10,201	1,218	397	1,341

All the provisions for bad debts relate to debt shown in the last two columns of the above table.

In 2012, net allowances and provisions applied totaled 1,053 thousand euros (expense) and 132 thousand euros, respectively. In 2011 they amounted to 106 thousand euros (expense) and 785 thousand euros, respectively.

Trade receivables do not carry interest, and generally payment conditions range from 45 to 90 days.

(12.2) Receivables from public administrations:

At December 31, 2012 and 2011, the balances receivable from public administrations are as follows:

	Thousands of euros	
	2012	2011
VAT receivable from the Treasury	15,850	12,533
Receivable from the Treasury in respect of grants	117	-
Withholdings and payments on account receivable from the Treasury	192	191
Other public bodies	473	665
	16,632	13,389

(13) Cash and cash equivalents

Cash and cash equivalents at 31 December 2012 and 2011 comprise cash balances with Group companies and banks. The Group does not have bank overdrafts at these dates and all balances are freely distributable.

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the consolidated financial statements
as at December 31, 2012 and 2011

(14) Equity

(14.1) Share capital

Movements in shares in circulation during 2012 and 2011 were as follows:

	Shares		Thousands of euros	
	2012	2011	2012	2011
At 1 January	46,603,682	46,603,682	32,623	13,981
Capital decrease	-	-	-	(13,515)
Capital increase	-	-	-	32,157
At 31 December	46,603,682	46,603,682	32,623	32,623

At December 31, 2012, the parent's share capital consisted of 46,603,682 shareholding units with a par value of 0.70 euro each. The shares were fully subscribed and paid in.

In their shareholder general meeting held on April 14, 2011, the Company's shareholders agreed to decrease share capital by 13,515 thousand euros due to a reduction in the nominal value of the shares from 0.30 to 0.01 euros each, to partially reimburse their value.

During the same meeting, a 32,157 thousand euro capital increase was approved due to the 0.69 euro raise in the nominal value of the shares. This capital increase was charged to freely distributable reserves.

At year end 2011, the parent's share capital consisted of 46,603,682 registered ordinary shares with a par value of 0.70 euros each, fully subscribed and paid in.

All shares bear the same voting and dividend rights and obligations, and are listed on the official Stock Exchanges of Madrid, Barcelona and Bilbao under the automatic quotation system (continuous market). All shares are freely distributable.

At December 31, 2012 and 2011, the parent was aware of the following shareholders with a direct or indirect stake of over 3%:

Entity	%	
	2012	2011
María del Carmen Careaga Salazar (*)	5,077	5,077
Marathon Asset Management, LLP	4,930	5,019
Governance for owners, LLP	4,798	3,054
William Blair and Company LLC.	3,648	3,648
Blackroxk Inc	3,140	3.140
BNP Paribas, S.A.	3,029	-

(*) Indirect ownership interest held through Onchena, S.L.

Capital management

The primary objective of the Viscofan Group's capital management is to safeguard its capital ratios to ensure the continuity of its business and maximize performance.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, increase capital or cancel treasury shares.

The Group monitors capital by analyzing trends in its gearing ratio. This ratio is calculated as net financial debt divided by total equity. Net financial debt includes total borrowings in the consolidated Financial Statements less cash and cash equivalents, and excluding current financial assets.

The Viscofan Group's primary objective is to maintain a healthy capital position. The gearing ratios at December 31, 2012 and 2011 were as follows:

	Thousands of euros	
	2012	2011
Net financial debt		
Borrowings and finance leases (note 16.1)	127,968	91,665
Cash and cash equivalents	(44,863)	(14,748)
Other financial assets (note 9)	(3,412)	(11,517)
Total net financial debt	79,693	65,400
Net equity		
Total net equity	498,569	449,436
Gearing ratio	0.16	0.15

(14.2) Share premium

The revised text of the Spanish Capital Companies Law expressly permits companies to use the balance of the share premium account to increase capital and does not place any limit on the amount of the balance which may be used for this purpose.

(14.3) Reserves

The breakdown and movements of reserves are as follows:

	Thousands of euros				
	Legal reserve	Revaluation reserves	Merger reserve	Retained earnings and other reserves	Total
Balance at January 1, 2011	**2,935**	**8,670**	**119**	**300,326**	**312,050**
Actuarial gains (losses)	-	-	-	(3,176)	(3,176)
Transfers	-	(103)	-	103	-
Capital increase charged to reserves	-	-	-	(32,157)	(32,157)
Appropriation of 2010 results	-	-	-	57,858	57,858
Balance at December 31, 2011	**2,935**	**8,567**	**119**	**322,954**	**334,575**
Actuarial gains (losses)	-	-	-	(2,638)	(2,638)
Appropriation of 2011 results	-	-	-	54,921	54,921
Balance at December 31, 2012	**2,935**	**8,567**	**119**	**375,237**	**386,858**

(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, according to the Capital Companies Law. This reserve cannot be distributed to shareholders.

(b) Revaluation reserve Navarra Regional Law 23/1996

As permitted by legislation prevailing at that time, in 1996 the Parent revalued its property, plant and equipment by 9,282,000 euros. The resulting revaluation reserve, which comprises the revaluation of items of property, plant and equipment, net of a 3% tax charge, amounts to 9,003,000 euros.

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 realized, that is, when the related assets have been depreciated, disposed of or otherwise written off.

(14.4) Unrealized gains (losses) reserve

Movements in the years ended December 31, 2012 and 2011 were as follows:

	Thousands of euros			
	Interest rate swaps	Exchange rate insurance	Raw material derivatives	Total
Balance at January 01, 2011	(97)	488	1,886	2,277
Gains / (Losses), net of tax effects	(186)	(852)	204	(834)
Reclassification of gains to the income statement, net of tax effects	26	(1,146)	(1,821)	(2,941)
Balance at December 31, 2011	(257)	(1,510)	269	(1,498)
Gains / (Losses), net of tax effects	-	1,246	138	1,384
Reclassification of gains to the income statement, net of tax effects	(27)	1,535	(269)	1,239
Balance at December 31, 2012	(284)	1,271	138	1,125

(14.5) Movement in treasury shares

No transactions were carried out with treasury shares in 2012 and 2011.

The shareholders at their Ordinary General Meeting on May 23, 2012 agreed to renew for the maximum legal period the authorization granted to the Board of Directors to buy and sell Company shares on the stock market at the quoted price on the day of the transaction, up to the legal maximum number of shares permitted by Article 146 the revised text of the Corporation Tax Law, at a minimum price of the nominal value and a maximum price of 45 euros per share.

(14.6) Appropriation of profit and other remuneration paid to the shareholder

Parent profits for the year ended 31 December 2011 were distributed, as approved by the shareholders at their annual general meeting held on 23 May 2012, as follows:

	Thousands of euros
Dividends	46,324
Legal reserve	3,589
Voluntary reserves	6,192
Distributable profits attributable to the parent	56,105

The distribution of profit represented a per-share dividend of 0.994 euros for all the shares comprising share capital.

In exchange for attending the 2012 General Shareholders' Meeting, a premium of 0.006 euros was paid per share.

Total shareholder remuneration amounted to 1,000 euros per share.

Details of the distribution of the Parent's 2012 dividends proposed by the directors of the Parent, pending approval at the shareholders' general meeting, are as follows:

	Thousands of euros
Dividends	50,984
Voluntary reserves	11,695
Distributable profits	62,679

On November 28, 2012, based on projected profit for the year, the Board of Directors approved an interim dividend for 2012 of 18,641 thousand euros, equal to 0.40 euros per share. This dividend was paid on December 20, 2012. The amount of the dividend is less than the maximum limit permitted by prevailing legislation on distributable profit after the previous year end.

In its meeting on February 28, 2013 the Board of Directors agreed to propose remuneration for shareholders totaling 1.10 euros per share. This included the abovementioned 0.40 euros per share interim dividend and a complementary 0.694 euros per share dividend, plus the attendance per diem amounting to 0.006 euros per share.

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the consolidated financial statements
as at December 31, 2012 and 2011

The statement required by current legislation and prepared by the Parent's Board of Directors in respect of the distribution of the interim dividend for 2012 is as follows:

	Thousands of euros	
I. Cash available at November 16, 2012		4,519
II. Cash flows from/(used in) operating activities		
- Trade and other receivables	178,882	
- Other income	50	
- Payments to suppliers and other payables	(121,201)	
- Payments to employees	(35,325)	
- Interest expense	(1,007)	
- Other payments	(7,000)	
		14,399
III. Cash flows from/(used in) investing activities		
- Dividends received	51,348	
- Purchases of property, plant and equipment	(48,000)	
		3,348
IV. Cash flows from/(used in) financing activities		
- Variation in bank borrowings	32,681	
- Dividends paid	(51,264)	
		(18,583)
V. Projected liquidity at November 16, 2013		3,683

(15) Grants

The movements under this heading in 2012 and 2011 were as follows:

	Thousands of euros								
	01.01.11	Currency translation differences	Additions	Taken to income	31.12.11	Currency translation differences	Additions	Taken to income	31.12.12
Capital grants	3,318	42	2,274	(996)	4,638	(24)	237	(843)	4,008
Grants for emission rights of greenhouse gases	1,068	-	3,269	(2,531)	1,806	-	1,478	(1,858)	1,426
	4,386	42	5,543	(3,527)	6,444	(24)	1,715	(2,701)	5,434

Details of capital grants linked to assets in 2012 and 2011 are as follows:

	Thousands of euros	
Granting entity	2012	2011
Navarra regional government	2,059	2,300
FEOGA	662	862
Ministry of Science and Technology	116	-
Spanish Autonomous Communities	236	137
International organizations	935	1,339
	4,008	4,638

(16) Current and Non-Current Financial Liabilities Trade and other payables

(16.1) Current and non-current financial liabilities

The breakdown of current and non-current financial liabilities is as follows:

	Thousands of euros	
	2012	2011
Non-current financial liabilities		
Borrowings	17,934	15,353
Finance lease liabilities (note 6)	1,066	1,301
Other non-current financial liabilities	6,856	5,405
Total non-current	25,856	22,059
Current financial liabilities		
Borrowings	90,273	59,288
Finance lease liabilities (note 6)	243	275
Financial assets at fair value from hedging transactions (note 18)	396	3,327
Other current financial liabilities	11,200	6,716
Total current	102,112	69,606

Details of the carrying amount of financial liabilities in foreign currency, their classification by maturity and effective interest rates are shown in Note 19. Loans and other borrowing facilities accrue interest at variable market rates, generally linked to Euribor and Libor plus a 0.4 - 2 point market spread.

The limits, the amount drawn down, and the drawable amount under credit and discount lines, as well as customer invoice advances at December 31 are as follows:

	Thousands of euros			
	2012		2011	
	Credit lines	Discount lines	Credit lines	Discount lines
Limit	102,513	10,500	86,042	6,453
Amount drawn down	59,410	111	37,101	2,070
Drawable amount	43,103	10,389	48,941	4,383

Current and non-current "Other financial liabilities" includes mainly loans with subsidized interest rates from entities such as the Navarra government, CDTI and the Ministry of Science and Technology. The Group recognizes the implicit interest on these loans using market interest rates. Current - Other financial liabilities includes 6,293 thousand euros corresponding to the amount owed to PP&E suppliers (2011: 1,628 thousand euros).

The loans received do not contain covenants which, if not met, could lead to the early repayment of the debt, apart from those from the CDTI, which is subject to utilizing the entirety of the amount loaned by the receiver, as well as total compliance with the project receiving assistance under the conditions foreseen in the corresponding contract.

(16.2) Current and non-current financial liabilities

The breakdown of "Trade and other payables" is as follows:

	Thousands of euros	
	2012	2011
Trade payables	35,405	39,862
Amounts owed for services received	26,107	22,812
Customer advances	946	980
Trade payables	62,458	63,654
Other current liabilities:		
Remuneration pending payment	8,807	8,019
	8,807	8,019

(16.3) Payable to public administrations:

The breakdown for this heading is as follows:

	Thousands of euros	
	2012	2011
VAT payable to Treasury	920	1,486
Amounts payable to the Treasury for withholdings	6,695	6,032
Payable to social security agencies	1,281	1,068
Other public bodies	81	635
	8,977	9,221

(17) Current and Non-Current Provisions

Details at 31 December 2012 and 2011 are as follows:

	Thousands of euros	
	2012	2011
Non- Current		
Defined benefit (note 17.1)	25,460	26,533
Provisions for other litigation (note 17.2)	515	623
Others	797	1,305
Total non-current	26,772	28,461
Current		
Guarantees / Refunds (note 17.4)	340	188
Safety in the workplace provision (note 17.5)	1,502	1,835
Emission rights (note 17.6)	1,864	2,533
Others	128	584
Total current	3,834	5,140

(17.1) Provisions for defined benefit plans

The Group made contributions to nine defined benefit plans, six in the US, through it subsidiary, Viscofan USA Inc, and three in Germany, through it subsidiary Naturin Viscofan GmbH.

The net commitment related to pension plans in the USA is as follows:

	Thousands of euros	
	2012	2011
Pension for Hourly Employees [1]	2,691	4,916
Salaried Employees Pension Plan [2]	1,226	1,666
Pension for Hourly Employees Service Center [3]	183	266
Non qualified pension plans [4]	1,722	1,723
	5,822	8,571

(1) There are 574 beneficiaries for the life pension plan for employees and ex-employees of the Danville plant (of the absorbed company, Teepak USA) at December 31, 2012 (85 of them active employees), while there were 585 in the prior year (93 active). There are no expenses for unrecognized past services.

(2) Life pension with 246 participants at December 31, 2012 (247 in the previous year) likewise from the absorbed company, Teepak USA. This plan was frozen in September 2005. There are no unrecognized costs for past services. The only costs recognized in the income statement relate to finance costs arising from the commitment and from expected income from the plan assets.

(3) Definitive cancellation of this plan began in 2012, although it had not formally been in force since 2006 given that it applied to Teepak USA's NQC Service Center, which was closed that year. At 2012 year end authorization was still pending from the "Internal Revenue Service" for its termination. The number of beneficiaries in 2012 stands at 151, divided amongst retirees and ex-employees (161 in the previous year). As for the previous plan, there are no costs for unrecognized past services.

(4) Three different pension plans are included, with a total of eight beneficiaries who receive a monthly income for life and who are all ex-senior management of the subsidiary. These plans have no assets nor unrecognized costs for past services, hence the only cost recognized in the income statement is the finance cost of the commitment.

Of the three plans in Germany, one consists of life-pension provision to employees upon retirement, another current employees' right to seniority bonuses and the third is the legal obligation established under the German Chemical Industry labor agreement, whereby a company must offer semi-retirement to 5% of its employees on reaching 60 and assume part of the cost of their pension.

In 2010, Naturin Viscofan, GmbH paid 14,743 thousand euros to an insurance company. The payment was used for the acquisition of assets linked to the life-pension plan, described in the previous paragraph, to cover current obligations to pensioners. The agreement does not imply cutting back or canceling the policy, as the obligation ultimately lies with Naturin Viscofan GmbH. However, the characteristics of the plan make the value of the assets and liabilities remains the same for the duration of the contract, so that both the assets and the liabilities offset each other, resulting in a current value of zero for the obligation.

The commitment related to each of the above plans is as follows:

	Thousands of euros	
	2012	2011
Life pension	14,855	12,141
Seniority bonuses	2,518	2,298
Semi-retirement	2,265	3,524
	19,638	17,963

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the consolidated financial statements
as at December 31, 2012 and 2011

The number of beneficiaries of each plan is as follows:

	2012		2011	
	Employees	Retired and ex-employees	Employees	Retired and ex-employees
Life pension (*)	541	509	604	496
Seniority bonuses	541	-	604	-
Semi-retirement	36	-	48	-

(*) Does not include retired employees who are being paid through the insurance company from December 31, 2010.

The following table summarizes the components of the net benefit expense recognized in the 2012 and 2011 income statements for the pension plans, except those classified as "Non-qualified":

	Thousands of euros		
Net benefit expense 2012	United States	Germany	Total
Current service cost (note 24)	213	326	539
Net interest cost	(760)	775	15
Recognized expense (net income)	(547)	1,101	554

Net benefit expense 2011	United States	Germany	Total
Current service cost (note 24)	205	309	514
Net interest cost	(566)	826	260
Recognized expense (net income)	(361)	1,135	774

The "non-qualified" plans bore interest costs of 95 thousand euros in 2012 and 80 thousand euros in 2011. There are no costs for current services as all the plans are linked to former employees of the US subsidiary.

The following table presents the funded status and amounts recognized in the balance sheet for the respective plans:

	Thousands of euros		
Benefit asset/(liability) 2012	United States	Germany	Total
Present value of the obligation	(45,608)	(19,638)	(65,246)
Present value of plan assets	41,508		41,508
	(4,100)	(19,638)	(23,738)
"Non-qualified" plans	(1,722)	-	(1,722)
Liability recognized in the consolidated statement of financial position	(5,822)	(19,638)	(25,460)

Benefit asset/(liability) 2011	United States	Germany	Total
Present value of the obligation	(42,634)	(17,963)	(60,597)
Present value of plan assets	35,787	-	35,787
	(6,847)	(17,963)	(24,810)
"Non-qualified" plans	(1,723)	-	(1,723)
Liability recognized in the consolidated statement of financial position	(8,570)	(17,963)	(26,533)

Changes in the present value of the obligations are as follows:

	Thousands of euros		
	United States	Germany	Total
Obligation at January 1, 2011	38,747	18,092	56,839
Current service cost (note 24)	205	309	514
Interest cost	1,833	826	2,659
Benefits paid	(2,575)	(1,836)	(4,411)
Actuarial (gains)/losses	2,973	572	3,545
Translation differences	1,451	-	1,451
Obligation at December 31, 2011	42,634	17,963	60,597
Current service cost (note 24)	213	326	539
Interest cost	1,778	775	2,553
Benefits paid	(2,780)	(2,128)	(4,908)
Actuarial (gains)/losses	4,687	2,702	7,389
Translation differences	(924)	-	(924)
Obligation at December 31, 2012	45,608	19,638	65,246

The changes in fair value of the assets associated with the US and German plans are as follows:

	United States
Fair value of plan assets at January 1, 2011	33,255
Return on plan assets	1,761
Contribution by the Company	2,156
Benefits paid	(2,575)
Translation differences	1,190
Fair value of plan assets at December 31, 2011	35,787
Actual return on plan assets	4,243
Contribution by the Company	5,118
Benefits paid	(2,780)
Translation differences	(860)
Fair value of plan assets at December 31, 2012	41,508

The above tables do not include figures for the assets or liabilities relating to the life pension plan in Germany which was provided to the aforementioned insurance company. At December 31, 2012, the assets and liabilities for this group amounted to 13,571 thousand euros (2011: 14,108 thousand euros). In 2012 the insurance company paid 828 thousand euros to beneficiaries (2011: 818 thousand euros). At December 31, 2012 and 2011 the number of beneficiaries was 610 and 633, respectively.

The Group expects to contribute 4,667 thousand euros to eligible assets of pension plans in the US in 2013.

The percentage weight of plan assets by category is as follows:

	2012	2011
Monetary assets	0-5%	0-5%
Equities	25-28%	28-33%
Fixed-income	72-75%	62-67%

The principal actuarial assumptions used are as follows:

United States	2012	2011
Annual discount rate	3.5%-4.25%	4.25%-4.5%
Expected rate of return on assets	6.5%	7.5%
Expected rate of salary increases	2.5%	2.5%
Germany		
Annual discount rate	3.6%	4.9%
Expected rate of salary increases	2.5%	2.5%
Expected age of retirement for employees	60-65	60-65

The mortality tables used to quantify the defined benefit obligation was as follows:

Germany: *Richttafeln 2005 G*

United States: *RP 2000 Combined Healthy Mortality Table (updated with the 2012 static mortality table).*

Regarding "non-qualified" pension plans in the USA, payments to beneficiaries amounted to 171 thousand euros in 2012 (2011: 159 thousand euros). The actuarial assumptions used in these plans are similar to those for the other plans in the USA. None of the plans have any associated assets.

(17.2) Provisions for other litigation

Movement at 31 December 2012 and 2011 is as follows:

	Thousands of euros	
	2012	2011
Balance at 1 January	623	1,195
Translation differences	(59)	(82)
Allowances	70	317
Applications	(119)	(807)
Balance at 31 December	515	623

The provision for other litigation mainly covers claims brought against the Brazilian subsidiary by the Brazilian tax authorities and certain company employees. After seeking appropriate legal counsel, the directors consider that the result of the litigation will not significantly differ from the amounts provisioned at December 31, 2012.

(17.3) Restructuring provision

The movement in this heading at December 31, 2012 and 2011 is as follows:

	Thousands of euros	
	2012	2011
Balance at 1 January	461	2,115
Charge (note 24)	-	402
Utilized	(461)	(2,056)
Balance at 31 December	-	461

In line with Group policy to reduce costs, in 2010 and 2011 decisions were focused on restructuring certain activities to improve efficiency in certain production processes. These decisions led to indemnities for employees of the Group's subsidiaries in Germany and the Czech Republic as a result of transferring non-edible collagen production to Serbia, a process which began in 2010 and was finalized in the early months of 2012.

(17.4) Provision for guarantees / refunds

This provision is mainly related to sales in Europe. Its estimate is based on the Group's historical information.

(17.5) Safety in the workplace provision

The safety in the workplace provision covers claims brought against the Group by certain employees, most of whom are based in the US, related to workplace accidents. These claims did not arise as a result of a specific incident, but are customary practice in many companies. After seeking appropriate legal counsel, the directors consider that the result of the litigation will not significantly differ from the amounts provisioned at December 31, 2012.

(17.6) Emission rights provision

Gas emission expenses were 1,864 thousand euros in 2012 (2011: 2,533 thousand euros).

(17.7) Contingent assets and liabilities

At year end diverse proceedings were underway against the Brazilian subsidiary, amounting to 4.5 million euros (2011: 4.6 million euros). As indicated in note 17.2, at December 31, 2012 a 0.5 million euro provision was recognized (2011: 0.6 million euros). None of the unresolved litigation is for significant amounts. All the litigation cases which have not been recognized as liabilities are cases which the Group's legal advisor in Brazil classifies as an improbable risk or are for amounts which, if settled, cannot be quantified at the present date. Historical experience indicates that the probable amount resulting from these claims is less than 5%.

At year end, ongoing commercial claims with Shanxi Yongxi Foods Co. Ltd. and with Griffith Colombia S.A.

In the case of Shanxi Yongxi Foods Co, Ltd., the amount claimed is 1.1 million euros (the same as the previous year). This claim was settled out of court in January 2013. At year end 2012, there was a provision amounting to 0.1 million euros (2011: 0.5 million euros). The amount provisioned corresponds to the estimated payments to be made in the abovementioned settlement.

Griffith Colombia, S.A. had held exclusive sales rights for Viscofan Group products in Colombia since 2006. Considering Griffith Colombia, S.A.'s performance was unable to take full advantage of the Colombian market's opportunities, the company was substituted in May 2012, six months prior to the agreement termination date of November 2012. As a result of the business relationship's termination, Griffith stopped paying invoices, guaranteed by bills of exchange, and totaling approximately 1.2 million euros, to two Viscofan Group companies, arguing a right to retention because of the indemnity it considered due. Most of the outstanding balances for these invoices are covered by provisions set aside by the affected subsidiaries. Griffith also requested a prior arrangements accord in Colombia to claim this indemnity. However, it did not provide any basis for its calculations. The two affected Group companies have started legal actions against Griffith in their respective countries for execution of the bills of exchange.

The only significant contingent assets at December 31, 2012, relate to the claim which IAN, S.A.U. filed against Mivisa Envases, S.A. on the grounds of having infringed two of its patents which protect the system commercially known as *Abre-ras*. Mivisa filed a counterclaim requesting cancellation of the two patents. On December 12, 2012, the Mercantile Court 1 of Murcia handed down a sentence which canceled one of the IAN, S.A.U. patents and confirmed infringement by Mivisa of the other, ordering them to cease related operations; embargoing the cans produced with use of the infringed patent; and ordering payment to IAN, S.A.U. of 15% of the profit from the sales of those cans during the five years prior to the filing of the claim. In addition, the ruling obliged Mivisa to publish the operative part of the sentence in a canning sector journal and notify their clients. IAN, S.A.U.requested clarification from the Court regarding several matters in the sentence which the company considers fundamental to determine its scope. The sentence is not firm and an appeal can still be filed. Thus, it is not possible to determine its real scope at December 31, 2012, or when execution will take effect. In this regard, no provision for related future income has been recognized.

(18) Derivatives

All the Group's derivatives at December 31, 2012 and 2011 were designated as cash flow hedges.

The breakdown of the balances at December 31, 2012 and 2011 which include the values of derivatives at those dates is as follows:

	2012		2011	
	Current financial assets	Current financial liabilities	Current financial assets	Current financial liabilities
Interest rate hedges	-	396	-	359
Exchange rate insurance	2,577	-	27	2,968
Raw material hedges	197	-	385	-
Total	2,774	396	412	3,327

Part of the fair value of the exchange rate insurances at year end was recognized as finance income or expense on the consolidated income statements for 2012 and 2011. The amount recognized directly in the consolidated income statements relates to exchange rate insurances designated as hedges to cover amounts payable or receivable which are recognized in the consolidated statements of financial position at the exchange rate at year end. No significant inefficiencies were noted in 2012 and 2011 in any derivative financial instruments contracted.

(18.1) Interest rate hedges

The Group had arranged several interest rate hedges, the details of which are given below:

	2012							
	I.R.S (I)	I.R.S (II)	I.R.S.(III)	I.R.S.(IV)	I.R.S.(V)	I.R.S (VI)	I.R.S (VII)	I.R.S.(VIII)
Notional contract amount[(1)]	4,688	5,000	5,000	6,000	4,000	4,000	3,000	7,579
Notional pending amount[(1)]	625	1,250	625	3,900	2,800	3,800	3,000	7,579
Effective start date	8/20/2009	9/18/2009	6/1/2009	4/1/2011	5/2/2011	15/09/2012	30/09/2012	12/12/12012
Expiry date	2/20/2013	9/18/2013	6/1/2013	4/1/2016	5/3/2016	15/09/2017	30/09/2017	27/11/2017
Fixed interest rate	2.07%	2.29%	2.95%	3.07%	3.23%	1.56%	1.69%	2.40%

[(1)]*Thousands of euros*

	2011				
	I.R.S (I)	I.R.S (II)	I.R.S.(III)	I.R.S.(IV)	I.R.S.(V)
Notional contract amount[(1)]	4,688	5,000	5,000	6,000	4,000
Notional pending amount[(1)]	1,875	2,500	1,875	5,100	3,600
Effective start date	8/20/2009	9/18/2009	6/1/2009	4/1/2011	5/2/2011
Expiry date	2/20/2013	9/18/2013	6/1/2013	4/1/2016	5/3/2016
Fixed interest rate	2.07%	2.29%	2.95%	3.07%	3.23%

[(1)]*Thousands of euros*

The expiry dates of the notional amounts of these financial instruments at year end is as follows:

Year	2012	2013	2014	2015	2016 onwards
2012	-	7,416	4,158	4,158	7,847
2011	5,750	4,500	2,000	2,000	700

(18.2) Exchange rate insurance

The Viscofan Group uses derivatives to hedge exchange rates in order to mitigate the possible adverse effects that exchange rate fluctuations might have on transactions in currencies other than the functional currency of certain Group companies.

The nominal value of the main exchange rate insurances in effect at December 31, 2012 and 2011 is as follows:

	Thousands	
Currency	2012	2011
US dollar	43,900	103,410
Sterling pounds	800	1,770

(18.3) Raw material hedges

A significant amount of the Group's production costs is linked to energy costs. Accordingly, to mitigate the adverse effect of varying energy prices, the parent contracts hedges for the gas price, which are netted out:

- In 2012 the parent signed hedge contracts covering the cost for a notional 270,000 Mwh of gas. This hedge covers the period from August 2012 to April 2013 (30,000 Mwh per month), with a cost per kw/hour amounting to 2.738 euro cents. The Group covered 1/3 of the predicted consumption for this period in Spain.

- In 2009 two swaps were contracted relating to the cost of gas and for a notional amount of 666,666 MWh, each maturing on a monthly basis for 55,555 of the notional amount. Said contracts were settled in 2010 and 2011, with the final amounts maturing in January 2012. The Group thus hedged 2/3 of gas consumption in Spain for the period in question, paying 1.7270 euro cents per KWh (until January 2011) and 1.7915 euro cents per KWh (until January 2012), respectively.

The valuation formula used included, among other variables, Brent forward prices.

(19) Risk Management

(19.1) 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 minimize 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, recognized assets and liabilities and net investments abroad.

The risk management policy of the Group is to cover the net balance between collections and payments in currencies other than the functional currency with the most net risk. Therefore, forward currency contracts were formalized at the time the yearly budget was prepared; EBITDA forecasts were used as the basis for the following year, the degree of exposure, and the degree of risk the Group is willing to assume.

The following table shows the sensitivity of consolidated profit to a possible change in the exchange rate of certain currencies of countries where the Group conducts business:

	Thousands of euros							
	US Dollar		Czech Crown		Brazilian Real		Other	
	12.31.2012	12.31.2011	12.31.2012	12.31.2011	12.31.2012	12.31.2011	12.31.2012	12.31.2011
+5%	8,101	6,941	(1,042)	(816)	1,887	1,347	(226)	(36)
- 5%	(7,330)	(6,280)	943	738	(1,707)	(1,219)	204	32

The following table shows the impact on consolidated equity of changes in the exchange rates of certain currencies of countries where the Group conducts business:

	Thousands of euros							
	US Dollar		Czech Crown		Brazilian Real		Other	
	12.31.2012	12.31.2011	12.31.2012	12.31.2011	12.31.2012	12.31.2011	12.31.2012	12.31.2011
+5%	5,114	5,271	2,861	1,930	3,538	3,494	7,128	5,218
- 5%	(4,973)	(4,769)	(2,588)	(1,746)	(3,201)	(3,161)	(6,448)	(4,721)

Details of the Group's exposure to exchange rate risks at 31 December 2012 and 2011 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.

	Thousands of euros						
	US Dollar	Czech Crone	Serbian Dinar	Mexican Peso	Brazilian Real	Others	Total
At 31 December 2012							
Assets							
Non-current financial assets	656	-	-	5	170	136	967
Total non-current assets	656	-	-	5	170	136	967
Trade and other receivables	52,640	587	1,372	3,146	18,629	7,309	83,683
Other financial assets	9	563	44	1,622	461	16	2,715
Cash and cash equivalents	9,210	174	104	1,188	314	7,729	18,719
Total current assets	61,859	1,324	1,520	5,956	19,404	15,054	105,117
Total assets	62,515	1,324	1,520	5,961	19,574	15,190	106,084
Liabilities							
Borrowings	6.063	-	-	-	-	-	6.063
Other liabilities	935	-	-	-	-	-	935
Total non-current liabilities	6,998	-	-	-	-	-	6,998
Borrowings	16,925	434	-	-	684	7,524	25,567
Trade and other payables	12,292	4,574	1,042	3,615	7,583	5,792	35,258
Total current liabilities	29,217	5,008	1,042	3,615	8,267	13,316	60,825
Total liabilities	36,215	5,008	1,042	3,615	8,267	13,316	67,823

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the consolidated financial statements
as at December 31, 2012 and 2011

	Thousands of euros						
	US Dollar	Czech Crone	Serbian Dinar	Mexican Peso	Brazilian Real	Others	Total
At 31 December 2011							
Assets							
Non-current financial assets	507	-	-	6	189	17	719
Total non-current assets	507	-	-	6	189	17	719
Trade and other receivables	52,411	997	1,858	7,253	15,727	6,178	84,424
Other financial assets	2	1	-	26	34	5	68
Cash and cash equivalents	6,018	394	35	843	463	5,970	13,723
Total current assets	58,431	1,392	1,893	8,122	16,224	12,153	98,215
Total assets	58,938	1,392	1,893	8,128	16,413	12,170	98,934
Liabilities							
Borrowings	-	-	-	-	222	-	222
Other liabilities	949	-	71	-	-	-	1,020
Total non-current liabilities	949	-	71	-	222	-	1,242
Borrowings	7,974	18,078	-	-	2,187	1,513	29,752
Trade and other payables	17,498	4,318	3,094	10,267	4,263	1,359	40,799
Total current liabilities	25,472	22,396	3,094	10,267	6,450	2,872	70,551
Total liabilities	26,421	22,396	3,165	10,267	6,672	2,872	71,793

(b) Price risks

The Group is mainly exposed to price risk for the main raw materials it uses, specifically in the casings division, which is effected by price changes in cellulose and collagen hides.

(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 focused on having sufficient cash and marketable securities as well as the ability to draw down sufficient financing through its existing borrowing 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.

The Group adequately monitors each month expected collections and payments to be made in the coming months and analyzes any deviations from expected cash flows in the previous month to identify any possible deviations which might affect liquidity.

The following ratios show the level of liquidity at December 31, 2012 and 2011:

	Thousands of Euros	
	2012	2011
Current assets	404,308	345,465
Current liabilities	(195,623)	(164,204)
Provision for gas emission rights (note 17.6)	1,864	2,533
Working capital	**210,549**	**183,794**
Current liabilities net of provision for emission rights	193,759	161,671
% working capital/current liabilities without emission rights provision	**108.67%**	**113.68%**
Cash and cash equivalents	44,863	14,748
Available borrowing facilities (note 16.1)	43,103	48,941
Available discount lines (note 16.1)	10,389	4,383
Cash and available on credit and discount lines	**98,355**	**68,072**
% cash and cash equivalents+ available on credit and discount lines /Current liabilities without emission rights provision	**50.76%**	**42.11%**

The undiscounted contractual maturity dates of financial liabilities at December 31, 2012 and 2011 were as follows:

(Thousands of euros)	Up to 3 months	3 months - 1 year	1 year - 5 years	More than 5 years	Total
2012					
Bank borrowings	43,774	46,333	17,934	-	108,041
Loans	*2,807*	*21,161*	*17,934*	-	*41,902*
Borrowings[1]	*40,856*	*25,172*	-	-	*66,028*
Advances on invoices and discount lines [2]	*111*	-	-	-	*111*
Accrued interest payable	54	112	-	-	166
Finance leases	68	175	906	160	1,309
Other financial liabilities	5,719	5,877	6,163	693	18,452
Other current liabilities	17,784	9,435	-	-	27,219
Trade and other payables	62,458	-	-	-	62,458
	129,857	**61,932**	**25,003**	**853**	**217,645**
2011					
Bank borrowings	22,488	36,757	15,353	-	74,598
Loans	*2,718*	*17,356*	*15,353*	-	*35,427*
Borrowings [1]	*17,701*	*19,401*	-	-	*37,102*
Advances on invoices and discount lines [2]	*2,069*	-	-	-	*2,069*
Accrued interest payable	43	-	-	-	43
Finance leases	78	197	1,301	-	1,576
Other financial liabilities	4,699	5,344	5,035	370	15,448
Other current liabilities	17,240	8,564	-	-	25,804
Trade and other payables	63,654	-	-	-	63,654
	108,202	**50,862**	**21,689**	**370**	**181,123**

[1] The classification of the maturities of "Borrowings" was determined according to current maturities of the amounts drawn down on the credit accounts. Thus "Up to 3 months" includes the balance drawn down on credit lines which are renewed annually and the renewal of which was agreed after year end.

[2] Advances on invoices and discount lines" includes all discounted bills which had matured at December 31; however, no policies maturing after that date are included.

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the consolidated financial statements
as at December 31, 2012 and 2011

(e) Interest rate risks in cash flows and fair value

The Group has no significant assets which earn income other than the financial assets linked to pension plans in the US and their impact on the income statement is determined by the expected future gains thereon (see Note 17.1).

The Company's exposure to interest rate risk is mainly due to the loans and credit facilities received from financial entities at variable interest rates. Note 18 provides a breakdown of the hedging contracts entered into for partial mitigation of the risk represented by a possible increase in interest rates. In any case, the Viscofan Group's degree of leverage is low and, therefore, the impact of a possible rise in interest rates would not be significant.

At December 31, 2012 and 2011 the structure of financial liabilities once hedges through the derivatives arranged have been taken into account is as follows:

	Thousands of euros	
	2012	2011
Bank borrowings	109,516	76,217
Other financial liabilities (*)	11,763	10,493
Total financial liabilities (*)	121,279	86,710
Fixed interest rate (**)	35,342	25,443
Variable interest rate	85,937	61,267

(*) Excludes hedge derivatives and asset suppliers.
(**) Includes the notional amount for interest rate hedges and subsidized loans.

Financing at floating interest rates is for the most part linked to Euribor and Libor dollar. The Group is likewise exposed to changes in the interest rates used to calculate the pension plan obligations in US and Germany (Note 17.1).

The following table shows the sensitivity of profit (loss) for the year to a possible 1% variation in discount and/or interest rates:

	Thousands of euros							
	Pension plan commitments				Financial debt			
	USA		Germany		Euribor		Libor dollar –USA	
	12.31.2012	12.31.2011	12.31.2012	12.31.2011	12.31.2012	12.31.2011	12.31.2012	12.31.2011
+1%	(441)	(409)	(188)	(180)	(668)	(764)	(40)	(152)
- 1%	442	405	188	180	663	764	40	152

(f) Gas and electricity price risk

The Group is affected by fluctuating energy prices. In the past and recently, hedges were arranged to provide coverage for this volatility.

+/- 10% oscillations would have had a 9,462 and 7,984 thousand euro impact on 2012 and 2011 operating results, respectively (a price surge would negatively affect results, and vice versa).

In addition to the established hedges, the Group is making investments aimed at increasing energy efficiency in its plants. Past and future investments in several plants will allow the Group to reduce the impact of the cost of energy on its costs.

(19.2) Measurement and maturities of financial instruments

Below is a breakdown of the undiscounted values of financial instruments or types of financial instruments by maturity:

	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 2012							
Assets							
Trade and other receivables	155,897	-	-	-	-	-	155,897
Other financial assets	3,412	635	49	218	57	401	4,772
Total assets	159,309	635	49	218	57	401	160,669
Liabilities							
Borrowings							
Debt principal	90,106	6,687	4,916	3,616	2,716	-	108,041
Interest	2,701	448	281	158	68	-	3,656
Trade and other payables	62,458	-	-	-	-	-	62,458
Other current liabilities	27,219	-	-	-	-	-	27,219
Other financial liabilities							
Debt principal	11,201	2,419	2,044	1,380	319	693	18,056
Interest	451	171	111	60	25	17	835
Total Liabilities	194,136	9,725	7,352	5,214	3,128	710	220,265
At 31 December 2011							
Assets							
Trade and other receivables	141,470	-	-	-	-	-	141,470
Other financial assets	11,516	838	-	-	-	-	12,354
Total assets	152,986	838	-	-	-	-	153,824
Liabilities							
Borrowings							
Debt principal	59,521	9,507	3,894	2,128	835	289	76,174
Interest	1,904	416	179	81	28	7	2,615
Trade and other payables	63,654	-	-	-	-	-	63,654
Other current liabilities	25,804	-	-	-	-	-	25,804
Other financial liabilities							
Debt principal	10,043	1,730	1,404	1,258	642	371	15,448
Interest	386	140	96	59	28	9	718
Total Liabilities	161,312	11,793	5,573	3,526	1,533	676	184,413

The comparison between the carrying amounts and fair values of the Viscofan Group's financial instruments at December 31, 2012 and 2011 is as follows:

	2012		2011	
(Thousands of euros)	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Derivatives (note 18)	2,774	2,774	412	412
Other financial assets (note 9)	1,998	1,998	11,944	11,944
Trade and other receivables	155,897	155,897	141,470	141,470
Cash and cash equivalents	44,863	44,863	14,748	14,748
	205,532	**205,532**	**168,573**	**168,573**
Financial liabilities				
Bank borrowings	109,516	109,516	76,217	76,217
Derivatives (note 18)	396	396	3,327	3,327
Other financial liabilities	18,056	18,056	12,121	12,121
Other current liabilities	27,219	27,219	25,804	25,804
Trade and other payables	62,458	62,458	63,654	63,654
	217,645	**217,645**	**181,123**	**181,123**

As shown in the above table, the Viscofan Group recognizes all financial assets and liabilities at fair value, which it classifies using a three-level hierarchy:

- Level 1: Assets and liabilities listed on liquid markets. The Group does not have nor has had assets or liabilities listed in liquid markets either in 2012 or 2011.
- Level 2: Assets and liabilities whose fair values are determined via valuation techniques which use market assumptions. All the asset and liability derivatives at December 31, 2012 and 2011 are included in this level.
- Level 3: Assets and liabilities whose fair value is determined using valuation techniques which do not use observable market assumptions. In 2012 and 2011 the Group does not have nor has had assets or liabilities which it had to classify in this level.

(20) Environmental Information

The breakdownof costs and accumulated depreciation of property, plant and equipment in respect of the Group's environmental activities at 31 December 2012 and 2011 are as follows:

	Thousands of euros			
	2012		2011	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Vapour boiler	4,969	(4,533)	5,365	(4,671)
Water-cooler circuit	8,171	(6,980)	8,595	(7,213)
Waste management plant	3,272	(2,690)	3,232	(2,492)
Gas washers	4,821	(3,764)	4,956	(3,653)
Purifier	4,712	(3,218)	4,672	(2,700)
Others	4,461	(1,934)	3,658	(1,697)
Total	30,406	(23,119)	30,478	(22,426)

During 2012 and 2011 the Parent incurred expenses for protection and improvement of the environment amounting of 967 y 858 thousand of euros, respectively.

The directors of the Parent consider that no additional provisions are required to cover the possible expenses or risks derived from environmental activities.

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the consolidated financial statements
as at December 31, 2012 and 2011

(21) Ordinary Income by segment

Business Segments	Thousands of euros							
	Casings		Tinned Food		Eliminations and others		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011
Income and expenses								
Sales and services rendered	649,400	564,749	103,617	102,268	(233)	(205)	752,784	666,812
Material consumed	(183,324)	(149,341)	(60,117)	(60,300)	-	-	(243,441)	(209,641)
Other operating income	5,241	9,500	736	1,192	-	-	5,977	10,692
Other operating expenses	(335,716)	(310,057)	(39,814)	(37,919)	233	205	(375,297)	(347,771)
	135,601	114,851	4,422	5,241	-	-	140,023	120,092
Financial loss	(7,021)	8,132	(6)	(340)	-	-	(7,027)	7,792
Income tax expense	(27,379)	(25,710)	(553)	(929)	-	-	(27,932)	(26,639)
Profit for the year	101,201	97,273	3,863	3,972	-	-	105,064	101,245
Assets and Liabilities								
Total segment assets	698,240	615,372	79,329	81,924	-	-	777,569	697,296
Total segment liabilities	249,473	215,513	29,527	32,347	-	-	279,000	247,860
Other segment information								
Capital expenditure								
- Property, plant and equipment	68,184	60,651	2,960	2,415	-	-	71,144	63,066
- Intangible assets	2,525	1,614	304	33	-	-	2,829	1,647
Depreciation and amortization								
- Property, plant and equipment	(38,426)	(36,461)	(3,272)	(2,811)	-	-	(41,698)	(39,272)
- Intangible assets	(3,283)	(2,744)	(29)	(34)	-	-	(3,312)	(2,778)
Cash Flows								
Cash flows from operating activities	100,862	112,500	3,350	(262)	-	-	104,212	112,238
Cash flows from investing activities	(55,447)	(69,644)	(2,843)	(1,796)	-	-	(58,290)	(71,440)
Cash flows from financing activities	(15,734)	(84,098)	(47)	799	-	-	(15,781)	(83,299)

Geographical segments	Thousands of euros									
	Spain		Other European countries and Asia		North America		South America		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Ordinary income from external clients	216,510	208,877	226,590	184,737	208,992	184,602	100,692	88,596	752,784	666,812
Segment assets	220,829	204,102	296,136	246,172	170,670	163,992	89,934	83,030	777,569	697,296
Other segment information										
Capital expenditure										
- Property, plant and equipment	9,802	14,773	46,766	33,399	7,878	10,205	6,698	4,689	71,144	63,066
- Intangible assets	1,665	1,206	915	127	71	57	178	257	2,829	1,647
Cash flows										
Cash flows from operating activities	29,832	22,759	38,628	44,201	22,417	27,512	13,335	17,766	104,212	112,238
Cash flows from investing activities	57	(22,379)	(44,577)	(33,941)	(6,971)	(10,624)	(6,799)	(4,496)	(58,290)	(71,440)
Cash flows from financing activities	(49,984)	(66,807)	25,629	(6,030)	(1,918)	(12,572)	10,492	2,110	(15,781)	(83,299)

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the consolidated financial statements
as at December 31, 2012 and 2011

(22) Other Income

Details of other income are as follows:

	Thousands of euros	
	2012	2011
Government grants	1,779	2,001
Gas emission rights	1,858	2,531
Other income	1,912	4,559
	5,549	9,091

(23) Other Operating Expenses

Details of other expenses are as follows:

	Thousands of euros	
	2012	2011
Research and development costs	1,121	698
Repairs and maintenance	25,145	24,565
Supplies	74,647	68,644
Administrative and selling costs	68,299	66,123
Other expenses	10,366	8,015
	179,578	168,045

(24) Personnel Expenses

Details of personnel expenses during 2012 and 2011 are as follows:

	Thousands of euros	
	2012	2011
Wages and salaries	115,219	106,655
Indemnity payments	785	(766)
Current service cost of defined benefits (Note 17.1)	539	514
Restructuring provision (Note 17.3)	-	402
Company social security contributions	23,340	22,369
Other welfare benefits and taxes	10,436	8,461
	150,319	137,635

Group employees in 2012 and 2011, by professional category and gender, were as follows:

	Headcount at 2012 year end			Average number of employees in 2012
	Men	Women	Total	
Executives	64	13	77	75
Technicians and middle management	562	124	686	688
Administrative personnel	127	222	349	342
Specialized personnel	429	107	536	552
Unskilled workers	1,720	715	2,435	2,720
	2,902	1,181	4,083	4,377

	Headcount at 2011 year end			Average number of employees in 2011
	Men	Women	Total	
Executives	58	13	71	80
Technicians and middle management	551	128	679	936
Administrative personnel	139	202	341	334
Specialized personnel	423	119	542	414
Unskilled workers	1,581	691	2,272	2,317
	2,752	1,153	3,905	4,081

(25) Financial Income and Expense

Details of financial income and expense are as follows:

	Thousands of euros	
	2012	2011
Results of companies consolidated using the equity method	-	(80)
Finance income	691	1,389
Finance costs		
Bank borrowings and other financial liabilities	(3,409)	(3,149)
Net finance cost of pension plans	(109)	(342)
Exchange gains (losses)		
Exchange gains	13,944	22,795
Exchange losses	(18,145)	(16,147)
Impairment and gains (losses) on disposal of financial instruments	-	3,326
	(7,028)	7,792

"Impairment and gains (losses) on disposal of financial instruments" includes the gains obtained as a result of the agreement reached between Koteks Viscofan d.o.o. (Serbia) and Vojvodjanska Banka a.d. which definitively canceled the financial liability with this entity in 2011.

(26) Earnings per Share

(26.1) 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	
	2012	2011
Profit attributable to ordinary equity holders of the Parent	105,063	101,245
Weighted average number of ordinary shares in circulation	46,603,682	46,603,682
Basic earning per share (in euros)	2.2544	2.1725

The weighted average number of ordinary shares issued is determined as follows:

	2012	2011
Weighted average number of ordinary shares in circulation	46,603,682	46,603,682
Effect of treasury shares	-	-
Average number of ordinary shares in circulation at 31 December	46,603,682	46,603,682

(26.2) 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, diluted earnings per share does not differ from basic earnings per share.

(27) Information on the Board of Directors of the Parent 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's liquid profit before income tax for the parent's Board of Directors and another 1.5% of the parent's liquid profit before income tax of the parent's Executive Committee. The Board of Directors and the Executive Committee, in accordance with the aforementioned bylaw articles, decide the respective share that the members of each body shall receive.

Details of remuneration are as follows:

	Euros					
			Per diems			
	Committee	Board	Audit Committee	Board of Directors	Boards of other Group companies	Total
Mr. José Domingo de Ampuero y Osma	370,728	105,445	-	12,000	216,210	704,383
Mr. Nestor Basterra Larroudé	328,728	105,445	-	12,000	108,105	554,278
Ms. Agatha Echevarría Canales	286,728	105,445	20,000	12,000	-	424,173
Mr. José Cruz Pérez Lapazarán	-	105,445	10,000	11,000	-	126,445
Mr. Gregorio Marañón Bertrán de Lis	-	105,445	20,000	9,000	-	134,445
Mr. Alejandro Legarda Zaragüeta	-	105,445	20,000	12,000	-	137,445
Mr. Ignacio Marco-Gardoqui Ibañez	-	105,445	-	12,000	-	117,445
Ms. Laura González Molero	-	105,445	-	8,000	-	113,445
Mr. José María Aldecoa Sagastasoloa	-	49,621	10,000	5,000	-	64,621
TOTAL 2012	986,184	893,181	80,000	93,000	324,315	2,376,680
Mr. José Domingo de Ampuero y Osma	299,487	102,058	-	11,000	292,904	705,449
Mr. Nestor Basterra Larroudé	299,487	102,058	-	11,000	146,452	558,997
Ms. Agatha Echevarría Canales	299,487	102,058	16,000	11,000	-	428,545
Mr. José Cruz Pérez Lapazarán	-	102,058	16,000	10,000	-	128,058
Mr. Gregorio Marañón Bertrán de Lis	-	102,058	16,000	10,000	-	128,058
Mr. Alejandro Legarda Zaragüeta	-	102,058	16,000	10,000	-	128,058
Mr. Ignacio Marco-Gardoqui Ibañez	-	102,058	-	10,000	-	112,058
Ms. Laura González Molero	-	102,058	-	9,000	-	111,058
TOTAL 2011	898,461	816,464	64,000	82,000	439,356	2,300,281

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 shares on the stock exchange.

In 2012 and 2011, members of the Board of Directors had not carried out any transactions with the Company or Group companies.

In compliance with articles 229 and 230 of the Spanish Capital Companies Law, the directors of Viscofan, S.A. have provided notification that there are no situations representing a conflict with any other Group companies. They have informed the Company that, apart from the following, they hold no equity investments in companies having identical, similar or complementary activities to those of the parent or the Group.

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the consolidated financial statements
as at December 31, 2012 and 2011

Name	Company	Position
Mr. José Domingo de Ampuero y Osma	Naturin Viscofan GmbH	Chairman to the Board of Directors
	Viscofan UK Ltd	Chairman to the Board of Directors
	Gamex CB, 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 Technology (Suzhou) Co. Ltd	Chairman to the Board of Directors
	Viscofan Centroamérica Comercial, S.A.	Chairman to the Board of Directors
	Viscofan Canada, Inc.	Chairman to the Board of Directors
	Viscofan do Brasil S. Com. E Ind. Ltda.	Member of Consultant Board
	Viscofan de México, S.R.L. de C.V.	Chairman to the Board of Directors
	Koteks Viscofan d.o.o.	Chairman to the Board of Directors
	Industrias Alimentarias de Navarra, S.A.U.	Chairman to the Board of Directors
	Viscofan Uruguay, S.A.	Chairman to the Board of Directors
Mr. Nestor Basterra Larroudé	Naturin Viscofan GmbH	Vice Chairman
	Gamex CB, s.r.o.	Vice Chairman
	Koteks Viscofan d.o.o.	Vice Chairman
	Viscofan Uruguay, S.A.	Vice Chairman
	Viscofan USA Inc	Vice Chairman
	Viscofan CZ, s.r.o.	Vice Chairman
	Industrias Alimentarias de Navarra, S.A.U.	Vice Chairman
	Viscofan Technology (Suzhou) Co. Ltd	Vice Chairman
	Viscofan do Brasil S. Com. E Ind. Ltda.	Member of Consultant Board

Remuneration paid to key management personnel listed below amount to 4,126 and 3,681 thousand euros in 2012 and 2011, respectively. The total amount of remuneration relates to short-term employment benefits paid to these employees. No post-employment, long-term services, or dismissal indemnities are provided, nor do any other share-based payments exist.

Name	Position	Company
Mr. José Antonio Canales	Managing Director	Viscofan Group
Ms. Elena Ciordia	Legal Director	Viscofan Group
Mr. Gabriel Larrea	Commercial Director	Viscofan Group
Mr. César Arraiza	Financial Director	Viscofan Group
Mr. Armando Ares	Director of Investor Relations and Corporate Communication	Viscofan Group
Mr. Pedro Eraso	Director of Extrusion, Cellulose and Fibrous	Viscofan Group
Mr. José Vicente Sendin	Director Strategic Projects	Viscofan Group
Mr. José Ignacio Recalde	Research and Development Director	Viscofan Group
Mr. Andrés Díaz	Director of Operations	Viscofan Group
Mr. Juan José Rota	Director of Human Resources	Viscofan Group
Mr. Ricardo Royo	Division Director for Europe Collagen	Viscofan Group
Mr. Wilfried Schobel	Director for Collagen Extrusion	Viscofan Group
Mr. Jesús Calavia	Industrial Director	Viscofan, S.A.
Mr. Manuel Nadal	IT Director	Viscofan, S.A.
Ms. Mari Carmen Peña	Financial Director	Viscofan, S.A.
Mr. Miloslav Kamis	Managing Director	Gamex Cb S.R.O, Viscofan Cz, S.R.O.
Mr. Bertram Trauth	Managing Director	Naturin Viscofan GmbH
Mr. Alfred Bruinekool	Managing Director	Viscofan UK, Ltd
	Commercial Director	Naturin Viscofan GmbH
Mr. Yunny Soto	Managing Director	Viscofan Centroamérica Comercial, S.A.
Mr. Juan Negri	Managing Director	Viscofan Technology (Suzhou) Co. Ltd
Mr. Óscar Ponz	Managing Director	Viscofan de México S.R.L. De C.V,
Mr. Luis Bertoli	Managing Director	Viscofan do Brasil S. Com. E Ind. Ltda.
Mr. José Maria Fernández	Managing Director	Viscofan Usa Inc.
Mr. Andrej Filip	Managing Director	Koteks Viscofan, d.o.o.
Mr. Angel Maestro Acosta	Managing Director	Viscofan Uruguay, S.A.
Mr. Alejandro Martínez Campo	Managing Director	Industrias Alimentarias de Navarra, S.A.U.

(28) Audit Fees

The auditors of the consolidated Financial Statements 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 2012 and 2011 as follows:

	Thousands of euros	
	2012	2011
Principal auditor		
Audit services	120	121
Other services	24	16
	144	137

Audit services detailed in the above table include the total fees for services rendered in 2012 and 2011, irrespective of the date of invoice.

Other companies related to the auditors have invoiced the Company and its subsidiaries as follows:

	Thousands of euros	
	2012	2011
Audit services	487	500
Other services	101	21
	588	521

(29) Information on late payments to suppliers resident in Spain in commercial transactions

In compliance with Law 15/2010 of July 5, modifying Law 3/2004 of December 29, which establishes measures to be taken in combating arrears in commercial transactions between companies resident in Spain, below we include a breakdown of the total amount of payments made to suppliers during the year, disclosing those that exceeded the legal payment deadlines; the weighted average period of time exceeded for payments; and the balance pending payment to suppliers exceeding the legal deadline at year end:

	2012		2011	
(Thousands of euros)	Amount	%	Amount	%
Within the maximum legal deadline	137,231	75.66%	123,115	75.40%
Other	44,148	24.34%	40,157	24.60%
Total payments in the year	181,379	100.00%	163,272	100.00%
Overdue payments exceeding the legal payment deadline at the closing date	1,812		1,010	
Weighted average period of time exceeded for overdue payments (days)	16.92		21.64	

(30) Transactions and balances with related parties

Transactions with directors and senior management are disclosed in Note 27. There are no transactions with, receivables from, or payables to related parties.

(31) Events after the balance sheet date

In accordance with Navarre Regional Law 21/2012 on tax modifications and other tax measures, which includes the possibility to voluntarily restate balance sheets with respect to to property, plant, and equipment items, at present the Group is carrying out an internal evaluation in its companies in Spain, Viscofan, S.A. and Industrias Alimentarias de Navarra, S.A.U., regarding the possibility raised by said law. To date, this evaluation process has not yet been completed. If the Group considers this voluntary restatement appropriate, the agreement will be presented for approval at the respective general shareholders' meetings.

If the Group decides to apply the aforementioned law in the consolidated financial statements, in keeping with IFRS the only tax effects recognized would be those arising from the increased tax base as a consequence of the calculations determined by said law and those resulting from the single taxation rate.

No significant events have taken place subsequent to the closing which would have a significant effect on the financial statements at December 31, 2012.

VISCOFAN, S.A. AND SUBSIDIARIES

Management report to the consolidated financial statements
as at December 31, 2012

2012 MANAGEMENT REPORT

Business performance and situation of Viscofan Group companies

While difficulties in developed economies played a role in slowing down global growth, 2012 saw positive growth rates thanks to the strength of emerging economies that pushed GNP up 3.2% around the globe, ushering new sectors of population into the middle class on the back of improved living standards.

Due to this improvement in emerging economies and the quest for new productivies and savings in developed companies, growth in the casings division was quite substantial this year. The Viscofan Group took full advantage of this growth, reflecting its special determination to develop its business in emerging regions.

Nevertheless, the Group's performance is not immune to the adverse global and domestic macroeconomic environment, which prevailed yet another year, characterized by difficult access to financing, currency volatility, and raw material and energy price increases.

The casings division saw the combined effect of market growth and double-digit increases in principal production inputs. Investment in growth, aimed at new material and human resources and enhancement of profitability, represented a formidable challenge.

Despite the effects of Spain's economic recession, the IAN Group has once again proved to be a major player in the Spanish vegetable foods market, surpassing the previous year's billing. Not only did it consolidate its 2011 market share, it managed to expand it, particularly in its precooked foods line.

As a result of this achievement, the Viscofan Group succeeded in obtaining growth for the eighth year in a row, registering total revenue of 752.8 million euros, 12.9% more than in 2011. The casings division revealed salient growth of 15.0% during the year, while the vegetable food market gained a rise in sales of 1.3% against a backdrop of domestic market recession.

Excluding the impact of exchange rate fluctuations[1], consolidated income at year end 2012 represents a 10.4% increase over 2011.

This growth was achieved despite significant increases in the cost of raw materials, a trend observed in the second half of 2011 that persisted during 2012, particularly casing raw materials: cellulose, collagen casings, and gas cogeneration. In short, consumption costs[2] for such materials rose in 2012 by 16.1% to 243.4 million euros.

Thus, gross margin[3] stood at 67.6% in 2012, as compared to 68.6% during the same period last year.

Personnel expenses increased by 9.2% to 150.3 million euros in 2012 with average headcount standing at 4,377 employees, 7.3% more than in 2011. This growth is attributable to having incorporated the employees of Lingbao Baolihao Food Industrial Co.Ltd. in China, following the Group's takeover of the company that year. If this change in the consolidation scope is omitted, average headcount rose by 2.4%, reflecting the expansion of the casings division.

This expansion was supported by substantial investment in the last quarter of the year to transfer personnel to China to start up the Group's new collagen factory, which explains the year-on-year increase of 18.3% (38.7 million euros) in personnel costs recorded in the fourth quarter of 2012.

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[1] Growth in constant currency: For comparative purposes, growth in constant currency excludes the effect of different exchange rates applied to the consolidation as well as the impact of fluctuating US dollar rates in commercial transactions.

[2] Consumption costs = Changes in inventories + Purchase of goods for resale
As of 2012, goods for resale includes energy consumption associated with electricity produced by cogeneration plants in Spain and Mexico that was formerly included in "Other operating expenses." The impact of this reclassification in 2011 is a 28.8 million increase in consumption costs and a decrease by the same amount in "Other operating expenses"

[3] Gross margin = (Revenue - Consumption costs) / Revenue

The increase in average headcount was underpinned by the enhanced productivity and competitiveness of the Group's management team, nudging the productivity margin[4] up 0.6 percentage points during the year and partially offsetting the drop in gross margin.

"Other operating expenses" for 2012 stood at 179.6 million euros, up 6.9% from 2011, coupled by an increase in energy costs of 8.6%. This heading reflects energy improvements made at the Mexico plant in the fourth quarter, as well as steady drops in the price of average gas purchases in Spain in the second half of the year. These conditions enabled the Group to reduce the impact of the rise in energy unit cost, a change in trend from the first half of the year.

EBITDA[5] displays record growth exceeding 185.0 million euros, a year-on-year increase of 14.1%. The strength of unit sales volumes in the casings division, cost containment, enhanced productivity and the 7.6% appreciation of the US dollar against the euro led to a year-on-year increase of EBITDA by 0.3 percentage points, despite the pressure exerted on raw material and energy unit costs and the investment effort necessary to start up the new collagen plant in China.

Excluding the impact of exchange rate fluctuations, accumulated EBITDA at year end 2012 grew 7.1%.

Depreciation and amortization rose 7.0% to 45.0 million euros in 2012, bringing "Consolidated profit" to 140.0 million euros in 2012, which represents year-on-year growth of 16.6%.

Net financial loss totaled 7.0 million for 2012, in contrast to net financial income of 7.9 million euros in 2011. This income in the previous year was due to the non-recurring positive impact of 3.3 million euros recorded in June of 2011 from the cancellation of the loan from Vojvokanska banka, and to 6.6 million euros in exchange gains recognized in that year, compared with 4.2 million euros in exchange losses recognized in 2012.

Profit before taxes stood at 133.0 million euros in 2012, with accumulated taxes totaling 27.9 million euros, resulting in an effective income tax rate of 21.0%. The difference between the theoretical tax rate (30%) and the effective tax rate (21%) basically corresponds to the difference between the different tax rates for non-resident subsidiaries in Navarre (tax address for Viscofan S.A.) that pay taxes in each of the countries they operate in, applying the prevailing corporate income tax rate (or equivalent tax) for the period and the consideration of tax deductions for investments in some Group subsidiaries.

Consequently, "Net profit" amounted to 105.1 million euros, an increase of 3.8% over 2011 (6.8% if non-recurring profit is excluded)[6].

Thanks to these results, the Viscofan Group surpassed its income, EBITDA, and net profit guidance objectives for 2012

Net bank borrowings[7] totaled 64.7 million euros and relate to the boost in investment for the Group's expansion plan and the increase in shareholder dividends. The figure represents a rise of 5.2% over December 2011. The Viscofan Group's [8] financial leverage thus stands at 13.0% for 2012, compared to 13.7% for 2011.

[4] Productivity margin = (Revenue - Personnel expenses)/Revenue

[5] EBITDA = Earnings before interest, tax, depreciation and amortization

[6] Gross profit excludes the non-recurring positive effect of proceeds amounting to 2,843 thousand euros resulting from an out-of-court settlement reached in Serbia in connection with a financial liability wth Vojvodanska banka, a.d. recorded in June of 2011.

[7] Net Bank borrowings = Non-current bank borrowings + Current bank borrowings - Cash and cash equivalents

[8] Financial leverage = Net bank borrowings / Equity

The increase in profits and the solidity of cash flow generated by the Group's operations have enabled it to match growth in investments with higher shareholder remuneration. Consequently, in their meeting held on February 28, 2013, the Board of Directors agreed to propose compensation of 1.10 euros per share to the shareholders at the annual general meeting (2011: 1 euro per share). The breakdown of this compensation is as follows:

- an interim dividend of 0.400 euros per share paid on December 20, 2012.
- a proposed complementary dividend of 0.694 per share to be approved by the shareholders paid on June 04, 2013.
- a per diem for meeting attendance of 0.006 euros per share.

Expected performance of the Group

The Viscofan Group launched its strategic plan in 2012, which it intends to roll out from 2012 to 2015. The plan is known as "BE MORE," and seeks to strengthen the Group's leadership in the casings market through the implementation of what it refers to as "MORE" initiatives": (M) Market growth, (O) Optimization, (R) Returns, (E) Excellence.

Expected income for 2013 should foster growth of EBITDA and net profits. Nevertheless, a heavier tax burden in the various countries in which the Group operates, together with the final consumption of tax credits available from prior year losses or investment tax incentives will no doubt lead to an increase in the effective tax rate in the consolidated financial statements.

In addition to the effects of inflation on raw material costs, changes to energy legislation in Spain will also take its toll. The profitability of the cogeneration plant will feel the effects of both a higher income tax rate and a rise in the tax rate levied on the purchase of gas for producing cogeneration energy.

Navarre Regional Law 21/2012 amending several taxes and implementing other tax measures applicable in the region enables companies to update their balance sheets voluntarily. The result could affect the tax balance sheet of two of the Group's subsidiaries in 2012: Viscofan, S.A. and Industrias Alimentarias de Navarra, S.A.U., in which it could have an impact on deferred taxes in the consolidated financial statements, depending on the update indices finally approved.

a) Casings

In the first quarter of 2013, the collagen production plant in China began operating, enhancing our customer service and promoting commercial activity in what is the world's largest collagen market.

In addition, roll out of the expansion scheme contained in the Group's strategic plan will continue. This year the Group will invest in the construction of a new collagen plant in Uruguay which, once operable (2014), will become the first collagen plant in Latin America.

These investments will be coupled by other actions aimed at enhancing energy and production efficiencies and increasing production capacity in other casing families. Together these measures represent an increase in the volume of investment in 2013.

In addition, the Group expects increased production capacity and strong market demand to continue to spike sales volumes in 2013, especially in the emerging regions of Asia, Latin America, and Eastern Europe.

The Group also anticipates that upward price pressure for raw materials and energy will be a constant in 2013. New hirings will also be necessary in light of its expansion plans and increased capacity.

b) Vegetable food products

In an especially adverse environment due to the deterioration of the Spanish economy and stagnating consumption, the IAN Group wishes to consolidate the leadership position it has attained in recent years.

In order to achieve this objective, the IAN Group will try to maintain its income by boosting the marketing of products under the Carretilla brand and expanding their range of products under the banner of convenience and health, while maintaining policies with respect to austerity, cost controls, and financial discipline that protect margins in a very competitive environment during a market contraction.

The Group'sPrincipal investments

Investment during the year totaled 74 million, as compared to 64.7 million in 2011.

A salient feature of investment in 2012 was the emphasis placed on bolstering the Group's production capacity in response to the growth in demand. A significant portion of total investment was earmarked for the new extrusion plant in China (27.8 million euros). This plant has been operating since February 2013 and will more directly serve the Chinese collagen casings market, currently the largest in the world.

In addition to investment in capacity, the Group directed funds towards improving energy and environmental efficiency. In this regard, investments were channeled to adapt and transform the Zacapu plant's relationship to energy. Formerly based on highly contaminating heavy oil, the plant now uses natural gas, which proves more cost effective and is less damaging to the environment. The results of this investment were already visible in the last quarter of 2012.

The main investments in the vegetable foods sector were aimed at production improvements and automatization of the precooked foods business line.

Research and development activities

Viscofan has a proactive R&D policy for both business lines, supported by technological and research centers in various countries:

- The Group's efforts in the casings division are focused on both the product (development of new products, enhancement of available products to increase market share in the principal meat casing families, etc.) and the process (innovation and improvement of production processes for their industrial optimization, introduction of technological improvements and development of advanced engineering solutions to maximize productive output, etc.).

- In the vegetable food products division, the Group continues to push forward with the development of new products, increasing the ready meals' range, which is the business line with the best prospects from both a growth and added value standpoint.

- Furthermore, Viscofan's R&D activity has likewise been aimed at diversification in areas where its present knowledge will enable it to obtain future profits. Research efforts continue while the Group collaborates with centers specialized in the use of collagen derivatives as a matrix for growing cells "in vitro" for both research and tissue regeneration purposes.

Acquisition of treasury shares

On December 31, 2012 the Company had no treasury shares.

Description of risks and uncertainties

The Viscofan Group has shown improved results in a time of great volatility and uncertainty, and is well placed to capture market growth in its main business activities. Nevertheless, it should be underscored that due to the nature of its operations, the Group's activities are exposed to various operational, financial, strategic and legal risks, described in section *D) Risk Control Systems* in the Annual Corporate Governance Report. The Group manages risk based on policies approved by the Board of Directors, which is supervised by the Audit Committee.

Among the specific risks the Group faces are reduced profitability and a lower investment success rate; a worsening of exchange rates, increased credit risk, risks related to the reliability of financial information; liquidity risk, interest rate risk in connection with cash flows and fair value; operating risk in the supply of raw materials, material damage, and production continuity; strategic risks inherent in the competitive environment of the sector, as well as legal risks which include criminal liability for legal entities. In addition, the Group manages its operations from commercial offices and production centers in 13 countries, marketing its products in a total of 100 countries throughout the world. As a result, political decisions and natural disasters that occur in these countries, as well as food supply or food safety crises, whether caused by the Group itself or by a third party, can affect our operations.

Transactions carried out by directors, or persons acting on their behalf, during the year to which the financial statements refer, with the listed company or any other company of the same group, when the transactions are unrelated to the ordinary activities of the company or are not carried out in normal market conditions.

In 2012, the directors did not carry out any transactions with the Company or other group companies that were unrelated to the companies' normal course of business or were not carried out in normal market conditions.

Events after the balance sheet date

In their meeting held on February 28, 2013, the Board of Directors agreed to propose a final dividend payment amounting to 0.694 euros per share for approval by the shareholders at the annual general meeting. The dividend was to be paid as of June 4, 2012. Thus, total remuneration for shareholders amounts to 1.100 euro per share, including the interim dividend of 0.400 euros per share paid on December 20, 2012, the abovementioned final dividend of 0.694 euros per share, and the per diem payment for attendance at the General Shareholders' Meeting of 0.006 euros per share. This proposal increases total remuneration by 10.0% as compared to the total of 1.0 euros approved for the previous year.

In January 2013, an out-of-court settlement was reached with Shanxi Yongxi Foods Co. Ltd., a Chinese company with which IAN, S.A.U. is involved in a lawsuit. The consolidated financial statements reflect the effect of this agreement, for which the Group has provisioned 0.1 million euros recognized at December 31, 2012 (December 31, 2011: 0.5 million euros).

VISCOFAN, S.A. AND SUBSIDIARIES

Management report to the consolidated financial statements
as at December 31, 2012

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT: The Secretary of the Board of Directors, Mr. Juan Mª Zuza Lanz hereby certifies that the Board of Directors, at its meeting on February 28, 2013, approved the consolidated financial statements for the year ended December 31, 2012, and duly signs all the pages thereof for identification purposes. The consolidated financial statements comprise the attached documents preceding this certificate.

Mr. José Domingo de Ampuero y Osma

Mr. Nestor Basterra Larroudé

Ms. Agatha Echevarría Canales

Mr. Ignacio Marco-Gardoqui Ibáñez

Mr. Alejandro Legarda Zaragüeta

Mr. José Cruz Pérez Lapazarán

Mr. Gregorio Marañón Bertrán de Lis

Ms. Laura González Molero

Mr. José María Aldecoa Sagastasoloa

Secretary of the Board of Directors
Mr. Juan Mª Zuza Lanz

VISCOFAN, S.A.

Financial Statements for the year ended December 31, 2012

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

Audit Report

VISCOFAN, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2012

(Translated from the original in Spanish)

ERNST & YOUNG

Ernst & Young, S.L.
Avda. Pío XII, 22
31008 Pamplona
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Fax: 948 178 085
www.ey.com/es

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of VISCOFAN, S.A.:

We have audited the financial statements of VISCOFAN, S.A., which comprise the balance sheet at December 31, 2012, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended. The Company's directors are responsible for the preparation of the financial statements in accordance with the regulatory framework for financial information applicable to the entity in Spain (identified in Note 2 to the accompanying financial statements), and specifically in accordance with the accounting principles and criteria contained therein. Our responsibility is to express an opinion on the aforementioned financial statements taken as a whole, based upon work performed in accordance with the regulatory audit standards prevailing in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the financial statements, and the evaluation of whether their presentation, the accounting principles and criteria applied and the estimates made are in agreement with the applicable regulatory framework for financial information.

In our opinion, the accompanying 2012 financial statements give a true and fair view, in all material respects, of the equity and financial position of VISCOFAN, S.A. at December 31, 2012, and the results of operations and cash flow for the year then ended, in conformity with the applicable regulatory framework for financial information in Spain, and specifically the accounting principles and criteria contained therein.

The accompanying 2012 management report contains such explanations as the directors consider appropriate concerning the situation of the Company, the evolution of its business and other matters; however, it is not an integral part of the financial statements. We have checked that the accounting information included in the aforementioned management report agrees with the 2012 financial statements. Our work as auditors is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the Company's accounting records.

ERNST & YOUNG, S.L.

(Signed on the original)

Javier Ezcurra Zubeldía

February 28, 2013

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid. Inscrita en el Registro Mercantil de Madrid al Tomo 12749, Libro 0, Folio 215, Sección 8ª, Hoja M-23123, Inscripción 116. C.I.F. B-78970506

CONTENTS

- Balance sheet at December 31, 2012
- Income statement for the year ended December 31, 2012
- Statement of changes in equity for the year ended December 31, 2012
- Cash flow statement for the year ended December 31, 2012
- Notes to the financial statements for the year ended December 31, 2012

VISCOFAN, S.A.
Balance sheet at December 31, 2012
(Thousands of euros)

ASSETS	Notes	2012	2011
NON-CURRENT ASSETS		**365,061**	**342,996**
Intangible assets	**5**	**8,739**	**9,150**
Concession rights		1,520	1,745
Software		3,900	2,895
Other intangible assets		3,319	4,510
Property, plant and equipment	**6**	**60,127**	**61,845**
Land and buildings		11,703	12,487
Plant and other PP&E items		48,381	48,067
Property, plant and equipment under construction and prepayments		43	1,291
Investment in group companies and associates	**7**	**295,914**	**271,511**
Equity instruments		295,914	271,511
Financial investments	**8**	**132**	**115**
Equity instruments		84	67
Other financial assets		48	48
Deferred tax assets	**16**	**149**	**375**
CURRENT ASSETS		**88,250**	**65,339**
Inventories	**9**	**20,220**	**14,672**
Commercial inventories		1,793	2,010
Raw materials and other consumables		9,325	5,976
Work in progress		4,020	4,201
Finished products		5,082	2,485
Trade and other receivables		**41,285**	**38,235**
Trade receivables	8	24,246	23,658
Trade receivables from group companies and associates	8	11,571	11,044
Other receivables	8	65	239
Receivable from employees	8	95	34
Other receivables from public administrations	16	5,308	3,260
Investments in group companies and associates	**8**	**786**	**837**
Loans to companies		616	602
Other financial assets		170	235
Investments	**8**	**589**	**11,390**
Derivatives		589	384
Other financial assets		-	11,006
Accruals		**102**	**129**
Cash and cash equivalents	**10**	**25,268**	**76**
Cash		25,268	76
TOTAL ASSETS		**453,311**	**408,335**

VISCOFAN, S.A.
Balance sheet at December 31, 2012
(Thousands of euros)

EQUITY AND LIABILITIES	Notes	2012	2011
EQUITY		**346,226**	**331,580**
CAPITAL AND RESERVES		**344,093**	**329,602**
Share capital	**11.1**	**32,623**	**32,623**
Issued capital		32,623	32,623
Share Premium	**11.2**	**12**	**12**
Reserves	**11.3**	**267,420**	**257,639**
Legal and statutory reserves		6,525	2,935
Other reserves		260,895	254,704
Profit for the year	**3**	**62,679**	**56,105**
Interim dividend	**3.1**	**(18,641)**	**(16,777)**
UNREALIZED GAINS (LOSSES) RESERVE	**12**	**209**	**(288)**
Hedging instruments		209	(288)
GRANTS, DONATIONS AND LEGACIES	**13**	**1,924**	**2,266**
NON-CURRENT LIABILITIES		**8,047**	**13,784**
Borrowings	**15**	**7,132**	**11,802**
Payable to credit institutions		1,771	8,028
Liabilities from capital leases		-	44
Other financial liabilities		5,361	3,730
Deferred tax liabilities	**16**	**915**	**1,982**
CURRENT LIABILITIES		**99,038**	**62,971**
Provisions	**14**	**1,817**	**2,442**
Borrowings	**15**	**33,148**	**30,109**
Bank borrowings		29,150	24,767
Finance leases		44	83
Derivatives		21	1,217
Other financial liabilities		3,933	4,042
Payables to group companies and associates	**15**	**36,022**	**7,227**
Trade and other payables		**28,051**	**23,193**
Suppliers	15	5,182	2,398
Suppliers, group companies and associates	15	2,042	1,410
Other payables	15	6,968	8,555
Employee benefits payable	15	1,377	1,083
Current tax liabilities	16	4,548	4,400
Other payables to public administrations	16	6,808	5,063
Customer advances	15	1,126	284
TOTAL EQUITY AND LIABILITIES		**453,311**	**408,335**

VISCOFAN, S.A.
Income statement for the year ended December 31, 2012
(Thousands of euros)

	Notes	2012	2011
CONTINUING OPERATIONS			
Revenue	**17.1**	**169,891**	**154,748**
Sale of goods		169,392	154,120
Rendering of services		499	628
Changes in inventory of finished goods and work in progress		**2,416**	**(312)**
Work performed by the entity and capitalized		**250**	**250**
Cost of sales		**(75,565)**	**(66,628)**
Consumption of goods for resale	17.2	(15,081)	(21,816)
Consumption of raw materials and other consumables	17.2	(60,476)	(44,850)
Impairment of goods for resale, raw materials and other consumables	9	(8)	38
Other operating income		**7,999**	**9,008**
Ancillary income		7,297	8,438
Grants related to income	13	702	570
Employee benefits expense		**(34,187)**	**(30,972)**
Wages, salaries, et al		(26,702)	(24,248)
Social security costs, et al	17.3	(7,485)	(6,724)
Other operating expenses		**(40,277)**	**(36,537)**
External services	17.4	(38,234)	(34,105)
Taxes		(183)	(161)
Losses on, impairment of and change in trade provisions	8.1	(43)	171
Other operating expenses	14	(1,817)	(2,442)
Depreciation and amortization	**5 y 6**	**(9,584)**	**(8,919)**
Grants related to non-financial assets and other grants	**13**	**224**	**54**
Impairment gains (losses) on disposal of non-current assets		**(6)**	**7**
Impairment gains and losses	6	2	2
Gains (losses) on disposals		(8)	5
OPERATING PROFIT		**21,161**	**20,699**
Finance income		**47,061**	**40,537**
From equity investments	7.1	46,637	39,819
In group companies and associates		46,637	39,819
From marketable securities and other financial instruments		424	718
Of group companies and associates		14	18
Of third parties		410	700
Finance costs	**17.5**	**(1,146)**	**(1,460)**
On borrowings from group companies and associates		(146)	(188)
Third-party borrowings		(1,000)	(1,272)
Exchange gains (losses)		**(716)**	**394**
FINANCE INCOME		**45,199**	**39,471**
PROFIT BEFORE TAX		**66,360**	**60,170**
Income tax	**16.1**	**(3,681)**	**(4,065)**
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**62,679**	**56,105**
DISCONTINUED OPERATIONS			
Profit (Loss) alter tax for the year from discontinued operations		**-**	**-**
PROFIT FOR THE YEAR	**3**	**62,679**	**56,105**

VISCOFAN, S.A.
Statement of changes in equity for the year ended December 31, 2012
(Thousands of euros)

A) Statement of recognized income and expenses for the year ended December 31, 2012

	Notes	2012	2011
PROFIT FOR THE PERIOD		**62,679**	**56,105**
INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY			
From measurement of financial instruments		**-**	**-**
Available-for-sale financial assets		**-**	**-**
Other income/expense		**-**	**-**
From cash flow hedges	**12**	**319**	**(456)**
Grants, donations and bequests received	**13**	**1,553**	**4,515**
Tax effect		**(562)**	**(1,218)**
TOTAL INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY		**1,310**	**2,841**
AMOUNTS TRANSFERRED TO INCOME STATEMENT			
From measurement of financial instruments		**-**	**-**
Available-for-sale financial assets		**-**	**-**
Other income/expense		**-**	**-**
From cash flow hedges	**12**	**391**	**(3,116)**
Grants, donations and bequests received	**13**	**(2,041)**	**(2,496)**
Tax effect		**495**	**1,684**
TOTAL AMOUNTS TRANSFERRED TO INCOME STATEMENT		**(1,155)**	**(3,928)**
TOTAL RECOGNIZED INCOME AND EXPENSE		**62,834**	**55,018**

VISCOFAN, S.A.
Statement of changes in equity for the year ended December 31, 2012
(Thousands of euros)

B) Statement of all changes in equity for the year ended December 31, 2012

	Issued capital (Note 11.1)	Share premium (Note 11.2)	Reserves (Note 11.3)	Profit for the year (Note 3)	Interim dividend (Note 3)	Net unrealized gains (losses) reserve (Note 12)	Grants, donations and bequests received (Note 13)	TOTAL
BALANCE AT DECEMBER 31, 2010	**13,981**	**12**	**250,305**	**62,979**	**(13,981)**	**2,212**	**853**	**316,361**
Total recognized income and expense	-	-	-	56,105	-	(2,500)	1,413	55,018
Transactions with shareholders and owners								
Capital decreases	(13,515)	-	-	-	-	-	-	(13,515)
Dividends paid	-	-	-	(23,488)	(2,796)	-	-	(26,284)
Other changes in equity	32,157	-	7,334	(39,491)	-	-	-	-
BALANCE AT DECEMBER 31, 2011	**32,623**	**12**	**257,639**	**56,105**	**(16,777)**	**(288)**	**2,266**	**331,580**
Total recognized income and expense	-	-	-	62,679	-	497	(342)	62,834
Transactions with shareholders and owners								
Dividends paid	-	-	-	(46,324)	(1,864)	-	-	(48,188)
Other changes in equity	-	-	9,781	(9,781)	-	-	-	-
BALANCE AT DECEMBER 31, 2012	**32,623**	**12**	**267,420**	**62,679**	**(18,641)**	**209**	**1,924**	**346,226**

VISCOFAN, S.A.
Cash flow statement for the year ended December 31, 2012
(Thousands of euros)

	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**66,360**	**60,170**
Adjustments to profit		**(35,759)**	**(30,656)**
Depreciation and amortization	5 & 6	9,584	8,919
Impairment losses	6	(2)	(2)
Changes in provisions	8.1 & 9	74	(43)
Grants released to income	13	(224)	(54)
Results on disposal of property, plant and equipment		8	(5)
Finance income		(47,061)	(40,537)
Finance costs	17.5	1,146	1,460
Exchange gains (losses)		716	(394)
Change in working capital		**(5,651)**	**(2,902)**
Inventories		(5,580)	461
Trade and other receivables		(1,126)	(2,129)
Other current assets		33	(36)
Trade and other payables		1,014	(832)
Other current liabilities		8	(366)
Other cash flows from operating activities		**41,933**	**31,226**
Interest paid		(737)	(1,104)
Dividends received		46,702	35,864
Interest received		410	700
Income tax receipts (payments)		(4,442)	(4,234)
CASH FLOW FROM OPERATING ACTIVITIES		**66,883**	**57,838**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments on investments		**(33,228)**	**(37,992)**
Group and associates	7	(24,403)	(12,400)
Intangible assets	5	(1,626)	(1,174)
Property, plant and equipment		(7,181)	(13,418)
Other financial assets		(18)	(11,000)
Proceeds from disposals		**11,009**	**5,005**
Group companies and associates		-	2,000
Property, plant, and equipment		3	5
Other financial assets		11,006	3,000
CASH FLOWS FROM INVESTING ACTIVITIES		**(22,219)**	**(32,987)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from/(payments on) equity instruments		**117**	**(12,180)**
Redemption of equity instruments		-	(13,515)
Grants, donations, and bequests received	13	117	1,335
Proceeds from and payments of financial liabilities		**28,599**	**(22,558)**
Issues			
Bank borrowings		17,615	-
Accounts payable to Group and associated companies		35,900	4,000
Other borrowings		2,627	952
Repayment and redemption of			
Bank borrowings		(19,511)	(25,783)
Borrowings from group companies and associates		(7,000)	-
Other borrowings		(1,032)	(1,727)
Dividends paid and payments on other equity instruments		**(48,188)**	**(26,284)**
Dividends		(48,188)	(26,284)
CASH FLOWS FROM FINANCING ACTIVITIES		**(19,472)**	**(61,022)**
NET FOREIGN EXCHANGE DIFFERENCE		**-**	**-**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**25,192**	**(36,171)**
Cash and cash equivalents at January 1		**76**	**36,247**
Cash and cash equivalents at December 31		**25,268**	**76**

VISCOFAN, S.A.
Notes to the financial statements for the year ended December 31, 2012

1. ACTIVITY

Viscofan, S.A. (hereinafter the Company) was incorporated with limited liability on October 17, 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 (Navarra). The current registered address is that of the central offices in Tajonar (Navarra).

The Company is the parent of a group of companies which operate mainly in the food and cellulose, plastic and collagen casing sectors. At the same date the Group's corresponding consolidated financial statements for 2012 have been also prepared.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the new accounting principles approved by Royal Decree 1514/2007 of November 16, amended by Royal Decree 1159/2010, of September 17, and prevailing mercantile law.

These financial statements have been prepared by the directors of the company and will be submitted for approval by the shareholders in general meeting within the periods established by prevailing legislation. The directors of the Company consider that no significant changes will be made to the 2012 financial statements as a result of these meetings.

The directors have prepared the 2012 financial statements separately, applying the international financial reporting standards adopted by the European Union (IFRS-EU).

The figures shown in these financial statements are presented in thousands of euros unless otherwise indicated.

2.1 True and fair view

The accompanying financial statements have been prepared from the Company's auxiliary accounting records in accordance with prevailing accounting legislation to give a true and fair view of its equity, financial position and results. The cash flow statement has been prepared to present fairly the origin and usage of monetary assets such as cash and cash equivalents.

2.2 Comparison of information

In compliance with Spanish mercantile law, for comparative purposes for each of the headings presented in the balance sheet, the income statement, the statement of changes in equity, the cash flow statement, and in the Notes thereto, in addition to the figures for 2012, those of 2011 have been included. The Notes likewise contain quantitative information from 2011, unless an accounting standard specifically states that this is not required.

2.3 Critical issues concerning the assessment of uncertainty

The directors have prepared the financial statements using estimates to determine the carrying amount of certain assets, liabilities, income and expenses and for the breakdown of contingent liabilities. These estimates were made based on the best information available at year end. However, given the uncertainty inherent in them, events may occur in the future which require prospective adjustments.

2.4 Changes in accounting classifications

The amount corresponding to consumption of gas utilized for cogeneration activities has been classified to "Consumption of raw materials and other consumables" in 2012. This was classified under "External services" under the supplies section until the previous year. The Company made this change retroactively, modifying the 2011 figures. The consumption of gas utilized for cogeneration amounted to 21,277 thousand euros in 2011. Thus, the amounts recognized under "Consumption of raw materials and other consumables" and "External services" in 2011 amounts to 44,850 and 34,105 thousand euros respectively (in the financial statements approved corresponding to 2011 these figures amounted to 23,573 thousand and 55,382 thousand euros respectively).

3. APPROPRIATION OF PROFIT

The appropriation of 2012 profit proposed by the directors, which is expected to be approved by the shareholders in general meeting, is as follows:

(Thousands of euros)	**2012**
Proposed appropriation	
Profit for the year	62,679
	62,679
Appropriation to	
Other reserves	11,695
Dividends	50,984
	62,679

3.1 Interim dividend

On November 28, 2012, the Board of Directors approved an interim dividend against 2012 profit of 18,641 thousand euros based on profit projections for the period. This dividend was paid on December 20, 2012. The amount of the dividend is less than the maximum limit established by prevailing legislation relating to distributable profit from the previous year end.

The following table shows the provisional statement issued by the directors to substantiate that the Company has sufficient liquidity to distribute this dividend:

(Thousands of euros)	
Available cash at November 16, 2012	4,519
Cash flows from/(used in) operating activities	
Trade and other receivables	178,882
Other income	50
Accounts payable and suppliers	(121,201)
Payments made to employees	(35,325)
Interest paid	(1,007)
Other payments	(7,000)
Cash flow related to investment activities	
Dividends	51,348
Purchases of property, plant and equipment	(48,000)
Cash flow related to financing activities	
Repayment of non-current borrowings	32,681
Dividends paid	(51,264)
Projected liquidity at November 16, 2013	**3,683**

3.2 Limitations on the distribution of dividends

The Company is obliged to transfer 10% of the profit for the year to a legal reserve until this reserve reaches an amount at least equal to 20% of share capital. Unless the balance of the reserve exceeds this amount, it cannot be distributed to shareholders. The legal reserve had been fully set aside at December 31, 2012.(Note 11.3).

Once the legal and company bylaw requirements have been met, dividends may only be distributed against profit for the year or freely distributable reserves, if the value of equity is not lower than share capital or would not become lower than share capital as a result of distributing dividends. Accordingly, profit recognized directly in equity cannot be directly or indirectly distributed. Where losses exist from previous years that reduce the Company's equity to below the amount of share capital, profit must be allocated to offset these losses.

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied in the preparation of these financial statements are the following:

4.1 Intangible assets

Intangible assets are initially measured at either acquisition or production cost.

Following initial measurement, they are stated at cost less accumulated amortization and any impairment loss.

The Company assesses the intangible asset's useful life to be either finite or indefinite. At December 31, 2012 all the Company's assets had a finite useful life.

Intangible assets having finite useful lives are amortized on a straight-line basis over their remaining estimated useful lives and residual value. Amortization methods and periods are reviewed at year end and adjusted prospectively where applicable. Intangible assets are tested for impairment at least at year end and are written down where applicable.

Concession rights

Concession rights are recognized at the cost incurred, and are amortized over the ten-year period during which they are put to use.

Software

"Software" are recorded at the costs incurred and are amortized on a straight-line basis over the useful life of the asset (five years).

Expenses for repairs which do not prolong the useful life of the assets, as well as expenses for maintenance, are taken to the income statement in the year incurred.

CO_2 emission rights

It is Company policy to recognize CO_2 emission rights as a non-amortizable intangible asset. The rights allocated free of charge under the National Assignment Plan are measured at the prevailing market price at the date received, recognizing deferred income for the same amount.

During 2008, emission rights equivalent to 430,315 tons were received for the 2008-2012 period, as per the 2008-12 National Allocation Plan approved by Royal Decree 1370/2006.

During 2009 and 2010, in compliance with Article 19.4 of Law 1/2005, dated March 9, the Company obtained an individual new entry assignment of emission rights from the Ministry of the Environment and Rural and Marine Affairs. These assignments are equivalent to 329,656 tons and 245,744 tons, respectively. For 2008-2012: 41,956 emission rights were assigned in respect of 2008, 101,894 rights for 2009 and 143,850 rights for each year thereafter.

Thus in 2012 the Company received 86,063 tons corresponding to the first plan and 71,925 tons for each of the new assignments in 2009 and 2010 related to new entries. The rights are recognized at their market price at January 1 each year, recording deferred income for the same amount.

These emission rights are eliminated from the balance sheet when they are sold, delivered, or have expired. Should the rights be delivered, they are derecognized from the provision made when the CO_2 emissions take place.

4.2 Property, plant and equipment

Property, plant and equipment are initially measured at either acquisition or production cost, revalued up to 1996, in accordance with prevailing legislation, net of the corresponding accumulated depreciation.

Following initial measurement, they are stated at cost less accumulated depreciation and any recognized impairment loss.

The cost of assets acquired or produced subsequent to January 1, 2008 with installation periods exceeding one year includes financial expenses accrued prior to putting the assets to use when these expenses meet capitalization requirements.

Expenses for repairs which do not prolong the useful life of the assets, as well as maintenance expenses, are taken to the income statement in the year incurred. Expenses incurred for expansion or improvements which increase the productivity or prolong the useful life of the asset are capitalized as an increase in the value of the item.

When available for use, property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives.

The estimated useful lives of property, plant, and equipment at year end 2012 and 2011 are as follows:

	Useful lives
Buildings	30 years
Plant and machinery	10 years
Furniture	10 years
Other property, plant and equipment	5-15 years

The Company reviews the assets' residual value, useful lives and depreciation methods at year end and adjusts them prospectively where applicable.

4.3 Impairment of non-financial assets

The Company assesses at each year end whether there is an indication that a non-current asset or, where applicable, a cash-generating unit may be impaired. If any indication of impairment exists, the Company estimates the asset's recoverable amount.

The recoverable amount is the higher of the cash-generating unit's (CGU) fair value less cost to sell and value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired. To assess value in use, expected future cash flows are discounted to their present value using risk free market rates, adjusted by the risks specific to the asset. For those assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, the recoverable amount is determined for the cash-generating units to which the asset belongs.

Impairment loss and its reversion are recognized in the income statement. Impairment loss is reversed only if the circumstances giving rise to it have ceased to exist. The reversal is limited to the carrying amount that would have been determined had no impairment loss been recognized.

4.4 Leases

Leases are considered to be financial leases when, based on the economic terms of the arrangement, all risks and rewards incidental to ownership of the leased item are substantially transferred to the Company. All other lease arrangements are classified as operating leases.

Assets acquired under financial lease arrangements are recognized, based on their nature, at the fair value of the leased item or, if lower, the present value at the commencement of the lease of the minimum lease payments. A financial liability is recorded for the same amount. Lease payments are apportioned between finance charges and reduction of the lease liability. These assets are depreciated, impaired, and derecognized using the same criteria applied to assets of a similar nature.

Operating lease payments are recognized as expenses in the income statement when accrued.

4.5 Financial assets

Recognition and measurement

Loans and receivables

The Company recognizes in this category trade and non-trade receivables, which include financial assets with fixed or determinable payments not quoted on active markets and for which the Company expects to recover the full initial investment, except, where applicable, in cases of credit deterioration.

Upon initial recognition in the balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs.

Following initial recognition, these financial assets are measured at amortized cost.

Nevertheless, non-trade receivables which mature within less than one year with no contractual interest rate, as well as advances and loans to personnel, receivable dividends and called-up payments on equity instruments, the amount of which is expected in the short term, are carried at nominal value both at initial and subsequent measurement, when the effect of not discounting cash flows is not significant.

Investments in group companies, joint ventures and associates

This category includes investments in companies in which the entity exercises control, joint control via company bylaw requirements or contractual arrangement, or has significant influence.

Upon initial recognition in the balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs.

Investments in group companies are recognized, where applicable, based on accounting principles for transactions with group companies and those used for determining the cost of the business combination in accordance with the accounting policy governing business combinations (Note 4.20).

When an investment is newly classified as a Group company, joint venture or associate, the carrying amount of that investment immediately prior to its new classification is taken as the cost of that investment. If applicable, any unrealized value adjustments to the investment which have been previously recognized directly in equity are left in equity until the investment is either sold or impaired.

The initial value includes preferential subscription and similar rights acquired.

Following initial measurement, these financial assets are stated at cost, less any accumulated impairment loss.

Where preferential subscription or similar rights are sold or separated for the purpose of exercising them, the cost of these rights decreases the carrying amount of the respective assets.

Available-for-sale financial assets

This category includes debt securities and equity instruments that have not been classified in any of the preceding categories.

Upon initial recognition in the balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs. For equity instruments, initial value includes preferential subscription and similar rights.

After initial recognition, these assets are stated at fair value including any transaction costs which could be incurred when sold. Changes in fair value are recognized directly in equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is taken to the income statement. However, foreign exchange gains and losses on monetary assets denominated in foreign currency are recognized in the income statement.

Equity instruments whose fair value cannot be reliably determined are measured at cost, less any cumulative impairment.

Where preferential subscription or similar rights are sold or separated for the purpose of exercising them, the cost of these rights decreases the carrying amount of the respective assets.

Hedging derivatives

This category includes derivatives classified as hedging instruments.

Financial instruments which have been designated as hedging instruments are measured as indicated in Note 4.8.

Cancelation

Financial assets are derecognized when the contractual rights to related cash flows have expired or when the assets are transferred, provided that related risks and rewards are substantially transferred.

If the Company has not substantially transferred or retained the risks and rewards incidental to ownership of the financial asset, it is derecognized if control over the asset has not been retained. If control over the asset is retained, the Company continues to recognize it to the extent to which it is exposed to changes in the value of the transferred asset, i.e., due to its continuing involvement, recognizing as well the associated liability.

The difference between the consideration received, net of attributable transaction costs, including any new financial asset obtained less any liability assumed, plus any cumulative gain or loss directly recognized in equity, determines the gain or loss generated upon derecognition, and is included in the income statement in the year to which it relates.

Interest and dividends received from financial assets

Interest and dividends from financial assets accrued subsequent to acquisition are recognized as income. Interest must be recognized using the effective interest rate method; dividends are recognized when the right to receive them is established.

Financial assets are recognized separately on initial measurement based on maturity, accrued explicit interest receivable at that date, and the proposed dividends up to the date the assets are acquired. Explicit interest refers to the contract interest rate applied to the financial instrument.

In addition, when distributed dividends are derived unmistakably from profit generated prior to the date of acquisition given that the amounts of distributed dividends exceeded the profit generated by the associate since acquisition, the dividends are not recognized as income and decrease the cost of the investment.

4.6 Impairment of financial assets

The carrying amount of financial assets is adjusted against the income statement when there is objective evidence of actual impairment.

To determine impairment loss, the Company assesses the potential loss of individual as well as groups of assets with similar risk characteristics.

Debt instruments

There is objective evidence that debt instruments (trade receivables, loans and debt securities) are impaired when an event has occurred after the initial recognition of the instrument that has a negative impact on related estimated future cash flows.

The Company classifies as impaired assets (doubtful exposures) debt instruments for which there is objective evidence of impairment, which refers basically to the existence of unpaid balances, non-compliance issues, refinancing and data which evidences the possible irrecoverability of total agreed-upon future cash flows or collection delays.

For financial assets measured at amortized cost, impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the current market rate upon initial recognition. For financial assets with floating interest rates, the effective interest rate at the balance sheet date is used. For trade and other receivables, the Company considers balances including items more than six months past due for which collection is uncertain, as well as balances of companies having declared a payment's moratorium, to be doubtful assets. The fair value is used instead of the present value of estimated future cash flows in the case of quoted instruments provided that it is considered sufficiently reliable.

When there is objective evidence of a decline in the fair value of "Available-for-sale financial assets" due to impairment, the underlying capital losses recognized as "Unrealized gains (losses) reserve" in equity are taken to the income statement.

The reversal of an impairment loss is recognized in the income statement. Such reversal is limited to the carrying amount of the financial asset that would have been recognized on the reversal date had no impairment loss been recognized.

Equity instruments

There is objective evidence that equity instruments are impaired when one or more events have occurred after initial recognition that indicate that the cost of the investment in equity instruments may not be recovered due to a prolonged or significant decline in fair value.

In the case of equity instruments included in "Available-for-sale financial assets" and "Investments in group companies, joint ventures and associates," impairment loss is measured as the difference between the carrying amount of the financial asset and the recoverable amount, which is the greater of the asset's fair value, less costs to sell, and the present value of future cash flows derived from the investment. Unless better evidence is available, impairment of this type of asset is estimated taking into account the equity of the subsidiary, adjusted by any unrealized capital gain existing on the measurement date. Such losses are recorded in the income statement as a direct decline in value of the equity instrument.

For investments in group companies, joint ventures and associates, the reversal of an impairment loss is recognized in the income statement and is limited to the carrying value of the investment that would have been recognized on the reversal date had the original impairment not occurred.

4.7 Financial liabilities

Recognition and measurement

Trade and other payables

This category includes financial liabilities generated by the purchase of goods and services arising from trade transactions, and non-trade payables that are not derivative instruments.

Upon initial recognition in the balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration received, adjusted by directly attributable transaction costs.

Following initial recognition, these financial liabilities are measured at amortized cost. Interest is recognized in the income statement using the effective interest rate method.

Nevertheless, trade payables which mature within less than one year with no contractual interest rate, as well as called-up payments on shares, the amount of which is expected in the short term, are carried at the nominal value when the effect of not discounting cash flows is not significant.

Hedging derivatives

This category includes derivatives classified as hedging instruments.

Financial instruments which have been designated as hedging instruments are measured as indicated in Note 4.8.

Cancellation

The Company derecognizes a financial liability when the obligation under the liability is extinguished.

When debt instruments are exchanged, provided that their contractual terms are substantially different, the original financial liability is derecognized and the new financial liability is recognized. Financial liabilities whose contractual terms are substantially modified are treated in the same manner.

The difference between the carrying amount of the derecognized financial asset (or part of it) and the compensation paid, including any attributable transaction costs, which also includes any new asset transferred other than cash or liability assumed, is recognized in the income statement in the year to which it relates.

When debt instruments are exchanged whose contractual terms are not substantially different, the original financial liability is not derecognized, and the commissions paid are recognized as an adjustment to the carrying amount. The new amortized cost of a financial liability is determined by applying the effective interest rate, which equates the carrying amount of the financial liability on the modification date to the cash flows to be paid as per the new terms.

4.8 Hedge accounting

The Company uses fair value hedges for trade receivables denominated in foreign currency, cash flow hedges on floating-rate loans and cash flow hedges attributable to the price of certain raw materials.

Transactions are only deemed hedges when they eliminate efficiently any risk inherent to the hedged item or position throughout the duration of the hedge, which implies that at the inception of the contract, the hedging item is highly effective (prospective effectiveness) and there is sufficient evidence that the hedge will be effective throughout the life of the hedged item or position (retrospective effectiveness).

The Company adequately documents the hedge, including how it intends to achieve and measure its effectiveness under its current risk management policy.

The hedge effectiveness is measured by testing to verify that the differences arising from changes in the value of the hedged item and the corresponding hedging instrument remain within a range of 80% to 125% over the remaining term to maturity, and comply with forecasts established at the related contract dates.

If at any time financial derivatives do not qualify to be treated as hedges, they are reclassified as held-for-trading derivatives, in which case any gain or loss arising from changes in fair value on derivatives are directly recognized in the income statement.

For the purpose of hedge accounting, hedges are classified as *cash flow hedges.* Thus, cash flow hedges are designed to hedge exposure to variability in cash flows attributable to the changes in the exchange rates for purchases and sales carried out in foreign currency, the variability in cash flows attributable to changes in interest rates on loans taken out and the changes in prices of raw materials. The portion of the gain or loss of the hedging instrument that is determined to be an effective hedge is recognized temporarily in equity; gains or losses are taken to the income statement in the year or years in which the hedged item affects profit or loss.

4.9 Treasury shares

Treasury shares are recognized in equity as a decrease in "Capital and reserves" when acquired. No loss or gain is shown in the income statement on sale or cancelation. Expenses incurred in connection with transactions with treasury shares are recognized directly in equity as a decrease in reserves.

4.10 Inventories

Stocks are valued at acquisition price or production cost. Costs of purchase include the invoice price after deducting any trade discounts, rebates and other similar items, plus all other costs incurred until the goods are available for sale, such as transport, customs, insurance, and others directly attributable to the acquisition of inventory items. Production cost is determined by adding the costs directly attributable to the product to the purchase price of raw materials and other consumables. The portion of indirectly attributable costs incurred in preparing the tools for sale that can reasonably be allocated to the products in question are also included, to the extent that such costs are related to the manufacturing or construction process and are based on normal working conditions for the means of production.

Given that Company inventory is available-for-sale in less than one year, finance costs are not included in the acquisition or production cost.

The Company measures inventory at weighted average cost.

When the net realizable value of inventories is less than acquisition or production cost, the corresponding provision is recognized in the income statement. No provision is set aside for raw materials and other consumables used in production, if the finished products in which they are incorporated are sold above cost.

4.11 Cash and cash equivalents

This heading includes cash and current accounts, as well as deposits which meet the following requirements:

- They are readily convertible to cash.
- They mature within less than three months from the acquisition date.
- The risk of change in value is insignificant.
- They are part of the Company's standard cash management strategy.

In terms of the cash flow statement, occasional bank overdrafts used as part of the Company's cash management strategy are recognized as a decrease in cash and cash equivalents.

4.12 Grants

Grants are recognized as non-repayable when the requirements established for receiving them are met and are recognized directly in equity, net of the corresponding tax effect.

Repayable grants are recognized as liabilities until they meet the criterion for being considered non-repayable. No income is recorded until this criterion is met.

Grants received to finance specific expenses are released to the income statement in the year in which the expenses which they are intended to compensate are incurred. Grants received to acquire property, plant and equipment are released to income in proportion to the depreciation charged for the related assets.

4.13 Provisions

Provisions are recognized in the balance sheet when the Company has a present obligation (derived from a contract through its explicit or implicit terms, legislation or other operation of law) as a result of past events and it is probable that a quantifiable outflow of resources will be required to settle the obligation.

Provisions are measured at the present value of the best estimate of the amount that an entity would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time, recognizing provision discount adjustments as a finance cost as they accrue. No discounts are made on those provisions falling due within twelve months that do not have a significant financial effect. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Provision for CO_2 emission rights

As of 2006, the companies included in the National Assignment Plan that emit CO_2 in their operating activities, in the early months of the subsequent year must submit CO_2 emission rights equivalent to their CO_2 emissions in that year.

The obligation to submit CO_2 emission rights for CO_2 emissions during the year is recorded in "Current provisions" on the balance sheet, while the related cost is recognized under "Other operating expenses". This obligation is measured at the same amount as the CO_2 emission rights submitted to cover CO_2 emissions, which are recognized under "Other intangible assets".

4.14 Provisions for long-term employee benefits

The Company has no pension commitments whereby it is obliged to make contributions to a separate entity, such as an insurance company or a pension plan.

However, the Company does have early retirement and seniority bonus commitments with employees. The Company has externalized these commitments through insurance policies and has recognized the amounts paid under "Employee benefits expense".

4.15 Income tax

Income tax expense for the year is calculated as the sum of current tax resulting from applying the corresponding tax rate to taxable profit for the year, less any applicable rebates and tax credits, taking into account changes during the year in recognized deferred tax assets and liabilities. The corresponding tax expense is recognized in the income statement, except when it relates to transactions recognized directly in equity, in which case the corresponding tax expense is likewise recognized in equity.

Deferred income tax is recognized using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. The tax base of an asset or liability is the amount attributed to it for tax purposes.

The tax effect of temporary differences is included in "Deferred tax assets" or "Deferred tax liabilities" on the balance sheet, as applicable.

Deferred tax liabilities are recognized for all temporary differences, except where disallowed by prevailing tax legislation.

The Company recognizes deferred tax assets for all deductible temporary differences, unused tax credits and unused tax loss carryforwards, to the extent that it is probable that future taxable profit will be available against which these assets may be utilized, except where disallowed by prevailing tax legislation.

At each financial year end, the Company assesses the deferred tax assets recognized and those that have not yet been recognized. Based on this analysis, the Company derecognizes the asset recognized previously if it is no longer probable that it will be recovered, or it recognizes any deferred tax asset that had not been recognized previously, provided that it is probable that future taxable profit will be available against which these assets may be utilized.

Deferred tax assets and liabilities are measured at the tax rate expected to apply to the period in which they reverse, as required by enacted tax laws and in the manner in which it reasonably expects to recover the asset's carrying value or settle the liability.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets or non-current liabilities, respectively.

4.16 Classification of current and non-current assets and liabilities

Assets and liabilities are classified in the balance sheet as current and non-current. Accordingly, assets and liabilities are classified as current when they are associated with the Company's operating cycle and it is expected that they will be sold, consumed, realized or settled within the normal course of that cycle; and are expected to mature, to be sold or settled within one year. They are held for trading or are cash and cash equivalents the use of which is not restricted to more than one year.

4.17 Income and expenses

In accordance with the accruals principle, income and expenses are recognized when the goods or services represented by them take place, regardless of when actual payment or collection occurs.

Income

Income is recognized when it is probable that the profit or economic benefits from the transaction will flow to the entity and the amount of income and costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, less any discounts, rebates, and other similar items given by the Company, and any interest included in the nominal amount of loans. Applicable indirect taxes on transactions which are reimbursed by third parties are not included.

4.18 Transactions in foreign currency

The Company's functional and presentation currency is the euro.

Transactions in foreign currency are initially translated at the spot rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency are translated at the spot rate prevailing at the balance sheet date. All exchange gains or losses arising from translation as well as those resulting on settlement of balance sheet items are recognized in the income statement.

Non-monetary items measured at historical cost are translated at the exchange rate prevailing on the date of the transaction.

Non-monetary items measured at fair value are translated at the exchange rate prevailing when the fair value is determined. When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in the income statement.

4.19 Environmental assets and liabilities

Expenses relating to decontamination and restoration work in contaminated areas, as well as the elimination of waste and other expenses incurred to comply with environmental protection legislation, are expensed in the year to which they relate, unless they correspond to purchases of assets incorporated in equity to be used over an extended period, in which case they are recognized in the corresponding line of "Property, plant and equipment" and depreciated using the same criteria.

4.20 Related-party transactions

Related-party transactions are measured as described above, except for the following:

- Non-monetary contributions from a business to a Group company are generally measured at the carrying amount of the assets delivered in the consolidated financial statements at the transaction date.
- In mergers and spin-offs the acquired assets are generally valued at their carrying amount in the consolidated financial statements after the transaction. Any differences are recognized in reserves.

The prices of related-party transactions are adequately documented; hence the Company's directors consider there to be no risk of significant liabilities arising from these.

4.21 Termination benefits

In accordance with prevailing mercantile legislation, the Company is required to pay indemnities to employees who are dismissed under certain circumstances. Reasonably quantifiable indemnity payments are recognized as an expense in the year in which the Company creates a valid expectation on the part of the affected third parties that the dismissals will occur.

5. INTANGIBLE ASSETS

The movements in the items composing "Intangible assets" are as follows:

(Thousands of euros)	Balance at January 1	Additions and allowances	Disposals and reversal of impairment loss	Transfers	Balance at December 31
2012					
Cost					
Patents	36	-	-	-	36
Concession rights	2,627	-	-	-	2,627
Software	9,027	1,605	-	207	10,839
Greenhouse gas emission rights	4,248	1,437	(2,442)	-	3,243
Payments on account for non-current intangible assets	262	21	-	(207)	76
	16,200	3,063	(2,442)	-	16,821
Accumulated amortization					
Patents	(36)	-	-	-	(36)
Concession rights	(882)	(225)	-	-	(1,107)
Software	(6,132)	(807)	-	-	(6,939)
	(7,050)	(1,032)	-	-	(8,082)
Net carrying amount	**9,150**				**8,739**
2011					
Cost					
Patents	36	-	-	-	36
Concession rights	2,627	-	-	-	2,627
Software	7,907	1,065	-	55	9,027
Greenhouse gas emission rights	3,428	3,180	(2,360)	-	4,248
Payments on account for non-current intangible assets	208	109	-	(55)	262
	14,206	4,354	(2,360)	-	16,200
Accumulated amortization					
Patents	(36)	-	-	-	(36)
Concession rights	(656)	(226)	-	-	(882)
Software	(5,545)	(587)	-	-	(6,132)
	(6,237)	(813)	-	-	(7,050)
Net carrying amount	**7,969**				**9,150**

At December 31, 2012 and 2011, the cost value of fully amortized intangible assets amounted to 5,202 and 5,039 thousand euros, respectively.

"Greenhouse gas emission rights" include free of charge rights allocated by the National Assignment Plan (see notes 13 and 14).

5.1 Other information

The breakdown of intangible assets acquired from Group companies at December 31 is as follows:

(Thousands of euros)	2012	2011
Software		
Cost	256	168
Accumulated amortization	(25)	(3)
	231	**165**

At December 31, 2012 and 2011, the Company did not have any intangible assets located outside Spain.

At December 31, 2012, there were firm purchase commitments for the acquisition of intangible assets amounting to 145 thousand euros, whereas none existed at December 31, 2011.

6. PROPERTY, PLANT, AND EQUIPMENT

The movements in the items composing "Property, plant, and equipment" are as follows:

(Thousands of euros)	Balance at January 1	Additions and allowances	Disposal and reversal of an impairment loss	Transfers	Balance at December 31
2012					
Cost					
Land	206	-	-	-	206
Buildings	24,390	-	-	-	24,390
Plant and other PP&E items	214,060	6,800	(82)	1,291	222,069
Property, plant, and equipment under construction and payments on account	1,291	43	-	(1,291)	43
	239,947	6,843	(82)	-	246,708
Accumulated depreciation					
Buildings	(12,073)	(786)	-	-	(12,859)
Plant and other PP&E items	(165,993)	(7,766)	71	-	(173,688)
	(178,066)	(8,552)	71	-	(186,547)
Impairment losses					
Buildings	(36)	-	2	-	(34)
	(36)	-	2	-	(34)
Net carrying amount	**61,845**				**60,127**
2011					
Cost					
Land	206	-	-	-	206
Buildings	23,181	960	-	249	24,390
Plant and other PP&E items	203,663	10,320	(1,608)	1,685	214,060
Property, plant, and equipment under construction and payments on account	1,991	1,234	-	(1,934)	1,291
	229,041	12,514	(1,608)	-	239,947
Accumulated depreciation					
Buildings	(11,301)	(772)	-	-	(12,073)
Plant and other PP&E items	(160,267)	(7,334)	1,608	-	(165,993)
	(171,568)	(8,106)	1,608	-	(178,066)
Impairment losses					
Buildings	(38)	-	2	-	(36)
	(38)	-	2	-	(36)
Net carrying amount	**57,435**				**61,845**

6.1 Significant movements

Additions in 2012 and 2011 mainly relate to machinery and installations acquired to improve productivity and increase capacity at the Company's manufacturing plants.

The Company took advantage of the tax provisions included in Regional Law 23/1996 regarding the remeasurement of assets and that year increased the cost and cumulative depreciation of its property, plant and equipment, which gave rise to net unrealized gains of 9,282 thousand euros (Note 11.4). The net carrying amount of these assets at year end 2012 and 2011 is 453 thousand and 527 thousand euros, respectively, and provision for depreciation in 2012 and 2011 amounted to 74 and 81 thousand euros respectively.

6.2 Finance leases

The net carrying amount of property, plant and equipment held under finance leases at December 31 is as follows:

(Thousands of euros)	2012	2011
Other PP&E		
Cost	210	245
Accumulated depreciation	(57)	(42)
	153	**203**

The initially recognized cost value for assets held under finance leases was the present value of future minimum lease payments on the date the lease agreement was signed.

The reconciliation between the total future minimum lease payments and the present value at December 31 is as follows:

	2012		2011	
(Thousands of euros)	Future minimum payments	Present value (Note 15.1)	Future minimum payments	Present value (Note 15.1)
Within one year	44	44	85	83
Between one and four years	-	-	45	44
	44	**44**	**130**	**127**

The principal terms of finance lease agreements are as follows:

- The lease is for a term between 2 and 4 years.
- The interest rate is floating and is linked to 12-month Euribor plus a fixed spread of between 1.1 and 1.5 percentage points.
- Repair and maintenance expenses are assumed by the lessor.
- The amount of the purchase option is equivalent to the last lease payment.
- There are no contingent lease payments.

6.3 Operating leases

The Company rents the building in Urdiain (Navarra) where it carries out its activity and a commercial office in Moscow at an annual cost of 108 and 100 thousand euros in 2012 and 2011, respectively. In both cases the duration of the leases is one year, and is renewable. No purchase option is exercised in either.

In addition, the Company signed a lease agreement for the office building in Tajonar

(Navarra) in 2008 that expires on December 15, 2028. Thereafter the agreement may be extended provided that both parties express their agreement in writing at least six months before it expires.

The future minimum payments under non-cancelable operating leases at December 31 are as follows:

(Thousands of euros)	2012	2011
Within one year	264	264
Between one and five years	1,057	1,057
More than five years	2,907	3,171
	4,228	**4,492**

6.4 Other disclosures

The Company has acquired the following property, plant and equipment from group companies at December 31:

(Thousands of euros)	2012	2011
Plant and machinery		
Cost	2,500	2,311
Accumulated depreciation	(2,140)	(2,097)
Other property, plant and equipment		
Cost	34	34
Accumulated depreciation	(34)	(34)
Property, plant, and equipment under construction	-	147
	360	**361**

At December 31, 2012 and 2011 there were property, plant, and equipment items located outside Spain, recognized at 21 and 25 thousand euros respectively.

At December 31 of 2012 and 2011, the Company had firm purchase commitments for property, plant, and equipment totaling 140 and 2,170 thousand euros, from investments under construction or prepayments made which will be financed with Company capital or undrawn credit facilities.

The breakdown of fully depreciated property, plant and equipment is as follows:

(Thousands of euros)	2012	2011
Buildings	2,053	1,873
Plant and machinery	114,845	110,258
Plant and other PP&E items	19,700	17,813
Property, plant, and equipment	6,151	5,906
	142,749	**135,850**

The Company has arranged insurance policies to cover the carrying amount of these assets.

Property, plant and equipment items for environmental activity are described in Note 21.3.

7. INVESTMENTS IN GROUP COMPANIES, JOINT VENTURES, AND ASSOCIATES

The movements in the items composing "Investments in group companies, joint ventures and associates" are as follows:

(Thousands of euros)	Balance at January 1	Additions	Disposals	Transfers	Balance at December 31
2012					
Equity instruments	271,511	24,403	-	-	295,914
	271,511				**295,914**
2011					
Equity instruments	259,611	11,900	-	-	271,511
	259,611				**271,511**

In 2012 the Company carried out the following transactions:

- It paid 11.6 million euros, corresponding to 80% of the approved capital increase for Viscofan Technology (Suzhou) Co. Ltd. in 2011. Ltd. The Company also paid 11.2 million euros, corresponding to 80% of the 14 million euro capital increase in 2012. The Company will pay in the remaining 20% within a maximum period of two years. This capital increase is being carried out to finance the investments of this subsidiary.

- It paid 1.6 million euros, in order to finance the company's projected investments in Viscofan Uruguay, S.A. for its starting operations. .

In 2011 the Company carried out the following transactions:

- It paid 2.9 million euros, corresponding to 20% of the 14.5 million Viscofan Technology (Suzhou) Co. Ltd. capital increase carried out in 2011.

- It fully paid in the 9 million euro capital increase carried out by Koteks Viscofan, d.o.o, to finance the investments made and the needs for working capital arising out of a substantial increase in activity.

7.1 Description of investments in group companies, joint ventures and associates

The information relating to group companies, joint ventures and associates at December 31 is as follows:

	Thousands of euros			Local currency (thousands)					
	Net carrying amount	Dividends distributed during the year	% of direct equity interest	Currency	Share capital	Reserves	Profit (loss) for the year	Total capital and reserves	Operating profit (loss)
2012									
Industrias Alimentarias de Navarra, S.A.U.	15,602	3,500	100%	EUR	10,938	34,289	3,801	49,028	4,262
Naturin Viscofan, GMBH	90,570	7,000	100%	EUR	29,604	25,259	9,595	64,458	14,120
Viscofan do Brasil, soc. com. e ind. Ltda	53,138	18,604	100%	BRL	86,868	34,701	48,848	170,417	70,199
Gamex CB Sro	7,498	1,849	100%	CZK	250,000	25,000	4,253	279,253	2,911
Viscofan USA Inc.	34,729	-	100%	USD	35,587	59,390	7,900	102,877	12,748
Viscofan UK LTD	1,841	-	100%	GBP	10	1,893	351	2,254	480
Viscofan CZ, S.r.o	10,503	6,091	100%	CZK	345,200	808,023	708,345	1,861,568	785,621
Viscofan de México S.R.L. de C.V.(1)	13,741	9,593	99.99%	MXP	219,777	277,348	207,790	704,915	314,952
Viscofan Centroamérica Comercial, S.A.(1)	166	-	99.50%	USD	200	669	57	926	77
Koteks Viscofan, d.o.o.	33,307	-	100%	RSD	3,028,896	(183,726)	762,692	3,607,862	964,274
Viscofan de México Servicios, S.R.L. de C.V.(1)	16	-	99.99%	MXP	103	7,696	3,095	10,894	5,468
Viscofan Technology (Suzhou) Co. Ltd	33,200	-	100%	CNY	278,936	(11,400)	10,611	278,147	15,092
Viscofan Uruguay, S.A.	1,603		100%	UYU	42,753	-	(5,888)	36,865	(4,250)
	295,914	**46,637**							
2011									
Industrias Alimentarias de Navarra, S.A.U.	15,602	1,500	100%	EUR	10,938	33,839	3,950	48,727	5,143
Naturin Viscofan, GMBH	90,570	11,002	100%	EUR	29,604	18,304	13,955	61,863	20,205
Viscofan do Brasil, soc. com. e ind. Ltda	53,138	17,699	100%	BRL	86,868	47,552	35,230	169,650	47,277
Gamex CB Sro	7,498	230	100%	CZK	250,000	25,000	45,542	320,542	57,932
Viscofan USA Inc.	34,729	-	100%	USD	35,587	46,902	12,488	94,977	18,696
Viscofan UK LTD	1,841	-	100%	GBP	10	1,844	49	1,903	78
Viscofan CZ, S.r.o	10,503	8,041	100%	CZK	345,200	508,894	449,159	1,303,253	409,893
Viscofan de México S.R.L. de C.V.(1)	13,741	1,347	99.99%	MXP	219,777	251,671	186,848	658,296	235,346
Viscofan Centroamérica Comercial, S.A.(1)	166	-	99.50%	USD	200	588	81	869	124
Koteks Viscofan, d.o.o.	33,307	-	100%	RSD	3,028,896	(1,093,783)	910,056	2,845,169	487,461
Viscofan de México Servicios, S.R.L. de C.V.(1)	16	-	99.99%	MXP	103	3,229	4,467	7,799	7,868
Viscofan Technology (Suzhou) Co. Ltd	10,400	-	100%	CNY	94,556	(12,500)	1,100	83,156	(1,661)
	271,511	**39,819**							

(1) The Company controls 100% of these subsidiaries through the ownership interests held in other Group companies.

The operating profit (loss) of the group companies, joint ventures and associates shown in the above table correspond entirely to continuing operations. None of the companies is listed on the stock exchange.

The description of the main activity and registered address of each of the companies listed above at December 31 2012 is as follows:

Company	Activity	Registered office
Industrias Alimentarias de Navarra, S.A.U.	Manufacture and sale of preserved vegetables	Villafranca (Navarra)
Naturin Viscofan GMBH	Manufacture and sale of artificial casings	Weinheim (Germany)
Viscofan do Brasil, soc. com. e ind. Ltda	Manufacture and sale of artificial casings	Sao Paulo (Brazil)
Gamex CB Sro	Renting of an industrial warehouse where Viscofan CZ, S.r.o carries out activities / Other services	Ceske Budejovice (Czech Republic)
Viscofan USA Inc	Manufacture and sale of artificial casings	Montgomery (USA)
Viscofan UK LTD	Commercial office	Seven Oaks (UK)
Viscofan CZ, S.r.o	Manufacture and sale of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan de México S.R.L. de C.V.	Manufacture and sale of artificial casings	San Luís de Potosí (Mexico)
Viscofan Centroamérica Comercial, S.A.	Commercial office	San José (Costa Rica)
Koteks Viscofan, d.o.o.	Manufacture and sale of artificial casings	Novi Sad (Serbia)
Viscofan de México Servicios, S.R.L. de C.V.	Service company	Zacapu Michoacán (Mexico)
Viscofan Technology (Suzhou) Co. Ltd.	Manufacture and sale of artificial casings	Suzhou (China)
Viscofan Uruguay, S.A.	Manufacture and sale of artificial casings	Montevideo (Uruguay)

All companies have performed favorably, obtaining positive results, except for Viscofan Uruguay, S.A., a newly created entity, which had not started its activities in 2012. Thus, given the positive developments and prospects of all companies, no impairment losses were recognized.

Information on indirect investments in group companies and associates at December 31, 2012 is as follows:

Company	Indirect investment	Activity	Registered office
IAN Perú, S.A.	100%	Asparagus production	Cañete (Peru)
Lingbao Baolihao Food	100%	Asparagus production	Lingbao (China)
Zacapu Power, S.R.L. de C.V.	100%	Cogeneration plant	Zacapu Michoacán (Mexico)
Viscofan Canada Inc.	100%	Commercial office	St, Laurent, Québec (Canada)

8 FINANCIAL ASSETS

The breakdown of financial assets, except for the investments in group companies, joint ventures and associates (Note 7), at December 31 is as follows:

	Equity instruments		Loans, derivatives and other financial assets		Total	
(Thousands of euros)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Non-current financial assets						
Loans and receivables	-	-	48	48	48	48
Available-for-sale financial assets						
Measured at cost	84	67	-	-	84	67
	84	67	48	48	132	115
Current financial assets						
Loans and receivables	-	-	36,763	46,818	36,763	46,818
Hedging derivatives	-	-	589	384	589	384
	-	-	37,352	47,202	37,352	47,202
	84	**67**	**37,400**	**47,250**	**37,484**	**47,317**

These amounts are disclosed in the balance sheet as follows:

	Equity instruments		Loans, derivatives and other financial assets		Total	
(Thousands of euros)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Non-current financial assets						
Investments	84	67	48	48	132	115
	84	67	48	48	132	115
Current financial assets						
Trade and other receivables (Note 8.1)	-	-	35,977	34,975	35,977	34,975
Investments in group companies and associates						
Loans to companies (Note 19.1)	-	-	616	602	616	602
Loans and receivables (Note 19.1)	-	-	170	235	170	235
Investments						
Hedging derivatives (Note 13)	-	-	589	384	589	384
Current financial investments (Note 8.2)	-	-	-	11,006	-	11,006
	-	-	37,352	47,202	37,352	47,202
	84	**67**	**37,400**	**47,250**	**37,484**	**47,317**

8.1 Trade and other receivables

The breakdown of "Trade and other receivables" at December 31 is as follows:

(Thousands of euros)	2012	2011
Trade receivables	24,246	23,658
Receivable from group companies and associate (Note 19.1)	11,571	11,044
Other receivables	65	239
Receivables from employees	95	34
	35,977	**34,975**

The breakdown of "Trade and other receivables" denominated in foreign currency at December 31 is as follows:

(Thousands of euros)	2012	2011
US Dollar	10,873	14,638
Canadian Dollar	197	-
Japanese Yen	331	11
Pounds Sterling	1,181	2,474
	12,582	**17,123**

Impairment losses

The balance of "Trade receivables" is presented net of impairment. The movements in said impairment losses are as follows:

(Thousands of euros)	2012	2011
Balance at January 1	21	194
Allowance for the year	43	-
Amounts applied during the year	-	(171)
Transfer to irrecoverable debts	(8)	(2)
Balance at December 31	**56**	**21**

Loans to Group companies

At December 31, 2012, the amount under this heading corresponds to a loan granted to Viscofan Technology (Suzhou) Co. Ltd. on August 25, 2011, which matures on August 24, 2013 in connection with the annual extension signed by both companies in 2012. The loan bears interest equivalent to 90-day Euribor plus 2 percentage points.

8.2 Current financial investments

At December 31, 2011, the Company recorded 11 million euros in three time deposits that matured in January and December 2012. These time deposits accrued interest between 2.6 and 3.75%.

9. INVENTORIES

The movements in "Impairment losses" are as follows:

(Thousands of euros)	Goods for resale, raw material and other consumables	Work in progress and finished products	Total
2012			
Balance at January 1	804	629	1,433
Impairment losses	120	23	143
Recoveries in value	(112)	-	(112)
Balance at December 31	**812**	**652**	**1,464**
2011			
Balance at January 1	842	463	1,305
Impairment losses	7	166	173
Recoveries in value	(45)	-	(45)
Balance at December 31	**804**	**629**	**1,433**

The impairment losses on inventories are due mainly to the fall in market price of certain lines of semi-finished products and finished products, as well as slow moving product lines.

At December 31, 2012 and 2011 there were no firm purchase commitments for raw materials or for the sale of finished goods other than those related to purchase and sales orders from the Company's normal business activity.

The company has arranged insurance policies which guarantee recovery of the carrying amount of inventories in the event of possible damage affecting their use or sale.

10. CASH AND CASH EQUIVALENTS

The breakdown of "Cash and cash equivalents" at December 31 is as follows:

(Thousands of euros)	2012	2011
Cash	20	25
Current accounts	25,248	51
	25,268	**76**

Current accounts were at market interest rates.

Cash and cash equivalents are unrestricted.

11. EQUITY – CAPITAL AND RESERVES

11.1 Issued capital

On April 14, 2011 the Company's General Shareholders Meeting approved a 13,515 thousand euro capital reduction by reducing the par value of the shares from 0.30 to 0.01 euros per share, so as to partially return the contributed amounts.

In addition, the same General Shareholders Meeting approved a 32,157 thousand euro capital increase by raising the share par value by 0.69 euros. This capital increase was charged to freely distributable reserves.

At December 31, 2011 and 2012, the Company's share capital consisted of 46,603,682 bearer shares with a par value of 0.70 euros each. The shares were fully subscribed and paid in.

All shares bear the same voting and dividend rights and obligations.

At December 31, 2012 and 2011 the Company had no shareholders whose ownership interest was more than 10%.

At December 31, 2012 and 2011, the Company did not own any treasury shares.

All of the Company's shares are listed on the Spanish Stock Exchange.

11.2 Share premium

There were no movements in the share premium in 2012 and 2011.

This reserve is freely distributable, subject to the same restrictions as those for the voluntary reserves.

11.3 Reserves

The movements in the items composing "Reserves" are as follows:

(Thousands of euros)	Balance at January 1	Capital increase	Appropriation of results	Transfers	Balance at December 31
2012					
Legal reserve	2,935	-	3,590	-	6,525
Revaluation reserve Navarra Regional Law 23/1996	8,567	-	-	-	8,567
Merger reserves	119	-	-	-	119
Voluntary reserves	246,018	-	6,191	-	252,209
	257,639	**-**	**9,781**	**-**	**267,420**
2011					
Legal reserve	2,935	-	-	-	2,935
Revaluation reserve Navarra Regional Law 23/1996	8,670	-	-	(103)	8,567
Merger reserves	119	-	-	-	119
Voluntary reserves	238,581	(32,157)	39,491	103	246,018
	250,305	**(32,157)**	**39,491**	**-**	**257,639**

In accordance with the Capital Companies Law, until the balance of the legal reserve is equivalent to at least 20% of share capital, it cannot be distributed to shareholders and can only be used to offset losses if no other reserves are available. This reserve can be used to increase capital by the amount exceeding 10% of the new capital after the increase.

11.4 Revaluation reserve Navarra Regional Law 23/1996

As permitted by legislation prevailing at that time, at December 31, 1996 the Company revalued its tangible assets by 9,282 thousands of euros (see note 6.1). The resulting revaluation reserve, which comprises the revaluation of fixed assets, net of a 3% tax charge, amounts to 9,003 thousands of euros.

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 December 31, 2006 to the extent that gains have been realized, that is, when the related assets have been depreciated, disposed of or otherwise written off.

11.5 Voluntary reserves and merger reserves

These reserves are freely distributable.

12. OTHER EQUITY ITEMS

12.1 Unrealized gains (losses) reserve

The movements in the items composing "Unrealized gains (losses) reserve" are as follows:

(Thousands of euros)	Balance at January 1	Income / (expenses))	Tax effect of income/ (expense)	Amounts transferred to income statement	Tax effect of transfers	Balance at December 31
2012						
Cash flow hedges						
Exchange rate hedges	(523)	123	(37)	747	(224)	86
Interest rate hedges	(34)	-	-	28	(9)	(15)
Raw materials (gas)	269	196	(59)	(384)	116	138
	(288)	**319**	**(96)**	**391**	**(117)**	**209**
2011						
Cash flow hedges						
Exchange rate hedges	387	(747)	224	(553)	166	(523)
Interest rate hedges	(61)	-	-	38	(11)	(34)
Raw materials (gas)	1,886	291	(87)	(2,601)	780	269
	2,212	**(456)**	**137**	**(3,116)**	**935**	**(288)**

12.2. Grants received

The movements in the items composing "Non-repayable grants" are as follows:

(Thousands of euros)	Balance at January 1	Additions	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Balance at December 31
2012						
Non-repayable grants	1,001	117	(35)	(224)	67	926
Grants for greenhouse gas emission rights	1,265	1,436	(431)	(1,817)	545	998
	2,266	**1,553**	**(466)**	**(2,041)**	**612**	**1,924**
2011						
Non-repayable grants	105	1,335	(401)	(54)	16	1,001
Grants for greenhouse gas emission rights	748	3,180	(954)	(2,442)	733	1,265
	853	**4,515**	**(1,355)**	**(2,496)**	**749**	**2,266**

"Grants for greenhouse gas emissions" includes the amount of those rights which the Company has not yet consumed (Notes 5 and 14). At December 31, 2012 and 2011, the Company had 159,603 and 133,111 unused emission rights, respectively.

Throughout 2012 and 2011, the Company received grants related to income totaling 702 and 570 thousand euros, respectively. These grants basically financed R&D expenses during both years, as well as training given to Company staff.

13. DERIVATIVE FINANCIAL INSTRUMENTS

All Visofan, S.A.'s derivatives at December 31, 2012 and 2011 were designated as hedging instruments.

The breakdown of the balances at December 31, 2012 and 2011 which include the values of derivatives at those dates is as follows:

	2012		2011	
	Current financial assets	Current financial liabilities	Current financial assets	Current financial liabilities
Interest rate hedges	-	21	-	50
Exchange rate hedges	393	-	-	1,167
Raw material hedges	196	-	384	-
	589	**21**	**384**	**1,217**

Part of the fair value of the exchange rate insurances at year end was recognized as finance income or expense on the income statements for 2012 and 2011. The amount recognized directly in the statement of recognized income and expense relates to exchange rate insurances designated as hedges to cover amounts payable or receivable, which are recognized in the financial statements at the exchange rate at year end.

Exchange rate hedges

Viscofan, S.A. uses derivatives to hedge exchange rates in order to mitigate the possible adverse effects that exchange rate fluctuations might have on transactions in currencies other than the functional currency.

At December 31, 2012 and 2011, the fair value of exchange rate hedges amounted to 393 and -1,167 thousand euros respectively. Of this amount, 270 and -420 thousand euros have already been recognized in the income statement for the corresponding year since they are linked to sales transactions already carried out whose related trade receivables denominated in foreign currency were recognized at the year-end exchange rate. The remaining amount, i.e., 123 and -747 thousand euros was recognized directly in equity net of the related tax effect, as these amounts correspond to exchange rate hedges covering sales that are to be made in the following year. Thus, there were no receivables related to the hedges at December 31.

The nominal value of the main exchange rate insurances in effect at December 31,is as follows:

Thousands of euros	2012	2011
US dollar	12,000	40,810
Sterling pounds	800	1,770

Raw material hedges

A significant amount of the Company's production costs is linked to energy costs. The Company aims to mitigate any negative effects of varying energy prices in this manner:

- In 2012 the Company signed hedge contracts covering the cost for a notional 270,000 Mwh of gas. This hedge covers the period from August 2012 to April 2013 (30,000 Mwh per month), with a cost per kw/hour amounting to 2,738 euro cents. The Group covered 1/3 of the predicted consumption for this period in Spain.

- In 2009 two swaps were contracted relating to the cost of gas and for a notional amount of 666,666 MWh, each maturing on a monthly basis for 55,555 of the notional amount. Said contracts were settled in 2010 and 2011, with the final amounts maturing in January 2012. The Group thus hedged 2/3 of gas consumption in Spain for the period in question, for which 1.7270 euro cents per KWh (until January 2011) and 1.7915 euro cents per KWh (until January 2012) were paid, based on a valuation formula that, among other variables, included Brent forward prices.

Interest rate swap

During 2009, the Company signed two swap agreements for which it pays a fixed interest of 2.07% (swap 1) and 2.29% (swap 2), at a three-month floating Euribor rate. Both swaps were designated as cash flow hedges of the interest rate risk inherent in the loans.

The breakdown by maturity of the notional amount of these contracts is the following:

	2012		2011	
(Thousands of euros)	Swap 1	Swap 2	Swap 1	Swap 2
Less than one year	625	1,250	1,250	1,250
1 to 2 years	-	-	625	1,250
	625	**1,250**	**1,875**	**2,500**

14. PROVISIONS AND CONTINGENCIES

The breakdown of "Provisions" at December 31 is as follows:

(Thousands of euros)	Current	Total
2012		
Provision for greenhouse gas emission rights	1,817	1,817
	1,817	**1,817**
2011		
Provision for greenhouse gas emission rights	2,442	2,442
	2,442	**2,442**

The movements in these items are as follows:

(Thousands of euros)	Balance at January 1	Allowances	Utilized and payments	Balance at December 31
2012				
Provision for greenhouse gas emission rights	2,442	1,817	(2,442)	1,817
	2,442	**1,817**	**(2,442)**	**1,817**
2011				
Provision for greenhouse gas emission rights	2,360	2,442	(2,360)	2,442
	2,360	**2,442**	**(2,360)**	**2,442**

15. FINANCIAL LIABILITIES

The breakdown of "Financial liabilities" at December 31 is as follows:

	Bank borrowings		Derivatives and other financial liabilities		Total	
(Thousands of euros)	2012	2011	2012	2011	2012	2011
Non-current financial liabilities						
Trade and other payables	1,771	8,072	5,361	3,730	7,132	11,802
	1,771	8,072	5,361	3,730	7,132	11,802
Current financial liabilities						
Trade and other payables	29,194	24,850	56,650	24,999	85,844	49,849
Hedging derivatives	-	-	21	1,217	21	1,217
	29,194	24,850	56,671	26,216	85,865	51,066
	30,965	**32,922**	**62,032**	**29,946**	**92,997**	**62,868**

These amounts are disclosed in the balance sheet as follows:

(Thousands of euros)	Bank borrowings		Derivatives and other financial liabilities		Total	
	2012	2011	2012	2011	2012	2011
Non-current financial liabilities						
Borrowings	1,771	8,072	5,361	3,730	7,132	11,802
	1,771	8,072	5,361	3,730	7,132	11,802
Current financial liabilities						
Borrowings	29,194	24,850	3,954	5,259	33,148	30,109
Borrowings from group companies and associates	-	-	36,022	7,227	36,022	7,227
Trade and other payables	-	-	16,695	13,730	16,695	13,730
	29,194	24,850	56,671	26,216	85,865	51,066
	30,965	**32,922**	**62,032**	**29,946**	**92,997**	**62,868**

15.1 Bank borrowings

The breakdown of "Bank borrowings" at December 31 was the following:

(Thousands of euros)	2012	2011
Non-current		
Loans and borrowings	1,771	8,028
Obligations under finance leases (Note 6.2)	-	44
	1,771	8,072
Current		
Loans and borrowings	29,116	24,744
Obligations under finance leases (Note 6.2)	44	83
Accrued interest payable	34	23
	29,194	24,850
	30,965	**32,922**

Loans and borrowings

The breakdown of "Loans and borrowings" at December 31 is as follows:

(Thousands of euros)	2012		2011	
	Amount pending payment	Accrued finance cost (Note 17.5)	Amount pending payment	Accrued finance cost (Note 17.5)
Loans	8,023	284	15,879	522
Borrowings	22,864	467	16,893	542
	30,887	**751**	**32,772**	**1,064**

The loans and borrowings accrue floating interest at market rates.

At December 31 2012 and 2011, the Company has been granted credit facilities up to a total limit of 30,000 and 28,000 thousand euros, respectively.

The breakdown by maturities of loans and borrowings at December 31 is as follows:

(Thousands of euros)	2012	2011
1 - 2 years	1,771	6,257
2 - 3 years	-	1,771
	1,771	**8,028**

As of December 31, 2012 and 2011 the Company had no discount line facilities.

15.2 Derivatives and other financial liabilities

The breakdown of "Financial liabilities" thus classified at December 31 is as follows:

(Thousands of euros)	2012	2011
Non-current		
Loans at a subsidized interest rate	5,361	3,730
	5,361	**3,730**
Current		
Borrowings from group companies and associates (Note 19.1)	36,022	7,227
Trade and other payables	16,695	13,730
Loans at a subsidized interest rate	1,179	1,010
Payable to shareholders and directors	1,879	1,716
Payable to suppliers of non-current assets	869	1,308
Other borrowings	6	8
Hedging derivatives (Note 13)	21	1,217
	56,671	**26,216**

Loans at a subsidized interest rate

At December 31, 2012 and 2011 the Company has obtained loans at a subsidized interest rate from entities reporting to the Navarre Regional Government, the CDTI (Industrial Technological Development Center) and the Ministry of Science and Technology. The Company measures these loans at amortized cost, recognizing the related implicit interest accrued by these as a result of discounting the cash flows on the basis of market interest rates at the date obtained.

	2012		2011	
(Thousand of euros)	Nominal value	Fair value	Nominal value	Fair value
Non-current				
Loans at a subsidized interest rate	6,078	5,361	4,297	3,730
Current				
Loans at a subsidized interest rate	1,204	1,179	1,032	1,010
	7,282	**6,540**	**5,329**	**4,740**

The total amount recognized under finance costs in during 2012 and 2011 corresponding to these loans are 240 and 207 thousand euros, respectively (Note 17.5).

The breakdown by maturity of the non-current loans with a subsidized interest rate at December 31 is as follows:

(Thousand of euros)	2012	2011
1 - 2 years	1,481	1,204
2 - 3 years	891	1,106
3 - 4 years	628	932
4 - 5 years	557	488
More than 5 years	1,804	-
	5,361	**3,730**

Trade and other payables

The breakdown of "Trade and other payables" at December 31 is as follows:

(Thousands of euros)	2012	2011
Suppliers	5,182	2,398
Suppliers, group companies and associates (Note 19.1)	2,042	1,410
Other payables	6,968	8,555
Employee benefits payable	1,377	1,083
Customer advances	1,126	284
	16,695	**13,730**

16. TAXES

The breakdown of balances relating to income tax assets and liabilities at December 31 is as follows:

(Thousands of euros)	2012	2011
Deferred tax assets		
Temporary differences	149	375
Other payables to public administrations		
VAT	5,191	3,177
Grants received	117	83
	5,457	**3,635**
Deferred tax liabilities	(915)	(1,982)
Current income tax liabilities	(4,548)	(4,400)
Other payables to public administrations		
Personal income tax withholdings	(6,130)	(4,456)
Social security	(678)	(607)
	(12,271)	**(11,445)**

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. The Company is open to inspection of all taxes to which it is liable for the last four years. The Company's directors and tax advisors consider that, in the event of a tax inspection, no significant tax contingencies would arise as a result of varying interpretations of the tax legislation applicable to the Company's transactions.

16.1 Income tax

The reconciliation of income and expenses for the year with tax results is the following:

(Thousands of euros)	Income statement			Income and expense recognized directly in equity		
	Increase	Decrease	Total	Increase	Decrease	Total
2012						
Income and expenses for the year						
Continuing operations			62,679			155
Discontinuing operations			-			-
			62,679			155
Income tax						
Continuing operations			3,681			67
Discontinuing operations			-			-
			3,681			67
Income and expenses for the year before tax			66,360			222
Permanent differences	261	(44,058)	(43,797)	-	-	-
Temporary differences						
Arising in 2012	242	-	242	-	(1,872)	(1,872)
Arising in prior years	3,708	(48)	3,660	1,650	-	1,650
Tax result			**26,465**			**-**
2011						
Income and expenses for the year						
Continuing operations			56,105			(1,087)
Discontinuing operations			-			-
			56,105			(1,087)
Income tax						
Continuing operations			4,065			(466)
Discontinuing operations			-			-
			4,065			(466)
Income and expenses for the year before tax			60,170			(1,553)
Permanent differences	205	(39,044)	(38,839)	-	-	-
Temporary differences						
Arising in 2011	720	-	720	-	(4,059)	(4,059)
Arising in prior years	8,880	(940)	7,940	5,612	-	5,612
Tax result			**29,991**			**-**

Increases from permanent differences are due to non-deductible expenses relating to the per diems paid to shareholders for attending general meetings. The decreases are due to the 50% reduction in taxable profit generated by royalties collected from subsidiaries located abroad as well as international double taxation relief in relation to dividends from entities not resident in Spain.

The increase in temporary differences arising from prior years is due to the reversal of prior year tax impairment losses related to the value of shareholdings in Koteks Viscofan, d.o.o and Viscofan Technology (Suzhou) Co. Ltd.

The reconciliation between income tax expense/(income) and the result of multiplying total recognized income and expenses by applicable tax rates is as follows:

(Thousands of euros)	2012		2011	
	Income statement	Income and expense recognized directly in equity	Income statement	Income and expense recognized directly in equity
Income and expenses for the year before tax	66,360	222	60,170	(1,553)
Tax charge (tax rate: 30%)	19,908	67	18,051	(466)
Deduction for double taxation on dividends	(1,050)	-	(450)	-
Deduction for international double taxation (royalties and other services)	(355)	-	(386)	-
Deductions for research and development	(1,773)	-	(1,128)	-
Investment tax credits	(650)	-	(1,272)	-
Impact of permanent differences	(13,139)	-	(11,652)	-
Tax expense (income)	**2,941**	**67**	**3,163**	**(466)**
Tax paid abroad (*)	740		902	
Tax expense (income)	**3,681**	**67**	**4,065**	**(466)**

(*) Amounts prepaid abroad for services, royalties and other items.

The breakdown of income tax expense / (income) is as follows:

(Thousands of euros)	2012		2011	
	Income statement	Recognized directly in equity	Income statement	Recognized directly in equity
Current income tax	6,329	-	5,684	-
Changes in deferred taxes				
From cash flow hedges (Note 12)	-	213	-	(1,072)
Grants, donations and bequests received (Note 13)	-	(146)	-	606
Other temporary differences	(908)	-	(2,788)	-
Deductions generated	(3,828)	-	(3,236)	-
Deductions applied	1,348	-	3,503	-
	2,941	**67**	**3,163**	**(466)**

Refundable income tax was calculated as follows:

(Thousands of euros)	2012	2011
Current income tax	6,329	5,684
Withholdings	(1,781)	(1,284)
Income tax payable	**4,548**	**4,400**

16.2 Deferred tax assets and liabilities

The movements in the items composing "Deferred tax assets and liabilities" are as follows:

(Thousands of euros)	Balance at January 1	Change in Income statement	Change in Equity	Balance at January 1
2012				
Deferred tax assets				
Trade receivables	-	43	-	43
Inventories	72	(72)	-	-
Depreciation and amortization	87	(11)	-	76
Other financial assets	216	(216)	-	-
Payables	-	30	-	30
	375	(226)	-	149
Deferred tax liabilities				
Non-current investments in group companies	(1,134)	1,134	-	-
Cash flow hedges	123	-	(213)	(90)
Non-repayable grants	(971)	-	146	(825)
	(1,982)	1,134	(67)	(915)
	(1,607)	**908**	**(67)**	**(766)**
2011				
Deferred tax assets				
Trade receivables	65	(65)	-	-
Inventories	36	36	-	72
Deductions pending application	267	(267)	-	-
Depreciation and amortization	-	87	-	87
Other financial assets	150	66	-	216
	518	(143)	-	375
Deferred tax liabilities				
Non-current investments in group companies	(3,798)	2,664	-	(1,134)
Cash flow hedges	(949)	-	1,072	123
Non-repayable grants	(365)	-	(606)	(971)
	(5,112)	2,664	466	(1,982)
	(4,594)	**2,521**	**466**	**(1,607)**

17. INCOME AND EXPENSES

17.1 Revenue

The distribution of revenue corresponding to the company's ordinary activity by market segment is as follows:

(Thousands of euros)	2012	2011
By business segment		
Sale of meat, cellulose, plastic and collagen casings	121,537	112,843
Sale of replacement parts and machinery	5,275	6,597
Sale of energy	42,470	34,576
Other sales	110	104
Services provided	499	628
	169,891	**154,748**
By market segments		
National market	54,757	46,429
Foreign market	115,134	108,319
	169,891	**154,748**

Given that a significant percentage of exports were to group companies, the sales to third parties were not significant enough to warrant a breakdown by geographical area.

17.2 Consumption of raw materials and other consumables

The breakdown is as follows:

(Thousands of euros)	2012	2011
Consumption of raw materials and other consumables		
Purchases in Spain	42,639	30,379
EU acquisitions	16,369	14,009
Imports	4,914	348
Changes in raw material and other consumables	(3,446)	114
	60,476	**44,850**

The breakdown of "Consumption of goods" is as follows:

(Thousands of euros)	2012	2011
Purchases of goods for resale		
Purchases in Spain	5,114	6,363
EU acquisitions	6,756	12,449
Imports	2,905	2,803
Change in goods for resale	306	201
	15,081	**21,816**

17.3 Social security costs, et al

The breakdown of "Social security costs, et al" is as follows:

(Thousands of euros)	2012	2011
Social security	6,371	5,815
Other employee welfare expenses	1,114	909
	7,485	**6,724**

17.4 External services

The breakdown of "External services" is as follows:

(Thousands of euros)	2012	2011
Research expenses	810	629
Lease payments	1,156	1,001
Repairs and maintenance	12,041	11,344
Independent professional services	3,634	3,884
Transportation services	1,725	1,891
Insurance premiums	722	2,083
Bank services	108	150
Publicity, advertising, and public relations	622	567
Utilities	10,127	7,499
Other services	7,289	5,057
	38,234	**34,105**

17.5 Finance costs

The breakdown of "Finance costs" is as follows:

(Thousands of euros)	2012	2011
Loans (Note 15.1)	284	522
Loans to group companies (Note 19.1)	146	188
Credit facilities (Note 15.1)	467	542
Loans with subsidized interest rates (Note 15.2)	240	207
Other financial liabilities	9	1
	1,146	**1,460**

18. FOREIGN CURRENCY

The breakdown of transactions carried out in currencies other than the euro is as follows:

(Thousands of euros)	2012	2011
Revenue		
Sales	65,105	66,699
Goods for consumption		
Purchases of raw materials and other consumables	(14,948)	(8,373)
Purchases of goods for resale	(1,126)	(880)
Other operating income		
Ancillary income	256	172
Employee benefits expense		
Wages and salaries	(98)	(78)
Social security costs, et al,	(9)	(7)
Other operating expenses		
External services	(2,534)	(2,315)

19. RELATED PARTY DISCLOSURES

All the related-party transactions relate to normal Company trading activity and are carried out on an arm's length basis in a manner similar to transactions with unrelated parties.

19.1 Group companies

The balances with related entities are as follows:

(Thousands of euros)	Direct parent	Companies with an indirect investment
2012		
Customers (Note 8.1)	11,293	278
Current loans (Note 8)	616	-
Current dividends receivable	170	-
Suppliers (Note 15.2)	(2,042)	-
Current accounts payable (Note 15.2)	(36,022)	-
2011		
Customers (Note 8.1)	11,012	32
Current loans (Note 8)	602	-
Current dividends receivable	235	-
Suppliers (Note 15.2)	(1,410)	-
Current accounts payable (Note 15.2)	(7,227)	-

Transactions entered into with related parties were as follows:

(Thousands of euros)	2012		2011	
	Direct parent	Companies with an indirect investment	Direct parent	Companies with an indirect investment
Revenue				
Sale of casings	49,508	1,726	40,774	1,288
Sale of replacement parts and machinery	5,230	23	5,374	29
Services provided	499	-	628	-
Goods for consumption				
Purchases of casings and other	(7,364)	-	(18,726)	-
Other income				
Other operating income	4,918	130	5,163	164
Employee benefits expense				
Other employee benefits expense	(7)	-	(2)	-
Other operating expenses				
External services received	(891)	(1)	(786)	-
External services re-invoiced	2,032	101	488	-
Net finance income (expense)				
Finance income - dividends	46,637	-	39,819	-
Finance income - interest	14	-	18	-
Finance expense - Interest	(146)	-	(188)	-
Profit from the sale of intangible assets	1	-	-	-

19.2 Directors and senior executives

Members of the Board of Directors only receive the remuneration stipulated in Articles 27 and 30 of Company bylaws: 1.5% of the Company's pre-tax net profit for the Board, and 1.5% of the Company's pre-tax net profit for the Executive Committee. Based on the abovementioned Articles and Statutes, the Board of Directors and Executive Committee decide on the distribution among the respective members of these bodies.

The breakdown of the remuneration is as follows:

	Euros					
			Per diems			
	Committee	Board	Audit committee	Board of directors	Boards of other group companies	Total
2012						
D. José Domingo de Ampuero y Osma	370,728	105,445	-	12,000	216,210	704,383
D. Nestor Basterra Larroudé	328,728	105,445	-	12,000	108,105	554,278
Dª. Agatha Echevarría Canales	286,728	105,445	20,000	12,000	-	424,173
D. José Cruz Pérez Lapazarán	-	105,445	10,000	11,000	-	126,445
D. Gregorio Marañón Bertrán de Lis	-	105,445	20,000	9,000	-	134,445
D. Alejandro Legarda Zaragüeta	-	105,445	20,000	12,000	-	137,445
D. Ignacio Marco-Gardoqui Ibáñez	-	105,445	-	12,000	-	117,445
Dª. Laura González Molero	-	105,445	-	8,000	-	113,445
D. José María Aldecoa Sagastasoloa	-	49,621	10,000	5,000	-	64,621
	986,184	**893,181**	**80,000**	**93,000**	**324,315**	**2,376,683**
2011						
D. José Domingo de Ampuero y Osma	299,487	102,058	-	11,000	292,904	705,449
D. Nestor Basterra Larroudé	299,487	102,058	-	11,000	146,452	558,997
Dª. Agatha Echevarría Canales	299,487	102,058	16,000	11,000	-	428,545
D. José Cruz Pérez Lapazarán	-	102,058	16,000	10,000	-	128,058
D. Gregorio Marañón Bertrán de Lis	-	102,058	16,000	10,000	-	128,058
D. Alejandro Legarda Zaragüeta	-	102,058	16,000	10,000	-	128,058
D. Ignacio Marco-Gardoqui Ibáñez	-	102,058	-	10,000	-	112,058
Dª. Laura González Molero	-	102,058	-	9,000	-	111,058
	898,461	**816,464**	**64,000**	**82,000**	**439,356**	**2,300,281**

At December 31, 2012 and 2011, the Company had no pension plans or life insurance policies for former or current members of the Board of Directors nor had it given any guarantees on their behalf. The Group has extended no guarantees to any of the directors and remuneration is not linked to the value of shares.

During 2012 and 2011 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.

Viscofan's directors have communicated that insofar as articles 229 and 230 of the Capital Companies Law are concerned they do not have any conflicts of interest with the Company. They have stated that they do not have equity interests, hold positions or carry out duties in companies with identical, similar or complementary activities to those of the company, other than those described below.

Name	Company	Position
Mr. José Domingo de Ampuero y Osma	Naturin Viscofan GMBH	Chairman, Board of directors
	Viscofan UK Limited	Chairman, Board of directors
	Gamex, CB, s.r.o.	Chairman, Board of directors
	Viscofan CZ, s.r.o.	Chairman, Board of directors
	Viscofan USA Inc.	Chairman, Board of directors
	Viscofan Technology Suzhou Co. Ltd.	Chairman, Board of directors
	Viscofan Centroamérica Comercial, S.A.	Chairman, Board of directors
	Viscofan Canada, Inc.	Chairman, Board of directors
	Viscofan Do Brasil S. Com. E Ind. Ltda.	Member, Consultative Council
	Viscofan de México, S. de R.L. de C.V.	Chairman, Board of directors
	Koteks Viscofan d.o.o.	Chairman, Board of directors
	Industrias Alimentarias de Navarra, S.A.U.	Chairman, Board of directors
	Viscofan Uruguay, S.A.	Chairman, Board of directors
Mr. Nestor Basterra Larroudé	Naturin Viscofan GMBH	Vice-Chairman
	Gamex, CB, s.r.o.	Vice-Chairman
	Viscofan USA Inc.	Vice-Chairman
	Industrias Alimentarias de Navarra, S.A.U.	Vice-Chairman
	Koteks Viscofan d.o.o.	Vice-Chairman
	Viscofan CZ, s.r.o.	Vice-Chairman
	Viscofan Technology Suzhou Co. Ltd.	Vice-Chairman
	Viscofan Do Brasil S. Com. E Ind. Ltda.	Member, Consultative Council
	Viscofan Uruguay, S.A.	Vice-Chairman

During 2012 and 2011, senior management received remuneration amounting to 2,189 and 1,881 thousands euros, respectively. The Company does not have any commitments with Board members in respect of pension, life insurance, or stock option plans. No loans or advances have been granted to current or former Board members, neither have any guarantees been assumed on their behalf.

20. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Company's risk management policies are established by the Example Group's financial risk committee, having been approved by the Group's directors. Based on these policies, the Company's finance department has established a series of procedures and controls which make it possible to identify, measure, and manage the risks arising from financial instrument activity. These policies establish that no trading in derivatives for speculative purposes will be undertaken by the Company.

Financial instrument activity exposes the Company to credit, market and liquidity risk.

20.1 Credit risk

Credit risk exists when a potential loss may arise from the Company's counterparty not meeting its contractual obligations, i.e. the possibility that financial assets will not be recovered at their carrying amount within the established timeframe.

The maximum exposure to credit risk at December 31 was as follows:

(Thousands of euros)	2012	2011
Non-current financial investments	132	115
Trade and other receivables	41,285	38,235
Current loans to group companies	616	602
Current financial investments	589	11,390
	42,622	**50,342**

For the purposes of credit risk management the Company differentiates between financial assets arising from operations and investments.

Operating activities

The Sales Department and Finance Department set credit limits for each customer, which are based on information obtained from an entity specializing in solvency analysis of companies.

Each month a breakdown giving the age of each of the accounts receivable is prepared which serves as a base to control collection. The Finance Department requests settlement of past due accounts on a monthly basis until they are more than 90 days old, at which point they are submitted to the insurer to arrange recovery. In addition the Legal Department is notified so it can monitor collection and if necessary, subsequently, claim the debt through the courts.

Each month customers incurring in late payments have their credit status reviewed, with measures taken in respect of credit limit and payment terms.

The breakdown, by counterparty, of the concentration of credit risk related to "Trade and other receivables" at December 31 is as follows:

(Thousands of euros)	2012	2011
Not due	21,834	21,568
Past due, not impaired		
Less than 3 months	2,052	2,336
3 – 6 months	259	24
6 – 12 months	166	-
More than 12 months	-	(31)
	24,311	23,897
Doubtful (more than 6 months)	56	21
Impairment allowances (Note 8.1)	(56)	(21)
Total	**24,311**	**23,897**

Investing activities

Loans and borrowing facilities to group companies and third parties, as well as the acquisition of unlisted companies' securities must be approved by Management.

20.2 Market risk

Market risk exists when a potential loss may arise from fluctuations in the fair value or future cash flows of a financial instrument due to changes in market prices. Market risk comprises interest rate risk, currency risk and other price risks.

Foreign currency risk

Foreign currency risk is the risk of possible loss caused by changes in the fair value or future cash flows of a financial instrument because of fluctuations in exchange rates. The Company's exposure to the risk of exchange rate fluctuations is mainly related to sales carried out in currencies other than the functional currency.

As described in Note 18, the Company carries out major transactions in foreign currencies, in particular, dollars. The Viscofan Group's policy is to arrange exchange rate hedges to cover the net cash flows from these transactions. Maximum exposure to foreign currency risk for accounts receivable is as follows:

	2012		2011	
(Thousands of euros)	Receivables	Payables	Receivables	Payables
In US dollars	10,873	2,921	14,638	2,197
In Canadian dollars	197	-	-	-
In pounds sterling	1,181	-	2,474	-
Rest	333	-	-	-
	12,584	**2,921**	**17,112**	**2,197**

Interest rate risk

Interest rate risk arises when there is a possible loss due to fluctuations in the fair value or future cash flows of a financial instrument due to changes in market interest rates. The Company's exposure to the risk of changes in interest rates is mainly related to non-current loans and credit facilities received at floating interest rates.

The Company manages its interest rate risk by distributing financing received between fixed and floating rates. Company policy consists in maintaining a percentage of non-current net loans (net of non-current investments) received from third parties at a fixed interest rate. To manage this, the Company enters into interest rate swaps which are designated as hedges of the respective loans. At December 31, 2012, after taking into account interest rate swaps, 23.37% of non-current net financing was at a fixed rate (December 31, 2011: 27.55%).

20.3 Liquidity risk

Liquidity risk is the possibility that the Company will have insufficient funds or access to sufficient funds at an acceptable cost to meet its payment obligations at all times. The Company's objective is to maintain sufficient available funds. Company policies establish the minimum liquidity levels required. The Company adequately monitors each month expected collections and payments to be made in the coming months and analyzes any deviations from expected cash flows in the previous month to identify any possible deviations which might affect liquidity.

The undiscounted contractual maturity dates of financial liabilities were as follows:

(Thousands of euros)	Up to 3 months	3 months – 1 year	1 year – 5 years	More than 5 years	Total
2012					
Bank borrowings					
Loans	953	5,299	1,771	-	8,023
Borrowings (*)	4,902	17,962	-	-	22,864
Accrued interest payable	34	-	-	-	34
Liabilities from capital leases	19	25	-	-	44
Derivatives	7	14	-	-	21
Other financial liabilities	334	845	3,557	1,804	6,540
Payable to group companies	-	36,022	-	-	36,022
Trade and other payables	28,051	-	-	-	28,051
	34,300	**60,167**	**5,328**	**1,804**	**101,599**
2011					
Bank borrowings					
Loans	939	6,912	8,028	-	15,879
Borrowings (*)	74	16,819	-	-	16,893
Accrued interest payable	23	-	-	-	23
Liabilities from capital leases	21	62	44	-	127
Derivatives	423	772	22	-	1,217
Other financial liabilities	1,688	2,363	2,794	927	7,772
Payable to group companies	7,227	-	-	-	7,227
Trade and other payables	23,193	-	-	-	23,193
	33,588	**26,928**	**10,888**	**927**	**72,331**

(*) The classification of the maturities of "Borrowings" was determined according to current maturities of the amounts drawn down on the credit accounts. Thus "Up to 3 months" includes the balance drawn down on credit lines which are renewed annually and the renewal of which was agreed after year end.

21. OTHER INFORMATION

21.1 Employees

The headcount by professional category is as follows:

	Average headcount at year end			Average Headcount during the Year
	Men	Women	Total	
2012				
Senior executives	14	2	16	16
Engineers and technicians	122	16	138	131
Administrative personnel	9	32	41	38
Specialized personnel	78	15	93	93
Laborers	263	76	339	326
	486	**141**	**627**	**604**
2011				
Senior executives	11	2	13	13
Engineers and technicians	113	11	124	117
Administrative personnel	7	33	40	39
Specialized personnel	76	15	91	89
Laborers	250	76	326	311
	457	**137**	**594**	**569**

21.2 Audit fees

Ernst & Young, S.L., the auditor of the Company's financial statements and all other companies with which it has any of the relationships referred to in Additional Provision Fourteen of the Measures to Reform the Financial System Law, agreed with the Company the following fees for the years ended December 31, 2012 and 2011:

(Thousands of euros)	2012	2011
Fees for audit of the financial statements	87	86
Other services	17	14
	104	**100**

The above amounts include all 2012 and 2011 related fees, irrespective of when they were actually billed.

21.3 Information on environmental issues

Plant and equipment included in "Property, plant and equipment" used for protecting and improving the environment at December 31 are as follows:

(Thousands of euros)	Balance at January 1	Additions	Disposals	Balance at December 31
2012				
Cost	10,163	849	-	11,012
Accumulated depreciation	(8,339)	(523)	-	(8,862)
	1,824			**2,150**
2011				
Cost	10,163	-	-	10,163
Accumulated depreciation	(7,726)	(613)	-	(8,339)
	2,437			**1,824**

The expenses to protect and improve the environment during 2012 and 2011 were ordinary and amounted to 967 and 858 thousand euros, respectively.

The Company's directors consider that no significant contingencies exist with respect to environmental protection and improvement and therefore, no provision has been made in that respect.

21.4 Information on late payment to suppliers in commercial transactions.

In compliance with Law 15/2010 of July 5, modifying Law 3/2004 of December 29, which establishes measures to be taken in combating arrears in commercial transactions, below we include a breakdown of the total amount of payments made to suppliers during the year, disclosing those that exceeded the legal payment deadlines; the weighted average period of time exceeded for payments; and the balance pending payment to suppliers exceeding the legal deadline at year end:

	Payments made and payments pending settlement at the balance sheet date			
	2012		2011	
(Thousands of euros)	Amount	%	Amount	%
Within the maximum legal deadline	107,608	99.96%	87,605	95.98%
Other	45	0.04%	3,668	4.02%
Total payments in the year	107,653	100.00%	91,273	100.00%
Weighted average period of time exceeded for overdue payments (days)	1.25		14.25	
Overdue payments exceeding the legal payment deadline at the closing date	45		93	

22. EVENTS AFTER THE BALANCE SHEET DATE

Navarre Regional Law 21/2012 of December 26 , amending several taxes and other tax measures, which includes the possibility to voluntarily restate balance sheets with respect to property, plant and equipment items. At present, the Company is carrying out an internal evaluation regarding the possibility raised by said law. To date, this evaluation process has not yet been completed. If the Company considers this voluntary restatement appropriate, the agreement will be presented for approval at the general shareholders' meeting.

No significant events have taken place subsequent to the closing which would have a significant effect on the financial statements at December 31, 2012.

Management report 2012 (Viscofan S.A.)

Business performance and situation of the Viscofan, S.A.

Viscofan, S.A. posted net sales in 2012 of 169.9 million euros, a 9.8% increase over the previous year. The growth in revenue was underpinned by the greater volume of artificial casings sales and the price increase on energy sold from cogeneration engines.

The increase in the cost of raw materials, especially cellulose derivatives and collagen mass, and the increase in the price of natural gas used in the cogeneration plant affected consumption costs[1]which amounted to 73.2 million euros in December, 9.3% higher than for the same period in the previous year.

Employee benefits expenses amounted to 34.2 million euros, 10.4% higher than the previous year. The average headcount for the period increased by 35 (6.2% compared with the previous year), reaching 604 employees, driven by increasing corporate activities and capacity.

The increase in activity, especially in terms of hiring, in a climate of in increasing costs of raw materials and energy negatively affected the EBITDA margin, which decreased by 1.0% with respect to the 2011 tax year. Thus, EBITDA margin for 2012 amounted to 18.1% and EBITDA for the year amounted to 30.7 million euros, up 3.8% on 2011.

Depreciation of property, plant, and equipment together with amortization of intangible assets stood at 9.6 million euros, up 7.5%, due to the new collagen production capacity at 2011 year end. Operating profit amounted to 21.2 million euros, up 2.2% on the previous year.

Finance income increased to 45.2 million euros, representing growth of 14.5% as a result of the Group distributing more dividends.

Profit before tax was 66.4 million euros, up 10.3% on 2011. After deducting tax of 3.7 million euros, net profit for 2012 stood at 62.7 million euros, up 11.7% on the 56.1 million euros obtained in 2011.

Outlook
In a market that continues growing in volume internationally, Viscofan S.A. finds itself in a unique competitive position to support the Group's growth.

Next year, the Company will orient its activity towards consolidating the production improvements achieved, improving production efficiency to the extent possible and boosting technological development of cellulose casings as a center of excellence, thus establishing new reference goals for the remaining Viscofan Group production centers via greater know-how.

In addition to the effects of inflation on raw material costs, changes to energy legislation in Spain will also take its toll. The profitability of the cogeneration plant will feel the effects of both a higher income tax rate and a rise in the tax rate levied on the purchase of gas for producing cogeneration energy.

The Navarre regional government is studying a draft that would enable companies to update their balance sheets voluntarily, which will affect the tax balance sheet of Viscofan S.A. and Industrias Alimentarias de Navarra S.A.U in 2012.

[1] Consumption costs = Supplies +/- Changes in inventory.

Main investments of Viscofan, S.A.
In 2012 Viscofan S.A.invested 8.5 million euros, compared to 13.7 million euros during 2011. The decrease with respect to 2011 is due to the fact that more money was invested that year to expand production capacity. Nevertheless, Spain follows China as the country where the Viscofan Group invested the most in 2012, and raised production and energy efficiency. Investments to minimize the impact of production on the environment rose to 0.8 million in the year.

Research and development activities

Viscofan S.A., via its R&D department located in Navarra, centralizes the coordination of its R&D activities for the rest of the Viscofan Group, further establishing itself as a specialized R&D center in the area of cellulose casings.

Specifically, the efforts made in these activities are centered on the search for improvements in production efficiency as well as the creation of new products in the processed meat sector in which the company carries out its activities.

The collaboration between the private company, public administration, and specialized research centers is a key factor for advances in R&D activities. Thus, it is worth noting that the Company has managed to gain important institutional support, both from the Government of Navarra, the CDTI, and research centers that have in turn been supported or sponsored by Viscofan.

The advances achieved in these areas are defended via the use of patents to the extent that the technicians and experts consider appropriate.

Acquisition of treasury shares

On December 31, 2012 the Company had no treasury shares.

Description of risks and uncertainties

Viscofan S.A. has strengthened its results in a time of great volatility and uncertainty, and is well placed to capture market growth in its main business activities. Nevertheless, it is worth remembering that due to the nature of its operations, the Group's activities are exposed to various operational, financial, and strategic risks, described in section *D) Risk Control Systems* in the Annual Corporate Governance Report. Risk management is controlled by the Company in accordance with policies approved by the Board of Directors. Supervision of these policies has also been assigned to the Audit Committee.

Transactions carried out by directors or persons acting on their behalf, during the year to which the financial statements refer, with the listed company or any other company of the same group, when the transactions are unrelated to the ordinary activities of the company or are not carried out in normal market conditions.

In 2012, the directors did not carry out any transactions with the Company or other group companies that were unrelated to the companies' normal course of business or were not carried out in normal market conditions.

Events after the balance sheet date

In their meeting held on February 28, 2013, the Board of Directors agreed to propose a final dividend payment amounting to 0.694 euros per share for approval by the shareholders at the annual general meeting. The dividend was to be paid as of June 04, 2013. Thus, total remuneration for shareholders amounts to 1.10 euro per share, including the interim dividend of 0.400 euros per share paid on December 20, 2012, the abovementioned final dividend of 0.694 euros per share, and the per diem

payment for attendance at the General Shareholders' Meeting of 0.006 euros per share. This proposal increases total remuneration by 10.0% as compared to the total of 1.00 euros approved for the previous year.

ANNUAL CORPORATE GOVERNANCE REPORT

VISCOFAN SA

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

Year end: 31/12/2012

Tax number: A31065501

Company name: VISCOFAN, S.A.

ANNUAL CORPORATE GOVERNANCE FORM FOR LISTED STOCK COMPANIES

For a better understanding of the model and subsequent preparation of the form, one must read the instruction for filling it out at the end of this report.

A.OWNERSHIP STRUCTURE OF THE COMPANY

A.1. Complete the following table about the share capital of the company

Date of last rights	Share capital (euros)	Number of shares	Number of vote change
14/04/2011	32,622,577.40	46,603,682	46,603,682

State whether there are different classes of shares with different rights attaching thereto:

NO

A.2. Breakdown of direct and indirect holders of significant shareholdings in the company as of the end of the fiscal year, excluding directors:

Name of company name of the shareholder	Number of direct voting rights	Number of indirect voting rights(*)	% of total voting rights
MS MARÍA DEL CARMEN CAREAGA SALAZAR	0	2,366,000	5,077
MARATHON ASSET MANAGEMENT, LLP	0	2,297,473	4,930
GOVERNANCE FOR OWNERS LLP	0	2,236,061	4,798
WILLIAM BLAIR COMPANY LLC	1,700,195	0	3,648
BLACKROCK, INC.	0	1,463,530	3,140
BNP PARIBAS, SOCIETE ANONYME	1,411,837	0	3,029

Name or company name of the indirect holder of the stake	Through: Name or company name of the direct holder of the stake	Number of direct voting rights	% of total voting rights
DOÑA MARIA DEL CARMEN CAREAGA SALAZAR	ONCHENA S.L.	2,366,000	5.077

Indicate the most significant changes in the shareholding structure that have occurred during the fiscal year:

Name or company name of the shareholder	Date of transaction	Description of the transaction
MARATHON ASSET MANAGEMENT, LLP	11/10/2012	Down from 5% of the share capital
GOVERNANCE FOR OWNERS LLP	24/12/2012	Down from 5% of the share capital
GOVERNANCE FOR OWNERS LLP	02/03/2012	Exceeded 5% of the share capital
BNP PARIBAS, SOCIETE ANONYME	21/12/2012	Exceeded 3% of the share capital
BNP PARIBAS, SOCIETE ANONYME	19/12/2012	Down from 3% of the share capital
BNP PARIBAS, SOCIETE ANONYME	02/10/2012	Exceeded 3% of the share capital

A.3 Complete the following tables about members of the Board of Directors of the Company who have voting rights attaching to shares of the Company:

Name or company name of the Director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
MR JOSE DOMINGO DE AMPUERO Y OSMA	50,000	0	0.107
MR NESTOR BASTERRA LARROUDÉ	212,452	0	0.456
MS AGATHA ECHEVARRÍA CANALES	16,809	0	0.036
MR ALEJANDRO LEGARDA ZARAGÜETA	8,250	0	0.018
MR GREGORIO MARAÑÓN BERTRAN DE LIS	0	0	0.000
MR IGNACIO MARCO-GARDOQUI IBÁÑEZ	30,276	0	
MR JOSE CRUZ PÉREZ LAPAZARÁN	210	0	0.000
MR JOSÉ MARÍA ALDECOA SAGASTOSOLA	0	0	0.000
MS LAURA GONZÁLEZ MOLERO	5	0	0.000

Total % of voting rights of the Board of Directors:	0.682

Complete the following tables about members of the Board of Directors of the Company who have voting rights attaching to shares of the Company:

A.4. Describe, if applicable, the family, commercial, contractual or corporate relationships between significant shareholders, to the extent known to the Company, unless they are immaterial or result from the ordinary course of business:

A.5. Describe, if applicable, the commercial, contractual or corporate relationships between significant shareholders and the Company and/or its group, unless they are immaterial or result from the ordinary course of business:

A.6. Indicate whether any paracorporate (shareholders') agreements affecting the Company pursuant to the provisions of Section 112 of the Securities Market Law [Ley del Mercado de Valores – LMV] have been reported to the Company. If so, briefly describe them and list the shareholders bound by the agreement:

NO

Indicate whether the Company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:

NO

Expressly indicate whether any of such agreements, arrangements or concerted actions have been modified or terminated during the fiscal year.

A.7. Indicate whether there is any individual or legal entity that exercises or may exercise control over the Company pursuant to Section 4 of the Securities Market Law. If so, identify it:

NO

A.8. Complete the following tables about the Company's treasury stock:

At financial year end:

Number of direct shares	Number of indirect shares (*)	% of total share capital
0	0	0.000

(*) Through:

Total	0

Describe any significant changes, pursuant to the provisions of Royal Decree 1362/2007, that have occurred during the fiscal year:

Capital gain/(loss) on treasury shares disposed of during the period (thousand euros)	0

A.9. Describe the terms and conditions and the duration of the powers currently in force given by the shareholders acting at the General Shareholders' Meetings to the Board of Directors in order to acquire or transfer Company stock:

Extract of the Minutes of the General Shareholders Meeting held on 23 May 2012 on second call:

The following agreement is adopted by majority:

The proposal is to cancel the authorisation for acquiring own shares that was given to the Board of

Directors at the Company's General Shareholders Meeting of 14 April 2011.

The proposal is to authorise the Board of Directors to buy and sell on the market, through the person, Company or institution that it deems advisable, shares in the Company at the market price on the transaction date, for the maximum number of shares permitted by the Spanish Public Limited Companies Act (Ley de Sociedades Anónimas) and related provisions, with the minimum price being the face value and with a maximum price of 45 euros.

The proposed authorisation is for the maximum term envisaged by law and will run from the date of the resolution. It is conferred upon the Board subject to existing legal restrictions on the purchase of treasury shares and, more specifically, those restrictions prescribed by Articles 146 and 509 of the Spanish Capital Companies Act (Ley de Sociedades de Capital).

In the event the Board of Directors should need to exercise the authorisation conferred upon it by the General Shareholders Meeting, the Company's treasury shares would be subject to the treasury shares regime set forth in Article 148 of the Spanish Capital Companies Act.

A.10. Indicate, if applicable, any restrictions imposed by law or the Articles of Association on the exercise of voting rights, and any legal restrictions on the acquisition or transfer of interests in share capital. Indicate whether there are legal restrictions on the exercise of voting rights:

NO

Maximum percentage of voting rights that a shareholder can exercise for legal restriction	0

Indicate whether there are any restrictions in the Articles of Association on the exercise of voting rights:

NO

Maximum percentage of voting rights that a shareholder may exercise due to an statutary restriction	0

Indicate if there are legal restrictions against the acquisition or transfer of interests in the share capital:

NO

A.11. Indicate whether the shareholders acting at a General Shareholders' Meeting have approved the adoption of breakthrough measures in the event of a public tender offer pursuant to the provisions of Law 6/2007:

NO

If applicable, describe the approved measures and the terms on which the restrictions will become ineffective.

B. STRUCTURE OF THE COMPANY'S MANAGEMENT

B.1. Board of Directors

B.1.1. Describe the maximum and minimum number of Directors set forth in the Articles of Association:

Maximum number of Directors	9
Minimum number of Directors	3

B.1.2. Complete the following table identifying the members of the Board of Directors:

Name or company name of Director	Representing	Director position on the board	Date first elected	Date last elected	Election procedure
MR JOSE DOMINGO DE AMPUERO Y OSMA	-	CHAIRMAN	27/02/2009	03/06/2009	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MR NESTOR BASTERRA LARROUDÉ	-	1st VICE-CHAIRMAN	27/07/1997	03/06/2008	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MS AGATHA ECHEVARRÍA CANALES	-	DIRECTOR	24/06/1998	03/06/2008	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MR ALEJANDRO LEGARDA ZARAGÜETA	-	DIRECTOR	22/05/2006	23/05/2012	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MR GREGORIO MARAÑÓN BERTRAN DE LIS	-	DIRECTOR	29/01/1999	03/06/2008	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MR IGNACIO MARCO - GARDOQUI IBAÑEZ	-	DIRECTOR	01/01/2010	01/06/2010	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MR JOSE CRUZ PÉREZ LAPAZARÁN	-	DIRECTOR	24/06/1998	03/06/2008	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING
MR JOSÉ MARÍA ALDECOA SAGASTASOLOA	-	DIRECTOR	23/05/2012	23/05/2012	VOTE AT THE GENERAL SHAREHOLDER 'S MEETING

Name or company name of Director	Representing	Director position on the board	Date First elected	Date last elected	Election procedure
MS LAURA GONZALEZ MOLERO	-	DIRECTOR	22/04/2010	01/06/2010	VOTE AT THE GENERAL SHAREHOLDER'S MEETING

Total number of Directors	9

Indicate any separations from the Board of Directors during the period:

B.1.3. Complete the following table about the members of the Board and each member's status:

EXECUTIVE DIRECTORS

Name or company name of the Committee	Committee that proposed the nomination	Position on the Company's organizational chart
MR JOSE DOMINGO DE AMPUERO Y OSMA	Appointments Committee	Chairman

Total number of Executive Directors	1
% of the entire Board	11.111

EXTERNAL DIRECTORS REPRESENTING A CONTROLLING SHAREHOLDER

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of the Director

MR NESTOR BASTERRA LARROUDÉ

Profile

Law degree and Economics graduate from the University of Deusto. He also has an MBA from IESE	He spent most of his career working in corporate banking both internationally and in Spain at management level in capital market and corporate departments in Bank of America and Banco Santander. He is currently Vice-Chairman of Iberpapel Gestion SA, partner and member of the Board of Directors of Amistra SGC, S.A.

Name or company name of the Director

MS AGATHA ECHEVARRÍA CANALES

Profile

Law degree from ICADE (Universidad Pontificia de Comillas) and is a Business Studies graduate from the same university.	Born in San Sebastián. She has broad professional experience in a number of multi-nationals, including the audit firm Touche & Ross, S.A., British Petroleum España, S.A. and the investment bank Charterhouse Limited in which she was Managing Director and Director of its Spanish subsidiary and founder and director of D+A Documentación y Análisis S.A. She currently acts as a business strategy adviser to family firms Member of the Board of Directors of Viscofan, S.A., of its Executive Committee and Audit Committee.

Name or company name of the Director

MR ALEJANDRO LEGARDA ZARAGÜETA

Profile

Industrial engineering graduate from the Escuela Superior de Ingenieros Industriales in San Sebastian and holds a Masters in Economics and Business Administration from IESE (Barcelona).	With broad experience in industry, in 1989 he was appointed Financial and Administrative Director of Construcciones Auxiliares de Ferrocarriles, S.A. (CAF) where he subsequently became General Managing Director in 1992.

Name or company name of the Director

MR GREGORIO MARAÑÓN BERTRAN DE LIS

Profile

Marquis of Marañón. Law graduate from the Universidad Complutense in Madrid and completed the Senior Executive Programme at the IESE.	He has broad experience working in the legal profession and in the financial sector, where he was Managing Director of Banco Urquijo, Chairman of Banif and Director of Argentaria and of BBVA. He is currently Chairman of Roche Farma, of Universal Music Spain, of Logista, S.A; Director of Prisa and member of its Executive Committee, Chairman of its appointments and remuneration committee and member of its corporate governance committee; member of the Board of Directors of Prisa TV, and of its Audit Committee and Chairman of its Appointments and Remuneration Committee; member of the board of Altadis; chairman of Advisory Board of Spencer Stuart; and member of the advisory board of Vodafone and Aguirre & Newman. . In the cultural sphere he is Presidente of the Teatro Real and the Foundation Greco 2014 and the Royal Tapestry Factory; Vice-president and president of the Executive committee of the Ortega-Marañon Foundation, director of Santillana Foundation, Altadis Foundation, Real Fundación de Toledo, the Armed Forces Museum and Toledo International Centre for Peace. He

	is a permanent member of the San Fernando Real Academia de Bellas Artes, and has been member of the International Council of the Tate Gallery. He holds the grand cross of Alfonso X el Sabio and is an officer of the French legion of honour and honorary citizen of Toledo.

Name or company name of the Director
MR IGNACIO MARCO-GARDOQUI IBAÑEZ

Profile

Economics degree from Deusto University.	Mr. Marco Gardoqui has a long professional career, he has worked for financial institutions, and his activities have covered teaching, consulting, and the press world ,where he has a strong reputation for his active contribution as economic expert and columnist; he belongs to the Publishing Committee of Vocento Group. He also has developed wide experience in several industrial companies, belonging to several Board of Directors; currently he is Director of Schneider Electric España, Progénika Biopharma, Minerales y Productos Derivados, Tubacex Tubos Inoxidables SA and Iberdrola Ingeniería y construcción (IBerinco) SA. Previously, he has belonged, amongst others, to the Board of Directors of Técnicas Reunidas, Banco de Comercio, IBV, and Banco de Crédito Local, and was Chairman of Naturgás.

Name or company name of the Director
MR JOSÉ CRUZ PÉREZ LAPAZARÁN

Profile

Agricultural Engineering graduate from the Universidad Politécnica of Madrid.	Born in Madrid. With broad experience in government service at the Ministry of Agriculture, with postings in Spain and abroad, and deputy in the general courts of the Spanish state. He has held the positions of Director General of Agri-food Organization and Industry in the Government of La Rioja, Minister for Agriculture, Livestock and Forestry in the Government of Navarre, was Chairman of the Boards of various listed companies and professor in the Food Technology and Projects Departments of the University of Saragossa and the Public University of Navarre. Former senator and currently MP, he sits on various parliamentary committees. He holds the Grand Cross for Merit in Agriculture.

Name or company name of the Director
MR JOSÉ MARÍA ALDECOA SAGASTASOLOA

Graduate in Technical Electronic Engineering from the Polytechnic School of Mondragón. PADE Graduate from the Executive Management Programme at IESE.	. PADE Graduate from the Executive Management Programme at IESE. Throughout his long professional career, he has held various posts at COPRECI (1971-1982). He was Managing Director of FAGOR ELECTRÓNICA and member of the Board

	of Directors of Fagor, S. Coop. (1982-1991). Between 1984 and 1991, he was Vice-Chairman of ANIEL (National Association of Electronic Industries) and Chairman of the Components Board. He was also member of the Board of Directors of the European Electronic Components Association (EECA) between 1986 and 1991. Between 1992 and 2012, he held various positions at MONDRAGÓN CORPORACION and, in 2007, he was appointed Chairman of the General Board, a position he held until July 2012. He has a wealth of experience in the international industrial world, especially in Asia, including the creation of Fagor Electrónica in Hong Kong, the integration of the production plants of Orkli, Orbea, Mondragón Automoción in the industrial park of Kunshan, China and the opening of the (industrial Park) of Pune in India. He has sat on the Board of Directors of various automotive and components companies (Copreci-Czech Republic, Copreci-Mexico, Vitorio Luzuriaga, Fagor Ederlan-Brazil, ParanoaCicautxo-Brazil, FPK, Fagor Ederlan-Slovakia), and director (1992-2006) and Chairman (2007-2012) of MONDRAGÓN INVERSIONES. He was also Chairman of the Engineering Faculty of the University of Mondragón (1998-2002). He is currently an independent director and member of the Delegate Executive Committee of Gamesa Corporación Tecnológica, S.A.

Name or company name of the Director

MS LAURA GONZALEZ MOLERO

Profile

Graduate in Pharmaceuticals from the “Universidad Complutense de Madrid”, Executive MBA from the “Instituto de Empresa”, advanced course of management at IMD-Switzerland.	Chairman of the Merck Group in Latin America and CEO of the Merck Group in Spain and independent Director of the Leche Pascual Group. She currently leads the project for integrating Milipore in the Merck Group. She previously led the integration process between the Merck Group and the biotechnology company Serono, a company with which she has been linked, in different posts, since 1999, and in which she was Vice-Chair of Serono Iberia y Paises Nordicos and Nordic countries when purchased by the Merck group. She was previously Managing Director of Farmacéutica Essex from the Schering-Plough Group, and Laboratorios Farmacéuticos Guerbert, S.A, as well as sales director for Roche, S.A. Currently she is member of the Board of Directors of the Circulo de Empresarios, APD, and Adecco. Her career has also been recognised by numerous prizes and awards in recognition of her work as a notable director.

Total number of independent Directors	8
% of total Directors:	88,889

OTHER EXTERNAL DIRECTORS

Describe the reasons why they cannot be considered proprietary or independent directors as well as their ties, whether with the company or its management or with its shareholders.

Indicate the changes, if any, in the type of director during the period:

B.1.4 Describe, if applicable, the reasons why proprietary directors have been appointed at the proposal of shareholders whose shareholding interest is less than 5% of share capital.

State whether formal petitions for presence on the Board have been received from shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary directors have been appointed. If so, describe the reasons why such petitions have not been satisfied.

NO

B.1.5 State whether any director has withdrawn from his/her position before the expiration of his/her term of office, whether the director has given reasons to the Board and by what means, and in the event that he/she gave reasons in writing to the full Board, describe at least the reasons given by the director:

NO

B.1.6 Indicate the powers delegated to the CEO(s), if any:

B.1.7 Identify the directors who are managers or directors of companies within the listed company's group, if any:

Name or company name of the Director	Company name of the Group entity	Title
MR JOSE DOMINGO DE AMPUERO Y OSMA	GAMEX CB S.R.O.	CHAIRMAN
MR JOSE DOMINGO DE AMPUERO Y OSMA	INDUSTRIAS ALIMENTARIAS DE NAVARRA. S.A.U.	CHAIRMAN
MR JOSE DOMINGO DE AMPUERO Y OSMA	KOTEKS VISCOFAN D.O.O.	CHAIRMAN
MR JOSE DOMINGO DE AMPUERO Y OSMA	NATURIN VISCOFAN GMBH	CHAIRMAN
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN CANADA. INC	CHAIRMAN
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN CENTROAMÉRICA COMERCIAL SA	CHAIRMAN
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN CZ S.R.O.	CHAIRMAN

Name or company name of the Director	Company name of the Group entity	Title
MR NESTOR BASTERRA LARROUDÉ	INDUSTRIAS ALIMENTARIAS DE NAVARRA. S.A.U.	VICECHAIRMAN
MR NESTOR BASTERRA LARROUDÉ	KOTEKS VISCOFAN D.O.O.	VICECHAIRMAN
MR NESTOR BASTERRA LARROUDÉ	NATURIN VISCOFAN GMBH	VICECHAIRMAN
MR NESTOR BASTERRA LARROUDÉ	VISCOFAN CZ S.R.O.	VICECHAIRMAN
MR NESTOR BASTERRA LARROUDÉ	VISCOFAN DO BRASIL SOCIEDADE COMERCIAL E INDUSTRIAL. LTDA	MEMBER OF THE ADVISORY BOARD
MR NESTOR BASTERRA LARROUDÉ	VISCOFAN TECHNOLOGY SUZHOU CO. LTD.	VICECHAIRMAN
MR NESTOR BASTERRA LARROUDÉ	VISCOFAN URUGUAY S.A.	VICECHAIRMAN
MR NESTOR BASTERRA LARROUDÉ	VISCOFAN USA INC.	VICECHAIRMAN
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN DE MÉXICO S. DE R.L. DE C.V.	CHAIRMAN
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN DO BRASIL SOCIEDADE COMERCIAL E INDUSTRIAL. LTDA	MEMBER OF THE ADVISORY BOARD
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN TECHNOLOGY SUZHOU CO. LTD.	CHAIRMAN
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN UK LIMITED	CHAIRMAN
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN URUGUAY S.A.	CHAIRMAN
MR JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN USA INC.	CHAIRMAN
MR NESTOR BASTERRA LARRO	GAMEX CB S.R.O.	VICE- CHAIRMAN

B.1.8. Identify the directors of your company, if any, who are members of the Board of Directors of other companies listed on official stock exchanges in Spain other than those of your Group, that have been reported to your company:

Name or company name of the Director	Company name of the Group entity	Title
MR NESTOR BASTERRA LARROUDÉ	IBERPAPEL GESTIÓN SA	DIRECTOR
MR ALEJANDRO LEGARDA ZARAGÜETA	CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES SA	DIRECTOR
MR GREGORIO MARAÑÓN BERTRÁN DE LIS	PROMOTORA DE INFORMACIONES SA	DIRECTOR

Name or company name of the Director	Company name of the Group entity	Title
MR IGNACIO MARCO-GARDOQUI IBAÑEZ	TUBACEX. S.A.	DIRECTOR
MR JOSÉ MARÍA ALDECOA SAGASTASOLOA	GAMESA INCORPORACIÓN TECNOLÓGICA. S.A.	DIRECTOR

B.1.9. Indicate and, if applicable, explain whether the Company has established rules regarding the number of boards of which its directors may be members:

YES

Explanation of the Regulations

Article 23 of the Regulations of the Board of Directors states that:

The company's directors may not sit on more than ten Boards of Directors besides Viscofan, S.A.

The calculation excludes the following:

Posts held on the boards of holding companies owned by the director or his/her close relatives.

Directors shall inform the Appointments and Remuneration Committee of any other professional duties that could interfere with the levels of dedication required of them.

B.1.10. In connection with recommendation number 8 of the Unified Code, indicate the Company's general policies and strategies reserved for approval by the full Board:

The investment and financing policy	Yes
The definition of the structure of the group of companies	Yes
The corporate governance policy	Yes
The corporate social responsibility policy	Yes
The strategic or business plan, as well as management objectives and annual budgets	Yes
The policy regarding remuneration and evaluation of performance of senior management	Yes
The risk control and management policy, as well as the periodic monitoring of the internal information and control systems	Yes
The dividend policy, as well the treasury stock policy and, especially, the limits thereto	Yes

B.1.11. Complete the following tables regarding the aggregate remuneration of Directors accrued during the fiscal year:

a) In the Company which is the subject matter of this report:

Compensation	Thousand €
Fixed Compensation	0
Variable Compensation	0
Per diems	173
Payments as per Articles of Association	1,879
Options on shares and/or other financial instruments	0
Other	0
TOTAL	**2,052**

Other Benefits	Thousand €
Advances	0
Loans extended	0
Pension Funds and Plans: Contributions	0
Pension Funds and Plans: Obligations undertaken	0
Life insurance premiums	0
Guarantees established by the company in favour of Directors	0
TOTAL	**0**

b) On account of membership by the Company's directors on other boards of directors and/or in the top management of Group companies:

Compensation	Thousand €
Fixed Compensation	0
Variable Compensation	0
Per diems	0
Payments as per Articles of Association	324
Options on shares and/or other financial instruments	0
Other	0
TOTAL	**324**

Other Benefits	Thousand €
Advances	0
Loans extended	0
Pension Funds and Plans: Contributions	0
Pension Funds and Plans: Obligations undertaken	0
Life insurance premiums	0
Guarantees established by the company in favour of Directors	0
TOTAL	**0**

c) Total remuneration by type of director:

Breakdown of Directors	By company	By group
EXECUTIVE	488	216
EXTERNAL REPRESENTING A CONTROLLING SHAREHOLDER	0	0
EXTERNAL INDEPENDENT	1,564	108

OTHER EXTERNAL	0	0
TOTAL	**2,052**	**324**

d) As a percentage of the profits attributable to the controlling company:

Total Director remuneration (in thousands €)	2,376
Total Director remuneration/earnings attributed to parent company equity holders (stated as a %)	3.0

B.1.12 Identify the members of the Company's senior management who are not executive directors and state the total remuneration accruing to them during the fiscal year:

Name or company name	**Title**
MR JOSE ANTONIO CANALES GARCIA	MANAGING DIRECTOR VISCOFAN GROUP
MS ELENA CIORDIA CORCUERA	HEAD OF LEGAL VISCOFAN GROUP
MR GABRIEL LARREA LALAGUNA	HEAD OF SALES VISCOFAN GROUP
MR CÉSAR ARRAIZA ARMENDÁRIZ	CHIEF FINANCIAL OFFICER VISCOFAN GROUP
MR ARMANDO ARES MATEOS	HEAD OF INVESTOR RELATIONS AND COMMUNICATIONS VISCOFAN GROUP
MR PEDRO ERASO ZABALZA	HEAD OF CELLULOSE AND FIBROUS EXTRUSION VISCOFAN GROUP
MR JOSE VICENTE SENDIN AZANZA	HEAD OF STRATEGIC PROJECTS VISCOFAN GROUP
MR JOSE IGNACIO RECALDE IRURZUN	HEAD OF RESEARCH AND DEVELOPMENT VISCOFAN GROUP
MR ANDRES DÍAZ ECHEVARRÍA	HEAD OF OPERATIONS VISCOFAN GROUP
MR JUAN JOSÉ ROTA ARRIETA	HEAD OF HUMAN RESOURCES VISCOFAN GROUP
MR MANUEL NADAL MACHÍN	HEAD OF INFORMATION AND SYSTEMS VISCOFAN SA
MR RICARDO ROYO RUIZ	HEAD OF INFORMATION AND SYSTEMS VISCOFAN S.A.
MR MILOSLAV KAMIS	MANAGING DIRECTOR GAMEX CB SRO., MANAGING DIRECTOR VISCOFAN CZ SRO
MR BERTRAM TRAUTH	MANAGING DIRECTOR NATURIN VISCOFAN GMBH
MR WILFRIED SCHOEBEL	DIRECTOR OF COLLAGEN EXTRUSION VISCOFAN GROUP
MR ALFRED BRUINEKOOL	COMMERCIAL DIRECTOR NATURIN VISCOFAN GMBH.& MANAGING DIRECTOR VISCOFAN UK, LTD.
MR YUNNY SOTO	MANAGING DIRECTOR VISCOFAN CENTROAMERICA COMERCIAL SA
MR OSCAR PONZ TORRECILLAS	MANAGING DIRECTOR VISCOFAN DE MEXICO SRL DE CV
MR LUIS BERTOLI	MANAGING DIRECTOR VISCOFAN DO BRASIL S.COM E IND. LTDA
MR JOSE MARÍA FERNÁNDEZ MARTÍN	MANAGING DIRECTOR VISCOFAN USA INC.
MR ALEJANDRO MARTÍNEZ CAMPO	MANAGING DIRECTOR INDUSTRIAS ALIMENTARIAS DE NAVARRA SAU
MS MARÍA DEL CARMEN PEÑA RUIZ	FINANCIAL MANAGER VISCOFAN S.A.

MR JUAN NEGRI SAMPER	MANAGING DIRECTOR VISCOFAN TECHNOLOGY SUZHOU INC
MR ANDREJ FILIP	MANAGING DIRECTOR KOTEKS VISCOFAN DO.O.
MR ANGEL MAESTRO ACOSTA	MANAGING DIRECTOR URUGUAY S.A.

Total executive management remuneration (thousand euros)	4,126

B.1.13 Identify, on an aggregate basis, if there are indemnity or "golden parachute" provisions for the benefit of senior management, including executive directors, of the Company or its Group in the event of dismissals or changes of control. Indicate whether such agreements must be reported to and/or approved by the decision-making bodies of the Company or its Group:

Number of beneficiaries	2

	Board of Directors	**General Shareholders' Meeting**
Body that authorizes the provisions	YES	NO

Is the General Shareholders' Meeting informed of the clauses?	NO

B.1.14 Describe the process to set the remuneration of the members of the Board of Directors and the relevant provisions of the Articles of Association with regard thereto.

Process to set the remuneration of the members of the Board of Directors and provisions of the Articles of Association

The remuneration of the members of the Board of Directors for 2012 are provided in the company bylaws.

Pursuant to Article 27 of the Articles of Association: The Board's remuneration will consist of one point five (1.5) per cent of the net profits before tax, in accordance with the requirements of articles 217 and 218 of the Capital Companies Act. It will be shared out among the members of the Board in accordance with the resolution adopted by the Board in each case.

In addition, Article 30 sets forth the following on the compensation of the Executive Committee: The Executive Committee's remuneration will consist of one point five (1.5) per cent of net earnings before taxes, subject to the limits set forth in Articles 217 and 218 of the Capital Companies Act.

The distribution of this percentage among the members of the Committee will be carried out pursuant to the resolution adopted by the Committee in each case. The Board of Directors runs an Appointments and Remunerations Committee and one of its missions consists of: f) proposing to the Board of Directors:

i. The remuneration policy applicable to the Group's directors and senior executives, together with proposals for the distribution of the directors' remuneration.
ii. The individual remuneration of the executive directors and the other terms and conditions of the contracts.
iii. The basic terms and conditions of the contracts signed with the Group's senior executives.
i.v. The remuneration policy applicable to Directors, senior executives and staff in shares and options, where applicable, as well as long-term remuneration policies.

As part of the dynamic policy for adapting best practices in corporate governance, the Board of Directors declared to shareholders at the General Meeting held at second call on 23 May 2012 that, as proposed by the Appointments and Remunerations Committee, it had hired Spencer Stewart as an external expert to review the remunerations of the Board and senior management and draw up a proposal to be submitted to the General Shareholders Meeting of 2013.

State whether the full Board has reserved the right to approve the following decisions:

At the proposal of the Company's chief executive, the appointment and, if applicable, the removal of senior managers, as well as their indemnity provisions.	YES
The remuneration of directors and, in the case of executive directors, the additional remuneration for their executive duties and other terms and conditions that must be included in their contracts.	YES

B.1.15 State whether the Board of Directors approves a detailed remuneration policy and specify the matters covered thereby:

YES

Amount of fixed components, with a breakdown, if applicable, of fees payable for attendance at meetings of the Board and its Committees and estimated annual fixed remuneration arising therefrom.	YES
Variable remuneration items.	YES
Main characteristics of the social security systems, with an estimate of the amount thereof or equivalent annual cost.	YES
Terms and conditions that must be included in the contracts with executive directors performing senior management duties.	YES

B.1.16 State whether the Board submits a report on director remuneration policy to the vote of the shareholders at a General Shareholders' Meeting for consultative purposes. If so, describe the relevant portions of the report regarding the remuneration policy approved by the Board for the following years and the most significant changes experienced by such policies vis-à-vis the policy applied during the fiscal year, and provide an outline of the manner in which the remuneration policy was applied during the fiscal year. Describe the role of the Compensation Committee and, if

external advice has been provided, state the name of the external advisors that have given such advice:

YES

Matters covered by the report on remuneration policy

The company's remunerations policy applicable in 2012 was adopted by the Board of Directors at the proposal of the Appointments and Remunerations Committee in accordance with bylaws 27 and 30 on the Board and the Executive Committee, respectively:

Art. 27. The Board's remuneration will consist of one point five (1.5) per cent of the net profits before tax, in accordance with the requirements of articles 217 and 218 of the Capital Companies Act. It will be shared out among the members of the Board in accordance with the resolution adopted by the Board in each case.

Art. 30. The Executive Committee's remuneration will consist of one point five (1.5) per cent of net earnings before taxes, subject to the limits set forth in Articles 217 and 218 of the Capital Companies Act.

The distribution of this percentage among the members of the Committee will be carried out pursuant to the resolution adopted by the Committee in each case.

The remunerations of the Board and its Committees include only those provided in the Company bylaws. No other remuneration is provided for executive directors by virtue of their positions or for the Chairman or Vice-Chairmen of the board and its committees.

No remuneration is planned in the form of shares or share options, pension funds or plans, life insurance or any other contingency plans.
There is no type of guarantee, advance or credit granted in favour of any member of the Board of Directors.

The Report on the Company's Remunerations Policy for the years 2011 and 2012 was submitted to consultation vote and passed by the General Shareholders Meeting of 23 May 2012 as a separate item on the agenda.

At said General Shareholder Meeting, the chairman of the Appointments and Remunerations Committee said that Spencer Stuart had been hired as an external expert to review the remunerations of the Board and senior management and draw up a proposal to be submitted to the General Shareholders Meeting of 2013.

Role of the Compensation Committee

Pursuant to Article 14 of the Board Regulations, the following shall be among the missions of the Appointments and Remuneration Committee:

f) Proposing to the Board of Directors:

i.- The remuneration policy for Directors and executives, as well the distribution of Directors' remuneration.
ii.- Executive Directors' individual remuneration and all other terms of their contracts,
iii.- The basic terms and conditions set forth in the contracts of employment of the group's senior executive officers.

iv.- The remuneration policy for company directors, senior executive officers and employees in relation to shares and options, as and when applicable, including any long-term remuneration policies.

Has external advice been provided?	YES

Name of external advisors

As mentioned earlier, Spencer Stuart has been hired as an external expert to review the remunerations of the Board and senior management and draw up a proposal to be submitted to the General Shareholders Meeting of 2013.

B.1.17 Indicate the identity of the members of the Board of Directors, if any, who are also members of the board of directors, managers or employees of companies that hold a significant interest in the listed company and/or in companies within its Group:

Describe, if applicable, any significant relationships, other than the ones included in the previous item, of the members of the Board of Directors linking them to significant shareholders and/or to companies within the Group:

B.1.18 State whether the Regulations of the Board of Directors have been amended during the fiscal year:

YES

Description of amendments

At its meeting of 2 May 2012, the Company's Board of Directors adopted various amendments to its Regulations to progress and consolidate its monitoring of recommendations on good corporate governance, anticipating the implementation of measures that guarantee said monitoring processes to their incorporation in the Company's internal regulations.

With this as the main aim, article 8 of said Regulations was amended in view of recommendation 29, which states:

'Independent directors should not remain as such for a continued period of more than 12 years clause '.

Accordingly, the Board of Directors has adopted the introduction of the following paragraphs, which have been added at the end of article 8 of the Regulations:

'Independent directors may not be re-elected or appointed for a new term of office under the same classification when they have sat on the company's Board for a term of twelve (12) years as from the date on which they were first appointed.

The independent directors who reach the limit of twelve (12) years provided in the foregoing paragraph while their term of office is in progress may continue in their post and maintain their classification as independent until the completion of their term of office.

Under no circumstances will the provisions of the foregoing paragraphs limit the power of the company's General Shareholders Meeting or, where applicable, the Board of Directors to re-elect or

appoint a specific candidate as director and, where applicable, it will affect only his/her possible classification as an independent director.

In fulfilment of the duty provided in the Capital Companies Act, the current text of the Board Regulations, after the aforementioned amendment had been made, was notified to the CNMV on 2 May and filed with the Companies Registry of Navarre on 22 May 2012; said registration was also notified to the CNMV.

Said amendments to the Board Regulations were also notified to the Company's General Shareholders Meeting of 23 May 2012.

B.1.19. Indicate the procedures for the appointment, reelection, evaluation and removal of Directors. List the competent bodies, the procedures to be followed and the criteria applied in each of such procedures.

Pursuant to Article 26 of the Articles of Association:
The representation and administration of the Company will be commissioned to a Board of Directors, made up of a minimum of three members and a maximum of nine.
Their appointment will correspond to the General Shareholders meeting in accordance with article 243 of the Capital Companies Act.

And Article 27 sets forth that:
To be appointed to the position of director, the status of shareholder is not a requirement. The term of office for Directors is six years from the date they are appointed.

The appointment of Directors will cease when their term of office has ended and the next General Shareholders Meeting has been held or the period stipulated by law for holding the Shareholders Meeting to resolve on the approval of the prior year's accounts has passed.

The General Shareholders Meeting, or the Board of Directors itself, may appoint from among the 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 of Directors; they will also act as such at the General Shareholders Meeting. The Chairman and any of the Vice-Chairmen appointed by the Board itself must meet the requirements of article 249.3 of the Capital Companies Act for the intents and purposes of article 30 of these Bylaws.

In this respect, Article 6 of the Board Rules sets forth:
´The Board of Directors shall comprise the number of Directors determined by the shareholders at the General Shareholders Meeting within the limits set forth in the Articles of Association.
The Board will propose to the shareholders at the General Shareholders Meeting the most appropriate number to ensure due representation and the effective operation of the Board based on the changing circumstances of the Company.

And Article 8 provides that:
Article 8. Appointment of Directors
The shareholders at the General Shareholders Meeting or the Board of Directors itself will elect the Directors in the circumstances provided in law.

The proposals submitted to the shareholders by the Board at the General Shareholders Meeting with respect to elections or re-elections with the limits set down in the company bylaws will rely on proposals by the Appointments and Remunerations Committee for independent Directors and will be based on a prior report by the Appointments and Remunerations Committee for all other Directors. A reasonable number of independent Directors will be included on the Board and there will generally be a majority of external Directors.

The Directors will hold their posts for the term provided in the company bylaws.
Independent directors may not be re-elected or appointed for a new term of office under the same classification when they have sat on the company's Board for a term of twelve (12) years as from the date on which they were first appointed.

The independent directors who reach the limit of twelve (12) years provided in the foregoing paragraph while their term of office is in progress may continue in their post and maintain their classification as independent until the completion of their term of office.
Under no circumstances will the provisions of the foregoing paragraphs limit the power of the company's General Shareholders Meeting or, where applicable, the Board of Directors to re-elect or appoint a specific candidate as director and, where applicable, it will affect only his/her possible classification as an independent director.

Furthermore, Article 14 of the Board of Directors' Rules includes the Nominating and Compensation Committee and sets forth:
The mission of the Appointments and Remunerations Committee will be as follows:
a) Ensure the appropriateness and integrity of the selection of Directors and executive officers.
b) Propose to the Board of Directors the election or re-election of independent Directors,
c) Report to the Board of Directors the election or re-election of all other Directors.
d) Report on the appointment and separation of executives the Chief Executive Officer proposes to the Board.
e) Report to the Board of Directors on matters of gender diversity.
f) Propose to the Board of Directors:
i. The remuneration policy applicable to the Group's directors and senior executives, together with proposals for the distribution of the directors' remuneration. ii. The individual remuneration of the executive directors and the other terms and conditions of the contracts. iii. The basic terms and conditions of the contracts signed with the Group's senior executives. iv. The remuneration policy applicable to Directors, senior executives and staff in shares and options, where applicable, as well as long-term remuneration policies.

As already mentioned, article 8 of the Board Regulations was amended in 2012, as reproduced in full in the previous section, in view of recommendation 29, which provides the following:
'Independent directors do not hold office as such for a continuous period of more than 12 years'.
Accordingly, the following paragraphs were added to limit the re-election of independent directors:
Independent directors may not be re-elected or appointed for a new term of office under the same classification when they have sat on the company's Board for a term of twelve (12) years as from the date on which they were first appointed.

The independent directors who reach the limit of twelve (12) years provided in the foregoing paragraph while their term of office is in progress may continue in their post and maintain their classification as independent until the completion of their term of office.
Under no circumstances will the provisions of the foregoing paragraphs limit the power of the company's General Shareholders Meeting or, where applicable, the Board of Directors to re-elect or appoint a specific candidate as director and, where applicable, it will affect only his/her possible classification as an independent director.

Pursuant to Article 16 of the Board Rules, relating to the Appraisal of the Board of Directors and the Committees:

Each year the Board of Directors will evaluate:
a) the quality and efficiency of the operation of the Board itself; b) the performance of their functions by the Chairman of the Board and the company's chief executive, based on the report raised by the Appointments and Remunerations Committee; c) the operation of the Board's Committees, based on the report raised by each committee.

In accordance with this article of its Regulations, led by the Appointments and Remunerations Committee and coordinated by the Secretary of the Board, the Board assesses the Board itself and all its Committees on an annual basis, analysing various formal and material issues of the activities carried out by each one, together with the content of the meetings, access to business knowledge, information about issues that are necessary for the development of their functions, the presence of executives at Board meetings and the various Committees, the quality of the discussions and the taking of decisions, the performance of the directors and Chairmen of each committee and the Board itself, the qualification of the directors and the Secretary of the Board, the quality applied to achieve targets, among others. Suggestions are also requested, together with the inclusion of any comment that may help improve the performance of each one.

Each Director and the members of the Committees make their own individual analysis in accordance with guidelines and provide the results to the Secretary of the Board anonymously. After consolidating the results that are obtained, the Secretary gives them to the Board or to each of the Committees, where applicable, for internal debate and to resolve, where applicable, on the actions that help improve the operation and fulfilment of the functions of the Board and each Committee.

The removal of directors is governed by the following articles of the Regulations of the Board of Directors, pursuant to the drafting thereof approved at a Board meeting held on 27 January 2011.

Article 27. Separation of Directors.
Directors will serve at the pleasure of the Board of Directors and if the Board considers it appropriate, they will tender their resignation in the following cases:
a) When they become subject to any of the disqualifications or prohibitions set down in law.
b) When their remaining on the Board could undermine the Company's interests or when the reasons for which they were elected no longer apply.
c) Directors representing a controlling shareholder will tender their resignations when the shareholder they represent sells a substantial part of its stake.
The Board of Directors may not propose the removal of independent directors before the end of their term of office, unless the Board considers there is due cause following a report to such effect from the Appointments and Remuneration Committee.
When a director steps down before the end of his/her term of office, whether by resigning or for any other reason, he/she must explain the reasons for his/her departure in a letter to be sent to all other members of the company's Board of Directors.
The departure will be reported to the CNMV (National Securities Market Commission) as a material event, and the reason for the departure will be reported in the Annual Corporate Governance Report.

Article 28. Directors' Duties after Separation.
After separation upon completion of the period for which they were elected or for any other reason, the Directors may not serve at any entity competing with the Company and its corporate group for a period of two years unless the Board of Directors grants dispensation from this requirement or shortens its term.

B.1.20. Indicate the circumstances under which the resignation of Directors is mandatory.

Pursuant to Article 22 of the Regulations of the Board of Directors, relating to the duty of loyalty:

Company directors, in fulfilling their duty of loyalty, must report to the Board, prior to the occurrence, or as soon as they become aware of any conflict of interest with the company or its business group. This includes the obligation to step down immediately should the same conflict persist or if their presence on the Board could negatively affect the company's interests.

Furthermore, directors shall abstain from voting on matters in which they have an interest.

Any conflicts of interest in which directors find themselves shall be reported in the Annual Corporate Governance Report.

Directors shall report to the company and, where appropriate, stand down in situations that could harm the company's image or reputation, including, in particular, any criminal proceedings brought against them and the outcome thereof. Should this situation arise, the Board shall examine the case in question, monitor it closely and then decide on whether the director in question should stand down.

Directors may not hold any kind of office or post, either on their own or through a representative, in companies that compete with Viscofan and its business group, nor may they represent such companies or offer them advisory services.

In its various facets, this duty of loyalty of directors also encompasses activities engaged in by related parties, as defined in these regulations.

Pursuant to Article 27 of the Board of Directors' Regulations on the separation of Directors:

´Directors shall remain at the disposal of the Board of Directors and if the Board so deems advisable shall tender their resignation in the following cases:

a) When they become subject to any of the circumstances set forth in the law disqualifying or banning their service.

b) When their remaining on the Board could undermine the Company's interests or when the reasons for which they were elected no longer apply.

c) Directors representing a controlling shareholder shall tender their resignations when the shareholder they represent sells a substantial part of its stake.´

The Board of Directors may not propose the removal of independent directors before the end of their term of office, unless the Board deems just cause to exist following a report to such effect from the Appointments and Remuneration Committee.

When a director steps down before the end of his/her term of office, whether by resigning or for any other reason, he/she must explain the reasons for his/her departure in a letter to be sent to all other members of the company's Board of Directors.

The departure shall be reported to the Spanish CNMV as a material event, and the reason for the departure shall be reported in the Annual Corporate Governance Report.

B.1.21 Explain whether the powers of the top executive of the Company are vested in the Chairman of the Board. If so, indicate the measures that have been taken to mitigate the risks of accumulation of powers in a single person:

YES

Measures to mitigate risks

The Company has created the figure of lead director and awarded said position specific functions to limit the accumulation of powers in one single person.

In particular, in accordance with article 9 of the internal Regulations of the Board of Directors:

If the post of Chairman of the Board of Directors and Chief Executive of the company correspond to the same person, one of the independent directors will be authorised to perform the following functions:
a) request a Board Meeting or the inclusion of new items on the agenda,
b) coordinate the external directors and communicate their concerns,
c) direct the Board's assessment of its Chairman.

Moreover, both the Chairman and the CEO will be assessed by the Board of Directors in accordance with Article 16 of the Regulations of the Board of Directors.

Each year, the Board of Directors will assess:
b,) the Chairman's and Chief Executive Officer's performance of their duties based on the report submitted to it by the Appointments and Remunerations Committee;

Indicate and, if applicable, explain whether rules have been established whereby one of the independent directors is authorized to request that a meeting of the Board be called or that other items be included on the agenda, to coordinate and hear the concerns of external directors and to direct the evaluation by the Board of Directors.

YES

Explanation of the rules

See Article 9 (above mentioned)

B.1.22. Are qualified majorities, other than the statutory majorities, required to adopt any type of decision?

NO

Describe the method used by the Board of Directors to adopt resolutions, including at least the minimum quorum required to hold a valid meeting and the majorities required to adopt resolutions:

Description of the resolution: ALL

Quorum:
The Board of Directors has a quorum with the presence or representation of one half plus one of the directors.

% Quorum: 55.55

Percentage required for majority:
Resolutions are adopted by simple majority vote of the Directors attending the meeting and the Chairman shall have the tie-breaking vote. Therefore, if all the numbers of the board are in attendance in person or by proxy, the vote in favour of five of the members will be necessary, i.e. 55.55%.

B.1.23. Explain whether there are specific requirements, other than the requirements relating to Directors, in order to be appointed Chairman.

NO

B.1.24. Indicate whether the Chairman has the casting vote.

YES

Matters on which a casting vote may be made

Pursuant to Article 28 of the Articles of Association:

Resolutions shall be adopted by absolute majority vote of the Directors attending the meeting and the Chairman shall have the casting vote.

Article 7 of the Board Rules sets forth the same thing.

B.1.25 Indicate whether the Articles of Association or the Regulations of the Board of Directors set forth any age limit for directors:

NO

Age limit for the Chairman (no age)
Age limit for the CEO (no age)
Age limit for Directors (no age)

B.1.26 Indicate whether the Articles of Association or the Regulations of the Board of Directors establish any limit on the term of office for independent directors:

YES

Maximum number of years in office	12

B.1.27. If there are few or no women directors, describe the reasons for this as well as the initiatives adopted to correct this situation.

Description of reasons and initiatives

In recent years, through the Appointments and Remuneration Committee, the company has implemented internal initiatives in the search for possible women candidates who, in line with their experience and training, could be proposed for covering any vacancies arising in the future.

In particular, the company positively values economic and financial training, experience in auditing, knowledge of industry and, more specifically, of the sectors in which the activities of the Viscofan Group take place, and experience as a director.

In each case, the Appointments and Remuneration Committee analyses the profile of the possible candidates and will propose the, taking account of the benefit for the company, with criteria based on objectivity, training and equal opportunities.

Meanwhile, the Appointments and Remunerations Committee analyses the best alternatives for guaranteeing the presence of the current female directors on all the Board's Committees, making proposals in each case as it considers most appropriate for guaranteeing said presence.

In 2012, female directors have sat on the Executive Committee, the Audit Committee and the Appointments and Remunerations Committee.

In particular, state whether the Appointments and Remuneration Committee has established procedures which ensure that selection processes are free from any implied bias hindering the selection of women directors and which allow for the free search for women candidates that meet the required profile:

NO

B.1.28 Indicate whether there are formal procedures for proxy voting at meetings of the Board of Directors. If so, briefly describe them.

The Board Regulations cover proxy voting at the Board of Directors or delegation in any of its members:

Article 33. Use of Delegated Voting

If the Board of Directors or any of its members request representation for himself/herself or for another individual and, in general, when the request is made in public, the document describing the empowerment must contain or have attached the agenda, as well as the applications for instructions to exercise the right to vote and the indication of how the representative is to vote if no precise instructions are given.

The delegations of votes received by the Board of Directors or any of its members will be executed in full accordance with the instructions received accordingly and the minutes will record the exercise and identification of the voting instructions received when they include a vote against the Board's proposals in order to protect the rights that may correspond to the delegating shareholder, where applicable.

Directors who have made public requests for representation may not exercise their voting rights pertaining to the represented shares in relation to the business on the agenda in which they have a conflict of interests and, in all cases, in relation to:

a) His/her appointment, ratification, removal or resignation as a Director.
b) The bringing of an action for liability against him/her.
c) The approval or ratification of transactions with the company in relation to which the director has a conflict of interests.

B.1.29 Indicate the number of meetings that the Board of Directors has held during the fiscal year. In addition, specify the number of meetings, if any, at which the Chairman was not in attendance:

Number of Board Meetings	12
Number of Board Meetings the Chairman did not attend	0

Indicate the number of meetings held by the different committees of the Board of Directors during the fiscal year:

Number of Executive or Delegate Committee Meetings	13
Number of Audit Committee Meetings	10
Number of Appointments and Remuneration Committee Meetings	9
Number of Appointments Committee Meetings	0

Number of Remuneration Committee Meetings	0

B.1.30 Indicate the number of meetings held by the Board of Directors during the fiscal year at which not all of its members have been in attendance. Proxies granted without specific instructions must be counted as absences:

Number of Directors failing to attend during the fiscal year	2
Failures to attend as a percentage of total votes during the fiscal year	1.980

B.1.31 Indicate whether the annual individual financial statements and the annual consolidated financial statements that are submitted to the Board of Directors for approval have been previously certified:

YES

Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated financial statements of the Company for their preparation by the Board:

Name	Title
MR JOSÉ ANTONIO CANALES GARCÍA	GENERAL MANAGER
MR CÉSAR ARRAIZA ARMENDÁRIZ	CHIEF FINANCIAL OFFICER VISCOFAN GROUP
MS MARÍA DEL CARMEN PEÑA RUIZ	CHIEF FINANCIAL OFFICER VISCOFAN S.A.

B.1.32 Explain the mechanisms, if any, adopted by the Board of Directors to avoid any qualifications in the audit report on the annual individual and consolidated financial statements prepared by the Board of Directors and submitted to the General Shareholders' Meeting.

To avoid any qualifications in the audit report on the financial statements prepared by the Board of Directors and submitted to the General Shareholders' Meeting, the Board has delegated this task to the Audit Committee, other functions, as provided in article 13 of the Board Regulations:

'D) With respect to the external auditor:
(1) Ensuring that the accounts prepared by the Board of Directors are put before the General Shareholders Meeting without qualifications in the associated audit report'.

In 2012, through the Audit Committee, the Board of Directors put in place mechanisms for the continuous control of the financial information on every level, from commencement to consolidation in the Viscofan group of companies.

Both the corporate financial department and the internal audit department have collaborated closely with the Audit Committee to establish, put in place and monitor the most appropriate controls for guaranteeing the truthfulness of the financial information to ensure that it gives a true and fair view of the Group's financial situation.

The internal audit department has also included the continuous review of said controls in its annual plan for various subsidiaries, where said review will apply to the financial departments and areas that also take part in preparing the information: operations, human resources, purchasing and commercial, etc.

Both the internal audit department and the corporate financial department have collaborated actively with the Audit Committee to coordinate and monitor the evolution of the control system, proposing corrective measures where necessary and verifying their effectiveness.

The Audit Committee, internal audit and corporate financial departments have also held informative and follow-up meetings with external auditors to give them the characteristics of the internal control system and its implantation in all the Group's companies and to involve them in their fulfilment and maintain bidirectional communication to allow better monitoring of the improvements that have been put in place. All with the aim of continuing to guarantee the operation of the Group's financial information with greater control at all levels.

Furthermore, the company has maintained a policy of pre-closing the year on 31 October in order to anticipate and correct any incidents that may have arisen during the year.

B.1.33. Is the Secretary of the Board of Directors a Director?

NO

B.1.34 Describe the procedures for appointment and removal of the Secretary of the Board, stating whether the appointment and removal thereof have been reported upon by the Appointments Committee and approved by the full Board.

Procedure for election and separation

Pursuant to Article 11 of the Board Regulations:

´The election and removal of the Secretary of the Board and, as appropriate, of the Assistant Secretary, shall be approved by the full Board, based on a report by the Appointments and Remuneration Committee.´

Does the Appointments Committee report the election?	YES
Does the Appointments Committee report the separation?	YES
Does the full Board approve the election?	YES
Does the full Board approve the removal?	YES

Is the secretary of the Board responsible for specially ensuring compliance with good governance recommendations?

YES

B.1.35 Indicate the mechanisms, if any, used by the Company to preserve the independence of the auditors, the financial analysts, the investment banks and the rating agencies.

Article 13 of the Regulations of the Board of Directors confers upon the Audit Committee the following duties relating to the external auditor:

D) With respect to the internal auditor

(4) Safeguarding the independence of the financial auditor, paying particular attention to any circumstances or questions that could jeopardise such independence, or any others relating to the process of auditing the accounts:

(i) The Audit Committee shall ensure that the company publicly discloses any changeover of the financial auditor and includes a simultaneous statement and details of any possible disagreement with the outgoing auditor. If the financial auditor resigns, the committee shall explore the underlying causes;

ii) The Audit Committee shall likewise ensure that the company and the auditor adhere to current regulations safeguarding the independence of the auditors, and those governing the provision of non-audit services and the limits on the concentration of the auditor's business.

Article 5 of the Regulations of the Board of Directors includes the following powers among those reserved exclusively for the Board of Directors sitting in full session, in addition to those reserved for the Board by law:

d) Definition of the information policy relating to shareholders, markets and public opinion.

In relation to dialogue with shareholders, Article 32 of the Regulations of the Board of Directors reads as follows:

The Board of Directors shall adopt such measures as it deems appropriate to ensure that the General Shareholders' Meeting exercises the functions attributed to it. At the time the call to meeting is published, the company shall make documentation available to shareholders on all items to be addressed at the General Shareholders' Meeting as included on the agenda. This documentation shall be available in hard copy from the company's registered office and in digital copy from the company's website. In addition, the company shall send such information to interested shareholders at no cost.

It shall also set up an Electronic Shareholders' Forum on the company's website. This forum will be available to individual shareholders and to any voluntary associations that may be set up and is intended to facilitate communication and dialogue ahead of the General Meeting.

Furthermore, up to seven days prior to the scheduled date for the General Shareholders' Meeting, and during the meeting itself, shareholders may ask directors for information or further clarifications, and may likewise pose questions on the information provided, as well as any other information accessible to the public and provided by the company since the date of the last General Meeting. Company directors shall provide such information immediately or in writing, unless such disclosure could harm the company's interests.

With regard to analysts and investment banks, the mechanisms envisaged under Article 34 of the Regulations of the Board of Directors, coupled with the company's commitment to monitoring applicable law, ensure that independence is upheld and that the information is made available to everyone at the same time and under the same conditions, thus ensuring equal access to such information.

Article 34 - Communications with shareholders and with the Securities Markets.

The Board shall ensure that accurate, reliable information is offered to the Company's shareholders and to the market with respect to any piece of information on the Company's activities, its earnings, shareholders with significant stakes, related-party transactions, shareholder agreements, treasury shares and any other information that must be disclosed pursuant to the law or the company's Articles of Association, as well as any information deemed by the Board to be in the interest of the public.

The periodic financial information shall be homogeneous and reliable and, as appropriate, shall be submitted to the relevant Committee.

The Board shall also immediately provide information to the public on:

a) Relevant facts that could materially influence the formation of stock market prices.

b) Substantial amendments to the Company governance rules.

c) Treasury share policies that Company may propose to carry out exercising the authorizations conferred by the shareholders at the General Shareholders Meeting.

To such end the Board of Directors shall use all means at its disposal to keep the information on the Company's web page up to date and to coordinate its content with the documents filed with and recorded at public registries.

B.1.36 Indicate whether the Company has changed the external auditor during the fiscal year. If so, identify the incoming and the outgoing auditor:

NO

Outgoing auditor	Incoming auditor

If there has been any disagreement with the outgoing auditor, describe the content thereof:

NO

B.1.37 Indicate whether the audit firm performs other non-audit work for the Company and/or its Group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the Company and/or its Group.

YES

	Company	Group	Total
Amount for work other than audit work (thousands of euros)	17	108	125
Amount for work other than audit work (thousands of euros)	16.000	17.300	17.110

B.1.38 State whether the audit report on the Annual Financial Statements for the previous fiscal year has observations or qualifications. If so, state the reasons given by the Chairman of the Audit Committee to explain the content and scope of such observations or qualifications.

NO

B.1.39 Indicate the consecutive number of years for which the current audit firm has been auditing the annual financial statements of the Company and/or its Group. In addition, state the percentage represented by such number of years with respect to the total number of years in which the annual financial statements have been audited:

	Company	Group
Number of consecutive years	6	6

	Company	Group
Number of years audited by the current audit firm/Number of years the Company has been audited (as a %)	24.0	37.0

B.1.40 Indicate the interests of members of the Board of Directors in the share capital of companies that engage in the same, similar or complementary activities, both with respect to the company and its group, and which have been reported to the company. In addition, state the position or duties of such Directors in such companies:

B.1.41 Indicate whether there is any procedure for Directors to hire external advisory services, and if so, describe it:

YES

Description of procedure

According to article 18 of the Board Regulations,

´Through the Chairman, Directors may request the hiring of such external advisors as they deem necessary for the proper performance of their work as Directors. The full Board is empowered to adopt any relevant resolutions as to whether or not such external advisory services shall be performed, what person or entity shall provide such services, the limitations on access to the

Company's proprietary information that such advisor shall have and the approval, as appropriate, of the relevant expense item´.

As reported by the Board to the shareholders in the General Shareholders Meeting of 23 May 2012, this right has led to the hiring of Spencer Stuart in 2012 as the external expert for drawing up a report on remunerations and its conclusions will be submitted at the General Shareholders Meeting of 2013.

B.1.42 Indicate whether there is any procedure for Directors to obtain sufficiently in advance the information required to prepare for meetings of management-level decision-making bodies and, if so, describe it:

YES

Description of procedure

Article 17 of the Board of Directors' Rules sets forth the following:

The Board members will receive the information required to carry out their work in due time and detail with respect to the matters in question. They may obtain additional information should they see fit; such information shall be channelled through the Secretary of the Board of Directors.

The usual practice will be that, before each meeting of the Board of Directors or the respective committees, the Board members will receive the most relevant information about the agenda items to be discussed, as far in advance as necessary for correct analysis and studying of that information.

B.1.43 State whether the Company has established any rules requiring Directors to inform the Company -and, if applicable, resign from their position- in cases in which the credit and reputation of the Company may be damaged. If so, describe such rules:

YES

Description of rules

Said rules are included in article 22 of the Board Regulations as part of the directors' duty to loyalty:

Directors will report to the company and, where appropriate, stand down in situations that could harm the company's image or reputation, including, in particular, any criminal proceedings brought against them and the outcome thereof. Should such a situation arise, the Board of Directors shall examine and monitor it closely, before deciding on whether the director in question should stand down.

B.1.44. State whether any member of the Board of Directors has informed the Company that he has become subject to an order for further criminal prosecution upon indictment or that an order for the commencement of an oral trial has been issued against him for the commission of any of the crimes contemplated in Section 124 of the Spanish Public Limited Companies Act:

NO

Indicate whether the Board of Directors has analyzed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the Director should remain in office.

NO

Decision made	Substantiated explanation

B.2 Committees of the Board of Directors

B.2.1 List all the committees of the Board of Directors and the members thereof:

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Title	Category
MR IGNACIO MARCO-GARDOQUI IBÁÑEZ	CHAIRMAN	INDEPENDENT
MR JOSÉ CRUZ PÉREZ LAPAZARÁN	DIRECTOR	INDEPENDENT
MS LAURA GONZÁLEZ MOLERO	DIRECTOR	INDEPENDENT

EXECUTIVE OR DELEGATE COMMITTEE

Name	Title	Category
MR JOSE DOMINGO DE AMPUERO Y OSMA	CHAIRMAN	EXECUTIVE
MS AGATHA ECHEVARRÍA CANALES	DIRECTOR	INDEPENDENT
MR NESTOR BASTERRA LARROUDÉ	DIRECTOR	INDEPENDENT

AUDIT COMMITTEE

Name	Title	Category
MR ALEJANDRO LEGARDA ZARAGÜETA	CHAIRMAN	INDEPENDENT
MS AGATHA ECHEVARRÍA CANALES	DIRECTOR	INDEPENDENT
MR GREGORIO MARAÑÓN BERTRÁN LIS	DIRECTOR	INDEPENDENT
MR JOSÉ MARÍA ALDECOA SAGASTOSOLOA	DIRECTOR	INDEPENDENT

B.2.2 State whether the Audit Committee has the following duties:

- Supervise the process of preparation and the integrity of the financial information relating to the Company and, if applicable, to the Group, monitoring compliance with legal requirements, the proper delimitation of the scope of consolidation, and the correct application of accounting principles.

  YES

- Reviewing the internal control and risk-management systems, in order for the main risks to be properly identified, managed and communicated.

  YES

- Ensure the independence and effectiveness of the internal audit area; make proposals regarding the selection, appointment, re-election and removal of the head of the internal audit area; propose the budget for this area; receive periodic information regarding its activities; and verify that senior management takes into account the conclusions and recommendations contained in its reports.

  YES

- Establish and supervise a mechanism whereby the employees may give notice, on a confidential basis and, if deemed appropriate, anonymously, of any potentially significant irregularities, especially of a financial and accounting nature, that they notice at the Company.

  YES

- Submit to the Board proposals for the selection, appointment, re-election and replacement of the external auditor, as well as the contractual terms under which it should be hired.

  YES

- Regularly receive from the external auditor information regarding the audit plan and the results of the implementation thereof, and verify that senior management takes its recommendations into account.

  YES

- Ensure the independence of the external auditor.

  YES

- In the case of groups of companies, favour the auditor of the Group as the auditor responsible for audit work at the companies that form part thereof.

  YES

B.2.3 Describe the rules of organization and operation of, and the duties assigned to, each of the Board committees.

Committee name

APPOINTMENTS AND REMUNERATION COMMITTEE

Short description

Governed by the Board Regulations:

Article 14 - Appointments and Remuneration Committee.

There shall be an Appointments and Remuneration Committee of the Board of Directors.

The Board of Directors sitting in full session is responsible for appointing and removing the members of the committee and they shall be no fewer than three in number. Members of the committee shall automatically step down when they cease to serve as company Board members.

The mission of the Appointments and Remuneration Committee shall be as follows:

a) Ensuring the appropriateness and integrity of the selection of Directors and executive officers.
b) Proposing to the Board of Directors the election or reelection of independent Directors.
c) Reporting to the Board of Directors on the election or reelection of all other Directors.
d) Reporting the appointment and removal of executives that the Chief Executive Officer proposes to the Board.
e) Reporting to the Board of Directors on matters of gender diversity.
f) Proposing to the Board of Directors:

i.- The remuneration policy for Directors and executives, as well as the distribution of Directors' remuneration.
ii.- Executive Directors' individual remuneration as all as other terms of their contracts.
iii.- The basic terms of executives' contracts.
iv. The remuneration policy for company directors, senior executive officers and employees in relation to shares and options, as and when applicable, including any long-term remuneration policies.

The Appointments and Remuneration Committee shall report to the Board of Directors on the business it addresses and all resolutions it adopts.

Committee name

EXECUTIVE OR DELEGATE COMMITTEE

Short description
Company Articles of Association:

Article 30
1.- The Executive Committee shall comprise a minimum of three and a maximum of five members. The following will be members of the Executive Committee: the Chairman, the First Vice-Chairman, and one to three Directors appointed by the Board itself pursuant to legal requirements.

The Executive Committee will adopt its resolutions by majority vote and the Chairman will have the casting vote. The Chairman of the Board will chair the Committee. As a permanent delegation of the Board of Directors, the Executive Committee will exercise all the powers of the Board, except for the following: sale, swap and encumbrance of property, industrial or commercial premises and all manner of businesses; creation and modification of real rights over said property, premises and businesses; conveyance, disposal, ownership and encumbrance of property; creation and modification of property mortgages; submission of disputes to private arbitration; and those powers that may not be delegated in accordance with applicable law.

Board Regulations:

Article 12. Executive Committee

The Executive Committee will comprise the number and type of members set down in the company bylaws.

The Secretary of the Board of Directors will also serve as secretary of the Executive Committee.

The Board of Directors is empowered to appoint and separate its members based on a report by the Appointments and Remunerations Committee. The members of the Executive Committee will automatically cease to sit on the Committee when they cease to serve as Directors of the Company. The Executive Committee will possess such authority and powers as are awarded by the company bylaws and, as appropriate, by the pertinent resolutions of the Board of Directors or the shareholders at the General Shareholders Meeting.

The Executive Committee will perform its duties with the utmost transparency before the Board, informing the latter of all business discussed and all resolutions adopted, and furnishing all Board members with the minutes of its meetings.

Committee name

AUDIT COMMITTEE

Short description

Company Articles of Association:

According to article 30 of the Company Bylaws, the Audit Committee will be made up of a minimum of three members appointed by the Board of Directors, who will be automatically removed when they are no longer Company directors or when so resolved by the Board of Directors. One of the members will be elected as as Chairman, who will be replaced every four years; the Chairman may be re-elected one year after he/she ceases to serve as Chairman.

The Audit Committee will meet whenever convened by its Chairman, by decision of the Board of Directors, or upon the request of the majority of its members. The meeting will be considered quorate when it is attended by the majority of the directors in person or by proxy. Resolutions will be adopted by simple majority vote of the members attending the meeting and the Chairman will have the casting vote.

The Audit Committee will be entitled to request the presence of any member of the management team or any company employee at its meetings, including the presence of the company's independent auditors or any company advisor whose presence is deemed desirable.

Notwithstanding other functions assigned to it by the Board of Directors, the Audit Committee's mission will include the following:

a) To report to the shareholders at the General Shareholders Meeting on business brought forth by the shareholders with respect to matters within its competence.

b) To propose to the Board of Directors for submittal to the shareholders at the General Shareholders Meeting the appointment of the Auditor referred to in Article 264 of the Capital Companies Act.

c) To supervise, when appropriate, the internal audit services.

d) To become familiar with the Company's financial reporting process and its internal control systems.

e) To maintain a relationship with the Auditor to receive information on matters that may threaten the Auditor's independence and any other matters related to the process of performing the audit, as well as to receive information from and maintain with the Auditor the communications set forth in audit law and in technical audit standards.

Board Regulations:

Article 13,- Audit Committee.

There will be an Audit Committee of the Board of Directors.

The composition of the Audit Committee and its operation will be as set down in the company bylaws. The members of the Audit Committee will be appointed by the Board of Directors pursuant to legal requirements based on a report by the Appointments and Remunerations Committee, and they will automatically cease to serve on the Committee when they cease to serve as Directors of the Company or by decision of the Board of Directors.

All members of the Audit Committee will be non-executive directors, and the Chairman must necessarily be an independent director.

The Audit Committee will be entitled to request the presence of any member of the management team or any company employee at its meetings, including the presence of the company's independent auditors or any company advisor whose presence is deemed desirable. All the aforementioned persons will be bound to cooperate and provide access to any information they may have.

The Audit Committee will report to the Board on the business it addresses and on all resolutions adopted at the Board meetings convened for such purpose, and will furnish all Board members with the minutes of its meetings.

Notwithstanding other functions assigned to it by the Board of Directors, the Audit Committee's mission will include the following:

A) To report to the General Shareholders' Meeting on any issues or concerns raised by shareholders and falling within its remit.

B) Proposing the appointment of the financial auditor to the Board of Directors, which will then be passed on to the General Meeting.

C) With respect to internal control and reporting systems:

(a) Overseeing the process of preparing and ensuring the integrity of the financial information relating to the company and its group, ensuring that the financial information internal control system (FIICS) is correctly designed and that all legal requirements have been met, and defining an appropriate consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, special purpose vehicles, and the correct application of accounting standards.

(b) Overseeing the process devised by the senior management for instituting lawsuits, making assessments and reaching significant estimates, and the impact thereof on the financial statements.

(c) Reviewing, analysing and discussing the financial statements and other relevant financial information with the senior management team and the internal and external auditors so as to

ensure that the information is reliable, understandable and relevant, and that the accounting standards used for the preceding year have been duly followed.

(d) Monitoring the suitability of the control policies and procedures in place. Reviewing the internal control and risk-management systems, so that the main risks can be correctly identified, managed and reported.

(e) Overseeing the internal auditing services, including, in particular:

(i) proposing the selection, appointment, re-election and separation of the head of internal auditing;

(ii) approving the annual internal audit work plan relating to the evaluation of the FIICS, and receiving regular information on the results of the work performed, including any incidents that may arise. The Audit Committee will likewise receive an annual activities report and action plan to correct any deficiencies detected;

(iii) ensuring the independence and efficiency of the internal audit function

iv) proposing the budget for this same internal function;

(v) receiving periodic information on its activities, and;

(vi) verifying that the senior management takes into account the conclusions and recommendations set down in its reports.

D) With respect to the external auditor:

(1) Ensuring that the accounts prepared by the Board of Directors are put before the General Shareholders Meeting without qualifications in the associated audit report.

(2) Overseeing compliance with the audit agreement, ensuring that the opinion on the annual accounts and the main contents of the audit report are drawn up clearly and accurately.

(3) Monitoring the decisions of the senior management team regarding any adjustments recommended by the external auditor, and to hear and, where applicable, mediate any disagreements between both parties.

(4) Safeguarding the independence of the financial auditor, paying particular attention to any circumstances or questions that could jeopardise such independence, or any others relating to the process of auditing the accounts:

(i) the Audit Committee will ensure that the company publicly discloses any changeover of the financial auditor and includes a simultaneous statement and details of any possible disagreement with the outgoing auditor. If the financial auditor walks away, the committee will explore the underlying causes;

(ii) the Audit Committee will likewise ensure that the company and the auditor adhere to current regulations safeguarding the independence of the auditors, and those governing the provision of non-audit services and the limits on the concentration of the auditor's business.

(5) Attempting to ensure that the group's auditor also audits each component group company.

E) Reporting to the Board of Directors on the following issues, before the latter adopts the corresponding resolutions:

(a) The regular financial information the company has to publish, ensuring that it is prepared in accordance with the same standards and practices as those used for the annual accounts and, for such purpose, weighing up the merits of conducting a limited audit of the external auditor.

(b) The creation or acquisition of interests in special purpose vehicles or those domiciled in countries or territories considered tax havens, plus any other similar transactions or operations which, owing to their complexity, might diminish the group's transparency.

(c) Associate transactions.

F) Address and, where appropriate, respond to any initiatives, suggestions or complaints raised by shareholders in relation to the committee's remit, as referred to the committee by the Company's General Secretary.

G) Set up and supervise a mechanism enabling employees to communicate confidentially and, if deemed necessary, anonymously, their concerns regarding possible irregular and potentially significant practices within the company, particularly those relating to accounting, finances and auditing.

H) Supervision of compliance with internal codes of conduct and rules on corporate governance.

B.2.4 Indicate the advisory and consulting powers as well as the delegated powers, if any, of each of the committees:

Committee name

APPOINTMENTS AND REMUNERATION COMMITTEE

Short description

Board Regulations:
Article 14 - Appointments and Remuneration Committee.

Article 14,- Appointments and Compensation Committee. There shall be a Nominating and Compensation Committee of the Board of Directors.

The committee is primarily charged with making proposals and providing information to the Board of Directors in relation to appointments of managers and Board members and the remuneration policy. Duties in these areas are purely advisory in nature.

Duties of the Appointments and Remuneration Committee include:
b) Propose to the Board of Directors the election or re-election of independent Directors,
c) Report to the Board of Directors the election or re-election of all other Directors.
d) Report on the appointment and separation of executives the Chief Executive Officer proposes to the Board.
e) Report to the Board of Directors on matters of gender diversity.
f) Propose to the Board of Directors:
i. The remuneration policy applicable to the Group's directors and senior executives, together with proposals for the distribution of the directors' remuneration.
ii. The individual remuneration of the executive directors and the other terms and conditions of the contracts.
iii. The basic terms and conditions of the contracts signed with the Group's senior executives.
iv. The remuneration policy applicable to Directors, senior executives and staff in shares and options, where applicable, as well as long-term remuneration policies.

Article 18 of the Regulations of the Board of Directors envisages the general right of all directors to procure external advice in order to help them discharge their duties:

Acting through the Chairman, directors may request the engagement of any such external advisors as deemed necessary for the proper performance of their work as directors.

The Board sitting in full session is entitled to adopt any resolutions as to whether or not such external advisory services will be engaged, and if so, what person or entity will provide them. The Board will also address any possible limitations on the chosen advisor's access to the company's confidential information, and will likewise approve, where applicable, the relevant expense entry.

Committee name
EXECUTIVE OR DELEGATE COMMITTEE
Brief description

The Executive Committee is governed by Article 30 of the Articles of Association and by Article 12 of the Regulations of the Board of Directors.

Its advisory role to the Board of Directors stems from its advisory nature and from the powers conferred by the Articles of Association and the Regulations of the Board of Directors.

Articles of Association

Article 30

As a permanent delegation of the Board of Directors, the Executive Committee will exercise all the powers of the Board, except for the following: sale, swap and encumbrance of property, industrial or commercial premises and all manner of businesses; creation and modification of real rights over said property, premises and businesses; conveyance, disposal, ownership and encumbrance of property; creation and modification of property mortgages; submission of disputes to private arbitration; and those powers that may not be delegated in accordance with applicable law.

Article 12 of the Regulations of the Board of Directors:

The Executive Committee will possess such authority and powers as are awarded by the company bylaws and, as appropriate, by the pertinent resolutions of the Board of Directors or the shareholders at the General Shareholders Meeting.

The Executive Committee will perform its duties with the utmost transparency before the Board, informing the latter of all business discussed and all resolutions adopted, and furnishing all Board members with the minutes of its meetings.

Article 30 of the Articles of Association has the following to say on the creation of delegated bodies attached to the different committees:

In addition to the Executive Committee and the Audit Committee, the Board of Directors may appoint other commissions or committees whose powers and obligations will be established by the Board on a case-by-case basis.

Committee name

AUDIT COMMITTEE

Short description
As regards the advisory and consultative powers vested in the Audit Committee, as set forth in the Regulations of the Board of Directors, the following are of particular note, and specifically concern the committee's advisory role before the Board of Directors and its duties to resolve issues raised by shareholders:

B) Proposing the appointment of the financial auditor to the Board of Directors, which will then be passed on to the General Meeting.

E) Reporting to the Board of Directors on the following issues, before the latter adopts the corresponding resolutions:

(a) The regular financial information the company has to publish, ensuring that it is prepared in accordance with the same standards and practices as those used for the annual accounts and, for such purpose, weighing up the merits of conducting a limited audit of the external auditor.

(b) The creation or acquisition of interests in special purpose vehicles or those domiciled in countries or territories considered tax havens, plus any other similar transactions or operations which, owing to their complexity, might diminish the group's transparency.

(c) Associate transactions.

F) Address and, where appropriate, respond to any initiatives, suggestions or complaints raised by shareholders in relation to the committee's remit, as referred to the committee by the Company's General Secretary.

Article 13 of the Board Regulations relating to the Audit Committee envisages the possibility of seeking external advice or external information in order to help the committee discharge its functions.

The Audit Committee will be entitled to request the presence of any member of the management team or any company employee at its meetings, including the presence of the company's independent auditors or any company advisor whose presence is deemed desirable. All the aforementioned persons will be bound to cooperate and provide access to any information they may have.

Article 13 of the Board Regulations relating to the Audit Committee envisages the possibility of seeking external advice or external information in order to help the committee discharge its functions.
The Audit Committee will be entitled to request the presence of any member of the management team or any company employee at its meetings, including the presence of the company's independent auditors or any company advisor whose presence is deemed desirable. All the aforementioned persons will be bound to cooperate and provide access to any information they may have.

B.2.5. Indicate, if applicable, the existence of regulations of the Board committees, where such regulations may be consulted and the amendments made during the fiscal year. Also indicate if any annual report of the activities performed by each committee has been voluntarily prepared.

Committee name

APPOINTMENTS AND REMUNERATION COMMITTEE

Short description

It is similarly governed by Article 12 of the Regulations of the Board of Directors, which are available from the company's website and have been duly filed with the Spanish CNMV and the Companies Registry.

There have been no changes during the year.

The Committee draws up an annual business report including, among other activities, the preparation and monitoring of the annual assessment of the Board and the Committees, the coordination of the evaluation of senior management, the proposed application of the remunerations policy for the Board and senior management, the preparation of the proposal for the Board on the remunerations policy for the current year, the preparation of the proposed annual remunerations report for subsequent submission to the Company's General Shareholders Meeting, reports and proposals for the appointment of directors, where applicable.

Furthermore, the Committee raises proposals to the Board on activities designed to improve knowledge of the attributions, duties and responsibilities of the various members of the Group's senior management at Viscofan S.A. and the other companies in the Group. It fosters the organisation of training courses on particular business issues for the Board of Directors and analyses any requests for participation in the Company's governing bodies.

Committee name

EXECUTIVE OR DELEGATE COMMITTEE

Short description

The Executive Committee is governed by Article 30 of the company's Articles of Association, as filed with the pertinent Commercial Registry and published on the company's website as a consolidated text encompassing all current provisions.

It is similarly governed by Article 12 of the Regulations of the Board of Directors, which are available from the company's website and have been duly filed with the Spanish CNMV and with the Companies Registry.

There have been no changes in 2012.

The Executive committee regularly reports to the Board of Directors on all the matters discussed at its meetings and provides the minutes thereof.

Committee name

AUDIT COMMITTEE

Short description

The Audit Committee is governed by Article 30 of the company's Articles of Association, as posted on the company's website, and by Article 13 of the Regulations of the Board of Directors, which is similarly available from the company's website and has likewise been duly filed with the Spanish CNMV and with the Companies Registry.

There have been no changes to its regulations in 2012.

The Audit Committee draws up an annual activity report that describes the targets set by the Committee, the activities carried out during the year and the results obtained from said activities.
An extract of said report is submitted to the General Shareholders Meeting on an annual basis for information purposes.

B.2.6. Indicate whether the composition of the Executive Committee reflects the participation of the different directors in the Board of Directors based on their category:

YES

C. RELATED-PARTY TRANSACTIONS

C.1. State whether the Board as a full body has reserved for itself the power to approve, after a favourable report from the Audit Committee or any other committee entrusted with such duty, transactions carried out by the Company with Directors, with significant shareholders or shareholders represented on the Board, or with persons related thereto:

YES

C.2. Describe the relevant transactions that involve a transfer of resources or obligations between the Company or entities within its Group and the Company's significant shareholders:

C.3. Describe the relevant transactions that involve a transfer of resources or obligations between the Company or entities within its Group and the directors or managers of the Company:

C.4. Describe the relevant transactions made by the Company with other companies belonging to the same group, provided they are not eliminated in the preparation of the consolidated financial statements and they are not part of the ordinary course of business of the Company as to their purpose and conditions:

C.5. State whether the members of the Board of Directors have been subject to any conflict of interest situation during the fiscal year pursuant to the provisions of Section 127 ter of the Spanish Public Limited Companies Act.

NO

C.6. Describe the mechanisms used to detect, determine and resolve potential conflicts of interest between the company and/or its Group, and its directors, managers or significant shareholders.

Board Rules in the Article 22, related to the duty of loyalty, sets forth the following:

In fulfilling their duty of loyalty, the Company's Directors will be bound to report to the Board, prior to occurrence or as soon as they aware of the existence of any situation of conflict of interests with the Company and its group of companies. This includes the obligation to resign immediately in the event of the persistence of such conflict or if their presence on the Board is contrary to the Company's interests.

Furthermore, Directors will abstain from voting on matters in which they have an interest.

Any situations of conflict of interests in which Directors find themselves will be included in the annual corporate governance report.

Directors will report to the company and, where appropriate, stand down in situations that could harm the company's image or reputation, including, in particular, any criminal proceedings brought against them and the outcome thereof. In this case, the Board will examine the situation. It will monitor the situation closely, before deciding on whether the director in question should stand down.

Directors may not hold positions either on their own or through a representative, positions of any type in companies that are competitors of Viscofan and its group of companies, nor may they render representation or advisory services to such companies.

The various facets of the Director's duty to loyalty also encompasses activities carried out by associates, as defined in these rules.

Furthermore, Article 33 of the Regulations of the Board of Directors, regulating the use of voting by proxy, reads as follows:

Directors who have made public requests for representation may not exercise their voting rights pertaining to the represented shares in relation to the business on the agenda in which they have a conflict of interests and, in all cases, in relation to:

a) His/her appointment, ratification, removal or resignation as a Director.
b) The bringing of an action for liability against him/her.
c) The approval or ratification of transactions with the company in relation to which the director has a conflict of interests.

C.7. Is more than one company of the Group listed in Spain?

NO

Identify the subsidiaries listed in Spain:

D. RISK CONTROL SYSTEMS

D.1. General description of the risk control policy adopted by the Company and/or its Group, describing and assessing the risks covered by the system and a justification for the adjustment of such system to the profile of each kind of risk.

The Company's risk management policy is shown in its internal regulations in the procedure that regulates said management and in the various internal regulations that govern the bodies that are involved, which are mainly the following:

BOARD OF DIRECTORS

In accordance with article 5 of the Company's Board Regulations on 'Powers of exclusive knowledge', the risk management and control policy and the regular monitoring of the internal information and control systems is one of the matters that correspond to the exclusive knowledge of the plenary session of the Board.

AUDIT COMMITTEE

The Audit Committee, by virtue of the duties conferred on it in relation to internal information and control systems, is responsible for overseeing the preparation and control of financial information in

general and all procedures implemented for such purposes, and overseeing the internal audit function and relations with the external auditor in order to safeguard its independence and help ensure that it issues an unqualified audit report, among other duties. The Audit Committee is also specifically charged with monitoring the suitability of the control policies and procedures in place, and with reviewing the internal control and risk management systems, so as to ensure that the main risks are identified, managed and communicated accordingly.

INTERNAL AUDIT

The Internal Audit Department has among its objectives the identification and assessment of any type of risk that the Organization may face and for this purpose it is authorized to examine and assess the systems and procedures for control and mitigation of all risks, as well as the methodologies used.

CORPORATE RESPONSIBILITY AND REGULATORY COMPLIANCE COMMITTEE

The Corporate Responsibility and Regulatory Compliance Committee includes among its duties that of overseeing risks specific to the Company in relation to criminal liability or any other breach of Company regulations (statutory or corporate).

SENIOR MANAGEMENT

Senior management is responsible for identifying and assessing the risks affecting the Group during its business and taking the appropriate measures to prevent them from appearing or, where applicable, reducing or eliminating their impact. It is therefore responsible for the design and implementation of control mechanisms and for ensuring their fulfilment across the organisation. Accordingly, various multi-discipline committees have been set up and they meet on a regular basis to analyse the situation and evolution of the risks and, where applicable, adapt the control mechanisms and adopt the measures that are necessary for their reduction.

EMPLOYEES

Finally, the rest of the Viscofan Group employees shall comply with the measures in place in the risk control and prevention systems and, where applicable, report the conduct they consider as a possible risk for the Viscofan Group.

ETHICS COMMITTEE

The ethics committee is responsible for opening, on its own account or at the request of a third party, the investigation of any situation that may give rise to a situation of risk for the Viscofan Group as a result of breach of the Viscofan Group's internal regulations or any other circumstance. In the exercising of its respective duties, the company has continued to make progress in the identification, classification, organization and update of the risks that exist and in the introduction of control systems and preventive measures to avoid them appearing, as well as in the incorporation of systems that make it possible to reduce their impact as far as possible in the event of them occurring. Independently of all of the risks that could affect the Company and without aiming to give an exhaustive description of them, we have concentrated on describing the risks that the Company has identified as having the highest possibility of occurring or having an impact during 2012, which correspond to those in which we have increased the adoption of measures for their prevention or for the reduction of their consequences in the event that they do actually occur:

FINANCIAL RISKS

A) INTEGRITY OF THE PREPARATION OF THE FINANCIAL INFORMATION
The company and its group of companies should guarantee that the financial information prepared and transmitted to the financial markets provides a true, accurate, exact, complete and consistent

reflection of the financial situation through the establishment of mechanisms that guarantee control in its preparation and consolidation.

Measures adopted
The company has introduced a system for internal control of the financial information in which, in addition to the bodies responsible for risk management described above, the Corporate Finance Division was responsible for its design, start-up and dissemination, with support from the Finance Departments of each of the Viscofan Group companies and the Internal Audit Division. All the areas that take part to a greater or lesser extent in any of the stages of the preparation of financial information have also been involved.

This system is described in detail in the appendix to this Annual Corporate Governance Report.
In 2012, the audit committee, in coordination with the internal and corporate financial departments put in place a plan for monitoring and controlling the evolution of the control system, proposing corrective measures where necessary and verifying their effectiveness. The internal audit department has also included the continuous review of said controls in its annual plan for various subsidiaries, where said review will apply to the financial departments and areas that also take part in preparing the information: operations, human resources, purchasing and commercial, etc.

B) PROFITABILITY AND SUCCESS OF THE INVESTMENTS THAT HAVE BEEN MADE
In accordance with the BE MORE 2012-2015 strategy, the Viscofan Group is committed to increasing its operations to obtain a greater market share. During this period, important investments are to be made, such as the new collagen wrapper extrusion plants in China and Uruguay, which require exhaustive control and monitoring to guarantee fulfilment with the targets set for the Viscofan Group.

Measures taken
The company has consolidated the decision-making procedure and monitoring of investments through the Committee created for this purpose. This Committee reviews the investment plans approved for each subsidiary, placing particular emphasis on the most important projects.

In 2012, owing to the special relevance of the investments that were to be made, taking into account the expansion plans in countries such as China and Uruguay, the Group has channelled its coordination through its strategic Projects Division, appropriately planning the construction, installation of machinery and training of the human resources required for starting of the new installations. The Investments Committee has also monitored its preliminary approval, execution, evolution and return to guarantee compliance with key missions in the agreed terms, adapting the corresponding implantation plans as far as possible.

C) EXCHANGE RATE RISK
The company and its group of companies operate internationally and are therefore exposed to exchange rate risk for operations taking place in currencies other than the production or reporting currency, especially the dollar . The exchange rate risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign business.

The main exposure arises from the difference between sales and purchases in currencies other than the functional currency in the various companies that make up the Group. In this respect, the main risk arises from the differential between sales and expenses in dollars representing approximately 39% and 22% of the total Group sales and expenses, respectively.

Measures adopted
One of the ways of balancing the flows of collections and payments in the same currency is to bring the production centres closer to the main markets from a commercial point of view.

Although there are determining factors when it comes to deciding where to locate the production centres (access to raw materials, labour costs, customer service, logistics optimization), the fact

that the production and the market are both in the same country facilitates natural hedging of the exchange rate risk in the business, leading to purchases and sales taking place in the same currency.

The Group has large production centres in the United States, Brazil, Mexico and the European Union, four of the areas where most sales are generated. The Group is also increasing its production capacity in China, another market with high commercial potential, and Uruguay, setting up the production of collagen wrapping outside the Eurozone for the first time.

As a complement to this natural business hedging, in order to control the exchange rate risk that arises from future commercial transactions, the Group companies use forward exchange contracts, negotiated under the coordination of the corporate Cash Management Division.

The Group's risk management policy is to hedge a part of the net balance between collections and payments in currencies other than the functional currency that present the most net exposure based on expectations of future operating flows and the level of risk that the Group is prepared to take on.

To do this, exchange contracts are formalized during the process of preparation of the annual budget, taking as a basis the expected EBITDA for the coming year, the forecast net level of exposure and the level of risk that the Group is prepared to take on.

D) CREDIT RISK
The risk of customer debts pending collection is characterised by the geographical diversity of the customer base, owing to the fact that the Group's business is carried on in more than 100 countries, which makes it more difficult to chase up payments in the event of delay, especially in markets with lower levels of financial or regulatory development. In whatsoever case, the Group does not have any significant concentrations of credit risk.

In an unfavourable economic climate this situation becomes worse, although it is lessened by the slight probability that adverse financial circumstances are prevalent simultaneously in all geographical areas in which the Viscofan Group markets its products.

Measures adopted
The Company has put in place control, authorisation and follow-up procedures for all the customers to which it sells from any company in the Group to reduce the possibility of risk and, where applicable, minimise impact.

The internal procedure includes the credit risk check for all new customers before starting up the commercial relationship, together with a regular check of the risk cover of each customer and, where applicable, specific revisions each time a customer's circumstances or environment change: increases in demand, changes to its financial situation, corporate transactions (mergers, sales acquisitions) change to the risk rating of the country in which it is located, changes to regulations and delays in payments, etc.

There are also internal procedures in place to ensure that sales are made to customers with an appropriate credit record or, where applicable, sufficient guarantees for payment are required, including payment in advance for sales which, owing to the absence of a record or when there is reasonable doubt, may be problematic. For its part, the Risks Committee regularly monitors customer risks and fulfilment of the policies in place to reduce said risk. It also proposes corrective measures in areas in which opportunities for improvement arise.

The Group has credit risk cover policies that cover most of the balances receivable from customers.

E) LIQUIDITY RISK
The Group has to guarantee the availability of liquidity for its operations, especially in the current economic climate of restrictions on financing.

The Group's world presence makes it possible to obtain finance under more competitive conditions thanks to access to international banks, albeit with low-level presence in Spain.

Measures adopted
Control of financial leverage in recent years and maintenance of streamlined financial statements accompanied by favourable operating results have helped to reduce this risk and its impact in the event of it occurring and have made it possible to carry out careful management of the liquidity risk, based on the maintenance of sufficient cash and negotiable securities, the availability of financing through sufficient committed credit facilities and sufficient capacity for settling market positions.

The current situation enables adequate finance for the investment projects included in the BE MORE Strategy 2012-2015, maintaining satisfactory remuneration for shareholders without the need for any relevant increases to current debt levels.

F) INTEREST RATE RISK IN CASH FLOWS AND REASONABLE VALUE
The company's exposure to the risk of change in interest rates is mainly due to the loans and credits received from financial institutions at variable interest rates.

Measures adopted
The Group does not hold any significant paid assets. The Group formalizes hedging agreements to mitigate part of the risk of a possible rise in interest rates. In any case, the Viscofan Group's leverage percentage is low, which makes the impact of a possible rise in interest rates irrelevant. Financing at variable interest rates is mainly referenced to the Euribor and the Libor-dollar.

OPERATIONAL RISKS

G) SUPPLY OF RAW MATERIALS AND ENERGY
The supply of raw materials of plant origin (cellulose, abaca paper, film, etc.) may be conditioned by adverse weather conditions or natural catastrophes.

Concerning raw materials of animal origin (collagen), disease, the development of other sectors that are consumers of products directly associated with our raw materials and the global increase in consumption of the products manufactured by the Viscofan Group may have an impact on their price or even their availability.

Furthermore, the risks also have to be included that are derived from the supply of energy and due to volatility in gas and electricity prices, which may be increased by the political or economic situation of producer countries and their relations with consumer countries, as well as by extreme weather conditions. The catastrophes that have taken place during recent years (earthquakes, floods in various regions of the world, hurricanes, etc.) and the unstable world economic climate have led to an increase in the sensitivity of the markets, industry and investors to this type of risk. In addition, this risk is reduced by the increasing globalization of the world market, which provides better access to raw materials from other continents, thus reducing the impact of the risk. With regard to energy supplies, the significant effect of geographic location, which prevents reduction of the risk to access to other markets, is partially compensated by the different locations of the Group's production centres on different continents and in very different countries in terms of legislation and resources.

Measures adopted
During 2012, the Viscofan Group has continued to investigate identification and selection of raw materials suppliers of various origins who are located in different geographical areas and make it possible to balance the potential impact in the event of any of the circumstances described arising.

The Viscofan Group continues to promote the approval of new suppliers and the search for suitable technology solutions for the incorporation of alternative raw materials to guarantee continuity of the production level required by the market at times when it is most difficult to obtain supplies.

These measures are enhanced by Viscofan's decision to set up an exclusion plant in China which, together with the existing converting centre, completes the production cycle. They are further enhanced by its decision to build the first collagen wrapping preparation plant in America in Uruguay.

In addition, with respect to the energy supply, in recent years, cover was arranged to partially cover the above-mentioned volatility. As part of an energy optimisation plan in place at the Group's plants, investments have also been made to allow optimum energy use and reduce dependence on the supply. Viscofan has also intensified monitoring of price changes and flexibility of supply by searching for suppliers that enable it to adapt more quickly to changing market circumstances.

H) MATERIAL DAMAGES AND PRODUCTION CONTINUITY
The Viscofan Group has to guarantee business continuity at times when exceptional circumstances may arise that the Group's assets and its production capacity.

Measures adopted
Following the engineering project carried out with the help of external experts at the Group's plants to identify possible improvements to reduce this type of risk, there have been significant improvements at all the Group's production plants thanks to the recommendations included in the final report. Furthermore, there has been a complete review of the policy on material damages and machinery breakdowns to adapt their conditions and the cover of risks to the Group's evolution in recent years and the current circumstances of the Viscofan Group.

Additional policies have also been taken out to cover the risks associated with the construction and assembly of the new production installations until they are in full operation.

The Viscofan Group is continuing its strategy of implementation in different countries, which favours diversification and the subsequent reduction of risk by increasing production alternatives in the hypothetical case of material damage that affects continuity of production.

I) LABOUR CONFLICTS

The Viscofan Group employs more than 4000 people across the world at production centres in eight countries. On this scenario, it has complex labour relations that may give rise to different kinds of conflicts, where the concept of labour conflict refers to legal disputes or interests arising between employers and employees.

In certain cases of labour conflict, workers may decide to go on strike. A long strike at any of the Group's production centres affects the capacity for supplying certain customers or markets.

Measures adopted
Labour conflicts are solved after negotiations between the workers' trade union representatives and the representatives of the companies in the Viscofan Group. The purpose of the negotiations is to reach an agreement on the labour conditions applicable to all the workers in the area covered by the talks.

In the hypothetical case of a strike caused by labour conflict, as described for the business continuity risk, the implantation in different countries favours diversification and increases alternatives for production.

STRATEGIC RISKS

J) COMPETITIVE SECTOR ENVIRONMENT

The incorporation in the sector of casings from new geographical areas in which consumption of products manufactured by the Viscofan Group operates in a market that has undergone significant growth in recent years with the appearance of has encouraged the entry of new competitors, some of which have important material and financial resources.

Furthermore, the change in demand in a climate of global recession has led to the search for lower cost alternatives and technology requirements that are perceived as a business opportunity to offer replacement products that satisfy the least demanding sectors.

In the vegetable canning sector, the economic crisis that affects Europe and the conditions imposed on the market by large customers that concentrate demand have modified manufacturers' strategy when adapting to new adverse circumstances as far as possible.

The evolution of this competitive environment may affect sector profitability, especially with regard to companies with lower equity levels.

Measures adopted
Viscofan has continued with its strategy as a global producer in the casings sector, consolidating its offer throughout the range of products currently existing on the market and increasing its operations with production plants in Asia and America to guarantee supply from all geographical areas to customers worldwide with a criterion of closer proximity that encourages a more local service and better adaptation to the needs of each market.
In the canned vegetables sector, Viscofan has maintained its presence in China for the production of canned asparagus and, in 2012, it extended its business in the country to the local production of other canned vegetables, maintaining compliance with quality standards in accordance with Spanish market requirements in an environment of cost control and resource maximisation to guarantee its leadership in Spain.
Furthermore, IAN, S.A.U. has continued its expansion in the ready meal sector through development of new products prepared using methods to conserve their organoleptic properties in accordance with the new requirements for quality products.
IAN, S.A.U. has also developed a plan to defend the industrial property developed to protect some of its products to achieve a competitive advantage in the canned food sector as provided by said industrial property.

K) COUNTRY RISK

Viscofan has wrapper production centres in Spain, Germany, Brazil, China, United States, Mexico, Czech Republic and Serbia and vegetable food production centres under the IAN Group brands in Spain and China, together with 14 commercial offices. Viscofan also commercialises its products in more than 100 countries.

Political or social instability, economic cycles, currency devaluations, risk of terrorism, etc. in the countries with which Viscofan has production or commercial relations is a country risk that may affect Viscofan's commercial relations and lead to a loss of a direct investment.

Measures adopted
The geographical dispersion of the wrappings market helps mitigate this risk and compensate the negative cycles of some countries with the positive cycles of others. It also provides complementary production bases which, in the case of the more important lines of business, make it possible to supply the same country from more than one centre. Accordingly, the main efforts focus on controlling credit risks in high-risk countries and foster the exchangeability of production processes between different production plants.

L) ENVIRONMENTAL RISK

As a result of its production process and the use of its installations, the Viscofan Group's business generates waste, discharges and emissions that may affect the environment and lead to claims for damages, disciplinary procedures and damages that affect its image and reputation.

Measures adopted
The risk policies include environmental risks so that they can be identified and controlled.
Accordingly, based on the environmental management systems and monitoring work at the production facilities, investments and maintenance expenses are repeatedly made to reduce the environmental impact of our business. The Viscofan Group also continues to work on dialogue channels and is in permanent collaboration with the regulating bodies and players that are affected. It also takes out the corresponding insurance policies.

LEGAL RISKS

M) TEMPORARY AMENDMENTS TO LEGISLATION

The current circumstances of the Spanish economy have led to the approval of temporary measures to help economic recovery and revitalisation.

However, the provisional nature of said measures, together with their clear purpose of providing immediate partial solutions in a specific environment and the absence of subsequent legislative development for their interpretation and application hinder compliance and, where applicable, use when they may work in the Company's favour. All this also leads to a climate of legal uncertainty and volatility that may complicate the taking of strategic decisions.

Furthermore, the approval of measures to increase private contribution to re-establishing the economic balance, mainly in the area of taxation and business subsidies, may have an impact on the company's results.

Measures adopted
In the case of Viscofan, owing to its international presence and the relative weight of the business in Spain in the Group's results, the effect of this risk is reduced.

However, measures have been implemented for the appropriate monitoring of the modifications that may arise and experts are consulted in each of the areas that may be affected. The behaviour of other affected parties are observed and the Company's actions are coordinated, where applicable, with the decisions that are considered the most appropriate in accordance with the information that is available at any given time.

N) LEGISLATIVE PROTECTIONISM

The world instability caused largely by the economic crisis has led to a desire for protectionism by national legislators that has brought about the implantation of legal measures to favour local economies, hindering access by foreign investment or the commercialisation of products from other countries. The specifications of the products made by the Viscofan Group and the difficulties involved in finding alternatives for their replacement reduce the influence of this risk on the Viscofan Group's business.

Measures adopted
The Viscofan Group continuously monitors legislative amendments in the countries in which it operates and in the main countries in which it carries on its commercial business to ensure the actions that are required to adapt to said changes to the preparation of new products, local implantation or the intensification of commercial actions that help remove barriers.

N) CRIMINAL LIABILITY OF BODIES CORPORATE

The amendment of the Spanish Criminal Code in 2010 whose main modification consisted of the possibility of attributing criminal liability to companies as a result of the conduct of their executives, directors or employees, has increased the risk of legal non-compliance due to the possible penalties that a company may have to face.

Measures adopted
After implanting and disseminating the measures for preventing and detecting criminal liability in all the companies in the Viscofan Group, it has been disseminated through publication on the corporate intranet and the publication of news on specific related issues. Control actions have also been taken in coordination with the internal audits department to check compliance with the various policies, manuals and procedures in different areas, fostering the implantation of improvement measures, where applicable.

Furthermore, at least two local managers have been appointed and trained at each of the Group's companies and their responsibilities consist of the local monitoring of knowledge and compliance with the Group's internal regulations. This includes measures for preventing and detecting the criminal liability of all their company's employees and acting as a link with the Corporate Responsibility and Regulatory Compliance Committee.

D.2. Indicate whether any of the various types of risks (operational, technological, financial, legal, reputational, tax-related, etc.) affecting the Company and/or its Group materialized during the fiscal year.

YES

If so, indicate the circumstances giving rise to them and whether the established control systems have worked:

Risks occurred during the year
Credit risk
Causes of risks
Customer default
Operation of control systems
Impact has been low-level owing to the credit insurance cover. In particular, 0.85 per thousand of sales. In absolute terms, it has not been relevant because the default volume has been kept at very low levels.

Risks occurred during the year
Legal risks
Causes of risks
Legislative amendments to the fiscal system of the Spanish energy sector
Operation of control systems
The measures that have been adopted have allowed Viscofan to carry out actions which, under current circumstances, may make it possible to reduce this risk. At the present time, the impact of these measures cannot be known as some of them are still pending.

Risks occurred during the year
Operational risks
Causes of risks
Increase in raw material prices
Operation of control systems
The approval of new suppliers and the search for alternatives in different geographical locations have helped reduce the impact of this effect.

Risks occurred during the year
Material damages and continuity of production

Causes of risks
Losses occurring at production plants.

Operation of control systems
Owing to the improvements that have been put in place, losses have not been particularly important and their economic impact has been low-level thanks to the cover from the insurance policies taken out by the Group. In 2012, Viscofan has benefited from the share in profits due to the low level of losses registered.

D.3. Indicate whether there is any committee or other decision-making body in charge of establishing and supervising these control mechanisms.

YES

If so, describe its duties:

Name of the committee or body

INTERNAL AUDIT

Description of functions
The Internal Audit Department has among its objectives the identification and assessment of any type of risk that the Organization may face and for this purpose it is authorized to examine and assess the systems and procedures for control and mitigation of all risks, as well as the methodologies used.

Name of the committee or body

AUDIT COMMITTEE

Description of functions

Ultimate responsibility for the risk control and management policy lies with the Board of Directors, as established in Article 5 of the Board Regulations.

The Audit Committee also has the following functions related to the control of financial information in particular and the internal control and risk management systems in general, as provided in article 13 of the Company's Board Regulations:

C) With respect to internal control and reporting systems:

(a) Overseeing the process of preparing and ensuring the integrity of the financial information relating to the company and its group, ensuring that the financial information internal control system (FIICS) is correctly designed and that all legal requirements have been met, and defining an appropriate consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, special purpose vehicles, and the correct application of accounting standards.

(b) Overseeing the process devised by the senior management for instituting lawsuits, making assessments and reaching significant estimates, and the impact thereof on the financial statements.

(c) Reviewing, analysing and discussing the financial statements and other relevant financial information with the senior management team and the internal and external auditors so as to ensure that the information is reliable, understandable and relevant, and that the accounting standards used for the preceding year have been duly followed.

(d) Monitoring the suitability of the control policies and procedures in place. Reviewing the internal control and risk-management systems, so that the main risks can be correctly identified, managed and reported.

The Audit Committee is likewise responsible for overseeing the internal audit function and relations with the external auditor, the aim being to safeguard its independence and ensure that an unqualified audit report is issued.

D.4. Identification and description of the procedures for compliance with the various regulations that affect the Company and/or its Group.

In 2012, the Viscofan Group has intensified its relations with external legal advisers in countries in which the Viscofan Group's presence is greater, as well as in countries in which new production plants are being implanted.

All with the purpose of obtaining more knowledge about specific issues of local legislation that has been amended or, in the case of China and Uruguay, to gain better knowledge of the legislation that is applicable to our business.

Internal procedures have also been put in place to ensure a higher level of control of compliance with the various regulations and the monitoring of amendments to Spanish legislation has also been intensified owing to its particular circumstances.

Furthermore, a code on travel and accommodation abroad has been brought into the Group's internal regulations to verify compliance with the legislation of the destination countries by all the Group's employees during their temporary or permanent displacements.

Finally, at least two local managers have been appointed and trained at each of the Group's companies and their responsibilities consist of the local monitoring of knowledge and compliance with the Group's internal regulations. This includes measures for preventing and detecting the criminal liability of all their company's employees and acting as a link with the Corporate Responsibility and Regulatory Compliance Committee.

E. GENERAL SHAREHOLDERS' MEETING

E.1. Indicate and, if applicable, explain whether there are differences with the minimum requirements set out in the Spanish Public Limited Companies Act in connection with the quorum needed to hold a valid General Shareholders' Meeting.

NO

	% Quorum differing from that set forth in Section 102 of the Spanish Public Limited Companies Act for	**% Quorum differing from that set forth in Section 103 of the Spanish Public Limited Companies Act for**

	general circumstances	the special circumstances set forth in Section 103
Quorum required on first call	0	0
Quorum required on second call	0	0

E.2. Indicate and, if applicable, explain whether there are differences with the rules provided by Spanish Public Limited Companies Act for the adoption of corporate resolutions.

NO

Describe the differences with the rules provided by the Spanish Public Limited Companies Act.

E.3. Explain the rights of the shareholders regarding general shareholders' meetings which are different from the rights provided in the Spanish Public Limited Companies Act.

Shareholder rights relating to attendance, proxies, voting, delegation, information, dissent, procedure, approval of minutes, and all other issues relating to the General Meeting, are set forth in the company's Articles of Association (Articles 22 to 25) and in the Regulations of the General Meeting of Viscofan, S.A.. Any matters not expressly envisaged in these internal documents will be governed by the Spanish Enterprise Act (Ley de Sociedades de Capital) and other applicable law.

The aforementioned provisions of the company's Articles of Association read as follows:

Article 22: Shareholders with at least 1000 shares in the Company filed with the corresponding registry five days prior to the date scheduled for the Meeting will have the right to attend the General Shareholders Meeting.

The Securities Clearing and Liquidation Service or, where applicable, the entities associated therewith, must provide them with the corresponding certificates so that they may exercise the rights that assist them as shareholders.

Shareholders who do not hold the number of shares required to attend the meeting may pool their shares for said purpose.

Art. 23. All shareholders entitled to attend may be represented at the General Shareholders Meeting by another individual.

Said proxy will be awarded in writing or by remote means of communication, as long as the identity of the individual exercising the right to vote is duly guaranteed.

Said proxy must be awarded specially for each Shareholders Meeting.

Art. 24: The resolutions will be carried by majority vote and will be recorded in the company's minutes book.
Shareholders may vote directly or by proxy on motions included on the agenda for the meeting by post, electronic channels, or any other means of remote communication, provided that the identity of the individual exercising their voting rights is duly verifiable.

Each share carries one vote.

Shareholders who cast their votes remotely must be treated as present when calculating the quorum for the meeting.

The minutes will be signed by the chairman and the secretary and any certificates that may be issued of such minutes must bear the signatures of both persons.

Art. 25: In reference to shareholders' rights to information, challenge, procedures, the adoption of minutes and other circumstances related to the Shareholders Meetings, the rules provided in the Capital Companies Act and other applicable provisions will apply.

The Regulations of the General Shareholders' Meetings specifically govern the following shareholder rights:

CHAPTER IV

Article 11.- Right to access to information.

The Company will use all means at its disposal to ensure access to information for the Company's shareholders.

Article 12. Shareholders Meeting Documentation

At the time to Notice of Meeting is published, the Company shall make available to the shareholders the documentation on the times to be discusses at the General Shareholders Meeting included on the Agenda. This documentation shall be available in hard copy at the corporate domicile as well as in digital form on the Company's web page. In addition, the Company will send said information to shareholders by whom it is requested at no cost.

Article 13. Request for Information

Up to seven days prior to the date set for the holding of the General Shareholders Meeting, and during the Meeting, with respect to the items included on the Agenda, shareholders may also ask Management for information or clarifications and may ask questions about the information provided, as well as any other information accessible to the public provided by the Company since the last General Shareholders Meeting. Management will provide such information immediately or in writing unless it is prejudicial to the Company's interests.

CHAPTER V

Article 14. Right to Attend

The right to attend (pursuant to article 22 of the articles of association) shall be for shareholders who hold at least 1000 shares in the Company and who have them entered in the corresponding register at least five days before the Meeting. Shareholders who do not hold the number of shares required to attend may form groups for such purpose.

Article 15. Shareholder Accreditation

The Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (Iberclear) or, as appropriate, the entity or entities competent to perform such function or Iberclear member entities will provide to the shareholders the pertinent certificates or any other document evidencing ownership of the shares after publication of the Notice of Meeting.

Article 16. Proxy Voting

All shareholders entitled to attend may be represented at the General Shareholders Meeting by another individual. Such proxy will be conferred in writing or by remote means of communication

that duly ensure the identity of the individual exercising voting rights, as a special power for each Shareholders Meeting.

E.4. Indicate, if applicable, the measures adopted to encourage the participation of shareholders at General Shareholders' Meetings.

As is usual practice in the call to the General Shareholders Meeting in recent years, in order to encourage participation by shareholders, the Board resolved to distribute an attendance premium of €0.006 per share for the shares in attendance in person or by proxy that have duly certified their attendance or representation at the General Shareholders Meeting of 23 May 2012. 35,300,083 shares of the 46,603,682 shares in the share capital attended the meeting, taking the participation of said capital to 75.75%.

E.5. Indicate whether the chairman of the General Shareholders' Meeting is also the chairman of the Board of Directors. Describe, if applicable, the measures adopted to ensure independence and proper operation of the General Shareholders' Meeting:

YES

Description of measures

The General Shareholders' Meeting is chaired by the Chair of the Board of Directors.

In addition to the existing regulations to guarantee the rights of shareholders during the General Meeting, Article 23 of the Rules for General Shareholders' Meetings specifically establishes detailed measures to ensure independence and proper functioning during the General Meeting and ensure that any shareholders that so wish are given the opportunity to take part in the discussions and receive any information requested.

B) Interventions and information

1. Shareholder interventions will take place in the order in which they are called upon by the Panel. Shareholders will initially have a maximum of five minutes for each intervention, notwithstanding the Chairman's power to extend such time. Nonetheless, where the number of interventions requested or other circumstances so dictated, the Chair may set a maximum duration for interventions of less than five minutes, in all cases treating all shareholders requesting interventions equally and respecting the principle of non-discrimination.

2. Directors will be bound to provide the information requested, except under the circumstances set forth in Article 13 above or when the information requested is not available at the Shareholders Meeting. In such case, such information shall be provided in writing within seven days following the adjournment of the Shareholders Meeting, to which end the shareholder shall indicate the domicile or address to which to send the information.

3. The information or clarification requested shall be provided by the Chair or, as appropriate and at the Chair's request, by the chairman of the Audit Committee, the Secretary, a Director or, if appropriate, any employee or expert in the matter who is present. Furthermore, as is usual practice, the Board required the presence of a notary for the General Meeting held on 23 May 2012 for the purpose of drawing up the minutes and ensuring that the meeting was held in compliance with applicable law and internal regulations to protect all shareholder rights.

E.6. Indicate the amendments, if any, made to the Regulations for the General Shareholders' Meeting during the fiscal year.

There have been no changes to its regulations in 2012.

E.7. Indicate the data on attendance at the general shareholders' meetings held during the fiscal year referred to in this report:

Attendance information					
Date of the General Shareholders Meeting	% physical attendance	% represented	% voting remotely		Total
			Electronic voting	Other	
23/05/12	6.740	46.131	0.000	22.879	75.750

E.8. Briefly describe the resolutions adopted by the shareholders acting at the General Shareholders' Meetings held during the fiscal year referred to in this report and the percentage of votes by which each resolution was passed.

On second call, the shareholders at Viscofan, S.A.'s General Shareholders Meeting held on 23 May 2012, adopted the following resolutions:

1) The meeting adopted the Balance Sheet, the Profit and Loss Account, the Statement of Changes in Net Equity, the Cash Flow Statement, the Memorandum, the Management Report, including the Annual Social Management and Corporate Governance Report of the trading company Viscofan, S.A., as well as the Consolidated Statement on the Financial Situation, the Consolidated Results Account, the Statement on the Consolidated Overall Result, the Consolidated Statement on Changes in Net Equity, the Consolidated Cash Flow Statement, the Memorandum, the Consolidated Social and Ordinary Management of the group of companies of which said trading company is the parent, all corresponding to the year closed at 31 December 2011.

As a result of the resolution, in the individual balance sheet of Viscofan, €46,324,059.91 are allocated to the distribution of dividends on account of the results for the year 2011, the amount of 3,589,477.20 is allocated to the legal reserve as a result of the increase in capital adopted at the General Shareholders Meeting of 14 April 2011, and the amount of €6,191,426.16 is allocated to voluntary reserves. Consequently, the resolution was adopted to distribute a complementary dividend of €0.634 per share, which represents a total figure of €29,546,734.39, which will be shared out to the shareholders as from 5 June 2012.

Taking into account the dividend shared out on account on 22 December 2011, which was €0.360 per share, representing a total figure of €60 ,777,325.52, the proposed total remuneration per share, including the premium for attendance at the General Shareholders Meeting of €0.006 per share, is €1 per share, which gives a total of €46,603,682.

Votes in favour: 99.85%.
There were no votes against.
Abstentions: 0.15%.

2) The meeting agreed to appoint Ernst & Young, S.L. as auditors to review the financial statements of Viscofan, S.A. and the consolidated annual accounts of the business group of which Viscofan is the parent, for the fiscal year closing on 31 December 2011.

Votes in favour: 99.83%.
Votes against: 0.02%.
Abstentions: 0.15%.

3) The meeting agreed to appoint José María Aldecoa Sagastasoloa as independent director for a six-year term of office running from the date of the resolution.

Votes in favour: 99.84%.
Votes against: 0.01%.
Abstentions: 0.15%.

4) The meeting agreed to appoint Alejandro Legarda Zaragüeta as independent director for a six-year term of office running from the date of the resolution.

Votes in favour: 99.84%.
Votes against: 0.01%.
Abstentions: 0.15%.

The meeting agreed to renew, for the maximum term envisaged by law, and running from the date of the resolution, the authorisation for the Board of Directors to buy and sell treasury shares on the market at the listed share price for the day of the transaction, subject to the maximum number of shares permitted by the Spanish Capital Companies Act (Ley de Sociedades Anónimas) and related legal provisions, with the minimum price being the par value and a maximum of €45.

Votes in favour: 99.82%.
Votes against: 1.03%.
Abstentions: 0.15%.

6) It was agreed to vest powers in the Board of Directors to interpret, rectify, apply, expand upon, develop and execute the resolutions adopted, and to vest powers in José Domingo de Ampuero y Osma and José Antonio Canales García, authorising them, jointly, severally and indistinctly, to notarise in public instrument those resolutions that require notarisation, and to file the accounts and request registration of those documents prescribed by law.

Votes in favour: 99.75%.
Votes against: 0.10%.
Abstentions: 0.15%.

7) The meeting approved, by advisory vote, the report on directors' remuneration policy pursuant to recommendation 40 of the Unified Good Governance Code.

Votes in favour: 69.93%.
Votes against: 28.89%.
Abstentions: 1.18%.

The Board also informed of the shareholders of the amendments included in the Board Regulations, which consisted of the amendment to article 8 to adapt it to recommendation 29 of the Unifi Code of Good Governance.

E.9. Indicate whether there are any restrictions in the Articles of Association requiring a minimum number of shares to attend the General Shareholders' Meeting.

YES

Number of shares required to attend the General Shareholders' meeting:	1,000

E.10. Indicate and justify the policies followed by the company with respect to proxy voting at the General Shareholders' Meeting.

Chapter V - Article 16 of the Rules for the General Shareholders Meeting sets forth:

´Proxy Voting. All shareholders entitled to attend may be represented at the General Shareholders Meeting by another individual. Such proxy shall be conferred in writing or by remote means of communication that duly ensure the identity of the individual exercising voting rights, as a special power for each Shareholders Meeting.'

Article 23 of the Company's Articles of Association is worded along the same lines:

'Any shareholder entitled to attend may be represented by proxy at the General Shareholders Meeting. Said proxy will be awarded in writing or by remote means of communication, as long as the identity of the individual exercising the right to vote is duly guaranteed. Such proxy shall be conferred specially for each Shareholders Meeting´.

Moreover, when it publishes notice of the General Shareholders' Meeting, the company provides the relevant forms and the rules for appointing a proxy and voting remotely, either electronically or by post, adopted by the plenary session of the Board of Directors for any shareholders wishing to exercise this option:

1. **REMOTE VOTING**

The shareholders of the Company with the right to attend and vote may exercise their vote in relation to the items on the agenda of the General Shareholders Meeting through the remote channels of communication before the Shareholders Meeting in accordance with the Capital Companies Act, article 24 of the Company Bylaws and article 22 of the General Shareholders

Meeting Regulations.
1.1 Channels for remote voting
The channels accepted for remote voting are as follows:

(I) Electronic channels:

For remote voting on electronic channels connected to the Company, shareholders must complete the form placed at their disposal for the corresponding General Shareholders Meeting on the Company's website at www.viscofan.com.

The form must be attached to an email signed digitally with a recognised and advanced electronic signature in accordance with section [3.1]; the email must be sent to the email address provided by the Company.

(II) By post:

For remote voting by regular post, shareholders shall fill out and sign the 'Remote Voting by Post' box on the attendance card issued in hard copy by the corresponding member entity of the Spanish Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, Sociedad Anónima (Iberclear). After they have completed and signed the attendance, proxy and voting card and attached a photocopy of their national identity document or passport, if the shareholder is an individual and a document certifying the proxy, if the shareholder is a body corporate, it must be sent or delivered in a closed envelope to the Company's place of business and for the attention of the Secretary of the Board.

Should the attendance, proxy and voting card provided by the depositary entity not include the 'Remote Voting by Post' box, the shareholder wishing to vote by post must download the Voting Card from the Company's website or print it out on paper, completing and signing it, together with the attendance card issued on paper as obtained from the corresponding participating entity of the Spanish Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, Sociedad Anónima (Iberclear). After both cards have been completed and signed and a photocopy of the national identity document or passport has been attached, if the shareholder is an individual and a document certifying the proxy, if the shareholder is a body corporate, it must be sent or delivered in a closed envelope to the Company's place of business and for the attention of the Secretary of the Board.

2. **PROXY**

The shareholders of the Company may award proxy in writing, personally or through the remote channels of communication before the Shareholders Meeting in accordance with the Capital Companies Act, article 23 of the Company Bylaws and article 16 of the General Shareholders Meeting Regulations.

2.1 Remote channels for awarding proxy

The following remote channels of communication may be used to confer proxies:

(I) Electronic channels:

In order to confer proxies electronically, company shareholders must visit the company’s website at www.viscofan.com and access the on-line section set up for such purpose.

To award proxy electronically, the shareholder must have a digital signature that meets the requirements provided in section [3.1] of these regulations. Shareholders must complete the electronic form made available by the Company for each General Shareholders Meeting and sign it with his/her electronic signature and send it to the Company. A copy must also be sent to the appointed proxy to the email address provided for said intent and purpose in the term set in section 3 of these Regulations. The representative must accept the proxy awarded by making a copy of the electronic document signed by the shareholder who is being represented so that it can be submitted to the Company at the shareholders entry registration desk in the place and on the date specified for the General Shareholders Meeting.

When the proxy is conferred upon any director and/or the Chairman and/or the Secretary of the Board of Directors, this communication of the award of the proxy and its acceptance will take effect from the time the company receives the electronic proxy.

Representatives may only exercise their principal’s voting rights by attending the meeting in person.

(i) By post:

In order to grant proxies by regular post, shareholders shall fill out and sign the attendance card issued in hard copy by the corresponding member entity of the Spanish Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, Sociedad Anónima (Iberclear) and send it by regular post to the place of business in the term set in section 3 of these Regulations, also signed by the appointed proxy in acceptance of the award.

The person to whom the vote is delegated may only exercise such voting rights by attending the General Meeting in person.

On the date of the General Meeting, representatives must bring their national identity document or passport to the meeting so that the company can verify the conferred proxy, along with a copy of the proxy where appropriate.

When representation is conferred upon any director and/or the Chairman and/or the Secretary of the Board of Directors, for the intents and purposes of notification of the proxy and acceptance thereof by the representative's receipt by the company of said delegation shall suffice.

In the event that the attendance card does not include the name of the representative, it shall be understood that the representation is conferred upon the Board of Directors or the person designated by the Board.

When the shareholder awarding proxy does so with no express instructions on the vote, it will be understood that the representative has been instructed to vote in favour of the proposals put by the Board of Directors.

E.11. Indicate whether the Company is aware of any policy of institutional investors as to participating or not in the decisions of the Company:

NO

E.12. Indicate the address and manner for accessing corporate governance content on your website.

This content is available to the general public and shareholders alike via the company's website (www.viscofan.com) and can be accessed through the Corporate Responsibility section or through the Investor Relations section, subsequently clicking on the Corporate Governance tab. The information also forms part of the documentation relating to the General Meeting and is similarly included in the Annual Report, both of which can also be accessed directly from the home page.

F. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the company's degree of compliance with the recommendations of the Unified Good Governance Code.

If the company does not comply with any of such recommendations, please explain the recommendations, standards, practices or criteria applied by the company.

1. The Articles of Association of listed companies do not limit the maximum number of votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of the acquisition of its shares on the market.
See sections: A.9, B.1.22, B.1.23, E.1 and E.2

Complies

2. When both the parent company and a company controlled by it are listed companies, they both provide detailed public disclosure on:
a) Their respective areas of activity, and any business dealings between them, as well as between the controlled listed company and other companies belonging to the group;
b) The mechanisms in place to resolve any conflicts of interest that may arise.
See sections: C.4 and C.7

Not Applicable

3. Even if not expressly required under applicable commercial Laws, transactions involving a structural change of the company and, in particular, the following, are submitted to the shareholders at the General Shareholders' Meeting for approval:
a) The transformation of listed companies into holding companies through "subsidiarization," i.e., reallocating core activities to controlled entities that were previously carried out by the company itself, even if the latter retains full ownership of the former;
b) The acquisition or disposal of key operating assets, when it involves an actual change in the corporate purpose;
c) Transactions whose effect is tantamount to the liquidation of the company.

Complies

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information to which recommendation 28 refers, are made public at the time of publication of the notice of call to the General Shareholders' Meeting.

Complies

5. Matters that are substantially independent are voted on separately at the General Shareholders' Meeting, in order to allow the shareholders to express their voting preferences separately. This rule applies, in particular:
a) To the appointment or ratification of directors, which shall be voted on individually;
b) In the event of amendments to the Articles of Association, to each article or group of articles that are substantially independent of one another.
See section: E.8

Complies

6. Companies allow split votes so financial intermediaries who are recorded as having shareholder status but act on behalf of different clients can divide their votes in accordance with the instructions given by such clients.
See section: E.4

Complies

7. The Board performs its duties with a unity of purpose and independent judgment, affording equal treatment to all shareholders in furtherance of the corporate interests, which shall be understood to mean the optimization, in a sustained fashion, of the financial value of the Company.
It likewise ensures that in its dealings with stakeholders, the Company abides by the laws and regulations, fulfils its obligations and contracts in good faith, respects the customs and good practices of the industries and territories in which it carries on its business, and
upholds any other social responsibility standards to which it has voluntarily adhered.

Complies

8. The Board assumes responsibility, as its core mission, for approving the company's strategy and the organization required to put it into practice, and to ensure that Management meets the objectives set while pursuing the company's interest and corporate purpose. As such, the full Board reserves for itself the right to approve:
a) The company's policies and general lines of strategy, and in particular:
i) The strategic or business plan as well as the management objectives and annual budgets;
ii) The investment and financing policy;
iii) The definition of the structure of the corporate group;
iv) The corporate governance policy;
v) The corporate social responsibility policy;
vi) The policy for remuneration and assessment of the performance of senior managers;
vii) The risk control and management policy, as well as the periodic monitoring of internal information and control systems.
viii) The dividend policy, as well the treasury stock policy and, especially, the limits thereto.

See paragraphs: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:
i) At the proposal of the chief executive of the Company, the appointment and, if applicable, removal of senior managers, as well as their severance packages.

See section: B.1.14

ii) The remuneration of directors and, in the case of executive directors, the additional remuneration for their executive duties and other terms and conditions that must be included in their contracts.

See section: B.1.14

iii) The financial information that the Company must periodically make public due to its status as listed company.
iv) Investments or transactions of all kinds which are strategic in nature due to the large amount or special characteristics thereof, unless approval thereof falls upon the shareholders at the General Shareholders' Meeting.
v) The creation or acquisition of interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature whose complexity might impair the transparency of the group.
c) Transactions made by the company with directors, with significant shareholders or shareholders with Board representation, or with other persons related thereto ("related-party transactions").
However, Board authorization need not be required in connection with related-party transactions that simultaneously meet the following three conditions:
1. They are governed by standard-form agreements applied on an across-the-board basis to a large number of clients;

2. They are conducted at prices or rates generally set by the party acting as supplier of the goods or services in question;
3. The amount thereof is no more than 1% of the Company's annual revenues.
It is recommended that related-party transactions only be approved by the Board upon the prior favourable report of the Audit Committee or such other committee handling the same function; and that the directors affected thereby should neither exercise nor delegate their votes, and should withdraw from the meeting room while the Board deliberates and votes on the transaction.
It is recommended that the powers granted herein to the Board are conferred without the power of delegation, except for those mentioned under b) and c) above, which may, for urgent reasons, be adopted by the Executive Committee subject to subsequent ratification by the full Board.

See sections: C.1 and C.6

Complies

9. In order to operate effectively and in a participatory manner, the Board ideally is comprised of no few than five and no more than fifteen members.

See section: B.1.1

Complies

10. External directors, proprietary and independent, occupy an ample majority of the Board and the number of executive directors is the minimum necessary number, bearing in mind the complexity of the corporate group and the percentage interest held by the executive directors in the Company's share capital.

See sections: A.2, A.3, B.1.3 and B.1.14.

Complies

11. If there is an external director who cannot be deemed either proprietary or independent, the company explains the circumstances and the links this director maintains with the company or its managers or with its shareholders.

See section: B.1.3

Not applicable

12. Among external directors, the relation between the number of proprietary directors and independent directors reflects the proportion existing between the share capital of the company represented by proprietary directors and the rest of its capital.
This strict proportionality standard can be relaxed so that the weight of proprietary directors is greater than would correspond to the total percentage of the share capital that they represent:
1. In large cap companies where few or no equity stakes attain the legal threshold as significant, but there are shareholders holding interests with a high absolute value.
2. Companies where there is more than one shareholder represented on the Board and these are not linked between themselves

See section: B.1.3, A.2 and A.3

Complies

13. The number of independent directors represents at least one third of the total number of directors.
See section: B.1.3,

Complies

14. The status of each director is explained by the Board at the General Shareholders' Meeting at which the shareholders are to make or ratify their appointment and such status is confirmed or reviewed, as the case may be, annually in the Annual Corporate Governance Report, after verification by the Appointments Committee. This report also discloses the reasons for the appointment of proprietary directors at the proposal of shareholders controlling less than 5% of the share capital, as well as the reasons for not having accommodated formal petitions, if any, for presence on the Board from shareholders whose equity stake is equal to or greater than that of others at whose proposal proprietary directors have been appointed.
See sections: B.1.3 and B.1.4

Complies

15. When women directors are few or non-existent, the Board explains the reasons for this situation and the measures taken to correct it; and in particular, the Appointments Committee takes steps to ensure that when new vacancies are filled:
a) Selection procedures do not have an implied bias that hinders the selection of women directors.
b) The company deliberately looks for women with the target professional profile and includes them among the potential candidates.
See sections: B.1.2, B.1.27 and B.2.3.

Complies

16. The Chairman, as the person responsible for the effective operation of the Board, ensures that directors receive adequate information in advance of Board meetings; promotes debate and the active involvement of directors during Board meetings; safeguards their rights to freely take a position and express their opinion; and, working with the chairmen of the appropriate committees, organizes and coordinates regular evaluations of the Board and, where appropriate, the Chief Executive Officer.
See section: B.1.42

Complies

17. When the Chairman of the Board is also the chief executive of the company, one of the independent directors is authorized to request the calling of a Board meeting or the inclusion of new business on the agenda; to coordinate and hear the concerns of external directors; and to lead the Board's evaluation of the Chairman.
See section: B.1.21

Complies

18. The Secretary of the Board takes particular care to ensure that the Board's actions:
a) Adhere to the letter and the spirit of laws and their implementing regulations, including those approved by the regulatory authorities;
b) Comply with the company's Articles of Association and the Regulations for the General Shareholders' Meeting, the Regulations of the Board and other regulations of the company;
c) Are informed by those good governance recommendations included in this Unified Code that the company has subscribed to.
And, in order to safeguard the independence, impartiality and professionalism of the Secretary, his appointment and removal are reported by the Appointments Committee and approved by the full Board; and that such appointment and removal procedures are set forth in the Regulations of the Board.
See section: B.1.34

Complies

19. The Board meets with the frequency required to perform its duties efficiently, in accordance with the calendar and agendas set at the beginning of the fiscal year, and that each Director is entitled to propose items of the agenda that were not originally included therein.
See section: B.1.29

Complies

20. Directors' absences are limited to unavoidable cases and quantified in the Annual Corporate Governance Report. And when there is no choice but to grant a proxy, it is granted with instructions.
See sections: B.1.28 and B.1.30

Complies

21. When directors or the Secretary express concerns about a proposal or, in the case of the directors, regarding the running of the company, and such concerns have not been resolved at a Board meeting, such concerns are recorded in the minutes at the request of the person expressing them.

Complies

22. The full Board evaluates the following on a yearly basis:
a) The quality and efficiency of the Board's operation;
b) On the basis of a report submitted to it by the Appointments Committee, how well the Chairman and chief executive of the company have carried out their duties;
c) The performance of its Committees, on the basis of the reports furnished by them.
See section: B.1.19

Complies

23. All directors are able to exercise the right to request any additional information they require on matters within the Board's competence. Unless the Articles of Association or the Regulations of the Board provide otherwise, such requests are addressed to the Chairman or the Secretary of the Board.
See section: B.1.42

Complies

24. All directors are entitled to call on the company for the advice they need to carry out their duties. The company provides suitable channels for the exercise of this right, which, in special circumstances, may include external advice at the company's expense.
See section: B.1.41

Complies

25. Companies organize induction programs for new Directors to rapidly and adequately acquaint them with the Company and its corporate governance rules.
Directors are also offered refresher training programs when circumstances so advise.

Complies

26. Companies require that directors devote sufficient time and effort to perform their duties efficiently, and, as such:

a) Directors apprise the Appointments Committee of their other professional duties, in case they might detract from the necessary dedication;
b) Companies lay down rules about the number of boards on which their directors may sit.
See sections: B.1.8, B.1.9 and B.1.17

Complies

27. The proposal for the appointment or re-election of directors that the Board submits to the shareholders at the General Shareholders' Meeting, as well as the interim appointment of directors to fill vacancies, are approved by the Board:
a) On the proposal of the Appointments Committee, in the case of independent directors.
b) Subject to a prior report from the Appointments Committee, in the case of other directors.
See section: B.1.2

Complies

28. Companies post the following director information on their websites, and keep such information updated:
a) Professional and biographical profile;
b) Other Boards of Directors of listed or unlisted companies on which they sit;
c) Indication of the director's classification, specifying, for proprietary directors, the shareholder they represent or to whom they are related.
d) Date of their first and subsequent appointments as a company director; and
e) Shares held in the company and options thereon held by them.

Complies

29. Independent directors do not hold office as such for a continuous period of more than 12 years.
See section: B.1.2

Explain

At its meeting of 2 May 2012, the Board of Directors of the Company approved a modification to its Regulations to progress in and consolidate the monitoring of this recommendation, consisting of including the following paragraphs at the end of article 8 of the Regulations:

'Independent directors may not be re-elected or appointed for a new term of office under the same classification when they have sat on the company's Board for a term of twelve (12) years as from the date on which they were first appointed.

The independent directors who reach the limit of twelve (12) years provided in the foregoing paragraph while their term of office is in progress may continue in their post and maintain their classification as independent until the completion of their term of office. Under no circumstances will the provisions of the foregoing paragraphs limit the power of the company's General Shareholders Meeting or, where applicable, the Board of Directors to re-elect or appoint a specific candidate as director and, where applicable, it will affect only his/her possible classification as an independent director.

The Board of Directors of the company considered that the application of this recommendation must not affect the appointments that have already been made by the General Shareholders Meeting for a specific period of time since the removal of independent directors before completion of their statutory term of office when they have not failed to fulfil any of their duties or when there is no just cause would be a breach of recommendation 31 of the Unified Code of Good Governance.

The recommendations on good governance set a period of twelve (12) years as a suggested maximum term of office for the post of independent director, which must not determine the

automatic loss of the director's status as independent and is not a determining factor; however, it must correspond to the circumstances applicable in the company and the career and profile of the director under analysis.

Accordingly, the board provides that, if none of the circumstances that may justify the application of this time limit for the loss of status as an independent director arise, as used as a basis for the recommendation, said limit must not necessarily affect the category of the director during the current term of office, obviously without prejudice to the power of the Appointments and Remunerations Committee to change the category of any director at any time in accordance with other current circumstances, applicable legislation and the best practices of corporate governance.
In accordance with this criterion, the independent directors who have remained as such for more than 12 years and whose term of office ends in 2014 maintain their category until that time.

30. Proprietary directors tender their resignation when the shareholder they represent sells its entire shareholding interest. The appropriate number of them do likewise when such shareholder reduces its interest to a level that requires the reduction of the number of its proprietary directors.
See paragraphs: A.2, A.3 and B.1.2

Complies

31. The Board of Directors does not propose the removal of any independent director prior to the expiration of the term, set by the Articles of Association, for which he was appointed, except for good cause is found by the Board upon a prior report of the Appointments Committee. In particular, good cause shall be deemed to exist whenever the director has failed to perform the duties inherent in his position or comes under any of the circumstances described in section III.5 (Definitions) of this Code.

The removal of independent directors may also be proposed as a result of Tender Offers, mergers or other similar corporate transactions that entail a change in the equity structure of the Company, when such changes in the structure of the Board follow from the proportionality standard mentioned in Recommendation 12.
See paragraphs: B.1.2, B.1.5 and B.1.26

Complies

32. Companies establish regulations obliging directors to report and, if appropriate, to resign in those instances as a result of which the credit and reputation of the company might be damaged and, in particular, they require that directors report to the Board any criminal charges brought against them, and the progress of any subsequent proceedings.
If a director is indicted or tried for any of the crimes described in Section 124 of the Spanish Public Limited Companies Act, the Board examines the matter as soon as practicable and, in view of the particular circumstances thereof, decides whether or not it is appropriate for the director to continue to hold office. And the Board provides a substantiated account thereof in the Annual Corporate Governance Report.
See paragraphs: B.1.43 and B.1.44

Complies

33. All directors may clearly express their opposition when they feel that any proposed resolution submitted to the Board might be contrary to the best interests of the company. And in particular, independent directors and the other directors not affected by the potential conflict of interest do likewise in the case of decisions that could be detrimental to the shareholders lacking Board representation.

When the Board adopts material or reiterated resolutions about which a director has expressed serious reservations, this director draws the pertinent conclusions and, if he chooses to resign, sets out the reasons in the letter referred to in the next Recommendation.
This Recommendation also applies to the Secretary of the Board, even if he is not a director.

Complies

34. Directors who give up their place before their tenure expires, through resignation or otherwise, explain the reasons in a letter sent to all members of the Board.
Without prejudice to such withdrawal being communicated as a significant event, the reason for the withdrawal is explained in the Annual Corporate Governance Report.
See paragraph: B.1.5

Not Applicable

35. The remuneration policy approved by the Board specifies at least the following points:
a) The amount of the fixed components, with a breakdown showing the fees, if any, for attending the meetings of the Board and its Committees and an estimate of the fixed annual fixed remuneration they give rise to;
b) Variable remuneration items, including, in particular:
i) The classes of directors to which they apply, as well as an explanation of the relative weight of variable to fixed remuneration items.
ii) Performance evaluation criteria used to calculate entitlement to remuneration in shares, share options or any other variable component;
iii) Main parameters and grounds for any system of annual bonuses or other non-cash benefits; and
iv) An estimate of the absolute amount of variable remuneration arising from the proposed remuneration plan, in accordance with the degree of compliance with benchmark assumptions or targets.
c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar systems), with an estimate of the amount thereof or the equivalent annual cost.
d) Terms and conditions that must be included in the contracts of executive directors performing senior management duties, which will include:
i) Duration;
ii) Notice periods; and
iii) Any other provisions relating to hiring bonuses, as well as indemnity or “golden parachute” provisions in the event of early or other termination of the contractual relationship between the company and the executive director.
See paragraph: B.1.15

Complies

36. Compensation paid by means of delivery of shares in the company or companies that are members of the group, share options or instruments indexed to the price of the shares, and variable remuneration linked to the company’s performance or pension schemes is confined to executive directors.
This recommendation shall not apply to the delivery of shares when such delivery is subjected to the condition that the directors hold the shares until they cease to hold office as directors.
See paragraphs: A.3 and B.1.3

Complies

37. The remuneration of external directors is such as is necessary to compensate them for the dedication, qualifications and responsibility required by their position, but is not so high as to compromise their independence.

Complies

38. The remuneration linked to company earnings takes into account any qualifications included in the external auditor's report that reduce such earnings.

Complies

39. In the case of variable remuneration, remuneration policies include technical safeguards to ensure that such remuneration reflects the professional performance of the beneficiaries thereof and not simply the general performance of the markets or of the industry in which the company does business or circumstances of this kind.

Not Applicable

40. The Board submits a report on director remuneration policy to the vote of the shareholders at a General Shareholders' Meeting, as a separate item on the agenda and for advisory purposes. This report is made available to the shareholders separately or in any other manner that the Company deems appropriate.
This report shall focus especially on the remuneration policy the Board has approved for the current year, as well as on the policy, if any, established for future years. It will address all the points referred to in Recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will emphasize the most significant changes in such policies with respect to the policy applied during the fiscal year prior to that to which the General Shareholders' Meeting refers. It shall also include an outline of the manner in which the remuneration policy was applied in this previous fiscal year.
The Board also reports on the role played by the Remuneration Committee in the preparation of the remuneration policy and, if external advice was provided, it states the name of the external advisors that have given such advice.
See paragraph: B.1.16

Complies

41. The Notes to the Financial Statements list the individual directors' remuneration during the fiscal year, including:
a) A breakdown of the remuneration of each director, to include where appropriate:
i) Attendance fees or other fixed remuneration received as a director;
ii) The additional remuneration received as chairman or member of a Board committee;
iii) Any remuneration received under profit-sharing or bonus schemes, and the reason for the accrual thereof;
iv) Contributions on the director's behalf to defined contribution pension plans; or any increase in the director's vested rights, in the case of contributions to defined-benefit plans;
v) Any severance package agreed or paid;
vi) Any remuneration received as a director of other companies in the group;
vii) Compensation for the performance of senior management duties by executive directors;
viii) Any item of remuneration other than those listed above, of whatever nature and provenance within the group, especially when it is deemed to be a related-party transaction or when the omission thereof detracts from a true and fair view of the total remuneration received by the director.
b) A breakdown of any delivery to directors of shares, share options or any other instrument indexed to the price of the shares, specifying:
i) Number of shares or options awarded during the year, and the terms and conditions for the exercise thereof;

ii) Number of options exercised during the year, specifying the number of shares involved and the exercise price;
iii) Number of options outstanding at the end of the year, specifying their price, date and other requirements for exercise;
iv) Any change during the year in the terms for the exercise of previously-awarded options.
c) Information on the relationship, in the previous fiscal year, between the remuneration received by executive directors and the profits or other measures of performance of the company.

Complies

42. When there is an Executive Committee (hereinafter, "Executive Committee"), the breakdown of its members by director category is similar to that of the Board, and its secretary is the Secretary of the Board.
See paragraphs: B.2.1 and B.2.6

Complies

43. The Board is always kept informed of the matters dealt with and the resolutions adopted by the Executive Committee, and all members of the Board receive a copy of the minutes of the meetings of the Executive Committee.

Complies

44. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors forms a single Appointments and Remuneration Committee as a separate committee of the Board, or a Appointments Committee and a Remuneration Committee.
The rules governing the make-up and operation of the Audit Committee and the Appointments and Remuneration Committee or committees are set forth in the Regulations of the Board, and include the following:
a) The Board appoints the members of such Committees, taking into account the background knowledge, qualifications and experience of the Directors and the responsibilities of each Committee, discusses its proposals and reports, and receives a report, at the first meeting of the full Board following the meetings of such committees, on their activities and the work carried out.
b) These Committees are formed exclusively of external directors and have a minimum of three members. The foregoing is without prejudice to the attendance of executive directors or senior managers, when expressly resolved by the members of the Committee.
c) Committee Chairmen are independent directors.
d) They may receive external advice, whenever they feel this is necessary for the discharge of their duties.
e) Minutes are prepared of their meetings, and a copy is sent to all Board members.
See paragraphs: B.2.1 and B.2.3

Complies

45. Overseeing compliance with internal codes of conduct and corporate governance rules is entrusted to the Audit Committee, the Appointments Committee or, if they exist separately, to the Compliance or Corporate Governance Committee.

Complies

46. The members of the Audit Committee and, particularly, the Chairman thereof, are appointed taking into account their background knowledge and experience in accounting, auditing and risk management matters.

Complies

47. Listed companies have an internal audit function which, under the supervision of the Audit Committee, ensures the smooth operation of the information and internal control systems.

Complies

48. The head of internal audit presents an annual work plan to the Audit Committee; reports to it directly on any issues arising in the execution of such plan; and submits an activity report to it at the end of each fiscal year.

Complies

49. Risk control and management policy specifies at least:
a) The different types of risk (operational, technological, financial, legal, reputational, etc.) the company is exposed to, including contingent liabilities and other off-balance sheet risks among financial or economic risks.
b) The determination of the risk level the company sees as acceptable;
c) Measures in place designed to mitigate the impact of the risks identified, should they materialize;
d) The internal reporting and control systems to be used to monitor and manage the above risks, including contingent liabilities and off-balance sheet
risks.
See paragraph: D

Complies

50. The Audit Committee's role is:
1. With respect to internal control and reporting systems:
a) To supervise the process of preparation and the integrity of the financial information relating to the Company and, if applicable, to the Group, monitoring compliance with legal requirements, the proper delimitation of the scope of consolidation, and the correct application of accounting principles.
b) To periodically review the internal control and risk-management systems, in order for the main risks to be properly identified, managed and communicated.
c) To ensure the independence and effectiveness of the internal audit area; make proposals regarding the selection, appointment, re-election and removal of the head of the internal audit area; propose the budget for this area; receive periodic information regarding its activities; and verify that senior management takes into account the conclusions and recommendations contained in its reports.
d) To establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate, anonymously, potentially significant irregularities within the company that they detect, in particular financial or accounting irregularities.
2. With respect to the external auditor:
a) To make recommendations to the Board for the selection, appointment, reappointment and replacement of the external auditor, and the terms of its engagement.
b) To receive regular information from the external auditor on the audit plan and the results of the implementation thereof, and check that senior management takes its recommendations into account.
c) To monitor the independence of the external auditor, to which end:
i) The company reports a change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements with the outgoing auditor and the reasons for the same.
ii) The Committee ensures that the company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, all other regulations established to safeguard the independence of the auditors;

iii) In the event of resignation of the external auditor, the Committee investigates the circumstances that may have given rise thereto.
d) In the case of groups, the Committee favours the auditor of the group assuming responsibility for the audits of the companies that form part thereof.

See paragraphs: B.1.35, B.2.2, B.2.3 and D.3

Complies

51. The Audit Committee may cause any company employee or manager to appear before it, and even order their appearance without the presence of any other manager.

Complies

52. The Audit Committee reports to the Board, prior to the adoption thereby of the corresponding decisions, on the following matters specified in Recommendation 8:
a) The financial information that the Company must periodically make public due to its status as a listed company. The Committee should ensure that interim financial statements are prepared under the same accounting standards as the annual financial statements and, to this end, consider whether a limited review by the external auditor is appropriate.
b) The creation or acquisition of interests in special purpose entities or entities registered in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.
c) Related-party transactions, unless such prior reporting duty has been assigned to another supervision and control committee.

See paragraphs: B.2.2 and B.2.3

Complies

53. The Board of Directors seeks to present the financial statements to the shareholders at the General Shareholders' Meeting without reservations or qualifications in the auditor's report and, in the exceptional instances where they do exist, both the Chairman of the Audit Committee and the auditors give a clear account to the shareholders of the content and scope of such reservations or qualifications.

See paragraph: B.1.38

Complies

54. The majority of the members of the Appointments Committee –or of the Appointments and Remuneration Committee, if one and the same– are independent directors.

See paragraph: B.2.1

Complies

55. The Appointments Committee has the following duties, in addition to those stated in the earlier Recommendations:
a) To assess the qualifications, background knowledge and experience necessary to sit on the Board, defining, accordingly, the duties and qualifications required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
b) To examine or organize, in the manner it deems appropriate, the succession of the Chairman and the chief executive and, if appropriate, make proposals to the Board for such succession to take place in an orderly and well-planned manner.

c) To report on senior manager appointments and removals that the chief executive proposes to the Board.
d) To report to the Board on the gender diversity issues discussed in Recommendation 14 of this Code.

See paragraph: B.2.3

Complies

56. The Appointments Committee consults with the Company's Chairman and chief executive, especially on matters relating to executive directors. And any board member may request that the Appointments Committee consider possible candidates to fill vacancies for the position of director, if it finds them suitably qualified.

Complies

57. The Compensation Committee is responsible for the following duties, in addition to those set forth in the earlier recommendations:
a) To propose to the Board of Directors:
i) The remuneration policy for directors and senior managers;
ii) The individual remuneration of executive directors and other terms of their contracts.
iii) The basic terms and conditions of the contracts with senior managers.
b) To ensure compliance with the remuneration policy set by the company.
See paragraphs: B.1.14 and B.2.3

Complies

58. The Compensation Committee consults with the Chairman and chief executive of the Company, especially on matters relating to executive directors and senior managers.

Complies

G. OTHER INFORMATION OF INTEREST

If you believe that there is any relevant principle or aspect regarding the corporate governance practices applied by your company that has not been discussed in this Report, please mention it and explain it below.

In this section, you may include any other information, clarification or comment relating to the earlier sections of this report.

Specifically, indicate whether the company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information as the company is required to provide that is different from the information required in this Report.

Binding definition of independent director:

Indicate whether any of the independent directors has or has had any relationship with the company, its significant shareholders or its managers which, had it been sufficiently significant or important, would have resulted in the director not qualifying for consideration as independent pursuant to the definition set forth in subsection 5 of the Unified Good Governance Code:

NO

Date and signature:

This annual corporate governance report was approved by the Board of Directors of the Company at its meeting of

28/02/2013

Indicate whether any Directors voted against or abstained in connection with the approval of this Report.

NO

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

REPORT THAT COMPLEMENTS THE ANNUAL CORPORATE GOVERNANCE REPORT ON THE CONTENT OF THE IAGC PROVIDED BY ARTICLE 61 BIS OF THE SECURITIES MARKET ACT

INFORMATION FOR THE YEAR CLOSED AT 31 DECEMBER 2012

1. Securities that are not negotiated in an EU-regulated market

All securities issued are negotiated in EU-regulated markets.

2. Regulations that apply to the amendment of the articles of association of the Company

There is no specific regulation for amending the articles of association other than that provided for by the regulation that applies concerning the requirements established by art. 194 of the Capital Company Act for a reinforced quorum and for the provisions of title VIII therein.

The requirements for adopting agreements contained in art. 18 of the Rules of Procedure of the General Meeting coincide with those mentioned.

3. Powers of the members of the Board of Directors and, in particular, those related to the possibility of issuing or buying back shares.

Pursuant to Article 29 of the Company Bylaws:

"The Board of Directors is invested with the widest powers to direct, administer and represent the Company in all matters related to its dealings or traffic and they include, but are not limited to, the following powers:

To represent the company in and out of court.

To use or delegate the corporate signature.

To open and use current and credit accounts at any bank, including the Bank of Spain and its branches; to arrange all types of banking and credit transactions, even with the Bank of Spain, its branches or any other national or foreign Bank.

To purchase, sell, exchange, hire and encumber chattel and fixed assets, industrial or commercial premises and all types of businesses.

To constitute, amend and cancel real rights associated therewith.

To attend and take part in all types of tenders and auctions and to arrange supply agreements and the execution of works or services.

To constitute and cancel provisional or definitive sureties, to collect and pay sums the Company has to receive or pay, including sums receivable or payable at Tax Offices, Collection Offices and Administrative Agencies, Central, Autonomous Community, Provincial or Local.

To undertake all types of acts and contracts of administration, conveyance, disposal, ownership and encumbrance of tangible and intangible assets; to award all kinds of general or special, commercial, legal or administrative powers of attorney and, in general, whatsoever business necessary for the Company's development and progress.

To acquire, by any legitimate means, all kinds of machinery, instruments or equipment intended for the following: public works, all kinds of construction, and industrial and commercial operations.

To hire or assign the use of said machinery or industry, with or without the option to purchase, to any national or foreign, public or private body corporate or individual.

To act as a broker for the sale or purchase of said assets.

To import, export, develop and take part in said activity in relation to the assets mentioned in the foregoing sections.

To provide general finance for any operation for the above-mentioned purpose.

To draft studies and reports on all types of legal, economic and financial issues, and to give advice accordingly.

To sign financial, industrial or commercial projects and, generally, all kinds of similar operations, and to take part therein.

To purchase all kinds of credits and bills for trading.

The guaranteeing or consolidation in any other way, both in civil and trading matters, of legal entities and private persons as deemed appropriate and, before any persons or institutions, in the operations or obligations that they undertake or contract, signing any private or public documents as required, of any type whatsoever, including bills of exchange."

The Rules of Procedure of the Board also provide the following:

"Article 5. Powers of exclusive knowledge

In addition to matters reserved exclusively for the Board in full by law, the following matters fall exclusively to the Board of Directors:

a) the company's policies and general lines of strategy, and in particular:

i) the strategic or business plan, as well as management targets and annual budgets;
ii) investment and financing policy;
iii) defining the structure of the corporate group;

iv) corporate governance policy;
v) corporate social responsibility policy;
vi) policy on the remuneration and assessment of the performance of senior managers;
vii) risk control and management policy, as well as the regular monitoring of internal information and control systems;
viii) policy on dividends and treasury stock and, especially, the limits thereto.

b) The following decisions:

i) at the proposal of the Company's chief executive, the appointment and, where applicable, separation of senior managers, together with their severance clauses;
ii) the remuneration of directors and, in the case of executive directors, the additional remuneration to be paid for their executive duties and other terms and conditions of their contracts;
iii) the financial information the Company is required to report regularly as a listed company;
iv) all kinds of investments or transactions whose significant amounts or special characteristics render them of a strategic nature, unless approval thereof corresponds to the General Shareholders Meeting;
v) the creation or acquisition of interests in special purpose vehicles or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature whose complexity might impair the transparency of the group.

c) Transactions made by the company with directors, major shareholders or shareholders with Board representation, or with other persons related thereto ("associate transactions").

However, the Board's authorisation need not be required in connection with associate transactions that simultaneously meet the following three conditions:

1. They are governed by standard agreements applied across-the-board to a large number of clients;
2. They are arranged at prices or rates set on a general basis by the party acting as supplier of the goods or services in question;
3. The amount thereof is no more than 1% of the Company's annual revenues.

The Board will approve associate transactions following a favourable report from the Audit Committee.

d) Definition of the policy on reporting to shareholders, markets and public opinion.

The organisational powers of the Board of Directors and amendment of these regulations.

f) Deciding on the contents of the company's website.

g) Delegating powers to any of its members pursuant to applicable law and the company bylaws, and revocation of such powers.

h) Appointing directors should vacancies arise, following a proposal to such effect from the Appointments and Remuneration Committee, and until the next General Shareholders Meeting is held.

i) Accepting resignations tendered by Board members.

j) Any other exclusive powers conferred by applicable law, the current Articles of Association or these Regulations.

Finally, in relation to the powers regarding the possibility of buying back shares, the Annual General Meeting of Shareholders of the Company, at its meeting held on 23 May 2012, adopted the following agreement:

"It is hereby resolved to revoke the authorisation to acquire treasury shares that was conferred upon the Board of Directors at the Company's General Shareholders Meeting held on 14 April 2011.

It is hereby resolved to authorise the Board of Directors to buy and sell on the market, through the person, Company or institution that it deems advisable, shares in the Company at the market price on the transaction date, for the maximum number of shares permitted by the Spanish Capital Companies Act (Ley de Sociedades de Capital) and related provisions, with the minimum price being the face value and with a maximum price of 45 euros.

The proposed authorisation is for the maximum term envisaged by law and will run from the date of the resolution. It is conferred upon the Board subject to existing legal restrictions on the purchase of treasury shares and, more specifically, those restrictions prescribed by Articles 146 and 509 of the Spanish Capital Companies Act (Ley de Sociedades de Capital).

In the event the Board of Directors should need to exercise the authorisation conferred upon it by the General Shareholders Meeting, the Company's treasury shares would be subject to the treasury shares regime set forth in Article 148 of the Spanish Capital Companies Act".

4. Significant agreements that the Company has made and that come into force, are modified or end in the event of a change of control of the company as a result of a takeover bid and its effects, except when their disclosure would cause serious harm to the company. This exception shall not apply when the company is legally obliged to provide this information.

No agreements have been made with these characteristics.

5. Description of the main characteristics of the internal control and risk management systems in relation to the process of disclosing financial information.

5.1. Control environment of the institution

5.1.1. Bodies and/or functions responsible for: (i) The existence and maintenance of an appropriate and effective financial information internal control system (FIICS); (ii) its implementation; and (iii) its supervision.

Article 5 of the Board Regulations includes among the powers of exclusive knowledge of the Board of Directors as a whole:

"vii) Risk control and management policy, as well as the periodic monitoring of internal information and control systems."

Furthermore, article 13 of the Regulations of the Viscofan Board of Directors lists the functions of the Audit Committee in relation to internal information and control systems.

Among these functions, the Committee has assigned the following supervision and review functions:

"Overseeing the process of preparing and ensuring the integrity of the financial information relating to the company and its group, ensuring that the financial information internal control system (FIICS) is correctly designed and that all legal requirements have been met, and defining an appropriate consolidation perimeter, taking into account, among other aspects, the possible existence of complex corporate structures, special purpose vehicles or instrumental entities, and the correct application of accounting standards".

In turn, the Internal Audit Division has assigned the general function of examining and assessing the systems and procedures for the control and mitigation of all risks, and the methodologies used.

Specifically, with respect to the control of financial information, it examines and assesses the reliability of the financial information, both accounting and management information, checking that it is complete and correct. It also reviews the procedures for recording it and the information, accounting and data processing systems.

In addition, the Internal Audit Division liaises with the Audit Committee and, where applicable, also with the Divisions involved, keeping them informed about the results of all audit, investigation and consultancy activities.

For its part, according to the Policy on Internal Control of the Viscofan Group's Financial Information, the Corporate Finance Division is responsible for carrying out:

- the design, start-up and dissemination of the financial information internal control system (hereinafter, FIICS).

- The definition, review and dissemination of the accounting policies and procedures to be applied, aiming to guarantee uniformity in the processes and in the accounting information.

- The definition of the process of preparation of the financial information and identification of risks that may affect its reliability.

- Identification of the control activities to be carried out to mitigate risks and the supervision of their appropriate performance both at local and corporate level.

- Supervision of the appropriate design and use of the financial information systems and of the Financial Departments of each of the companies in the Group:

- Compliance with the common accounting principles and policies.

- Dissemination of the FIICS among the local organisation, identifying those responsible for the execution of each control activity.

- Coordination of the work of the other local departments so that the local financial information is prepared in accordance with the objectives set.

- Performance of the control activities allocated to the department, and supervision of the activities that correspond to the rest of the departments (sales, purchasing, production, warehouse, maintenance, etc).

Finally, all other Group Departments are to cooperate in the dissemination of the FIICS within their area of responsibility.

Furthermore, each Department shall be responsible for the application of the controls corresponding to its area and coordination with other departments in the application of the FIICS, with the supervision of the corporate departments, and for correcting any deficiencies identified by the Internal Audit Department in its duty of supervision of the system.

5.1.2 If they exist, especially regarding the process of preparing financial information, the following elements:

Departments and/or mechanisms responsible: (i) For the design and review of the organisational structure; (ii) for clearly defining the lines of responsibility and authority, with appropriate distribution of tasks and roles; and (iii) for there being sufficient procedures for their correct dissemination within the company.

The General Management and the Corporate Human Resources Division are responsible for the design and review of the organisational structure and for the definition of the lines of responsibility and authority, and the appropriate distribution of tasks and roles.

The Corporate Human Resources Division has procedures for updating corporate-level organisational structures and those of each of the Group subsidiaries. Dissemination takes place via the corporate Intranet, with publication of the current organisational flowcharts of each company and the most relevant changes that take place in them.

The Corporate Finance Division supervises the composition of the Financial Departments, each subsidiary and the tasks allocated to each member. Each team has a person responsible for the FIICS at local level, responsible for disseminating it to the rest of the departments involved, checking that each one of them carries out the checks allocated and regularly reporting on the operation of the system.

The aim of all of this is to guarantee that the internal control principles are suitably disseminated within the organisation, contributing to improved quality of control over financial information.

Code of conduct, approving body, level of dissemination and instruction, principles and values included (indicating whether there are specific mentions in the register of operations and preparation of financial information), body responsible for analysing non-compliance and for proposing corrective actions and disciplinary measures.

The body that approves the Code of Conduct is the Board of Directors, at the proposal of the Corporate Responsibility and Regulatory Compliance Committee. The code affects the Boards of Directors, Senior Management and the rest of the Group's employees in their daily professional performance, regarding the relations and interactions they have with all their stakeholders.

The Code of Conduct that applies in the Viscofan Group was approved by the Board of Directors at their meeting held on 29 February 2012. This Code of Conduct's principles and guidelines cover regulatory compliance, integrity, responsibility, transparency and confidentiality. Furthermore, it also includes the criteria to be taken into account by employees who participate in the preparation of financial information, previously regulated in the Policies that are in force.

Specifically, the Group has implemented a Policy on the Internal Control of Financial Information, with the specific aim of establishing the guidelines necessary to guarantee appropriate preparation and subsequent dissemination of financial information, which establishes the principles that should govern it and describes the roles and responsibilities of each one of the Departments, financial or otherwise, both at Group level and at local level.

This Policy has been widely disseminated and is available to employees on the Group Intranet.

Article 13 of the Board Regulations allocates the following role to the Audit Committee:

"Set up and supervise a mechanism enabling employees to communicate confidentially and, if deemed necessary, anonymously, their concerns regarding possible irregular and potentially significant practices within the company, particularly those relating to accounting, finances and auditing."

The Ethics Office has been created for this purpose, as a virtual space for Group employees to discuss matters associated with compliance with the Code of Conduct and, generally, with all of the Viscofan Group's internal regulations, especially when there are signs of non-compliance.

This Ethics Office makes it possible to establish a suitable channel to facilitate reporting to the Audit Committee of any financial and accounting irregularities, guaranteeing the confidentiality of communications.

The Audit Committee has delegated the creation and management of this Ethics Office to the Ethics Committee, which is made up of the corporate areas of Internal Audit, Legal, Investor Relations and Communication, and the Board Secretariat.

Regular training and refresher programmes for personnel involved in the preparation and review of financial information, as well as in the evaluation of the FIICS, to cover at least accounting standards, audit, internal control and risk management.

The aim of the Viscofan Group Training Policy is to guarantee that Group employees have all the knowledge and skills necessary for optimum execution of the duties assigned to them, improving or updating their performance.

Concerning one of the principles of this Policy, namely, planning, and in accordance with the responsibilities described therein, each year the Annual Training Plan is prepared, in which the managers of each department take part. Together with Human Resources Management, they identify training opportunities and the programmes to be carried out during the year.

In the case of the personnel involved in the preparation and review of the financial information for specific training intended to cover the specific needs of each individual or, if applicable, a department, the external training actions for the review of standards and accounting procedures are combined with internal training, mainly concentrated on the dissemination of policies and procedures and on the execution of the internal controls included in the FIICS.

5.2. Financial information risk assessment report

5.2.1. The main characteristics of the risk identification process, including those of error or fraud, in terms of:

Whether the process exists and is documented.

The two areas most directly involved in the identification of risks that could affect the drafting of financial information are the Corporate Finance Division and the Internal Audit Division. In their daily activities, permanent communication is encouraged between these two departments to analyse how the FIICS is working and identify risk areas for which additional controls should be incorporated into the system.

Subsequently the Internal Audit Division, in its quarterly report, informs the Audit Committee of the main risks identified in the period, and the monitoring carried out on the corrective actions established in previous periods.

Whether the process covers all of the objectives of the financial information (existence and occurrence; integrity; evaluation; presentation, breakdown and comparability; and rights and obligations), whether it is updated and how often.

In each process and sub-process that affects the preparation of financial information, the Group identifies the risks that may materialise taking the following information into account:

- Description of the existing control objectives to meet the business targets defined by the Company and guarantee the reliability of the financial information.
- Possibility of the occurrence of an error risk, according to its impact on the financial statements, being categorised as follows:
    - Validity: All transactions generated in the period are valid.
    - Integrity: All transactions have been recorded correctly.
    - Registry: All transactions have been accurately entered into the accounts.
    - Cut-off: All transactions recorded represent economic events that occurred during the period in question; transactions are recorded in the corresponding period.
    - Assessment: Assets and liabilities are correctly valued (they appropriately reflect the existing circumstances of the business and its financial conditions).
    - Presentation: The financial statements are appropriately presented and disclosed.

At the meetings discussed above, a conclusion may be reached as to the need or not to modify the existing risk map, following an analysis of the information complied.

The existence of a process for identifying the scope of consolidation, taking into account, amongst other aspects, the possible existence of complex company structures, instrumental entities or special purpose vehicles.

In accordance with the Board Regulations, the definition of the structure of the group of companies is the exclusive remit of the Board of Directors, and in turn the Audit Committee's role is to supervise the appropriate delimitation of the scope of consolidation, considering, amongst other aspects, the possible existence of complex company structures, instrumental entities or special purpose vehicles.

The Viscofan Group Accounting Policy Manual determines that the responsibility of keeping the scope of consolidation duly updated lies with the Consolidation Area, which forms part of the Corporate Finance Division. Corporate operations that could affect the scope are reported appropriately by the General Management and Legal Divisions.

Independently of the fact the Group can grow either via acquisitions or organic growth, the Group's corporate strategy is to maintain as simple a structure as possible, in order to facilitate control of the business, from both an operational and a financial and accounting perspective.

Accordingly, at present the Group's parent company, Viscofan, S.A. Is the owner of all of the capital in Group companies, either directly or indirectly, and in this latter case, the holding in all cases is through other Group companies.

In addition, it is the exclusive power of the Board of Directors in full to create or acquire interests in special purpose vehicles or institutions registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature whose complexity might impair the transparency of the group.

According to article 13 of these same Regulations, the Audit Committee is responsible for informing the Board, prior to it making the corresponding decisions in this area.

In this respect, the Viscofan Group does not currently own or have an interest in any company in the territories listed by the OECD or by the Spanish Government that could be defined as tax havens.

If the process takes account of the effects of other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.

Periodically, the Audit Committee evaluates the situation of the main risks that affect the Group, in accordance with the description given in section D of the Annual Corporate Governance Report. For said purpose, it is supported by the Global Risks Committee, set up at the Audit Committee's proposal and representing the Group's General Management and other divisions (Production, Financial, Legal and Commercial) and Internal Audits.

Specifically, control of risks covers three risk categories:

1. Concerning the risks of reliability of the financial information, as described above.

2. Concerning criminal risks. The Corporate Responsibility and Regulatory Compliance Committee is responsible for monitoring all matters related to risk prevention and the identification of measures for detecting possible crimes, fraud or conduct contrary to Group policy in relation to the criminal liability of companies.

3. Concerning general risks. The responsibility is shared between the General Risks Committee, which identifies the risks map and implements the control policies that are designed to reduce them, and the Audit Committee, which supervises the adaptation of the control policies and procedures in place and reviews the risk management systems so that the main risks are identified, reported and suitably managed.

Among these, in addition to those of a financial nature, the risk map that is monitored takes account of operational, technological, legal, reputational and environmental risks, etc.

Which governing body of the company supervises the process?

Article 13 of the Regulations of the Viscofan Board of Directors assigns the Audit Committee the role of monitoring the risk management carried out by the Group.

"Monitoring the suitability of the control policies and procedures in place. Reviewing the internal control and risk-management systems, so that the main risks are properly identified, managed and reported".

Furthermore, one of the objectives of the Internal Audit Division is the identification and assessment of any type of risk faced by the Organisation, and to this effect, it is authorised to examine and evaluate the systems and procedures in place for the control and mitigation of all risks, as well as the methodologies used.

5.3 Control activities

5.3.1. Procedures for the review and authorisation of financial information and the description of the FIICS, to be published in the securities markets, listing those responsible for them and the documentation describing the flow of activities and controls (including those related to fraud risk) of the different types of transactions that could materially affect the financial statements, including the book closing procedure and the specific review of the relevant opinions, estimates, appraisals and forecasts.

The procedures existing in the Viscofan Group define the activities and controls to be carried out in the process of drafting the financial information, distinguishing the following stages until its dissemination:

- Recording of daily operations by each local department involved, including the book closing for each subsidiary.
- Carryover of financial information for consolidation.
- Consolidation of the information.
- Validation and approval of the financial information.
- Publication and dissemination of the information.

In accordance with what is set forth in the Policy on the Internal Control of Financial Information, the Corporate Finance Division is responsible for the design, start-up and dissemination of the FIICS, and for the accounting policies and procedures to be applied, the definition of the process of preparation of the financial information and the control activities for mitigating possible risk. To do this, it receives support from the Internal Audit Division, which in its task of overseeing the comprehensive nature of the accounting and management information issued, both internally and externally, cooperates in defining the FIICS.

Based on the documentation describing the flows that affect the different departments (purchasing, billing, salaries, banks and cash, etc.), the risk areas are identified and the internal controls to be carried out are proposed.

A tool has been developed on Viscofan's intranet to implement the FIICS controls, enabling the management of master control data according to subsidiary (executor, supervisor, frequency, etc.), the management of execution and supervision flows for each control, the storage of evidence of each control and access to controls and evidence from Corporate Finance and Internal Audits.

At local level, each subsidiary has a person responsible for the FIICS, who coordinates the launch, execution and supervision of the monthly controls.

In 2012, approximately 3900 controls were carried out, involving 235 employees from the Commercial, Production, Finance, Human Resources, Purchasing and Computer departments.

The main control targets for each department focused on the following:

- Production/Inventories: validation of productions on SAP, consumption of materials on SAP, validation of the inventory information on SAP, obsoletes policy.

- Commercial: computer profiles and accesses, customer risk coverage procedure, approval of commercial payments, approval of claims, approval of changes to price lists, monitoring of samples sent.

- Purchasing: computer profiles and accesses, hiring of suppliers, approval of purchase orders, payment authorisations, fulfilment of payment terms with suppliers, identification of stocks in transit.

- Human Resources: computer profiles and accesses, information on masters, hiring and firing of employees, salary calculations, fulfilment of payment terms for salaries and related taxes.

- Financial: coordination of the monthly close, validation of the information sent for consolidation, analysis of the monthly evolution of financial statements, exchange rates applied, monitoring of real production costs, stock valuation.

- Treasury: bank balances, cash balances, impact on coverage instruments, approval of financial agreements, authorisation of bank transactions.

When the local financial information has been generated, in accordance with the Reporting Validation and Analysis Procedure, each company should carry out the additional controls established in this Procedure, with the participation of at least two people: on the one hand, the person responsible for book closing at local level and, on the other hand, the person responsible for validating this closing, who is usually the Company finance manager or the person responsible for the commercial subsidiary.

The procedure for validation of the financial information reported by each subsidiary makes it possible to check that the data received for consolidation is consistent with that existing in the local systems and is standardised in accordance with the corporate accounting plan in force. The computer application used for consolidation has basic controls incorporated to flag any inconsistency in the information reported.

Those responsible for the accounts inform about changes to the financial statements of their subsidiary, transmitting the most relevant accounts with details of the calculations made.

The consolidated information is reviewed by the General Management, the Corporate Finance Division and the Investor Relations and Communication Division. This review takes place before the information is sent to the Board of Directors for final approval.

The Audit Committee intervenes in the supervision of the Company's regular financial information, filling the roles assigned to it in the Board Regulations.

"Overseeing the process devised by senior management for instituting lawsuits, making assessments and reaching significant estimates, and the impact thereof on the financial statements.

Reviewing, analysing and discussing the financial statements and other relevant financial information with the senior management team and the internal and external auditors so as to ensure the information is reliable, understandable and relevant, and that the accounting standards used for the preceding year have been duly followed."

This involvement from the Audit Committee extends to permanently monitoring account auditing, holding regular meetings with the audit team to directly supervise the result of the process after both pre-closing and definitive closing of the annual accounts.

All this complies with the following roles allocated by the Board Regulations (art. 13) to the Audit Committee in relation to the external auditor:

(1) Ensuring that the accounts prepared by the Board of Directors are put before the General Shareholders Meeting without qualifications in the associated audit report.

(2) Overseeing compliance with the audit agreement, ensuring that the audit opinion relating to the annual accounts and the main contents of the audit report are drawn up clearly and accurately.

The Commission pays special attention to proposals for improving internal control, the quality of the opinions and estimates and the accounting criteria applied in the Group.

5.3.2. Policies and procedures for internal control over the information systems (amongst others, secure access, monitoring of changes, their implementation, operational continuity and separation of roles) that support the relevant company processes in relation to the preparation and publication of financial information.

The main standards and procedures existing in the Viscofan Group in relation to the control of computer systems are contained in the following manuals and policies, which regulate the use of computer systems and networks and their control and management:

- Computer systems and networks user manual
- Authorisation policy on computer access and profiles
- Password policy
- Computer systems and networks management policy

These manuals develop the following aspects:

- The control systems should record and limit access to all Group computer systems and networks, establishing at least the creation of a username for each authorised user and the need for a password associated with it in accordance with *Password Policy*.
- Management of access to any computer system or network shall comply with the provisions of *Authorisation policy on computer access and profiles*. Thus, the person responsible for managing profiles and access should keep a record that justifies the authorisation of each action or modification of profiles and each access made.
- Maintenance of the computer systems and networks should include periodic measures that guarantee the copying and the possibility of backup and recovery of the data and information contained in the different Viscofan Group computer systems and networks in each case. Access to these copying and backup resources or mechanisms should be limited, protecting their content in all cases and establishing mechanisms for safekeeping and custody that guarantee their security.
- Any development or modification made by the computer departments to the Viscofan Group computer systems and networks shall be carried out with as much coordination as possible, requesting the authorisations necessary for its implementation or for performing any test process and, in any case, establishing at least the same measures in terms of security and limitation of access to the data as at the start.
- The security, policy, change management, maintenance and handling of incidents should guarantee rapid recovery of the Viscofan Group computer systems and networks in the event of any contingency that could have an impact on their availability.

The Internal Audit Plan includes a review of the existing procedures and pays special attention to the separation of roles and to the user access profile existing in the information systems

that support the relevant processes in relation to the preparation and publication of financial information.

5.3.3. Internal control policies and procedures intended for supervising the management of activities sub-contracted to third parties, as well as aspects of assessment, calculation or valuation assigned to independent experts, which could materially affect the financial statements.

The most relevant services that the Viscofan Group sub-contracts to third parties are actuarial calculations of labour costs and the calculation of the Company Tax for certain Group companies.

In any case, the criterion is maintained of working only with prestigious institutions, and the valuations received are reviewed by the financial departments involved.

5.4. Information and communication

5.4.1. A specific role responsible for defining and reviewing accounting policies (accounting policies area or department) and resolving any queries or conflicts derived from their interpretation, maintaining smooth communication with those responsible for the organisation's operations, as well as an accounting policy manual that is updated and sent to all units through which the company operates.

The responsibility for defining, updating and disseminating the accounting policies and procedures to be applied to guarantee standardisation of processes and accounting information lies with the Corporate Finance Division, in accordance with the Policy on the Internal Control of Financial Information.

The manuals are disseminated through the document libraries on the corporate Intranet and are available to the financial teams. Contact between corporate and local levels is continuous, and lines of communication are maintained for resolving any queries and conflicts derived from their interpretation.

In addition, regular account coordination meetings are held to transmit accounting policies, provide training in the performance of the controls included in the FIICS and check standardisation in the preparation of the information reported by each subsidiary.

5.4.2. Mechanisms for capturing and preparing the financial information with standard formats for application and use by all units of the institution or group, which support the main financial statements and the notes, as well as the information detailed about the FIICS.

In accordance with the Policy on the Internal Control of the Financial Information, the Group Financial Department is responsible for supervising the appropriate design and use of the financial computer systems.

For these purposes, the Corporate Finance Division has organised selection, set-up, implementation and training into a single reporting tool for consolidation for all Viscofan Group companies.

The data from the local applications are integrated into the consolidation system following a single corporate accounting procedure, the Corporate Accounting Plan. The Corporate Finance Division is responsible for reviewing the equivalence between the accounting plans from each subsidiary and the Corporate Accounting Plan in order to guarantee the standardisation of the information received.

As an additional control measure, the data from the financial modules of each subsidiary and from the consolidation system are exported to a data analysis module in order to check consistency between the original and the final information.

The content of the information reported includes both the financial statements and most of the information necessary for preparing the tables and notes for the Annual Report, the first draft of which is prepared directly in this system.

5.5. Supervising the system's operation

5.5.1. Activities for supervising the FIICS carried out by the Audit Committee, and whether the institution has an internal audit system whose responsibilities include supporting the committee in its task of supervising the internal control system, including the FIICS.

Furthermore, information is provided about the scope of the evaluation of the FIICS made during the financial year and the procedure used by the person responsible for carrying out the evaluation to report their findings, whether the institution has an action plan containing details of any corrective measures and whether their impact on the financial information has been considered.

In accordance with Board Regulations. The Audit Committee is responsible for the following:

"Overseeing the internal auditing services, including in particular:

(i) approving the annual internal audit work plan relating to the evaluation of the FIICS, and receiving periodic information on the results of the work performed, including any incidents that may arise. The Audit Committee will likewise receive an annual activities report and action plan to correct any deficiencies detected;

(ii) ensuring the independence and efficiency of the internal audit function

(iii) proposing the budget for this same internal function

(iv) receiving periodic information on its activities, and

(v) verifying that senior management takes into account the conclusions and recommendations set forth in its reports.

The Viscofan Group has an Internal Audit Division, which reports functionally to the Audit Committee. The members of this Division are dedicated exclusively to this work.

The objectives set forth in the Internal Audit Statute are:

1. Guaranteeing there is a suitable and adequate risk control system

2. Assisting the Board of Directors or the corresponding delegated body in the objective fulfilment of their responsibilities, offering support to the Group Management and the Organisation in the improvement and consolidation of the internal control system, procedures applied and control activities

3. Checking that, through the standardised and efficient application of the policies and procedures in the internal control system, risks are appropriately managed, facilitating the achievement of the strategic objectives of the Viscofan Group

4. Reviewing and checking that the Organisation's processes are appropriate and complied according to approved policies and procedures

5. Identifying and assessing all types of risks faced by the Organisation

6. Overseeing the comprehensiveness of the accounting and management information issued, both internally and externally, i.e., it should be complete and correct

7. Overseeing compliance with the law

The Internal Audit Division prepares Audit Plans, broken down into two classes, according to the time they are in force:

a) Multi-annual plans.

b) Annual plans.

Annual plans are considered the materialisation in a more limited timeframe of the generic work defined in the multi-annual plan. The latter is considered a declaration of measurable objectives for a longer period.

In addition, the Internal Audit Division carries out the following reporting work:

"It communicates with the Audit Committee and also, where applicable, the Divisions involved, keeping them informed about the results of all audit, investigation and consultancy activities. It also regularly reports to the Audit Committee on the application of audit plans and other relevant activities.

It drafts the results of the work and subsequently discusses them with the managers of the Divisions concerned before the reports are finally issued.

It assesses the level of implementation and efficiency of the recommendations by virtue of the reports issued, and reports on this to the Audit Commission."

The Audit Committee holds regular meetings at which it coordinates the actions of the Internal Audit Division, prepares the action plans, reports on and monitors the progress of each of

these plans and analyses the level of implementation of the recommendations that have arisen as a result of its actions.

In 2012, the Internal Audit work plan concentrated especially on:

- Monitoring the activity of the Investment Committee, and in particular the proper supervision of the Annual Investment Plan in China and Uruguay as the Viscofan Group's main expansion projects.

  In 2012, the Investment Committee has met five times and four of the meetings were held after the quarterly financial closes. The other meeting was held as an extraordinary meeting on the monitoring of investments in China and Uruguay.

  The investments in all the subsidiaries are monitored very closely. A report is issued each fortnight and sent to the members of the Committee to enable the rapid detection of deviations so that the group can proceed accordingly.

- Monitoring the activity of the Credit Risk Committee, particularly concerning the levels of cover of credit risk and the main balances to be collected.

  The Credit Risk Committee has met four times over the year. Its main aim is to report on the agreements signed with credit insurers, compliance with the procedures that are in place and the added risk resulting from selling in certain countries. It also makes a detailed analysis of actual customer risk, especially for those with high amounts due.

  Although the economic situation is not healthy, the Committee's monitoring process has made it possible to stabilise the amount of debt covered at 70%. In 2012, the loss rate was 0.85 per thousand.

- The consolidation of the FIICS platform for the execution and supervision of the controls in place, monitoring their implementation in all the Group's subsidiaries.

- The review of the controls that were carried out and the quality of the evidence found.

- The review of the processes carried out by the Human Resources Department at Viscofan, S.A. to check the compliance of the employee selection, welcome, training and firing processes with the policies in place at the Viscofan Group for the adoption of the Crime Detection and Prevention System.

- Checking the effectiveness of the corrective measures established after each action.

- Promotion of the Viscofan Group's internal control philosophy throughout the different companies and functional areas.

The main incidents detected were related to the application of group accounting criteria for the management of spares, customer discounts, claims and charges, with the appropriate separation of roles in specific processes and the reconciliation of information on productions between the financial and plant systems.

The Internal Audit activity is considered satisfactory, mainly due to the high level of application of the improvements and recommendations made to deal with the incidents detected.

5.5.2. Whether there is a procedure for discussion through which the account auditor (in accordance with what is stated in Spain's Technical Auditing Standards), the internal audit team and other experts can report to Senior Management and the Audit Committee or administrators of the institution any significant weaknesses in internal control identified during the annual account review processes or any others assigned to them.

Furthermore, whether there is an action plan to correct or mitigate any weaknesses observed.

In addition to the roles of the Internal Audit Division described in the previous point, the Board Regulations authorise the Audit Committee to request the presence of the external auditors whenever they consider it appropriate:

"The Audit Committee shall be empowered to request the presence of any member of the Management team or any member of the Company's staff at its meetings, as well as the presence of the Company's independent auditors or any Company advisor whose presence is deemed advisable. All of the aforementioned shall be bound to cooperate and facilitate access to the information they have."

In practice, the Audit Committee holds a minimum of three annual meetings with the external auditors, one of which coincides with the pre-audit carried out at the end of October each year and the other two with the year-end audit. In particular, five meetings were held with the auditors in 2012.

At said meetings, the auditors report any weaknesses in internal control that may have been detected. The Committee monitors them during the year, in coordination with the Internal Audit Division and the Corporate Finance Division, to identify and implement, where applicable, any measures that may be deemed advisable.

Memoria Anual 2012
El presente informe está disponible en internet: www.viscofan.com

Se puede solicitar ejemplares de este informe a la Oficina de Atención al Accionista a través del teléfono 948 198 436, o por correo electrónico a: info-inv@viscofan.com

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