VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts and Directors' Report

Prepared under International Financial Reporting Standards Endorsed by the European Union

31 December 2006 and 2005

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

KPMG Auditores S.L.
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Auditors' Report on the Consolidated Annual Accounts

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

To the shareholders of
Viscofan, S.A.

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

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

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

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

KPMG AUDITORES, S.L.

Signed

Juan José Llorente
30 March 2007

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated balance sheets
at 31 December 2006 and 2005

(In thousands of Euros)

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

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

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

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

VISCOFAN, S.A. AND SUBSIDIARIES
Consolidated income statements
for the years ended
31 December 2006 and 2005

(In thousands of Euros)

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

	Note	2006	2005
Sales and services rendered	22	497,160	374,692
Other income	23	12,910	5,695
Change in inventories of finished goods and work in progress		(3,744)	4,899
Self-constructed assets		298	99
Raw and other materials consumed	12	(149,398)	(131,132)
Personnel expenses	26	(128,223)	(104,703)
Amortisation and depreciation	7 and 8	(37,022)	(30,703)
Impairment losses on non-current assets	6	(2,301)	-
Other expenses	24	(135,781)	(92,142)
Financial income	27	9,956	5,289
Financial expenses	27	(17,975)	(7,623)
Profit before income tax		45,880	24,371
Income tax	11	(14,580)	(4,676)
Profit for the year		31,300	19,695
Basic earnings per share (Euros)	27	0,6571	0,4096
Diluted earnings per share (Euros)		-	-

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

VISCOFAN, S.A. AND SUBSIDIARIES

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

(In thousands of Euros)

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

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

VISCOFAN, S.A. AND SUBSIDIARIES

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

(In thousands of Euros)

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

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

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

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

31 December 2006 and 2005

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

(1) Nature and Principal Activities

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

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

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

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

(2) Viscofan Group

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

Changes in the Viscofan Group in 2006 were as follows:

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

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

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

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

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

- Acquisition of the Serbian company Koteksprodukt AD

- Sale of the associate Tripasin, AB

(3) Basis of Preparation

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

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

(3.1) Bases of preparation of the consolidated annual accounts

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

(3.2) Comparison of information

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

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

(3.3) Relevant accounting estimates, assumptions and judgements

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

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

(a) Relevant accounting estimates and assumptions

-Business combinations: see note 4.2
-Goodwill: see note 4.5
-Pension plans: see note 4.17
-Provisions: see note 4.18
-Useful lives of property, plant and equipment and intangible assets: see notes 4.4 and 4.5

(b) Changes in accounting estimates

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

(3.4) Business combinations

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

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

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

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

(4) Significant Accounting Principles

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

A summary of the most significant principles is as follows:

(4.1) Going concern and accruals basis

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

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

(4.2) Method of consolidation

All consolidated companies are subsidiaries.

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

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

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

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

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

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

a) Provisionally determined amounts

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

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

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

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

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

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

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

(4.3) Effects of changes in foreign exchange rates

(a) Foreign currency transactions

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

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

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

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

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

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

(b) Translation of foreign operations

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

- Assets and liabilities, including goodwill and adjustments to net assets deriving from the acquisition of businesses, including comparative balances, are translated at the year-end exchange rate at each balance sheet date.

- The revenues and expenses of foreign operations, including comparative balances, are translated at the exchange rates ruling at each transaction date; and

- Foreign exchange differences arising from application of the above criteria are recognised under translation differences in equity.

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

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

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

(4.4) Property, plant and equipment

(a) Initial recognition

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

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

(b) Amortisation and depreciation

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

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

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

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

(c) Subsequent recognition

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

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

(d) Impairment

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

(4.5) Intangible assets

(a) Goodwill

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

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

Internally generated goodwill is not recognised as an asset.

(b) Self-constructed assets

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

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

(c) Intangible assets acquired through business combinations

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

(d) Other intangible assets

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

Software maintenance costs are expensed as incurred.

(e) Emission rights

Emission rights, which are recognised when the Group becomes entitled to such rights, are stated at cost less any accumulated amortisation and impairment losses. Rights acquired free of charge or at a price substantially below fair value, are stated at fair value, which is generally the market value of the rights at the beginning of the corresponding calendar year. The difference between fair value and, where appropriate, the amount paid, is recognised as a capital grant. Recognition of capital grants is determined for the issues made in proportion to the total forecast issues for the full period to which they have been assigned.

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

Emission rights are not amortised.

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

(f) Useful lives and amortisation rates

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

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

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

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

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

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

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

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

Impairment losses in respect of goodwill cannot be reversed.

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

(4.7) Leases

(a) Finance leases:

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

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

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

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

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

(b) Operating leases

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

(4.8) Financial instruments

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

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

(a) Loans

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

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

(b) Held-to-maturity investments

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

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

(c) Offsetting principles

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

(d) Impairment and default of financial assets

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

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

(e) Derecognition of financial assets

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

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

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

(f) Financial liabilities

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

(4.9) Derivatives and hedge accounting

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

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

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

(4.10) Parent Company treasury shares

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

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

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

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

(4.11) Inventories

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

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

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

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

- Raw materials, other materials consumed and goods for resale: at weighted average cost.

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

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

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

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

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

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

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

(4.12) Trade and other receivables

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

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

(4.13) Cash and cash equivalents

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

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

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

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

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

(a) Calculation of recoverable amount

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

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

(b) Reversals of impairment

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

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

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

(4.15) Government grants

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

(a) Capital grants

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

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

(b) Operating subsidies

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

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

(c) Interest rate subsidies

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

(d) Other subsidies

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

(4.16) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the loan obtained (net of attributable costs) and redemption value being recognised in the income statement over the period of the borrowings on an effective-interest basis.

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

(4.17) Employee benefits

(a) Pension commitments

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

(i) Defined benefit plans

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

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

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

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

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

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

(ii) Defined contribution plans

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

(b) Termination benefits

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

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

(c) Short-term employee benefits

Short-term benefits accrued by Group personnel are recorded in line with the employees' period of service. The amount is recorded as an employee benefit expense and as a liability net of settled amounts. If the contribution already paid exceeds the accrued expense, an asset is recorded to the extent that it will reduce future payments or a cash refund.

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

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

(4.18) Provisions

(a) General criteria

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

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

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

Provisions do not include a tax effect

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

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

(b) Onerous contracts

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

(c) Restructuring

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

(d) Emission rights provision

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

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

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

(4.19) Revenue recognition

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

(a) Goods sold

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

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

(b) Services rendered

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

(4.20) Income tax

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

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

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

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

(a) Taxable temporary differences

Taxable temporary differences are recognised in all cases except where:

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

(b) Deductible temporary differences

Deductible temporary differences are recognised provided that:

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

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

(c) Measurement

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

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

(d) Classification and offsetting

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

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

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

(4.21) Segment Reporting

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

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

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

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

- Assets are classified as current when they are expected to be realised, sold or traded in the Group's ordinary course of business within 12 months of the balance sheet date and when held essentially for trading. Cash and cash equivalents are also classified as current, except where they may not be exchanged or used to settle a liability, at least within the 12 months following the balance sheet date and before the consolidated annual accounts are prepared.

- Liabilities are classified as current when expected to be settled in the Group's ordinary course of business within 12 months of the balance sheet date and when essentially held for trading, or where the Group does not have an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date and before the consolidated annual accounts are prepared.

- Current liabilities such as trade creditors, personnel expenses and other operating costs are classified as current, even if maturing more than 12 months from the balance sheet date.

- Financial liabilities which must be settled within the 12 months following the balance sheet date are classified as current, even if the original maturity exceeded 12 months and a refinancing or restructuring agreement for long-term payments exists which has been finalised subsequent to the close and before the consolidated annual accounts have been prepared.

(4.23) Environment

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

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

Assets used by the Group to minimise the environmental impact of its activity and protect and improve the environment, including the reduction or elimination of future pollution caused by the Group's operations, are recognised in the consolidated balance sheet based on the criteria for recognition, measurement and disclosure detailed in note 4.4.

(5) Segment Reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments is based on the Group's management and internal reporting structure, while geographical segments are considered to be secondary.

At 31 December 2006 the Group comprises the following business segments:

- Casings: manufacture and sale of all types of artificial casings for meat products and other uses.
- Preserves: production and marketing of food products.

The Group also produces and sells electrical energy through a cogeneration plant located at its Parent Company installations. These activities do not comprise segments which are deemed reportable.

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

The casings segment is managed on a worldwide basis, although the Group mainly operates in three geographical areas, comprising Europe, North America and South America.

In presenting information on the basis of geographical segments, segment revenue, expense, assets and liabilities are based on the geographical location of production and of assets.

Details of financial information by business and geographical segments for 2005 and 2004 are included in Appendix 2, which forms an integral part of these notes.

(6) Business Combinations

(6.1) Acquisition of Koteks Viscofan, d.o.o.

The public share offer through which the Company acquired the majority of voting rights in Koteksprodukt AD ended on 19 July 2005. The Company subsequently acquired 100% of the share capital in this company. In 2006 this company changed its name to Koteks Viscofan, d.o.o. The registered offices of the company Koteks Viscofan, are in Serbia and its principal activity is the manufacture and marketing of artifical casings. The Group incurred consolidated losses of Euros 480 thousand on this business combination from its date of acquisition to year end.

If the acquisition had taken place on 1 January 2005, ordinary income of the Group and consolidated losses for the year ended 31 December 2005 would have amounted to Euros 4,227 thousand and Euros 3,951 thousand, respectively.

The cost of acquisition of this investment amounted to Euros 3,889 thousand, which was settled in cash. Net assets acquired amount to Euros 975 thousand, according to this company's accounting records.

No relevant intangible assets were identified. The only balance sheet item identified for which fair value differs from the carrying amount is property, plant and equipment valued by an independent appraiser.

Consequently, the Group recognised property, plant and equipment at fair value, taking into account its tax effect.

(6.2) Acquisition of Tripasin AB

On 30 September 2005 the Group sold 40% of its investment in Tripasin AB for one Euro while at the same time acquiring the machinery and all intangible assets of this company. Effectively, the business was acquired for Euros 4,500 thousand, with Tripasin AB subsequently ceasing its activities.

Intangible assets identified and measured at fair value comprise the trademark and customer portfolio, amounting to Euros 2,672 thousand (see note 8). The excess paid over the carrying amount of the machinery and customer portfolio, increased by the effect of the sale of the share capital of Tripasin AB was recognised initially as goodwill of Euros 2,301 thousand.

In 2006 the Group has confirmed that this goodwill has been impaired and the impairment losses have been recognised in full in the accompanying consolidated income statement.

Acquisition of the Teepak Norteamérica business

The Group has acquired the Teepak Norteamérica business with effect from 3 January 2006, through its subsidiaries Viscofan de México, S.R.L. de C.V. and Viscofan USA, Inc. This business includes the following companies:

- Teepak, LLC
- Teepak, Inc (*)
- Teepak Holdings de México S.R.L. de C.V.
- Teepak de México S.R.L. de C.V. (**)
- Zacapu Power S.R.L. de C.V. (**)
- Teepak Servicios de México S.R.L. de C.V. (**)

(*) Indirect shareholding through Teepak USA, LLC
(**) Indirect shareholding through Teepak Holding de México S.R.L. de C.V.

Details of these companies together with specific additional information is presented in the accompanying Appendix I.

In 2006 the subsidiaries Teepak, LLC and Teepak Inc changed their names to Teepak USA, LLC and Viscofan Canadá, Inc, respectively.

The Group generated consolidated profits of Euros 8,930 thousand on this business combination from its date of acquisition to year end. Given that the Group assumed effective control on 3 January 2006, these profits do not differ significantly from those which would have been obtained had control been assumed on 1 January 2006.

Details of the aggregate cost of the combination, the fair value of the net assets acquired and goodwill or the positive difference between the net assets acquired and the cost of the combination are as follows:

	Thousands of Euros		
	Teepak USA	Teepak Mexico	Total
Business combination cost	4,965	890	5,855
Fair value of net assets acquired	14,753	713	15,466
Difference between net assets acquired and the cost of acquisition	9,788	(177)	9,611

(note 23)

The most relevant factors which have contributed to the cost of the combination and have led to recognition of the positive difference between net assets acquired and the cost of acquisition have been the appraisals by independent experts of the intangible assets and property, plant and equipment of the group of companies acquired.

Amounts recognised at the date of acquisition of assets, liabilities and contingent liabilities are as follows:

	Thousands of Euros			
	Teepak USA		Teepak Mexico	
	Fair value	Carrying amount	Fair value	Carrying amount
Land and buildings	4,184	1,191	286	286
Plant and machinery	42,494	12,105	3,120	1,976
Other installations, equipment and furniture	8	9	79	79
Work in progress	-	-	441	441
Contracts	518	-	-	-
Technology	6,226	-	-	-
Other intangible assets	152	-	-	-
Legal expenses	-	-	-	1,309
Amortisation and depreciation	(7)	(7)	(120)	(286)
	53,575	13,298	3,806	3,805
Other assets	29,756	30,671	9,896	9,896
Total assets	83,331	43,969	13,702	13,701
Current liabilities	12,649	12,649	6,642	6,642
Pensions	26,793	1,857	-	-
Other liabilities	29,904	24,030	6,415	6,415
Total liabilities	69,346	38,536	13,057	13,057
Total net assets	13,985	5,433	645	644
Translation differences between the purchase date and year end	768		67	
Total net assets at acquisition date exchange rates	14,753		712	
Total cash paid	4,733		759	
Translation differences	232		131	
Total cash paid at acquisition date exchange rates	4,965		890	
Cash and cash equivalents from the acquired entity	698		702	
Translation differences	(276)		73	
Total cash from the acquired entity at acquisition date exchange rates	422		775	
Cash paid in acquisition	4,543		115	

(7) Property, Plant and Equipment

Details of property, plant and equipment and movement in 2006 and 2005 are included in Appendix 3, which forms an integral part of these notes to these consolidated annual accounts.

The Group leases the following buildings under finance lease agreements, details are as follows:

	Thousands of Euros	
	Present value of minimum payments	Depreciation
At 1 January 2005	1.374	(260)
Depreciation	-	(46)
At 31 December 2005	1.374	(306)
Depreciation		(46)
At 31 December 2005	1.374	(352)

These buildings comprise a warehouse for which a finance lease contract was signed on 8 March 1999. The duration of this contract is 180 months and the purchase option on this building amounts to Euros 360 thousand.

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

	Thousands of Euros			
	2006		2005	
	Minimum payments (note 17)	Interest	Minimum payments (note 17)	Interest
Up to 1 year	69	30	66	31
Between 1 and 5 years	838	127	906	155
Total	907	157	972	186

Details of fully depreciated property, plant and equipment in use at 31 December 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Buildings	4,406	3,379
Plant and machinery	146,587	145,956
Other installations, equipment and furniture	20,853	19,843
Other property, plant and equipment	13,097	13,253
	184,943	182,431

The Group's buildings, plant and equipment were partly financed by government grants of Euros 9 thousand and Euros 876 thousand in 2005 and 2006, respectively (see note 16).

The Group has contracted various insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient.

(8) Other Intangible Assets

Details of other intangible assets and movement in 2006 and 2005 are included in Appendix 4, which forms an integral part of these notes to these consolidated annual accounts.

Emission rights reflect rights allocated free-of-charge by the National Allocation Plan. The carrying amount of emission rights coincides with their fair value.

Details of emission rights allocated during the National Allocation Plan period and their annual distribution are as follows:

	Tonnes		Thousands of Euros	
	Free of charge	Remunerated	Free of charge	Remunerated
2005	53,140	-	1,188	-
2006	53,140	-	1,188	-
2007	53,140	-	1,188	-
Total	159,420	-	3,564	-

Details of the cost of fully amortised intangible assets in use at 31 December 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Software	2,332	1,816
Concessions, patents and licences	36	36
	2,368	1,852

The trademark and customer portfolio reflect the deemed cost of the acquisition of Tripasin AB (see note 6.2)

Technology and contracts comprise the value allocated to the purchase of the Teepak Norteamérica business (see note 6.3).

(9) Investments accounted for using the equity method

Movements in investments accounted for by the equity method in 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Balance at 1 January	-	2,301
Disposals (note 6)	-	(2,301)
Balance at 31 December	-	-

Investments accounted for using the equity method comprise the associate Tripasin A.B, which was sold during 2005 (see note 6.2).

(10) Other Current and Non-Current Financial Assets

Details of other current and non-current financial assets are as follows:

	Thousands of Euros	
	2006	2005
Loans receivable	-	336
Provisions for impairment losses	(1)	(21)
Other financial assets	1,588	1,218
Total non-current	1,587	1,533
Other financial assets	152	41,787
Total current	152	41,787

Details of current and non-current financial assets held in foreign currencies are shown in note 20.

Details of and movement in the provision for financial assets is as follows:

	Thousands of Euros	
	2006	2005
Balance at 1 January	(21)	- (75)
Cancellation of financial assets	20	75
Others	-	(21)
Balance at 31 December	(1)	(21)

At 31 December 2005 other current financial assets mainly comprised two deposits made by two Group companies, which were used in the acquisition of Teepak Norteamérica on 3 January 2006 (see note 6.3).

(11) Income tax

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

	Thousands of Euros					
	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Non-current assets	216	-	34,468	21,738	(34,252)	(21,738)
Current assets	971	1,313	315	297	656	1,016
Loss carryforwards	1,915	6,707	-	-	1,915	6,707
Pending deduction rights	4,033	673	-	-	4,033	673
Non-current liabilities	6,156	2,363	-	-	6,156	2,363
Current liabilities	405	844	-	-	405	844
	13,696	11,900	34,783	22,035	(21,087)	(10,135)

Details of non-current deferred tax assets for the years ended 31 December 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Capital gains on fixed assets	21,433	7,640
Differences in useful lives	7,900	10,062
Provisions for investments	2,937	2,463
Others	2,198	1,573
	34,468	21,738

Details of changes in deferred tax assets and liabilities, by type, which have been recognised as a deferred tax expense (income) in the consolidated income statement are as follows:

	Thousands of Euros	
	2006	2005
Non-current assets	(3,038)	(240)
Current assets	266	1,127
Loss carryforwards and deductions pending	1,306	4,236
Non-current liabilities	6,025	(1,504)
Current liabilities	441	(612)
	5,000	3,007

The Group has also included an amount of Euros 6,161 thousand in deferred tax liabilities corresponding to the tax effect of the acquisition of Teepak and which is shown in the accompanying consolidated income statement within the excess of net assets acquired over the cost of acquisition of the Teepak Group (see note 6.3).

Details of deferred tax assets and liabilities to be realised or reversed in a period exceeding 12 months are as follows:

	Thousands of Euros	
	2006	2005
Non-current assets	216 -	-
Non-current liabilities	6,156	2,363
Loss carryforwards	-	6,707
Rights for deductions and credits	4,033	673
Total assets	10,405	9,743
Deferred tax liabilities	(31,600)	(21,738)
Net	(21,195)	(11,995)

In 2006 and 2005 no deferred tax liabilities were charged directly to equity.

Details of the income tax expense/(income) are as follows:

	Thousands of Euros	
	2006	2005
Current tax expense		
Current year	8,241	5,984
Reversal of tax effect of provisions for conversion differences	1,401	(4,440)
Prior years' adjustments	844	11
Other items	-	298
Applied deduction rights		
▪ Generated in the year	(906)	-
▪ Generated in prior years	-	(184)
	9,580	1,669
Deferred taxes		
Origin and reversal of temporary differences	5,000	3,007
	14,580	4,676

A reconciliation of the tax expense (income) and the accounting profit is as follows:

	Thousands of Euros	
	2006	2005
Profit before tax	45,880	24,371
Tax at 35% of the Group companies in Spain	1,942	5,982
Tax rates of other companies	9,743	4,914
Deductions	(2,821)	(4,912)
Tax credits	(1,853)	(4,236)
Permanent differences	7,569	2,928
	14,580	4,676

A reconciliation of current tax liabilities with current income tax is as follows:

	Thousands of Euros	
	2006	2005
Current taxes	8,241	5,984
Payments on account	(6,454)	(4,124)
	1,787	1,860

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the tax authorities or before the inspection period of four years has elapsed. At 31 December 2006 the Parent Company and subsidiaries in Spain have open to inspection by the tax authorities all applicable taxes since 1 January 2002 (1 January 2001 for income tax). The situation of foreign companies depends on the legislation prevailing in each country.

Due to the different possible interpretations of prevailing legislation, additional liabilities could be identified in the event of inspection. Nonetheless, Parent Company management considers that any additional liabilities that might arise would not have a significant impact on these consolidated annual accounts.

(12) Inventories

Details of inventories at 31 December 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Goods for resale	23,204	23,696
Raw materials and other supplies	47,292	40,250
Semi-finished products	19,096	14,106
Finished products	43,376	34,907
	132,968	112,959

Raw materials and other supplies consumed in 2006 and 2005 amounted to Euros 149,398 thousand and Euros 131,132 thousand, respectively.

At 31 December 2006 and 2005 there are no inventories with a reimbursement period greater than 12 months from the consolidated balance sheet date.

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

(13) Trade and other receivables

Details at 31 December 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Trade receivables	91,039	74,338
Advances to suppliers	-	1,138
Other receivables	6,400	3,809
Advances to employees	96	80
Public entities	6,352	5,368
Provisions for bad debts	(2,778)	(1,515)
	101,109	83,218

(14) Cash and cash equivalents

Cash and cash equivalents at 31 December 2006 and 2005 comprise cash balances with Group companies and banks. The Group does not have bank overdrafts at these dates and all balances are freely distributable.

(15) Equity

(15.1) Share capital

Movements in shares in circulation during 2006 and 2005 were as follows:

	Shares		Thousands of Euros	
	2006	2005	2006	2005
At 1 January	47,959,806	48,346,579	14,388	14,504
Reductions in capital	-	(386,773)	-	(116)
At 31 December	47,959,806	47,959,806	14,388	14,388

Share capital was reduced in 2005 to redeem own treasury shares.

At 31 December 2006 the share capital of the Parent Company is represented by 47,959,806 bearer shares of Euros 0.30 par value each, subscribed and fully paid. All shares have the same voting and profit sharing rights, except own shares.

All of the Parent Company's shares are listed on the official Stock Exchanges of Madrid, Barcelona and Bilbao under the automatic quotation system. All shares are freely distributable.

At 31 December 2006 the investment fund manager Bestinver Gestión SGIIC held 8.64% of share capital in the Company, through the different funds which it manages.

(15.2) Share premium

This reserve is freely distributable.

(15.3) Other reserves

Details and movement in other reserves are included in Appendix 5, which forms an integral part of these consolidated annual accounts.

(a) Revaluation reserve Navarre Regional Law 23/1996

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

During 1999 this revaluation was inspected by the tax authorities and, accordingly, can be applied, free of tax, to:

- Offset prior years' losses.
- Increase share capital.
- Increase distributable reserves after 31 December 2006 to the extent that gains have been realised, that is, when the related assets have been depreciated, disposed of or otherwise written off.

(b) Merger reserves

These reserves derive from the merger by absorption of Inversiones Legazpi, S.A. by the Parent Company in 2002 and are subject to the same restrictions as voluntary reserves. Details of this operation are included in the consolidated annual accounts for the year the operation was carried out.

(15.4) Retained earnings

Details and movement are included in Appendix 5, which forms an integral part of these consolidated annual accounts.

(a) Legal reserve

Companies registered in Spain are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital, in accordance with Article 214 of the Spanish Companies' Act. This reserve may only be used to offset losses if no other reserves are available. At 31 December 2006 and 2005 the Parent Company had appropriated to this reserve the minimum amount required by law.

(b) Voluntary reserves

These reserves are freely distributable.

(15.5) Movement in treasury shares

Movement in treasury shares in 2006 and 2005 was as follows:

	2006		2005	
	Number of shares	Thousands of Euros	Number of shares	Thousands of Euros
Balance at 1 January	76,102	706	58,065	250
Acquisitions	507,459	5,971	409,041	3,411
Disposals	(2,490)	(27)	(4,231)	(31)
Redemptions	-	-	(386,773)	(2,924)
Provisions made	-	(3,646)	-	-
Balance at 31 December	581,071	3,004	76,102	706

At 31 December 2006 the Parent Company holds 581,071 treasury shares for which a reserve has been made equal to the carrying amount of these shares. This reserve is not distributable unless the shares are disposed of or redeemed by the Company.

(15.6) Translation differences

Details of and movement in conversion differences generated by subsidiaries are as follows:

	Thousands of Euros
Balance at 31 December 2004	13,522
Conversion differences on financial statements of foreign businesses	(16,723)
Tax effect of conversion differences on provisions for investments	(4,440)
Other conversion differences	3,331
Balance at 31 December 2005	4,310
Conversion differences on financial statements of foreign businesses	4,209
Tax effect of conversion differences on provisions for investments	(1,401)
Other conversion differences	(2,825)
Balance at 31 December 2006	4,293

(15.7) Distribution of Dividends

Parent Company profits for the year ended 31 December 2005 were distributed, as approved by the shareholders at their annual general meeting held on 22 May 2006, as follows:

	Thousands of Euros
Interim dividends	3,732
Voluntary reserves	30,577
Distributable profits	34,309

The proposed distribution of dividends is equivalent to Euros 0.078 per share.

Details of the distribution of the Parent Company's 2006 dividends proposed by the directors of the Parent Company, pending approval at the shareholders' general meeting, are as follows:

	Thousands of Euros
Other reserves	14,209
Dividends	6,625
Distributable profits	20,834

The proposed distribution of dividends is equivalent to Euros 0.14 per share.

At 31 December 2006 and 2005 details of non-distributable reserves are as follows:

	Thousands of Euros	
	2006	2005
Legal reserve	2,935	2,935
Revaluation reserves	8,988	8,990
Conversion of share capital to thousands of Euros	25	25
Other consolidation reserves	25,762	40,385
	37,710	52,335

(16) Deferred Income

Movement in deferred income during 2006 and 2005 was as follows:

	Thousands of Euros								
	01.01.05	Additions	Taken to income	31.12.05	Additions	Taken to income	Value adjustments	Sales	31.12.06
Capital grants	2,905	876	(499)	3,282	9	(435)	-	-	2,856
Grants for emission rights of greenhouse gases	-	1,188	(1,149)	39	1,413	(334)	(1,068)	(38)	12
Other deferred income	300	-	(300)	-	-	-	-		-
	3,205	2,064	(1,948)	3,321	1,422	(769)	(1,068)	(38)	2,868

Details of capital grants in 2006 and 2005 are as follows:

	Thousands of Euros		
Granting entity	2006	2005	Objective
Regional Government of Navarre	65	48	Software
Regional Government of Navarre	240	294	Buildings
Regional Government of Navarre	143	10	Plant
Regional Government of Navarre	606	975	Machinery
FEOGA	764	1,721	Buildings
FEOGA	893	234	Machinery
Regional Government of Extremadura	145	-	Machinery
	2,856	3,282	

(17) Current and Non-Current Financial Liabilities

Details of current and non-current financial liabilities is as follows:

	Thousands of Euros	
	2006	2005
Non-current		
Borrowings	60,327	79,395
Finance lease liabilities (note 7)	838	906
Other financial liabilities	5,501	4,675
Total non-current	66,666	84,976
Current		
Borrowings	62,957	53,406
Finance lease liabilities (note 7)	69	66
Other financial liabilities	1,342	3,388
Financial liabilities at fair value through profit or loss	-	141
Total current	64,368	57,001

Details of the carrying amount of financial liabilities in foreign currency, their classification by maturity and effective interest rates are shown in note 20.

Loans and other credit facilities accrue interest at variable market rates.

Euros 23,611 thousand of the Euros 123,284 thousand total current and non-current borrowings corresponds to the fair value hedges mentioned in note 20.

At 31 December 2006 the Group has a limit on its credit facilities and discount lines of Euros 84,477 thousand (Euros 83,397 thousand in 2005) included under current and non-current borrowings, of which Euros 56,209 thousand has been drawn down at 31 December 2006 (Euros 36,218 thousand in 2005).

At 31 December 2006 and 2005 the Parent Company has extended guarantees of Euros 48,425 thousand and Euros 65,836 thousand in respect of the Group's loans and balances payable to third parties, respectively.

At 31 December 2006 the Group has extended bank guarantees of approximately Euros 3,107 (Euros 5,093,000 at 31 December 2005) mainly in respect of loans obtained from the Spanish Centre for the Development of Industrial Technology (CDTI), the Regional Government of Navarre and the Spanish Ministry of Science and Technology.

The Parent Company contracts financial derivatives mainly to eliminate or significantly reduce interest rate risks. At 31 December 2006 and 2005 the Company has contracted mainly interest rate swap agreements, which were in force at the following dates:

	2006	2005	
	I.R.S.	I.R.S. (Interest Rate Swap)	
Notional amount (thousands of Euros)	23,611	23,611	5,000
Date of contract	02.05.03	02.05.03	03.02.03
Inception date	06.05.03	06.05.03	03.02.03
Expiry	30.06.08	30.06.08	03.02.06
Interest rate paid by the Company	3%	3%	2.95%
Interest rate collected by the Company	Euribor at 3 months	Euribor at 3 months	Euribor at 3 months

The Group also contracts exchange rate insurance to hedge against exchange rate fluctuations.

Details of prevailing exchange rate insurance, by currency, at 31 December 2006 and 2005 are as follows:

Currency	Total	
	2006	2005
US Dollar	21,317,000	24,500,000
Norwegian Crone	1,503,914	514,000
Canadian Dollar	190,000	1,438,000
Japanese Yen	33,400,496	77,848,000
Polish Zloty	2,724,000	2,363,000
Pound Sterling	75,000	-

Details of the fair value measurement of derivative financial instruments contracted by the Group at 31 December 2006 and 2005 are as follows:

	Thousands of Euros		
	2006 Asset / (liability)	2005 Asset / (liability)	Variation expense / (income)
Exchange rate insurance	-	(127)	(127)
IRS (Interest Rate Swap)	60	(14)	(74)
	60	(141)	(201)

The Group has decided not to use hedge accounting on these contracts even though they hedge the exposure of risk to interest and exchange rate fluctuations. Consequently, these are recognised as if they were speculative.

The fair value of derivative financial instruments is based on the market value of similar instruments at the balance sheet date.

Other current and non-current financial liabilities mainly comprise loans with subsidised interest rates extended by such entities as the Regional Government of Navarre, the Centre for Development of Industrial Technology and the Spanish Ministry of Science and Technology. The Group recognises implicit interest on these loans in accordance with market rates.

Total current and non-current finance costs payable in respect of prior financial liabilities amount to Euros 60 thousand (Euros 163 thousand in 2005).

(18) Current and Non-Current Provisions

Details at 31 December 2006 and 2005 are as follows:

	Thousands of Euros	
	31.12.06	31.12.05
Non-current		
Provisions for employee benefits	38,697	29,182
Taxes	567	67
Provisions for other litigation	2,687	2,405
Total non-current	41,951	31,654
Current		
Restructuring provision	1,516	3,051
Guarantees	1,013	1,950
Safety in the workplace provision	620	943
Emission rights	334	1,149
Others	3,193	2,125
Total current	6,676	9,218

(18.1) Provisions for employee benefits

Details of and movement in provisions for defined benefit pensions are as follows:

	Thousands of Euros		
	Defined benefit	Defined contribution	Total
At 1 January 2005	20,309	6,413	26,722
Provisions recognised in the income statement	2,967	764	3,731
Payments	(1,218)	(53)	(1,271)
At 31 December 2005	22,058	7,124	29,812
Incorporations to consolidated group	27,581	2,073	29,654
Application	(13,411)	-	(13,411)
Translation differences	(2,049)	(208)	(2,257)
Provisions recognised in the income statement	1,724	845	2,569
Payments	(6,726)	(314)	(7,040)
At 31 December 2006	29,177	9,520	38,697

(a) Defined benefits

The Group contributes to four defined benefit plans, three in the United States through its subsidiary Teepak USA LLC and another in Germany through its subsidiary Naturin Gmbh & Co KG.

All the plans ensure pensions and a widowhood pension for retired employees. Two of the Group's three pension plans in the United States have been frozen and vary only on the basis of changes in discount rates and mortality tables.

Pension liabilities comprise defined benefit obligations. The main actuarial assumptions employed to calculate these liabilities are as follows:

	%	
	2006	2005
Annual discount rate	5.50 – 5.75%	4.2%
Forecast increase in salaries	0 – 2.5%	2.5%
	5.50 – 8.25%	6.7%

The mortality tables used to determine the defined benefits obligation are those generally accepted in Germany and the United States.

The total expense recognised in the consolidated income statement, by item, is as follows:

	Thousands of Euros	
	2006	2005
Current service costs	(12,581)	221
Interest costs	2,041	971
Actuarial losses (gains)	(1,147)	1,775
	(11,687)	2,967

In 2006 the company Teepak USA LLC reached an agreement with its employees and the relevant authorities to cancel one of its pension plans. As a result of this operation, the Group has obtained a profit of Euros 13,411 thousand.

The expense has been recognised under the following items in the income statement:

	Thousands of Euros	
	2006	2005
Personnel expenses (note 25)	(13,728)	1,996
Financial expenses	2,041	971
	(11,687)	2,967

(b) Defined contribution plans

The Group has contracted nine defined contribution plans, four in the United States through its subsidiary Teepak USA LLC, three in Germany through its subsidiary Naturin, GMBH & Co KG and two in Spain through the Parent Company Viscofan, S.A.

These plans are mainly based on early retirement, partial retirement, length-of-service rewards and supplementary pensions for certain employees.

In 2002 the Parent Company externalised pension commitments through life insurance policies through a single premium which was recognised under personnel expenses.

(18.2) Provisions for other litigation

Movement at 31 December 2006 and 2005 is as follows:

	Thousands of Euros	
	2006	2005
Balance at 1 January	2,405	1,625
Translation differences	(248)	253
Allowances	539	639
Applications	(9)	(112)
	2,687	2,405

The provision for other litigation mainly covers claims brought against the Brazilian subsidiary by the Brazilian tax authorities and certain company employees. These claims are expected to be resolved after 2007. According to the directors' opinion and corresponding legal assessment, the result of this litigation is not expected to differ significantly from the amounts provided for at 31 December 2006.

(18.3) Restructuring provision

A company-restructuring plan was undertaken for one of the Group companies during the year ended 31 December 2004 due to the slump in the market in which it operated. Representatives of the affected employees were duly informed of this plan. The total estimated recognised costs in 2004 were based on a breakdown of the employees affected by the plan. Approximately Euros 1,781 thousand has been used in 2006. In 2005 approximately Euros 1,100 thousand of the provision was used to pay indemnities and approximately Euros 1,816 thousand was cancelled (see note 23). The existing provision at 31 December 2006 will be applied during 2007 in accordance with the industrial plan established for this subsidiary.

(18.4) Guarantees

The provision for guarantees mainly corresponds to products sold by the German subsidiary in the years ended 31 December 2006 and 2005. This provision has been estimated based on historical information of the Group.

(18.5) Safety in the workplace provision

The safety in the workplace provision covers claims brought against the Group by certain employees in respect of occupational accidents. Rulings are expected to be issued in 2007. The directors and legal advisors of the Company do not expect the outcome of this litigation to differ significantly from the amounts provided for at 31 December 2006.

(18.6) Emission rights provision

Gas emission expenses amounted to Euros 334 thousand in 2005.

The criterion for estimating these expenses consists of a market price valuation of the Company's emission rights in 2006.

(19) Trade payables, Other Payables and Other Current Liabilities

Details of trade and other payables are as follows:

	Thousands of Euros	
	2006	2005
Trade payables	44,281	35,583
Other current liabilities		
Salaries payable	9,414	5,303
Public entities	8,229	5,950
Other payables	9,954	7,391
	27,597	18,644

Other payables mainly comprise fixed asset suppliers.

(20) Risk Management

(20.1) Financial risks

The Group's activities are exposed to various financial risks: market risk (including exchange rate risk, fair value interest rate risk and price risk), credit risk, liquidity risk, and interest rate risk in cash flows. The Group's global risk management programme focuses on the uncertainty of financial markets and aims to minimise the potential adverse effects on the Group's profitability. Certain risks are hedged by derivative instruments.

Risk is managed by the Group in accordance with policies approved by the board of directors.

(a) Market risks

- Exchange rate risks

  As the Group operates internationally, it is exposed to variations in exchange rates, particularly the US Dollar. The exchange rate risk arises from future commercial transactions, recognised assets and liabilities and net investments abroad.

Group entities use forward currency contracts negotiated with the Treasury Department of several Group companies to control exchange rate risks which arise from future commercial transactions, recognised assets and liabilities. Exchange rate risks arise where future commercial transactions, recognised assets and liabilities are denominated in a currency which is not the functional currency of the Company.

The risk management policy of the Group is to cover the net balance between collections and payments in currencies other than the functional currency through short-term currency contracts (of approximately 2 months).

Details of the Group's exposure to exchange rate risks at 31 December 2006 and 2005 are shown below. The tables reflect the carrying amount of financial instruments or classes of financial instruments of the Group which are denominated in foreign currency.

	US Dollar	Canadian Dollar	Pound Sterling	Czech Crone	Polish Zloty	Mexican Peso	Others	Total
At 31 December 2006								
Assets								
Other financial assets	780	-	-	-	-	372	2	1,154
Total non-current assets	780	-	-	-	-	372	2	1,154
Trade and other receivables	40,802	3,331	1,974	4,162	996	12,513	2,342	66,120
Other financial assets	150	10	-	-	4	-	-	164
Cash and cash equivalents	2,203	2,060	673	1,714	2	689	181	7,522
Total current assets	43,155	5,401	2,647	5,876	1,002	13,202	2,523	73,806
Total assets	43,935	5,401	2,647	5,876	1,002	13,574	2,525	74,960
Liabilities								
Borrowings	42,141	1,963	-	-	-	-	-	44,104
Other financial liabilities	166	-	-	-	-	-	-	166
Total non-current liabilities	42,307	1,963	-	-	-	-	-	44,270
Borrowings	4,932	-	-	10,953	61	-	-	30,366
Trade and other payables	19,427	2,862	185	2,335	218	6,345	865	32,237
Total current liabilities	24,359	2,862	185	13,288	279	6,345	865	62,603
Total liabilities	66,666	4,825	185	13,288	279	6,345	865	106,873

	US Dollar	Canadian Dollar	Pound Sterling	Czech Crone	Polish Zloty	Others	Total
At 31 December 2005							
Assets							
Other financial assets	1,317	-	-	-	-	17	1,334
Total non-current assets	1,317	-	-	-	-	17	1,334
Trade and other receivables	25,966	1,995	2,105	2,816	837	702	34,421
Other financial assets	41,775	-	-	-	-	-	41,775
Cash and cash equivalents	7,679	1,111	196	1,575	-	2,719	13,280
Total current assets	75,420	3,106	2,301	4,391	837	3,421	89,476
Total assets	76,737	3,106	2,301	4,391	837	3,438	90,810
Liabilities							
Borrowings	45,359	2,186	-	-	-	-	47,545
Other financial liabilities	169	-	-	-	-	-	169
Total non-current liabilities	45,528	2,186	-	-	-	-	47,714
Borrowings	4,891	1,530	-	7,100	172	-	13,693
Trade and other payables	9,245	1,355	253	2,701	61	987	14,602
Total current liabilities	14,136	2,885	253	9,801	233	987	28,295
Total liabilities	59,664	5,071	253	9,801	233	987	76,009

(b) Price risks

The Group is exposed to price risks relating to its main financial instruments.

(c) Credit risk

The Group does not have a significant concentration of credit risk. It is Group policy to ensure that products are sold to customers with an appropriate credit history. Sales to problematic customers are made in cash. Derivative operations are only entered into with banks with high credit ratings.

(d) Liquidity risk

The Group has a prudent policy to cover its liquidity risks which is focussed on having sufficient cash and marketable securities as well as the ability to draw down sufficient financing through its existing credit facilities to settle the market positions of its short-term investments. Given the dynamic nature of its underlying business, the Group aims to be flexible with regard to financing through drawdowns on its contracted credit lines.

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

As the Group does not have highly remunerated assets, income and cash flows of operating activities are not significantly affected by variations in market interest rates.

Interest rate risks arise from other long-term and short-term resources. Other resources issued at floating interest rates expose the Group to cash flow interest rate risks. At the 2006 and 2005 closes the Group had no significant other resources held at fixed interest rates.

The Group manages interest rate risks in cash flows through floating to fixed interest rate swaps. These interest rate swaps convert floating interest rates on external resources to fixed interest rates. Generally the Group obtains other long-term resources with floating interest rates and swaps these for fixed interest rates. These are generally at lower rates than those which would have been obtained had the resource been obtained directly with fixed interest rates. Interest rate swaps allow the Group to exchange the difference between fixed interest and floating interest with other parties periodically (generally quarterly). These swaps are calculated based on the contracted notional principal.

The carrying amounts of financial instruments or types of financial instruments classified by maturity are detailed as follows:

	Thousands of Euros						
	Less than 1 year	1 –2 years	2–3 years	3–4 years	4–5 years	More than 5 years	Total
At 31 December 2006							
Assets							
Trade and other receivables	103,877	-	-	-	-	-	103,877
Other financial assets	152	-	-	-	-	1,587	1,739
Total assets	104,029	-	-	-	-	1,587	105,616
Liabilities							
Borrowings	63,026	20,951	13,305	9,083	8,269	9,557	124,191
Trade and other payables	39,625	-	-	-	-	-	39,625
Other financial liabilities	1,342	1,191	1,191	1,059	753	1,307	6,843
Total liabilities	103,993	-					170,659
At 31 December 2005							
Assets							
Trade and other receivables	83,218	-	-	-	-	-	83,218
Other financial assets	41,787	-	-	-	-	1,533	43,320
Total assets	125,005	-	-	-	-	1,533	126,538
Liabilities							
Borrowings	53,472	24,055	13,955	10,608	9,974	21,709	133,773
Trade and other payables	37,443	-	-	-	-	-	37,443
Other financial liabilities	3,529	1,286	975	919	754	741	8,204
Total liabilities	94,444	25,341	14,930	11,527	10,728	22,450	179,420

The table below shows interest accrued on monetary financial instruments, by currency, at 31 December 2006 and 2005:

	Thousands of Euros								
	Euros	US Dollar	Canadian Dollar	Pound Sterling	Czech Crone	Polish Zloty	Others	Mexican Peso	Total
At 31 December 2006									
Financial expenses	3,815	3,531	27	-	231	8	-	-	7,612
Financial income	602	15	34	9	45	-	14	420	1,319
At 31 December 2005									
Financial expenses	4,009	415	69	-	232	7	122	-	4,854
Financial income	854	151	9	6	43	-	15	-	1,078

(21) Environmental Information

Details of costs and accumulated depreciation of property, plant and equipment in respect of the Group's environmental activities at 31 December 2006 and 2005 are as follows:

	Thousands of Euros			
	2006		2005	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Vapour boiler	1,091	(323)	1,091	(214)
Water-cooler circuit	697	(203)	697	(143)
Waste management plant	1,761	(852)	1,713	(618)
Gas washers	3,022	(1,861)	2,233	(1,265)
Purifier	1,574	(107)	-	-
Others	4,535	(2,006)	4,150	(1,397)
	12,680	(5,352)	9,884	(3,637)

During 2006 and 2005 the Parent Company incurred expenses for protection and improvement of the environment amounting to approximately Euros 952 thousand.

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

(22) Ordinary Income

Details of ordinary income by segment are included in note 5.

(23) Other Income

Details of other income are as follows:

	Thousands of Euros	
	2006	2005
Government grants	814	866
Surplus provision for fixed assets - not applied (see note 7)	71	72
Surplus provision for restructuring - not applied (see note 18)	-	1,816
Gains on sale of fixed assets	175	215
Difference between fair value of Teepak net assets and cost of acquisition (see note 6.3)	9,611	-
Other income	2,239	2,726
	12,910	5,695

(24) Other Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2006	2005
Research and development costs	660	500
Repairs and maintenance	21,006	17,891
Administrative and selling costs	45,699	35,596
Supplies	42,559	15,483
Losses on sale of fixed assets	1,083	364
Other expenses	24,774	22,308
	135,781	92,142

(25) Personnel Expenses

Details of personnel expenses during 2006 and 2005 are as follows:

	Thousands of Euros	
	2006	2005
Wages and salaries	110,530	80,403
Indemnity payments	3,203	476
Contributions to defined contribution plans (note 18.1)	845	764
Contributions to defined benefit plans (note 18.1)	(13,728)	1,996
Company social security contributions	26,584	19,383
Other welfare benefits and taxes	789	1,681
	128,223	104,703

The average headcount of the Group during 2006 and 2005, distributed by category, is as follows:

	2006	2005
Management	109	69
Technicians and department heads	627	527
Administrative staff	332	233
Specialised personnel	988	939
Labourers	2,382	1,578
	4,438	3,346

(26) Financial Income and Expense

Details of financial income and expense are as follows:

	Thousands of Euros	
	2006	2005
Financial income		
Other financial income	1,296	1,078
Exchange gains	8,459	4,211
Net profits on adjustment to fair value of derivative financial instruments (note 17)	201	-
Total financial income	9,956	5,289
Financial expenses		
Net losses on adjustment to fair value of derivative financial instruments (note 17)	-	375
Other financial expenses	7,612	4,854
Exchange losses	10,363	2,394
Total financial expenses	17,975	7,623

(27) Earnings per Share

(27.1) Basic

The calculation of basic earnings per share is based on the profit for the year attributable to the shareholders of the Parent and a weighted average number of ordinary shares in circulation throughout the year, excluding treasury shares.

Details of the calculation of basic earnings per share are as follows:

	Thousands of Euros	
	2006	2005
Profit attributable to ordinary equity holders of the Parent	31,300	19,695
Weighted average number of ordinary shares in circulation	47,631,219	48,086,110
Basic earning per share (in Euros)	0,6571	0,4096

The weighted average number of ordinary shares issued is determined as follows:

	2006	2005
Weighted average number of ordinary shares in circulation	47,959,806	48,153,193
Effect of treasury shares	(328,587)	(67,083)
Average number of ordinary shares in circulation at 31 December	47,631,219	48,086,110

(27.2) Diluted

Diluted earnings per share are calculated by dividing profit attributable to equity holders of the Parent by the weighted average number of ordinary shares in circulation considering the diluting effects of potential ordinary shares. As there are no potential ordinary shares, this calculation is unnecessary.

(28) Information on the Board of Directors of the Parent Company and Key Group Personnel

The board of directors of the Company only accrue remuneration established in articles 27 and 30 of the Company's bylaws, equivalent to 1.5% of the Parent Company's profit before income tax for the board directors, which amounted to Euros 304,683 and Euros 600,699 for 2006 and 2005, respectively, and another 1.5% of the Parent Company's profit before income tax for the executive board, which amounted to Euros 304,683 and Euros 600,699 for 2006 and 2005, respectively. As established in the aforementioned articles, the board of directors and executive committee decide on the distribution of remuneration equally among the members.

Details of remuneration by director are as follows:

Name	Euros			
	Committee	Board	Other Group Companies Boards	Total
Mr. Jaime Echevarría Abona	101,561	38,086	111,988	251,635
Mr. José María Cuevas Salvador	101,561	38,086	-	139,647
Mr. Nestor Basterra Larroudé	101,561	38,086	55,994	195,641
Mr. Inigo Soláun Garteiz-Goxeascoa	-	38,085	-	38,085
Ms. Agatha Echevarría Canales	-	38,085	-	38,085
Mr. José Cruz Pérez Lapazarán	-	38,085	-	38,085
Mr. Gregorio Marañón Bertrán de Lis	-	38,085	-	38,085
Mr. Alejandro Legarda Zaragüeta	-	38,085	-	38,085
	304,683	304,683	167,982	777,348

The Company has not given any advances or loans to the members of the board of directors and has no pension or life insurance commitments with the directors. The Group has extended no guarantees to any of the directors. Remuneration is not linked to the performance of Parent Company shares on the stock exchange.

During 2006 and 2005 the members of the board of directors have not carried out operations with the Company or the Group other than ordinary operations under market conditions.

Details of remuneration received by key management personnel, presented in appendix 6, are as follows:

	Thousands of Euros	
	2006	2005
Short-term remuneration of employees, management	2,808	2,666

The directors of the Viscofan, S.A. hold no additional shares or management positions in companies with identical, similar or complementary activities to the Company other than those detailed below**.**

Name	Company	Position
Mr. Jaime Echevarría Abona	Naturin GmbH & Co KG	Chairman to the Board of Directors
	Naturin Limited	Chairman to the Board of Directors
	Gamex, C.B.s.r.o.	Chairman to the Board of Directors
	Viscofan CZ, s.r.o.	Chairman to the Board of Directors
	Viscofan USA Inc	Chairman to the Board of Directors
	Viscofan Poland Sp. Z.o.o.	Chairman to the Board of Directors
	Viscofan Centroamérica Comercial, S.A.	Chairman to the Board of Directors
	Viscofan de México S. de R.L. de C.V.	Chairman to the Board of Directors
	Koteks Viscofan, d.o.o.	Chairman to the Board of Directors
	Viscofan Canadá, Inc	Chairman to the Board of Directors
	Teepak USA, LLC	Chairman to the Board of Directors
	Teepak de Mexico, s. de R.L. de C.V.	Chairman to the Board of Directors
	Viscofan do Brasil soc. com. e ind. Ltda..	Member of Consultant Board
Mr. Néstor Basterra Larroudé	Naturin GmbH & Co	Director
	Viscofan USA Inc	Director

During 2006 and 2005 the members of the board of directors have not carried out operations with the Company or Group companies other than ordinary operations under market conditions.

(29) Audit Fees

The auditors of the consolidated annual accounts of the Group and other related companies as defined in the fourteenth additional disposition of legislation governing the reform of the financial system have accrued fees for professional services for the years ended 31 December 2006 and 2005 as follows:

	Euros	
	2006	2005
Principal auditor		
Audit services	94,654	90,995
Other services	885	28,360
	95,539	119,355

Audit services detailed in the above table include the total fees for services rendered in 2006 and 2005, irrespective of the date of invoice.

Other companies related to the auditors have invoiced the Company and its subsidiaries as follows:

	Euros	
	2006	2005
Audit services	254,098	145,225
Other services	41,995	39,080
	274,677	184,305

Other auditors have also invoiced the Group Euros 150,369 in respect of audit services in 2006 (Euros 35,481 in 2005).

(30) Subsequent Events

On 30 January 2007, as agreed by the directors at their meeting held on 25 January 2007, a gross interim dividend of Euros 0.14 per share was distributed for all shares comprising the share capital of the Parent Company.

The mandatory cash flow statement prepared by the directors of the Parent Company for the distribution of the dividend on account of 2006 profits, which includes treasury shares, is as follows:

	Thousands of Euros
Net profit of the Parent Company for the year ended 31 December 2006	20,834
Less, mandatory appropriations to the legal and statutory reserves	-
Maximum distributable profits	20,834
Dividend on account agreed by directors of the Parent Company	6,625
Forecast cash and cash equivalents	
Cash and cash equivalents at 25 January 2007	223
Projected collections for one year	123,281
Projected payments for one year, including dividend on account	(123,362)
Projected cash and cash equivalents at 25 January 2008	142

VISCOFAN, S.A. AND SUBSIDIARIES

Details of the Viscofan Group
31 December 2006

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

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 (Navarre)
Naturin GmbH & Co. KG	(i)	100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Naturin Inc Delaware		100.00%	-	Financial activity	Dover (USA)
Naturin Verwaltungs GmbH	(i)	100.00%	-	Financial activity	Weinheim (Germany)
Viscofan do Brasil, soc. com. e ind. Ltda.		100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Viscofan Poland Sp.z.o.o		100.00%	-	Commercial activity	Krakow (Poland)
Koteks Viscofan, d.o.o.		100.00%	-	Manufacture and marketing of artificial casings	Novisad (Serbia)
Gamex, C.B. s.r.o.		100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan USA Inc.		100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Naturin LTD	(iii)	100.00%	-	Commercial activity	Seven Oaks (United Kingdom)
Viscofan CZ, s.r.o.		100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
IAN Perú, S.A.		-	100.00%	Asparagus production	Lima (Peru)
Naturin Canadá Vertriebs GmbH	(i) and (ii)	-	100.00%	Commercial activity	Weinheim (Germany)
Stephan & Hoffmann AG	(i)	-	100.00%	Holding company	Weinheim (Germany)
Viscofan de México S.R.L. de C.V.		99.99%	0.01%	Manufacture and marketing of artificial casings	San Luis de Potosí (Mexico)
Viscofan Centroamérica Comercial, S.A.		99.50%	0.50%	Commercial activity	San José (Costa Rica)
Viscofan Mexico Servicios, S.R.L. de C.V.		99.8%	0.2%	Services rendered	San Luis de Potosí (Mexico)
Teepak Holdings de Mexico, S.R.L. de C.V.		-	100.00%	Holding	Zacapu Michoacan (Mexico)

VISCOFAN, S.A. AND SUBSIDIARIES
Details of the Viscofan Group
31 December 2006

Group companies	Percentage interest		Activity	Registered offices
	Direct	Indirect		
Teepak Mexico S.R.L. de C.V.	-	100.00%	Manufacture and marketing of artificial casings	Zacapu Michoacan (Mexico)
Teepak Servicios de Mexico, S.R.L. de C.V.	-	100.00%	Services rendered	Zacapu Michoacan (Mexico)
Zacapu Power S.R.L. de C.V.	-	100.00%	Cogeneration plant	Zacapu Michoacan (Mexico)
Viscofan Canadá Inc	-	100.00%	Commercial activity	Quebec (Canada)
Teepak USA, LLC	-	100.00%	Manufacture and marketing of artificial casings	Danville Illinois (U.S.A)

(i) Companies audited by Ernst&Young
(ii) Company audited by BDO Dunwoody LLP
(iii) Company audited by Perrys Chartered Accountants

VISCOFAN, S.A. AND SUBSIDIARIES

Details of the Viscofan Group
31 December 2005

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 (Navarre)
Naturin GmbH & Co. KG	(i)	100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Naturin Inc Delaware		100.00%	-	Financial activity	Dover (USA)
Naturin Verwaltungs GmbH	(i)	100.00%	-	Financial activity	Weinheim (Germany)
Viscofan do Brasil, soc. com. e ind. Ltda.		100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Viscofan Poland Sp.z.o.o		100.00%	-	Commercial activity	Krakow (Poland)
Koteksprodukt AD		100.00%	-	Manufacture and marketing of artificial casings	Novisad (Serbia)
Gamex, C.B. s.r.o.		100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofán USA Inc.		100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Naturin LTD	(iii)	100.00%	-	Commercial activity	Seven Oaks (United Kingdom)
Viscofan CZ, s.r.o.		100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
IAN Perú, S.A.		-	100.00%	Asparagus production	Cañete (Peru)
Naturin Canadá Vertriebs GmbH	(i) and (ii)	-	100.00%	Commercial activity	Weinheim (Germany)
Stephan & Hoffmann AG	(i)	-	100.00%	Holding company	Weinheim (Germany)
Viscofan de México S.R.L. de C.V.		99.99%	0.01%	Manufacture and marketing of artificial casings	San Luis de Potosí (Mexico)
Viscofan Centroamérica Comercial, S.A.		100.00%	-	Commercial activity	Lagunilla Heredia (Costa Rica)

(i) Companies audited by Ernst&Young
(ii) Company audited by BDO Dunwoody LLP
(iii) Company audited by Perrys Chartered Accountants

This appendix forms an integral part of note 2 to the consolidated annual accounts, in conjunction with which it should be read.

VISCOFAN, S.A. AND SUBSIDIARIES
Segment reporting
31 December 2006 and 2005

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

Business segments	Casings		Tinned food		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
Income and expenses								
Sales and services rendered	416,126	299,670	81,051	75,049	(17)	(27)	497,160	374,692
Materials consumed	(104,027)	(85,843)	(45,371)	(45,289)	-	-	(149,398)	(131,132)
Other operating income and expenses	(261,136)	(188,711)	(32,743)	(28,277)	17	133	(293,862)	(216,855)
	50,963	25,116	2,937	1,483	-	106	53,900	26,705
Financial loss	(6,778)	(1,478)	(1,242)	(856)	-	-	(8,020)	(2,334)
Income tax expense	(14,247)	(4,576)	(333)	(100)	-	-	(14,580)	(4,676)
Profit for the year	29,938	19,062	1,362	527	-	106	31,300	19,695
Total segment assets	484,880	436,490	74,228	79,592	-	(21)	559,108	516,061
Cash flows								
Cash flows from operating activities	25,127	50,989	9,172	5,550	-	-	34,299	56,539
Cash flows from investing activities	(15,378)	(93,453)	(2,033)	1,044	-	-	(17,411)	(92,409)
Cash flows from financing activities	(12,917)	44,771	(7,044)	(6,849)		-	(19,961)	37,922

VISCOFAN, S.A. AND SUBSIDIARIES
Segment reporting
31 December 2006 and 2005

(In thousands of Euros)

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

Geographical segments	Europe		North America		South America		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
Ordinary income from external clients	272,763	246,769	175,678	85,641	48,719	42,282	497,160	374,692
Segment assets	354,823	356,218	142,964	100,111	61,321	59,732	559,108	516,061
Cash flows								
Cash flows from operating activities	38,729	40,175	(16,555)	(577)	12,125	16,941	34,299	56,539
Cash flows from investing activities	(18,671)	(34,122)	3,876	(45,760)	(2,616)	(12,527)	(17,411)	(92,409)
Cash flows from financing activities	(18,143)	(2,165)	8,663	42,748	(10,481)	(2,661)	(19,961)	37,922

This appendix forms an integral part of note 5 to the consolidated annual accounts, in conjunction with which it should be read.

VISCOFAN, S.A. AND SUBSIDIARIES
Details and movement in property, plant and equipment
31 December 2006 and 2005

(In thousands of Euros)

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

	01.01.05	Translation differences	Additions	Disposals	Transfers	31.12.05	Translation differences	Changes in consolidated group	Additions	Disposals	Transfers	31.12.06
Revalued cost												
Land and buildings	140,019	4,500	4,251	(574)	1,496	158,515	800	4,459	2,407	(1,109)	18,342	183,414
Plant and machinery	320,006	8,733	10,250	(3,049)	8,978	357,087	906	45,137	14,092	(24,870)	7,233	399,585
Other installations, equipment and furniture	66,075	3,545	2,789	(1,084)	1,950	73,481	(332)	200	2,465	(4,107)	(12,951)	58,756
Other property, plant and equipment	20,320	1,126	668	(643)	(15)	22,404	(666)	6	1,161	(1,338)	(1,155)	20,412
Advances and assets under construction	6,886	290	14,293	-	(12,409)	9,060	97	811	12,028	(313)	(13,186)	8,497
	553,306	18,194	32,251	(5,350)	-	620,547	805	50,613	32,153	(31,737)	(1,717)	670,664
Restated accumulated depreciation												
Buildings	(52,399)	(890)	(3,980)	141	-	(58,692)	(70)	(2)	(4,250)	847	86	(62,081)
Plant and machinery	(225,706)	(4,038)	(19,175)	2,662	4	(258,285)	(620)	(108)	(23,462)	22,504	481	(259,490)
Other installations, equipment and furniture	(37,964)	(1,311)	(4,960)	797	(28)	(43,651)	188	(23)	(5,240)	3,272	1,185	(44,269)
Other property, plant and equipment	(16,802)	(954)	(1,105)	583	12	(19,101)	574	-	(1,100)	1,077	(58)	(18,608)
	(332,871)	(7,193)	(29,220)	4,183	(12)	(379,729)	72	(133)	(39,052)	27,700	1,694	(384,448)
Provisions	(369)	-	-	72	-	(297)	-	-	-	71	-	(226)
	220,066	11,001	3,031	(1,095)	(12)	240,521	877	50,480	(1,899)	(3,966)	(23)	285,990
												(note 6)

This appendix forms an integral part of note 7 to the consolidated annual accounts, in conjunction with which it should be read.

VISCOFAN, S.A. AND SUBSIDIARIES

Details and movement in intangible assets

31 December 2006 and 2005

(In thousands of Euros)

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

	01.01.05	Translation differences	Additions	Disposals	Transfers	31.12.05	Translation differences	Changes in consolidated group	Additions	Disposals	Transfers	31.12.06
Cost												
Technology and contracts	-	-	-	-	-	-	-	6,896	-	-	-	6,896
Trademark and customer portfolio	-	-	2,672	-	-	2,672	-	-	-	-	-	2,672
Software	8,983	133	447	(78)	-	9,489	31	-	290	(37)	23	9,796
Concessions, patents and licences	165	-	1,801	-	-	1,966	-	-	-	-	-	1,966
Issue rights	-	-	1,188	-	-	1,188	-	-	1,414	(2,256)	-	346
	9,148	133	6,108	(78)	-	15,315	31	6,896	1,704	(2,293)	23	21,676
Accumulated amortisation												
Technology and contracts	-	-	-	-	-	-	47	-	(1,020)	-	-	(973)
Trademark and customer portfolio	-	-	(178)	-	-	(178)	-	-	(534)	-	-	(712)
Software	(5,835)	(46)	(1,084)	78	12	(6,876)	(35)	-	(1,403)	34	-	(8,280)
Concessions, patents and licences	(104)	-	(221)	-	-	(325)		-	(13)	-	-	(338)
	(5,939)	(46)	(1,483)	78	12	(7,379)	12	-	(2,970)	34	-	(10,303)
	3,209	87	4,625	-	12	7,936	43	6,896	(1,266)	(2,259)	23	11,373
											(note 7)	

This appendix forms an integral part of note 8 to the consolidated annual accounts, in conjunction with which it should be read.

VISCOFAN, S.A. AND SUBSIDIARIES

Details of movement in other reserves and retained earnings
for the years ended
31 December 2006 and 2005

(In thousands of Euros)

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

	Other reserves				Retained earnings					
	Reserve for conversion to IFRS	Revaluation reserves	Merger reserves	Total	Legal reserve	Special reserve	Voluntary reserves	Other consolidation reserves	Profit / (loss) for the year	Total
Balance at 1 January 2005	(5,826)	8,991	119	3,284	2,935	25	113,720	40,862	13,800	171,342
Distribution of profit / (application of loss) for the year										
Reserves	-	-	-	-	-	-	4,698	5,339	(10,037)	-
Dividends	-	-	-	-	-	-	-	-	(3,763)	3,763
Redemption of treasury shares	-	-	-	-	-	-	(2,924)	-	-	2,924
Application of revaluation reserve	-	(1)	-	(1)	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	100	10	-	110
Profit for the year	-	-	-	-	-	-	-	-	(19,695)	19,695
Balance at 31 December 2005	(5,826)	8,990	119	3,283	2,935	25	115,594	46,211	19,695	184,460
Distribution of profit / (application of loss) for the year										
Reserves	-	-	-	-	-	-	26,911	(10,948)	(15,963)	-
Dividends	-	-	-	-	-	-	-	-	(3,732)	(3,732)
Redemption of treasury shares	-	-	-	-	-	-	-	(3,673)	-	(3,673)
Application of revaluation reserve	-	(2)	-	(2)	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	(2)	-	(2)
Profit for the year	-	-	-	-	-	-	-	-	31,300	31,300
Balance at 31 December 2006	(5,826)	8,988	119	3,281	2,935	25	142,505	31,588	31,300	208,353

This appendix forms an integral part of note 15 to the consolidated annual accounts, in conjunction with which it should be read.

VISCOFAN, S.A. AND SUBSIDIARIES

Viscofan Group management

31 December 2006 and 2005

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

Name	Position	Company
Mr. Jose Antonio Canales Garcia	General manager	Viscofan Group
Ms. Elena Ciordia Corcuera	Legal Department manager	Viscofan Group
Mr. Gabriel Larrea Lalaguna	Sales manager	Viscofan Group
Mr. Cesar Arraiza Armendariz	Chief financial officer	Viscofan Group
Mr. Armando Ares Mateos	Communication and investor relations manager	Viscofan Group
Mr. Pedro Eraso Zabalza	Extrusion coordinator	Viscofan Group
Mr. Jose Vicente Sendin Azanza	Converting coordinator	Viscofan Group
Mr. Iñaki Recalde Irurzun	Research and development manager	Viscofan Group
Mr. Andres Diaz Echevarria	Production manager	Viscofan, S.A.
Mr. Jose Antonio Moriones Guinda	Production management technical advisor	Viscofan, S.A.
Mr. Juan Jose Rota Arrieta	Human resources manager	Viscofan, S.A.
Mr. Manuel Nadal Machin	Information and systems manager	Viscofan, S.A.
Mr. Ricardo Royo Ruiz	Chief financial officer	Viscofan, S.A.
Mr. Jan Bauer	General manager	Gamex Cb Sro., Viscofan Cz, S.R.O.
Mr. Miroslav Kamis	Production manager	Gamex Cb Sro., Viscofan Cz, S.R.O.
Mr. Juan Carlos Garcia De La Rasilla	General manager	Koteks Viscofan, D.O.O.
Mr. Wilfred Schobel	Production manager	Naturin Gmbh & Co. Kg
Mr. Alfred Bruinekool	Sales manager	Naturin Gmbh & Co. Kg
Mr. Jesus Gainza Gainza	General manager	Naturin Uk, Ltd.
Mr. Yunny Soto	General manager	Viscofan Centroamérica Comercial, S.A.
Mr. Antonio Armendariz Garcia	General manager	Viscofan De México S.R.L. De C.V, Teepak de México S.R.L. de C.V
Mr. Luis Bertoli	General manager	Viscofan Do Brasil S. Com. E Ind. Ltda.
Mr. Ely Miguel Weinstein	Production manager	Viscofan Do Brasil S. Com. E Ind. Ltda.
Mr. Waldemar Szymanski	General manager	Viscofan Poland Sp.Z.O.O.
Mr. Jose Maria Fernandez Martin	General manager	Viscofan Usa Inc., Teepak Usa Llc.
Mr. David Lambert	Sales manager	Viscofan Usa Inc., Teepak Usa Llc.
Mr. Alejandro Martinez Campo	General manager	Industrias Alimentarias de Navarra, S.A.U.
Mr. Jose Domingo Otamendi Zabala	Vice-chairman	Industrias Alimentarias de Navarra, S.A.U.
Mr. Juan Ignacio Villegas Diaz	Corporate general manager (until May 2006)	Viscofan Group
Mr. Achim Walter	Finance and administration manager (until April 2006)	Naturin Gmbh & Co. Kg
Mr. Matthias Göhrig	Production manager (until April 2006)	Naturin Gmbh & Co. Kg

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Directors' Report

2006

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

Business Performance and Situation of the Viscofan Group

In 2006 Viscofan has focused its efforts on integrating the companies and assets acquired in 2005 and at the beginning of 2006 and on restructuring the Group to adapt to its new size. This effort has been accompanied by progress in terms of the volume of metres of casings sold to the market and a certain recovery in prices in certain of the Company's main segments.

Viscofan has achieved an excellent profit of Euros 31.3 million for 2006, compared to the Euros 19.7 million obtained in the prior year, representing an improvement of 58.9%.

Viscofan Group sales totalled Euros 497.16 million, up 32.7% from 2005. By business lines, sales of casings amounted to Euros 416.1 million, compared to Euros 299.6 million the prior year, favoured by the larger size of the Viscofan Group following its latest acquisitions and the improvement, in harmonised terms, in the volume of metres sold in the Group's main families of casings, as well as a higher average sale price. The vegetable preserves business obtained income of Euros 81.1 million, 8.0% more than in the same period in the prior year.

The Group has promoted its strategy with a twofold aim; improvement in income and optimisation and streamlining of costs, in particular production costs. As a result of the strategic initiatives carried out in 2006, double figure growth in income has been achieved for the three main management areas (Europe, North America and Latin America), while production efficiency has also improved in all the Group's plants.

Consequently, despite the upward trend for certain raw materials and in energy costs, the EBITDA margin was raised by 0.9 percentage points in 2006 compared to the prior year, up to 16.8%.

EBITDA totalled Euros 83.6 million, 45.6% higher than the prior year. It should be indicated that this year, as a result of the logical restructuring inherent in the process of integrating newly acquired companies, and adaptation of the structure to a more efficient size within the Viscofan Group, non-recurrent profits with a net value of Euros 5.2 million have been obtained.

The valuation of the companies acquired by Viscofan has been tested in the last quarter of the year, with net gains detected due to the difference between the cost of acquisition of these assets and their fair value; specifically these are Euros 9.6 million for the higher value of the net assets of Teepak and the reversal of the goodwill from Tripasin for Euros 2.3 million. It should be noted that this valuation has not represented any cash movements.

The higher value of the assets has been reflected in associated depreciation, the total of which has increased to Euros 37.0 million, up 20.6% on accumulated depreciation in 2005, and in recognition of deferred tax assets associated with the higher value of these assets.

Accumulated EBIT before adjustments for the valuation of assets is Euros 46.6 million, up 74.4% compared to the prior year. Including adjustments for valuation of assets, EBIT is Euros 53.9 million, double that of 2005.

Financial losses are Euros 8.0 million, compared to Euros 2.3 million of losses in 2005. This is due to greater financial debt following the acquisition of Teepak at the end of 2005, together with a higher cost of the debt, and a worse result from exchange differences and other differences caused by the unfavourable trend in the US$ against the Euro in 2006, compared to a more favourable performance by this exchange rate in the same period in the prior year.

The tax impact of cancellation of the liability for retirement benefits in Danville (Teepak LLC) and improved operating results in countries with a higher nominal tax rate have led to a tax rate of 31.8% and taxes of Euros 14.6 million.

The rise in net debt compared to December 2005 is mainly due to the acquisition of Teepak Norteamérica in January 2006. However, consolidated net debt continued to be reduced from January 2006 and stood at Euros 111.8 million at the end of the year. Financial leverage was 41.7% at December 2006.

The Viscofan Group ends 2006 with favourable results from its casings business, with double-figure growth in key indicators, and the vegetable preserves business, in which the good performance of asparagus and upward trend in pre-prepared dishes have led to a rise in income of 8.0%, while EBITDA was up 42.3% and net profits increased from Euros 527 thousand to Euros 1.4 million in 2006.

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Directors' Report

Important events

At 31 December 2005 the companies Teepak LLC (USA), Teepak Inc. (Canada), Teepak Holding de México S. de R.L. de C.V., were acquired and globally consolidated in the Viscofan Group with effect from 1 January 2006.

This acquisition has changed the sector, with Viscofan consolidating its leadership in the artificial casings market while incorporating fibrous casing production into the Group and thereby becoming the only producer of all types of artificial casings. This incorporation has also extended the number of factories in the US Dollar zone, which make Viscofan less vulnerable to future exchange rate fluctuations and allow it to regionalise production and markets, with consequent savings.

In July 2005 the company Koteksprodukt in Serbia joined the consolidated Viscofan Group and attempts have been made in 2006 to make the Serbian company more competitive.

Various welfare agreements were reached with the unions from the Danville plant in the USA in the first quarter of 2006, leading to: reduction in the retirement benefit liability; extension of the collective labour agreement until March 2010 with an annual increase in hourly cost of 0.25USD; and the possibility of reducing plant personnel by up to 25% following improvements in efficiency and productivity.

At the end of June 2006, in an attempt to make plastic casings production more efficient, production was transferred from the Weinheim plant in Germany to the Ceske Budejovice plant in the Czech Republic and the Itú plant in Brazil.

In December 2006 the collective labour agreement was signed with the employees of Naturin GmbH&Co. KG in Germany, valid until 2011. This agreement includes increasing annual working hours from 1,650 to 1,738, without any rise in salary; reduction by up to 4.94 percentage points of the salary increases established in the collective labour agreement for the chemical industry for the period from 2007 to 2009; as well as a 25% reduction in the special work conditions premium and cancellation of voluntary premiums for shift work at nights and on Sundays. The possibility of reducing the company's staff by up to 5.6%, for operating reasons, has also been agreed for the five years of the collective labour agreement's duration.

Outlook for the Viscofan Group Companies

a) Casings

Improved competitiveness in the artificial casings market and consolidation of Viscofan's leadership leave the Group in a very favourable position to capture market growth whilst continuing to implement measures aimed at improving its efficiency and therefore profitability.

The Group seeks to maximise the competitive advantages of having a global scale, with presence in the main world markets for artificial casings, and is redesigning its logistics to obtain savings in transport, customs duty and management costs while gaining more natural coverage between currencies of income and those of cost.

In 2007 the Group aims to continue improving production efficiency at its manufacturing centres, especially those acquired in 2005 and 2006, whilst making the products manufactured by the different production plants more consistent.

b) Vegetable preserves

The Group will continue with its current strategy, marketing products under the Carretilla brand, extending its range of health and convenience products while seeking to streamline costs.

Main Group investments and research and development activities

The Group has invested Euros 32.1 million during 2006.

Investments in the casings business have mainly been directed at increasing capacity and adapting the installations and machinery of the assets acquired in recent years to Viscofan's production standards.

For preserves, investments have been mainly aimed at adaptation to environmental and safety regulations and development of new production lines for pre-prepared dishes.

Viscofan is implementing a more proactive policy in terms of research and development activities in both lines of business, supported by research and technology centres in various countries.

For casings, efforts are aimed at the development of new products or perfecting products already available to increase the market share for the main families of meat casings or other areas of strategic interest, while continuing innovation and improvement in production processes for industrial optimisation of these processes, and maximising production output through the introduction of technological advances and development of advanced engineering solutions.

For vegetable preserves, new products have continued to be developed, with ready-to-serve pre-prepared meals the business line with the best outlook from the point of view of growth and added value.

Acquisition of treasury shares

As authorised by its shareholders at their annual general meeting, the Parent Company has purchased treasury shares in 2006 and in specific operations in 2007.

Risk management

Due to the globalisation of its sales, the Group carries out a number of transactions in currencies other than Euros. General group policy is to hedge against commercial transaction risks by contracting exchange rate insurance to cover the collection period of the Group's product sales. Long-term insurance is not contracted. Group manufacturing companies, which deal with commercial entities or with customers exclusively in the functional currency of the area in which they operate, are most at risk from foreign exchange rate fluctuations.

The Company has not hedged exchange rates on investments in subsidiaries which operate in foreign currencies or their distributable profits. The Group has shown that it is capable of competing in highly competitive price markets and therefore does not consider this to be a factor of risk, albeit a determining factor in sales profitability.

The Group's level of leverage and the amounts drawn down on its credit facilities lead us to believe that the Company will be able to meet its financial needs.

The Parent Company has contracted several interest rate swap operations to mitigate the risks of exposure to interest rate fluctuations.

Operations with the board of directors or persons acting on their behalf, carried out during 2006, with the quoted company or a Group company when operations are different to the Company's ordinary activity or are not carried out in normal market.

In 2006 the directors have not participated in any operations other than the ordinary activity of the Company or Group companies or carried out in abnormal market conditions.

Subsequent events

At the meeting held on 25 January 2007, the board of directors of Viscofan agreed to distribute a dividend on account of the profit for 2006 for a gross amount of Euros 0.14 per share for all of the shares comprising the share capital of the Parent Company, representing a rise of 79.5% compared to the dividend on account of the 2005 profit distributed the prior year. The aforementioned dividend was paid on 30 January 2007.

ANEXO CUENTAS ANUALES CONSOLIDADAS

DILIGENCIA: Para hacer constar por el Secretario del Consejo de Administración D. Juan Mª Zuza Lanz, que el Consejo de Administración en la sesión del 29 de marzo de 2007 ha formulado las cuentas anuales consolidadas del ejercicio anual terminado en 31 de diciembre de 2006 constando en todas las hojas la firma del que suscribe a efectos de identificación, las cuales vienen constituidas por los documentos anexos que preceden a este escrito y que se detallan a continuación:

Consolidated balance sheets 1 hoja
Cuenta pérdidas y ganancias consolidada: 1 hoja
Consolidated cash flow statements 1 hoja
Consolidated statements of changes in equity 1 hoja

Memoria consolidada: en 63 páginas, numeradas correlativamente del 1 al 63, inclusive y 6 Anexos.

D. Jaime Echevarría Abona

D. Jose María Cuevas Salvador

D. Nestor Basterra Larroudé

D. Iñigo de Solaun Garteiz-Goxeascoa

Dª. Agatha Echevarría Canales

D. José Cruz Pérez Lapazarán

D. Gregorio Marañón Bertrán de Lis

D. Alejandro Legarda Zaragüeta

Secretario del Consejo de Administración
D. Juan Mª Zuza Lanz

ANEXO INFORME DE GESTION CONSOLIDADO

DILIGENCIA: Para hacer constar por el Secretario del Consejo de Administración D. Juan Mª Zuza Lanz, que el Consejo de Administración en la sesión de 29 de marzo de 2007 ha formulado el Informe de Gestión consolidado de 2006, constando en todas las hojas la firma del que suscribe a efectos de identificación, todo ello en 6 folios de papel común números correlativos del 1 al 6.

A continuación, los miembros del Consejo de Administración de la sociedad firman el citado documento rubricando el presente folio que queda incorporado como anexo al Informe de Gestión de la Sociedad correspondiente al ejercicio 2006.

D. Jaime Echevarría Abona

D. Jose María Cuevas Salvador

D. Nestor Basterra Larroudé

D. Iñigo de Solaun Garteiz-Goxeascoa

Dª. Agatha Echevarría Canales

D. José Cruz Pérez Lapazarán

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Secretario del Consejo de Administración
D. Juan Mª Zuza Lanz