VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts and Directors' Report

Prepared under International Financial Reporting Standards Endorsed by the European Union

31 December 2007 and 2006

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

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated balance sheets
at 31 December 2007 and 2006

(In thousands of Euros)

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

Assets	Note	2007	2006
Property, plant and equipment	7	279,017	285,990
Other intangible assets	8	9,919	11,373
Deferred tax assets	10	9,717	13,696
Other financial assets	9	977	1,587
Total non-current assets		299,630	312,646
Inventories	11	143,013	132,968
Trade and other receivables	12	104,817	101,109
Prepayments		1,213	-
Other financial assets	9	-	152
Cash and cash equivalents	13	17,107	12,233
Total current assets		266,150	246,462
Total assets		565,780	559,108

Equity and Liabilities	Note	2007	2006
Capital	14	14,189	14,388
Share premium	14	41,844	49,406
Other reserves	14	3,281	3,281
Retained earnings	14	243,739	208,353
Treasury shares	14	(3,728)	(3,004)
Translation differences	14	(3,518)	(4,293)
Total equity	14	295,807	268,131
Deferred income	15	3,543	2,868
Borrowings and finance leases	16	40,344	61,165
Other financial liabilities	16	5,259	5,501
Deferred tax liabilities	10	28,333	34,783
Provisions	17	36,906	41,951
Total non-current liabilities		114,385	146,268
Borrowings and finance leases	16	71,442	63,026
Other financial liabilities	16	1,242	1,342
Trade and other payables	18	44,494	44,281
Provisions	17	2,259	6,676
Other current liabilities	18	31,740	27,597
Income tax liabilities	10	4,411	1,787
Total current liabilities		155,588	144,709
Total equity and liabilities		565,780	559,108

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 2007 and 2006

(In thousands of Euros)

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

	Note	2007	2006
Sales and services rendered	21	506,024	497,160
Other income	22	4,652	12,910
Change in inventories of finished goods and work in progress		6,346	(3,744)
Self-constructed assets		236	298
Raw and other materials consumed	11	(154,296)	(149,398)
Personnel expenses	24	(130,093)	(128,223)
Amortisation and depreciation	7 and 8	(38,075)	(37,022)
Impairment losses on non-current assets	6	-	(2,301)
Other expenses	23	(134,317)	(135,781)
Financial income	25	11,424	9,956
Financial expenses	25	(16,750)	(17,975)
Profit before income tax		55,151	45,880
Income tax	10	(8,973)	(14,580)
Profit for the year		46,178	31,300
Basic earnings per share (Euros)	26	0,9772	0,6571
Diluted earnings per share (Euros)		0,9772	0,6571

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)

	2007	2006
Cash flows from operating activities		
Profit for the year before tax	55,151	45,880
Adjustments:		
Amortisation and depreciation	38,075	37,022
Provisions	(5,361)	(12,898)
Payment of provisions	-	(8,821)
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	574	909
Interest income	(1,158)	-
Interest expense	7,093	-
Net translation differences	-	2,914
	94,374	57,271
Changes in working capital, excluding effect of acquisitions and translation differences		
Inventories	(13,254)	(7,027)
Trade and other receivables	(2,931)	(8,330)
Trade and other payables	(1,690)	699
Cash generated from operations	76,499	42,613
Income tax paid	(7,721)	(8,314)
Net cash from operating activities	68,778	34,299
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(32,884)	(26,448)
Acquisition of financial assets	(41)	(252)
Proceeds from sale of fixed assets	1,271	4,540
Translation differences	-	4,749
Net cash from investing activities	(31,654)	(17,411)
Cash flows from financing activities		
Repayment of borrowings	(8,294)	(5,045)
Acquisition of treasury shares	(5,129)	(5,964)
Other changes in financing activities	(521)	211
Dividends paid	(14,187)	(8,980)
Interest collected	1,224	-
Interest paid	(7,159)	-
Translation differences	1,816	(183)
Net cash from financing activities	(32.250)	(19,961)
Net increase (decrease) in cash and cash equivalents	4,874	(3,073)
Cash incorporations to the consolidated group	-	1,400
Cash and cash equivalents	12,233	13,906
Cash and cash equivalents at 31 December	17,107	12,233

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated statements of changes in equity
for the years ended
31 December 2007 and 2006

(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 2006	14.388	54.654	3.283	184.460	(706)	(4.310)	251.769
Dividends	-	(5.248)	-	-	-	-	(5.248)
Decreases in revaluation reserves	-	-	(2)	-	-	-	(2)
Distribution of profit for the year							
Dividends	-	-	-	(3.732)	-	-	(3.732)
Other movements	-	-	-	(2)	-	-	(2)
Provision for treasury shares	-	-	-	(3.673)	3.673	-	-
Own Shares	-	-	-	-	(5.971)	-	(5.971)
Translation differences	-	-	-	-	-	(1.384)	(1.384)
Efecto impositivo de las provisiones de cartera derivadas de diferencias de conversión	-	-	-	-	-	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
Return of share premium	-	(7.562)	-	-	-	-	(7.562)
Distribution of profit for the year							
Dividends	-	-	-	(6.625)	-	-	(6.625)
Cancellation of treasury shares	(199)	-	-	(7.879)	8.078	-	-
Transfers	-	-	-	3.673	(3.673)		-
Acquisition of treasury shares	-	-	-	-	(5.129)	-	(5.129)
Other movements	-	-	-	39	-	775	814
Profit for the year	-	-	-	46.178	-	-	46.178
Balance at 31 December 2007	14.189	41.844	3.281	243.739	(3.728)	(3.518)	295.807

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 2007 and 2006

(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 2007 and 2006, 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 2007 were as follows:

- On January 1, 2007, Viscofan Canada Inc. acquired the entire business of Naturin Canada Vertriebs GmbH.

- On January 1, 2007, Naturin GmbH & Co. KG took over and merged its wholly owned subsidiary Naturin Canada Vertriebs GmbH.

- In 2007, the Company fully subscribed the share capital increases of Koteks Viscofan d.o.o. and Viscofan de México S.R.L. de C.V. for equivalent amounts of 3,000 thousand euros and 1,846 thousand euros, respectively.

Changes in the consolidated 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.

(3) Basis of Preparation

The 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 2007 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 2007 and 2006, 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.

In 2007, the Company applied IFRS 7 – Financial Instruments: Disclosures (see Note 19) for the first time. This standard requires disclosure to enable readers to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The application of this standard does not affect the Group's financial position as it only entails additional disclosures.

The Group did not apply standards and interpretations that had been issued by the corresponding bodies but were not yet in force. The directors estimate that their application would not have had a significant impact on the consolidated annual accounts.

The directors of the Parent Company consider that the consolidated annual accounts for 2007, prepared on 27 March 2008, 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 2007 and 2006.

(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 2007 and include comparative data for 2006, which formed part of the consolidated annual accounts approved by the shareholders at their annual general meeting on 18 June 2007.

The Viscofan Group's accounting policies described in note 4 have been consistently applied to the years ended 31 December 2007 and 2006.

(3.3) Relevant accounting estimates, assumptions and judgments

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

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

(a) Relevant accounting estimates and assumptions

-Business combinations: see notes 3.4 and 4.2
-Goodwill: see note 4.5
-Pension plans: see note 4.16
-Provisions: see note 4.17
-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 2007, 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 recognized prospectively.

(c) Sources of uncertainty

No issues were detected that imply significant sources of uncertainty regarding their accounting effect in future financial years.

(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.

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

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

Provisionally determined amounts

If a business combination can only be determined provisionally, adjustments to the provisional values of net assets are recognized 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 recognized are considered as corrections and recognized 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 recognized at the date of acquisition, are subsequently recognized 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 recognized at the date of acquisition, where it is probable that tax benefits will materialize 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 unrealized gains and losses or income and expenses arising from intragroup transactions are eliminated on consolidation. Nevertheless, unrealized losses are considered as indicative of impairment of the transferred assets.

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

(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.

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

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

(b) Translation of foreign operations

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

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

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

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

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, less accumulated depreciation and any impairment losses. The cost of self-constructed assets is determined using the same principles as for an acquired asset, considering the principles established to determine the cost of production. The cost of production is capitalized with a charge to self-constructed assets in the consolidated income statement. Borrowing costs are not included.

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

(b) Amortization and depreciation

Property, plant and equipment is depreciated systematically over the useful life of the asset. The depreciable amount of 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	10
Other installations, equipment and furniture	5-15
Other property, plant and equipment	4-15

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

(c) Subsequent recognition

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

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

(d) Impairment

The directors have not identified any indication of impairment of its property, plant and equipment.

(4.5) Intangible assets

(a) Goodwill

Goodwill on business combinations carried out from the transition date (1 January 2004) is recognized 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 amortized 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 recognized as an asset.

(b) Self-constructed assets

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

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

(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 recognized as for self-constructed assets.

(d) Other intangible assets

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

Software maintenance costs are expensed as incurred.

(e) Emission rights

Emission rights, which are recognized when the Group becomes entitled to such rights, are stated at cost less any accumulated amortization 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 recognized as “deferred income”. 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 amortized.

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

(f) Useful lives and amortization rates

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

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

	Amortization 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 amortization methods at the end of each financial year. Changes to initially established criteria are recognized as a change in accounting estimates.

(4.6) Leases

(a) Finance leases:

The 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 recognized by applying the criteria described in this note.

At the inception of the lease term, the Group recognizes 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 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 amortized 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 recognized as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit.

(4.7) Financial instruments

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. At December 31, 2007 and 2006 the Group had no financial assets classified as financial assets at fair value through profit or loss or held-to-maturity investments.

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

(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 recognized amounts or intends either to settle on a net basis, or to realize 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 recognizes 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 recognized 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 derecognized when the rights to receive cash flows from the investment have matured and the Group has substantially transferred the risks and rewards of ownership. In circumstances in which the Group retains the contractual rights to receive cash flows financial assets are derecognized 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 recognized 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 recognized at fair value, less, as applicable, directly attributable transaction costs. Subsequent to initial recognition, the liabilities classified in this category are measured at amortized cost using the effective interest method.

(4.8) 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 recognized 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 recognized directly in profit or loss under financial income or expense, except where the derivative is designated as a cash flow hedge or a hedge of a net investment in a foreign operation.

For accounting purposes, hedges are classified as:

- Fair value hedges: when hedging the exposure to changes in the fair value of an asset or liability recognized in the consolidated balance sheet or a firm commitment (except for foreign currency risk).
- Cash flow hedges: when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or to the foreign currency risk in a firm commitment.
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group documents the hedge relationship and the hedged item. Hedges are accounted for as follows:

- The change in the fair value of derivatives designated as hedges and which meet the criteria for treatment as fair value hedges is recognized in profit and loss, together with change in the fair value of the hedged item attributable to the risk hedged.
- The effective portion of the change in the fair value of the derivatives designated and classified as cash flow hedges is recognized in equity, while the ineffective portion of the gain or loss is recognized immediately in profit or loss.
- Hedges of exposure to changes in exchange rates of a net investment in a foreign operation are accounted for in a similar way to cash flow hedges. The Group does not have any hedges of this type.

Hedges may be used to hedge financial risks in accordance with corporate risk management policies, which, while they may make sense from an economic viewpoint, do not meet the effectiveness tests and criteria established by accounting standards to be treated as hedges. In addition, the Group may also opt not to apply hedge accounting criteria in certain cases. In these cases, in accordance with the general criteria any gain or loss resulting from changes in the fair value of derivatives is taken directly to profit and loss.

(4.9) 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 recognized as a reduction in equity when approved at the general meeting of shareholders.

(4.10) Inventories

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

Inventories are measured at the lower of cost and net realizable 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 labor, 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.

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

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

- Raw materials and other supplies: replacement cost. 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 recognized 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 realizable value because of changed economic circumstances the amount of the write-down is reversed against the captions “changes in inventories of finished products” and “work in progress and consumption of materials and other supplies”. Write-downs may be reversed to the limit of the lower of cost and the new net realizable value.

(4.11) Trade and other receivables

Trade receivables are initially recognized at fair value and are subsequently carried at amortized 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 recognized in the consolidated income statement.

(4.12) 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 recognized 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 recognizes interest and dividends received and paid under cash flow from operating activities, financing activities and investments.

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

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

(a) Calculation of recoverable amount

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

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

(b) Reversals of impairment

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

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

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

(4.14) Government grants

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

(a) Capital grants

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

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

(b) Operating subsidies

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

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

(c) Interest rate subsidies

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

(4.15) Interest-bearing borrowings

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

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

(4.16) Employee benefits

(a) Liabilities for retirement benefits and other obligations

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

Defined benefit plan costs are recognized 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 17.

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

(ii) Other benefits

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

(b) Termination benefits

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

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

(c) Short-term employee benefits

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

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

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

(4.17) Provisions

(a) General criteria

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

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

The financial effect of provisions is recognized under finance costs in the consolidated income statement.

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

(b) Onerous contracts

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

(c) Restructuring

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

(d) Emission rights provision

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

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

- Firstly, through emission rights transferred under a National Allocation Plan to the Company's account in the National Emission Rights Register, which are then used to cancel actual emissions in proportion to total forecast emissions for the entire period to which they have been allocated. The expense corresponding to this part of the obligation is determined based on the book value of the transferred emission rights.
- Secondly, through the remaining emission rights recorded. The expense corresponding to this part of the obligation is stated at the average weighted cost of the emission rights.
- If the emission of gases necessitates the acquisition 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.

(4.18) Revenue recognition

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

(a) Goods sold

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

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

(b) Services rendered

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

(4.19) Income tax

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

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

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

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

(a) Taxable temporary differences

Taxable temporary differences are recognized in all cases except where:

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

(b) Deductible temporary differences

Deductible temporary differences are recognized provided that:

- it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

- the temporary differences are associated with investments in subsidiaries to the extent that the difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

(c) Measurement

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

The carrying amounts of deferred tax assets are reviewed by the Group at each balance sheet date to reduce these amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of the deferred tax assets to be utilized.

Deferred tax assets which do not comply with the abovementioned conditions are not recognized in the consolidated balance sheet. At year end the Group reassesses unrecognized deferred tax assets.

(d) Classification and offsetting

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

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

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

(4.20) 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.

(4.21) 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 realized, sold or traded in the Group's ordinary course of business within 12 months of the balance sheet date and when held essentially for trading. Cash and cash equivalents are also classified as current, except where they may not be exchanged or used to settle a liability, at least within the 12 months following the balance sheet date.

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

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

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

(4.22) Environment

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

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

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

(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 2007 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 2007 and 2006 are included in Appendix 2, which forms an integral part of these notes.

(6) Business Combinations

Acquisition of the Teepak North America business

The Group acquired the Teepak North America 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 business acquired generated a consolidated profit for the Group in the period between acquisition and the end of 2006 of 8,930 thousand euros. 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 22)

The most relevant factors which contributed to the cost of the combination and 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 recognized 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
Amortization 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 2007 and 2006 are included in Appendix 3, which forms an integral part of these notes to these consolidated annual accounts.

The Group leases buildings under finance lease agreements. The detail is as follows:

	Thousands of Euros	
	Cost	Depreciation
At 1 January 2006	1,322	(306)
Depreciation	-	(46)
At 31 December 2006	1,322	(352)
Depreciation	-	(34)
At 31 December 2007	1,322	(386)

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			
	2007		2006	
	Minimum payments (note 16)	Interest	Minimum payments (note 16)	Interest
Up to 1 year	68	41	69	30
Between 1 and 5 years	774	158	838	127
Total	842	199	907	157

Details of fully depreciated property, plant and equipment in use at 31 December 2007 and 2006 are as follows:

	Thousands of Euros	
	2007	2006
Buildings	2,049	4,406
Plant and machinery	146,593	146,587
Other installations, equipment and furniture	22,056	20,853
Other property, plant and equipment	11,986	13,097
	182,684	184,943

The Group's buildings, plant and equipment were partly financed by government grants of Euros 1,075 thousand and Euros 9 thousand in 2007 and 2006, respectively (see note 15).

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

Firm commitments to purchase property, plant and equipment at year end amounted to 13,230 thousand euros.

The Group did not have an investment property at the end of 2006 and 2007.

(8) Other Intangible Assets

Details of other intangible assets and movement in 2007 and 2006 are included in Appendix 4, which forms an integral part of these notes to these consolidated annual accounts.

In 2007 and 2006 the Company received free emission rights equivalent to 107,636 tons each year as per the 2005-07 National Allocation Plan approved by Royal Decree 1866/2004. The Company consumed 87,811 tons and 86,801 tons of emission rights in 2007 and 2006, respectively.

Details of the cost of fully amortized intangible assets in use at 31 December 2007 and 2006 are as follows:

	Thousands of Euros	
	2007	2006
Software	3,868	2,332
Concessions, patents and licences	36	36
	3,904	2,368

(9) Other Current and Non-Current Financial Assets

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

	Thousands of euros	
	2007	2006
Held-to-maturity investments	89	51
Loans and receivables	888	1,537
Provisions	-	(1)
Total, non-current	977	1,587
Loans and receivables	-	152
Total, current	-	152

Details of current and non-current financial assets held in foreign currencies are shown in note 19.

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

	Thousands of Euros	
	2007	2006
Balance at 1 January	(1)	(21)
Cancellation of financial assets	1	20
Balance at 31 December	-	(1)

(10) Income tax

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

	Thousands of Euros					
	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Non-current assets	165	216	27,023	34,468	(26,858)	(34,252)
Current assets	1,459	971	677	315	782	656
Loss carryforwards	-	1,915	-	-	-	1,915
Pending deduction rights	1,885	4,033	-	-	1,885	4,033
Non-current liabilities	5,168	6,156	-	-	5,168	6,156
Current liabilities	1,040	405	633	-	407	405
	9,717	13,696	28,333	34,783	(18,616)	(21,087)

Non-current deferred tax assets for the years ended December 31, 2007 and 2006 mainly relate to the application of different amortization rates by certain Group subsidiaries than those used for tax purposes. Also included is the tax effect of net unrealized gains on assets acquired in several business combinations that still exist at the balance sheet date.

Non-current deferred tax liabilities relate mainly to provisions at different Group companies that will be used for tax purposes when applied.

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

	Thousands of Euros	
	2007	2006
Non-current assets	4,362	475
Current assets	664	-
Non-current liabilities	(843)	-
Current liabilities	3,090	-
	7,273	475

In 2007 and 2006 no deferred tax liabilities were charged directly to equity.

The major components of income tax expense for the years ended December 31, 2007 and 2006 are as follows:

	Thousands of euros	
	2007	2006
Current income tax		
Income tax expense for the year	16,472	13,654
Current income tax of previous years	(226)	1,401
	16,246	15,055
Deferred income tax		
Origination and reversal of temporary differences	(7,273)	(475)
	8,973	14,580

A reconciliation between tax expense (income) and the product of profit before tax multiplied by the tax rate prevailing in Spain at December 31, 2007 is as follows:

	Thousands of euros	
	2007	2006
Profit before tax for the year	55,151	45,880
32.5% tax rate (35% in 2006)	17,924	16,058
Effect of application of tax rates in each country	396	(117)
Changes in impairment of Parent Company investments due to translation differences	145	1,091
Adjustments in respect of income tax expense of previous years	(226)	844
Deductions	(1,993)	(2,821)
Tax assets from corporate restructuring	(3,510)	(165)

Adjustment in respect of deferred taxes for reduction in tax rates in some countries(*)	(3,763)	(310)
	8,973	14,580

(*) In 2006, a reduction in the tax rate in Spain was approved. In 2007, reductions in the tax rates in Germany and the Czech Republic were approved.

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 2007 the Parent Company and subsidiaries in Spain have open to inspection by the tax authorities all applicable taxes to which they are liable and for which the corresponding inspection periods have yet to expire. The situation of foreign companies depends on the legislation prevailing in each country.

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

(11) Inventories

Details of inventories at 31 December 2007 and 2006 are as follows:

	Thousands of Euros	
	2007	2006
Goods for resale	32,306	23,204
Raw materials and other supplies	45,934	47,292
Semi-finished products	23,852	19,096
Finished products	40,921	43,376
	143,013	132,968

Raw materials and other supplies consumed in 2007 and 2006 amounted to Euros 154,296 thousand and Euros 149,398 thousand, respectively.

At 31 December 2007 and 2006 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.

(12) Trade and other receivables

Details at 31 December 2007 and 2006 are as follows:

	Thousands of Euros	
	2007	2006
Trade receivables	93,150	91,039
Other receivables	4,772	6,400
Advances to employees	129	96
Public entities	8,676	6,352
Others	478	-
Provisions for bad debts	(2,388)	(2,778)
	104,817	101,109

At December 31, 2007, the age of accounts receivable on sales by maturity is as follows:

	Thousands of euros					
	Total	Not due	< 30 days	30-60 days	60-90 days	> 90 days
2007	93,150	74,224	12,975	2,968	1,079	1,904
2006	91,039	73,698	9,729	3,115	1,984	2,513

(13) Cash and cash equivalents

Cash and cash equivalents at 31 December 2007 and 2006 comprise cash balances with Group companies and banks. The Group does not have bank overdrafts at these dates and all balances are freely distributable.

(14) Equity

(14.1) Share capital

Movements in shares in circulation during 2007 and 2006 were as follows:

	Shares		Thousands of Euros	
	2007	2006	2007	2006
At 1 January	47,959,806	47,959,806	14,388	14,388
Capital decrease	(66,964)	-	(199)	-
At 31 December	47,296,842	47,959,806	14,189	14,388

The capital decrease in the year was carried out through the cancellation of treasury shares.

At 31 December 2007 the share capital of the Parent Company is represented by 47,296,842 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 (continuous market). All shares are freely distributable.

At December 31, 2007, the Parent Company is aware of the following shareholders with shareholdings greater than 3%:

Entity	%
Bestinver Gestión, S.A.	8.46
Marathon Asset Management, LLP	5.84
Onchena, S.L.	5.00

Capital management

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

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

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

In 2007, the Group's target was to maintain a solid capital position, reducing gearing relative to the year before. The gearing ratios at December 31, 2007 and 2006 were as follows:

	Thousands of euros	
	2007	2006
Net financial debt		
Borrowings and finance leases (Note 16)	111,786	124,191
Cash and cash equivalents (Note 13)	(17,107)	(12,233)
Other financial assets (Note 9)	-	(152)
Total financial debt	94,679	111,806
Equity		
Total equity (Note 14)	295,807	268,131
Gearing ratio	0.32	0.42

(14.2) Share premium

This reserve is freely distributable.

In 2007, a portion of the share premium was returned to shareholders, for a total amount of 7,562,294 euros.

(14.3) 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 realized, 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.

(14.4) 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 2007 and 2006 the Parent Company had appropriated to this reserve the minimum amount required by law.

(b) Voluntary reserves

These reserves are freely distributable.

(14.5) Movement in treasury shares

Movement in treasury shares in 2007 and 2006 was as follows:

	2007		2006	
	Number of shares	Thousands of Euros	Number of shares	Thousands of Euros
Balance at 1 January	581,071	3,004	76,102	706
Acquisitions	324,868	5,207	507,459	5,971
Disposals	(6,590)	(78)	(2,490)	(27)
Cancellation	(662,964)	(8,078)	-	-
Transfer	-	3,673	-	(3,646)
Balance at 31 December	236,385	3,728	581,071	3,004

At 31 December 2007 the Parent Company holds 236,385 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.

(14.6) Distribution of Dividends

Parent Company profits for the year ended 31 December 2006 were distributed, as approved by the shareholders at their annual general meeting held on 18 June 2007, as follows:

	Thousands of Euros
Dividends	6,625
Voluntary reserves	14,209
Distributable profits attributable to the parent	20,834

The proposed distribution of dividends is equivalent to Euros 0.14 per share for all the shares comprising share capital.

Details of the distribution of the Parent Company's 2007 dividends proposed by the directors of the Parent Company, pending approval at the shareholders' general meeting, are as follows:

	Thousands of Euros
Dividends	8,908
Other reserves	21,492
Distributable profits	30,400

The proposed distribution of dividends is equivalent to Euros 0.19 per share.

At 31 December 2007 and 2006 details of non-distributable reserves are as follows:

	Thousands of Euros	
	2007	2006
Legal reserve	2,935	2,935
Revaluation reserves	8,988	8,988
Conversion of share capital to thousands of Euros	25	25
Reserve for conversion to IFRS	(5,826)	(5,826)
Other consolidation reserves	42,053	31,588
	48,175	37,710

(15) Deferred Income

Movement in deferred income during 2007 and 2006 was as follows:

	01.01.06	Additions	Taken to income	Valuation adjustments	Sales	31.12.06	Additions	Taken to income	31.12.07
Capital grants	3,282	9	(435)	-	-	2,856	1,075	(491)	3,440
Grants for emission rights of greenhouse gases	39	1,413	(334)	(1,068)	(38)	12	112	(21)	103
	3,321	1,422	(769)	(1,068)	(38)	2,868	1,187	(512)	3,543

Details of capital grants in 2007 and 2006 are as follows:

	Thousand of Euros	
Granting entity	2007	2006
Navarre regional government	1,298	1,054
FEOGA	1,543	1,657
Ministry of Economics	488	-
Extremadura regional government	111	145
	3,440	2,856

(16) Current and Non-Current Financial Liabilities

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

	Thousands of euros	
	2007	2006
Non-current		
Borrowings	39,570	60,327
Finance lease liabilities (note 7)	774	838
Other financial liabilities	5,259	5,501
Total non-current	45,603	66,666
Current		
Borrowings	71,374	62,957
Finance lease liabilities (note 7)	68	69
Other financial liabilities	1,242	1,342
Total current	72,684	64,368

Details of the carrying amount of financial liabilities in foreign currency, their classification by maturity and effective interest rates are shown in note 19. Loans and other credit facilities accrue interest at variable market rates.

At 31 December 2007 the Group has a limit on its credit facilities and discount lines of Euros 78,917 thousand (Euros 84,477 thousand in 2006) of which Euros 46,726 thousand has been drawn down at 31 December 2007 (Euros 56,209 thousand in 2006).

The Parent Company contracts financial derivatives mainly to eliminate or significantly reduce interest rate risks. At 31 December 2007 and 2006 the Company has contracted mainly interest rate swap agreements, which were in force at the following dates:

	2007	2006
	I.R.S.	I.R.S.
Notional amount (thousands of Euros)	2,146	6,439
Date of contract	02.05.03	02.05.03
Inception date	06.05.03	06.05.03
Expiry	30.06.08	30.06.08
Interest rate paid by the Company	3%	3%
Interest rate collected by the Company	Euribor at 3 months	Euribor at 3 months

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

Detail of prevailing exchange rate insurance, by currency, at 31 December 2007 is as follows:

Currency	Amount 2007
US Dollar	27,522,561
Norwegian Krone	-
Canadian Dollar	842,936
Japanese Yen	248,537
Polish Zloty	823,303
Pound Sterling	-

Details of the fair value measurement of derivative financial instruments contracted by the Group at 31 December 2007 and 2006 are as follows:

	Thousands of Euros		
	2007 Asset / (liability)	2006 Asset / (liability)	Variation expense / (income)
Exchange rate insurance	760	-	760
IRS (Interest Rate Swap)	18	60	(42)
	778	60	718

The fair value of derivative financial instruments actively traded on organized financial markets is based on the market value of similar instruments at the balance sheet date. For instruments where there is no active market, fair value is determined using valuation techniques such as discounted cash flow analysis, or the use of forward exchange rates in the market at the balance sheet date.

"Other current and non-current financial liabilities" mainly comprise loans with subsidized 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 recognizes 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 628 thousand (Euros 60 thousand in 2007).

Loans received do not contain covenants which, if triggered, could lead to the early repayment of the debt.

(17) Current and Non-Current Provisions

Details at 31 December 2007 and 2006 are as follows:

	Thousands of euros	
	31.12.07	31.12.06
Non- Current		
Provisions for employee benefits		
Defined benefit	25,756	30,427
Other benefits	8,300	8,270
Taxes	110	567
Provisions for other litigation	2,740	2,687
Total non-current	36,906	41,951
Current		
Restructuring provision	1,019	1,516
Guarantees	589	1,013
Safety in the workplace provision	606	620
Emission rights	45	334
Others	-	3,193
Total current	2,259	6,676

(17.1) Provisions for defined benefit plans

The Group contributes to seven defined benefit plans, six in the United States through its subsidiary Teepak USA LLC and one in Germany through its subsidiary Naturin GmbH & Co KG.

Six of the plans ensure pensions and a widowhood pension for retired employees. Two of the plans for the Group's current employees in the US have been frozen and vary only on the basis of changes in discount rates and mortality tables. In addition, three of the plans in the US (classified as "Non-qualified") cover payment of a life-long pension scheme for former managers of the subsidiary.

The following table summarizes the components of the net benefit expense recognized in the 2007 and 2006 income statements for the pension plans, except those classified as "Non-qualified":

	Thousands of euros		
Net benefit expense 2007	United States	Germany	Total
Current service cost	281	222	503
Interest cost	1,919	861	2,780
Expected return on plan assets	(2,137)	-	(2,137)
Actuarial gain/(loss)	(1,252)	(1,516)	(2,768)
Recognized expense (net income)	(1,189)	(433)	(1,622)
Net benefit expense 2006			
Current service cost	372	266	638
Interest cost	2,041	890	2,931
Expected return on plan assets	(2,202)	-	(2,202)
Actuarial gain/(loss)	(1,146)	(565)	(1,711)
Recognized expense (net income)	(935)	591	(344)

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 obtained a profit of Euros 13,411 thousand, which was recognized in 2006 and does not appear in the preceding breakdown.

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

	Thousands of euros		
Benefit asset/(liability) 2007	United States	Germany	Total
Present value of the obligation	(30,527)	(19,374)	(49,901)
Present value of plan assets	28,270	-	28,270
	(2,257)	(19,374)	(21,631)
"Non-qualified" plans and other	(4,125)	-	(4,125)
Recognized benefit liability	(6,382)	(19,374)	(25,756)
Benefit asset/(liability) 2006			
Present value of the obligation	(35,492)	(21,093)	(56,585)
Present value of plan assets	29,603	-	29,603
	(5,889)	(21,093)	(26,982)
"Non-qualified" plans and other	(3,445)	-	(3,445)
Recognized benefit liability	(9,334)	(21,093)	(30,427)

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

	Thousands of euros		
	United States	Germany	Total
Obligation at January 1, 2006	40.811	21.755	62.566
Current service cost	372	266	638
Interest cost	2,041	890	2,931
Benefits paid	(2,383)	(1,253)	(3,636)
Actuarial (gains)/losses	(1,146)	(565)	(1,711)
Translation differences	(4,203)	-	(4,203)
Obligation at December 1, 2006	35,492	21,093	56,585
Current service cost	281	223	504
Interest cost	1,919	862	2,781
Benefits paid	(2,263)	(1,288)	(3,551)
Actuarial (gains)/losses	(1,253)	(1,516)	(2,769)
Translation differences	(3,649)	-	(3.649)
Obligation at December 1, 2007	30,527	19,374	49,901

The changes in the fair value of plan assets in the US are as follows:

	Thousands of Euros
Fair value of plan assets at January 1, 2006	28,935
Return on plan assets	2,664
Contribution by the Company	3,583
Benefits paid	(2,383)
Translation differences	(3,196)
Fair value of plan assets at December 31, 2006	29,603
Actual return on plan assets	2,217
Contribution by the Company	1,965
Benefits paid	(2,263)
Translation differences	(3,252)
Fair value of plan assets at December 31, 2007	28,270

The Group expects to contribute 1,090 thousand euros to eligible assets of pension plans in the US in 2008.

The percentage weight of plan assets by category in 2007 and 2006 is similar, as follows:

Equities	33%
Fixed-income investments	67%

The principal actuarial assumptions used in determining these liabilities are as follows:

	%	
United States	2007	2006
Annual discount rate	6,25%	5,75%
Expected rate of return on assets	7,5%	7,5%
Expected rate of salary increases	2,5%	2,5%
Germany		
Annual discount rate	5,25%	4,5%
Expected rate of salary increases	2%	2%
Expected age of retirement for employees	60-65	60-65

The mortality tables used in determining defined benefit obligations are those generally accepted in Germany and the US.

The Group has three pension plans in the US classified as “Non-qualified,” whose main feature is the different consideration for tax purposes. Beneficiaries of these plans are retired former managers who receive life-long income. Beneficiaries of these plans were paid 167 thousand euros in 2007 (2006: 183 thousand euros). The actuarial assumptions used in these plans are the same as those for the other plans in the US. None of these plans has assets.

(17.2) Other benefits

The Group has other commitments with personnel, mainly in Germany from the Naturin GmbH & Co KG. subsidiary, in the form on an early retirement scheme agreed with employees and a long-service bonus.

The movement in provisions in 2007 and 2006 is as follows:

	Thousands of euros	
	2007	2006
Balance at January 1	8.270	7.784
Charge taken to income	877	1.112
Amount utilized taken to income	(328)	(69)
Benefits paid	(519)	(557)
Balance at December 31	8.300	8.270

(17.3) Provisions for other litigation

Movement at 31 December 2007 and 2006 is as follows:

	Thousands of Euros	
	2007	2006
Balance at 1 January	2,687	2,405
Translation differences	194	(248)
Allowances	-	539
Applications	(141)	(9)
Balance at 31 December	2,740	2,687

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 2008. 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 2007.

(17.4) Restructuring provision

The movement in this heading at December 31, 2007 and 2006 is as follows:

	Thousands of euros	
	2007	2006
Balance at 1 January	1,516	3,297
Charge	697	-
Utilized (payments made)	(1,194)	(1,781)
Balance at 31 December	1,019	1,516

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 estimate of total costs recognized in 2004 was based on a list employees affected by the plan. The plan was carried out from 2005 to 2007.

In 2007, a decision was made to restructure certain businesses so that certain processes would become more efficient. This decision meant the termination of certain jobs at one of the Group's subsidiaries. The employees affected have been informed and a provision of 697 thousand euros recorded for the related termination benefits.

(17.5) Guarantees

The provision for guarantees mainly corresponds to products sold by the German subsidiary in the years ended 31 December 2007 and 2006. This provision has been estimated based on historical information of the Group.

(17.6) 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 2008. 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 2007.

(17.7) Emission rights provision

Gas emission expenses amounted to Euros 2 thousand in 2007.

The criterion for estimating these expenses consists of a market price valuation of the Company's emission rights in 2007.

There were no significant other contingent liabilities at the end of 2007 and 2006.

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

Details of trade and other payables are as follows:

	Thousands of Euros	
	2007	2006
Trade payables	44,494	44,281
Other current liabilities		
Salaries payable	8,081	9,414
Public entities	9,223	8,229
Other payables	14,436	9,954
	31,740	27,597

Other payables mainly comprise fixed asset suppliers.

(19) Risk Management

(19.1) Financial risks

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

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

(a) Market risks

- Exchange rate risks

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

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, recognized assets and liabilities. Exchange rate risks arise where future commercial transactions, recognized 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 3 months).

The main exposure arises from the difference between sales and purchases in foreign currency at several Group companies. In this respect, the main risk arises from the difference between sales and expenses in US dollars. Approximately 40% and 24% of the Group's total sales and expenses, respectively, are in this currency.

The following table shows the sensitivity of profit for the year to changes in the dollar's exchange rate, *ceteris paribus*:

	Thousands of euros	
	31.12.07	31.12.06
+5%	5,010	6,200
- 5%	(4,542)	(5,609)

The following table shows the sensitivity of consolidated equity to changes in the exchange rates of some of the currencies of countries where the Group conducts business:

	Thousands of euros							
	US Dollar		Czech Crown		Brazilian Real		Other	
	31.12.07	31.12.06	31.12.07	31.12.06	31.12.07	31.12.06	31.12.07	31.12.06
+5%	3.373	3.156	1.265	1.237	2.634	2.450	559	807
- 5%	(3.728)	(3.488)	(1.398)	(1.367)	(2.912)	(2.708)	(618)	(892)

Details of the Group's exposure to exchange rate risks at 31 December 2007 and 2006 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	Serbian Dinar	Mexican Peso	Brazilian Real	Others	Total

At 31 December 2007

Assets										
Non-current financial assets	38	-	-	-	-	32	-	-	-	70
Other financial assets	397	-	-	-	-	-	232	188	2	819
Total non-current assets	435	-	-	-	-	32	232	188	2	889
Trade and other receivables	38,238	1,509	1,450	2,527	972	717	2,776	9,094	2,597	59,880
Other financial assets	873	9	-	-	-	-	-	5,798	3	6,683
Cash and cash equivalents	1,364	1,578	802	276	2	190	2,315	322	220	7,069
Total current assets	40,475	3,096	2,252	2,803	974	907	5,091	15,214	2,820	73,632
Total assets	40,910	3,096	2,252	2,803	974	939	5,323	15,402	2,822	74,521
Liabilities										
Borrowings	32,055	2,076	-	-	-	-	-	-	-	34,131
Other financial liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	188	-	188
Total non-current liabilities	32,055	2,076	-	-	-	-	-	188	-	34,319
Borrowings	10,756	-	-	11,467	228	442	-	-	-	22,893
Trade and other payables	12,293	1,208	105	1,171	79	829	6,361	3,304	97	25,447
Total current liabilities	23,049	1,208	105	12,638	307	1,271	6,361	3,304	97	48,340
Total liabilities	55,104	3,284	105	12,638	307	1,271	6,361	3,492	97	82,659

	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	-	-	15,846
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	48,183
Total liabilities	66,666	4,825	185	13,288	279	6,345	865	92,453

The Company considers that a sensitivity analysis using other variables would be insignificant.

(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 focused 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 2007 and 2006 closes the Group had no significant other resources held at fixed interest rates.

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 2007							
Assets							
Trade and other receivables	104,817	-	-	-	-	-	104,817
Other financial assets	-	-	-	-	-	-	-
Total assets	104,817	-	-	-	-	-	104,817
Liabilities							
Borrowings	71,442	15,902	7,052	4,891	12,499	-	111,786
Trade and other payables	44,494	-	-	-	-	-	44,494
Other financial liabilities	1,242	1,254	1,171	874	949	1,011	6,501
Total Liabilities	117,178	17,156	8,223	5,765	13,448	1,011	162,781
At 31 December 2006							
Assets							
Trade and other receivables	101,109	-	-	-	-	-	101,109
Other financial assets	152	-	-	-	-	1,587	1,739
Total assets	101,261	-	-	-	-	1,587	102,848
Liabilities							
Borrowings	63,026	20,951	13,305	9,083	8,269	9,557	124,191
Trade and other payables	44,281	-	-	-	-	-	44,281
Other financial liabilities	1,342	1,191	1,191	1,059	753	1,307	6,843
Total Liabilities	108,649	22,142	14,496	10,142	9,022	10,864	175,315

The table below shows interest accrued on monetary financial instruments, by currency, at 31 December 2007 and 2006:

	Euros	US Dollar	Canadian Dollar	Pound Sterling	Czech Crone	Polish Zloty	Mexican Peso	Brazilian Real	Others	Total
At 31 December 2007										
Financial expenses	3,016	3,144	104	-	463	3	-	363	-	7,093
Financial income	562	19	31	35	84	-	72	353	2	1,158
At 31 December 2006										
Financial expenses	3,815	3,531	27	-	231	8	-	-	-	7,612
Financial income	602	15	34	9	45	-	420	-	14	1,139

(20) Environmental Information

Details of costs and accumulated depreciation of property, plant and equipment in respect of the Group's environmental activities at 31 December 2007 and 2006 are as follows:

	Thousands of Euros			
	2007		2006	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Vapour boiler	1,091	(432)	1,091	(323)
Water-cooler circuit	697	(266)	697	(203)
Waste management plant	1,827	(1,036)	1,761	(852)
Gas washers	3,057	(2,153)	3,022	(1,861)
Purifier	1,552	(227)	1,574	(107)
Others	3,788	(1,689)	4,535	(2,006)
	12,012	(5,803)	12,680	(5,352)

During 2007 and 2006 the Parent Company incurred expenses for protection and improvement of the environment amounting of 941 y 952 thousand of euros, respectively.

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

(21) Ordinary Income

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

(22) Other Income

Details of other income are as follows:

	Thousands of Euros	
	2007	2006
Government grants	1,198	814
Surplus provision for fixed assets - not applied (see note 7)	72	71
Gains on sale of fixed assets	138	175
Difference between fair value of Teepak net assets and cost of acquisition (see note 6.3)	-	9,611
Other income	3,244	2,239
	4,652	12,910

(23) Other operating Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2007	2006
Research and development costs	767	660
Repairs and maintenance	20,817	21,006
Administrative and selling costs	46,352	45,699
Supplies	50,975	42,559
Losses on sale of fixed assets	129	1,083
Other expenses	15,277	24,774
	134,317	135,781

The Group has no significant operating leases.

(24) Personnel Expenses

Details of personnel expenses during 2007 and 2006 are as follows:

	Thousands of Euros	
	2007	2006
Wages and salaries	101,265	110,290
Indemnity payments	1,738	1,112
Contributions to defined benefit plans (note 17.1)	(1,623)	(13,755)
Provisions for other benefits (note 17.2)	877	845
Company social security contributions	25,303	26,584
Other welfare benefits and taxes	2,432	789
	130,093	128,223

The average headcount of the Group during 2007 and 2006, distributed by category, is as follows:

	2007	2006
Management	68	109
Technicians and department heads	507	627
Administrative staff	331	332
Specialized personnel	715	988
Laborers	2,500	2,382
	4,121	4,438

(25) Financial Income and Expense

Details of financial income and expense are as follows:

	Thousands of Euros	
	2007	2006
Financial income		
Other financial income	1,157	1,296
Exchange gains	9,549	8,459
Net profits on adjustment to fair value of derivative financial instruments (note 16)	718	201
Total financial income	11,424	9,956
Financial expenses		
Other financial expenses	7,093	7,612
Exchange losses	9,657	10,363
Total financial expenses	16,750	17,975

(26) Earnings per Share

(26.1) Basic

The calculation of basic earnings per share is based on the profit for the year attributable to the shareholders of the Parent Company 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	
	2007	2006
Profit attributable to ordinary equity holders of the Parent Company	46,178	31,300
Weighted average number of ordinary shares in circulation	47,255,226	47,631,219
Basic earning per share (in Euros)	0,9772	0,6571

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

	2007	2006
Weighted average number of ordinary shares in circulation	47,296,842	47,959,806
Effect of treasury shares	(41,616)	(328,587)
Average number of ordinary shares in circulation at 31 December	47,255,226	47,631,219

(26.2) Diluted

Diluted earnings per share are calculated by dividing profit attributable to equity holders of the Parent by the weighted average number of ordinary shares in circulation considering the diluting effects of potential ordinary shares. As there are no potential ordinary shares, diluted earnings per share does not differ from basic earnings per share.

(27) Information on the Board of Directors of the Parent 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 500,949 and Euros 304,683 for 2007 and 2006, respectively, and another 1.5% of the Parent Company's profit before income tax for the executive board, which amounted to Euros 500,949 and Euros 304,683 for 2007 and 2006, 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:

	Euros					
Name	Committee	Board	Audit Committee:	Per diems	Boards of other Group companies	Total
Mr. Jaime Echevarría Abona	166,983	62,619	-	10,800	148,305	388,707
Mr. José María Cuevas Salvador	166,983	62,619	-	10,800	-	240,402
Mr. Nestor Basterra LarrouMr.é	166,983	62,619	-	10,800	74,580	314,982
Mr. Iñigo Soláun Garteiz-Goxeascoa	-	62,619	-	10,800	-	73,419
Mr. Agatha Echevarría Canales	-	62,619	11,600	10,800	-	85,019
Mr. José Cruz Pérez Lapazarán	-	62,618	11,600	10,800	-	85,018
Mr.Gregorio Marañón Bertrán de Lis	-	62,618	11,600	8,800	-	83,018
Mr. Alejandro Legardea Zaragüeta	-	62,618	10,000	9,800	-	82,418
	500,949	500,949	44,800	83,400	222,885	1,352,983

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 2007 and 2006 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	
	2007	2006
Short-term remuneration of employees, management	2,630	2,808

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

	Euros	
	2007	2006
Audit services	371,000	254,098
Other services	-	41,995
	371,000	296,093

A list of auditors of each Group company in 2006 is provided in Appendix I.

(29) Subsequent Events

On 21 January 2008, as agreed by the directors at their meeting held on 8 January 2008, a gross interim dividend of Euros 0.19 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 2007 profits, which includes treasury shares, is as follows:

	Euros	
I. Balance at January 8, 2008		1,486,407
II. Cash flows from/(used in) operating activities		
- Trade and other receivables	104,829,645	
- Other income	245,306	
- Payments to suppliers and other payables	(65,289,347)	
- Payments to employees	(24,724,852)	
- Interest expense	(1,568,937)	
- Other payments	(4,200,000)	
		9,291,815
III. Cash flows from/(used in) investing activities		
- Dividends received	20,128,512	
- Purchases of property, plant and equipment	(17,929,000)	
		2,199,512
IV. Cash flows from/(used in) financing activities		
- Proceeds from non-current borrowings	7,351,213	
- Shareholder remuneration	(19,675,079)	
V. Balance at January 8, 2009		653,868

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
	Industrias Alimentarias de Navarra, S.A.U.	Chairman to the Board of Directors
Mr. Néstor Basterra Larroudé	Naturin GmbH & Co	Director
	Viscofan USA Inc	Director
	Industrias Alimentarias de Navarra, S.A.U.	Director

During 2007 and 2006 the members of the board of directors have not carried out operations with the Company or Group companies other than ordinary operations under market conditions.

(28) 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 2007 and 2006 as follows:

	Euros	
	2007	2006
Principal auditor		
Audit services	113,000	94,654
Other services	-	885
	113,000	95,539

Audit services detailed in the above table include the total fees for services rendered in 2007 and 2006, irrespective of the date of invoice.

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Management Report

2007 Consolidated management report

Business performance and situation of Viscofan Group companies

In 2007, the Viscofan Group continued with its strategy aimed at boosting the profitability of both its casings and vegetable preserves operations. This required increasing Group revenues at both divisions and furthering the integration of the companies acquired in the last few years, which led to improvements in production efficiency and control over costs.

The Viscofan Group posted record net profit in 2007 of 46.2 million euros, 47.5% higher than the 31.3 million euros obtained in 2006.

Consolidated revenue rose 1.8% to 506.0 million euros.

Revenue from the casings business advanced 0.5% to 418.1 million euros, driven by growth in the global artificial casings market and the ongoing policy of raising average prices applied by the Viscofan Group in its main segments. These two factors offset the adverse effects of exchange-rate movements vis-à-vis the euro, mainly by the US dollar, and lower sales of collagen casings in China and fibrous casings in the US, after Viscofan USA's distribution contract to sell these casings there ended.

The vegetable preserves business generated 88 million euros of revenue in 2007, 8.5% more than the 81.1 million euros obtained the year before, thanks to higher asparagus sales and, to a lesser extent, olive exports.

The increase in consolidated revenue came alongside production efficiency improvements and control over costs, above all in personnel expenses. This led to all-time high production at the Group and bolstered the profitability of its operations.

Despite further rises in unit prices of some raw materials and energy prices, the Viscofan Group managed to increase the EBITDA margin[1] by 2.7 percentage points to 19.5%.

EBITDA[1] in 2007 amounted to 98.6 million euros, 17.9% higher than the year before. In 2007 and 2006, the inclusion of new companies in the consolidated Group and headcount reductions led to non-recurring results for the Group. These amounted to 5.2 million euros of profit in 2006, but 1.2 million euros of losses in 2007. Stripping out non-recurring results in both years, cumulative EBITDA[1] rose 27.3% in 2007.

The casings business contributed 91.4 million euros of EBITDA, representing 83% of the total and 17.2% higher than the year before. EBITDA for the vegetables preserves business rose 27.5% to 7.2 million euros and accounted for 7% of the total.

Consolidated EBIT[2] amounted to 60.5 million euros, 12.2% higher than the 53.9 million euros obtained in 2006. In the fourth quarter of last year, 7.3 million euros of capital gains were included due to the difference between the cost of assets acquired in 2006 and their fair value. Excluding this impact, EBIT grew 29.8% in 2007.

Net finance costs amounted to 5.3 million euros in 2007, compared to 8 million euros in 2006. This improvement was the result of a sharp decline in net exchange losses and the decrease in gross finance costs derived from the decline in average net debt, not to mention lower finance costs on US$-denominated debt caused by the dollar's depreciation.

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[1] EBITDA = Earnings before tax, excluding finance income and expense, impairment losses on non-current assets, depreciation and amortization, and capital gains arising from the difference between the cost and fair value of assets.

[2] EBIT = Earnings before tax and interest.

Net financial debt at December 31, 2007 stood at 94.7 million euros, marking a 17.1 million euros decline in the year. The gearing ratio stood at 32.0%, 9.7 percentage points lower than the year before despite the sharp increase in shareholder returns in 2007.

In the fourth quarter of 2007, the tax rates in several countries where Group subsidiaries operate were lowered. This reduced deferred taxes, leading to a lower income tax expense. The lower tax charge, coupled with Teepak USA's tax credit, drove a sharp reduction in the Group's tax rate, to 16.3% from 31.8% the year before.

All this led to record net profit of 46.2 million euros, 47.5% higher than the 31.3 million euros obtained in 2006.

Important events

No significant events have taken place outside Viscofan's ordinary business.

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 favorable position to capture market growth whilst continuing to implement measures aimed at improving its efficiency and therefore profitability.

In 2008, the Group will focus on maximizing the competitive advantages afforded by its global footprint –it has a presence in the world's main artificial casings markets- by leveraging its technological expertise in the production process. This will enable it to meet the growing global demand for artificial casings, while raising production efficiency at all its production centers by increasing the level of production automation and implementing best practices at the Group's plants.

Meanwhile, the Group plans to complete the first stage of the enlargement of the co-generation plant at its Cáseda (Spain) production center with the start-up of two new engines with combined capacity of 16.6MW, and the possibility of adding two more at the end of 2009. This project will raise Viscofan's power generation capacity more efficiently, while reducing the environmental impact of its production processes.

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 34.5 million euros during 2007, slightly higher than 32.1 million euros spent in 2006.

Investment in the casings business mainly went to building the enlargement of the Cáseda co-generation plant and upgrading plant and machinery to raise the Group's production capacity and efficiency.

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 follows a pro-active policy in terms of research and development activities in both lines of business, supported by research and technology centers 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 optimization of these processes, and maximizing 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

On October 1, 2007, the deed for the 198,889.20 euro capital decrease related to the cancellation of 662,964 Viscofan S.A. treasury shares was inscribed in the Mercantile Register. Share capital after the decrease stood at 14,189,052.60 euros and consisted of 47,296,842 shares. In this way, the Company spent over 8 million euros to remunerate shareholders.

Under the authorization given at the previous General Shareholders' Meeting, the Parent Company acquired treasury shares in 2007. So far in 2008, it has notified the acquisition of treasury shares equating to 1% of share capital.

Risk management

Due to the globalization 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.

Although the Group is not exposed to a significant concentration of credit risk, in 2008 it pooled, improved and widened its coverage of collection risk for the consolidated Group.

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 2007 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 8 January 2008, the board of directors of Viscofan agreed to distribute a dividend on account of the profit for 2007 for a gross amount of Euros 0,19 per share for all of the shares comprising the share capital of the Parent Company, representing a rise of 35,7% compared to the dividend on account of the 2006 profit distributed the prior year. The aforementioned dividend was paid on 21 January 2008.

In its efforts to streamline its corporate structure, in January 2008 Viscofan de México S.R.L. de C.V. took over Teepak de México S.R.L. de C.V. and Teepak Holdings de México S.R.L. de C.V., while Viscofan de México de Servicios S.R.L. de C.V. took over Teepak Servicios de México, S.R.L. de C.V. In the US, Viscofan USA, Inc. took over Teepak USA, LLC.

In March 2008, the Company announced the acquisition of 473,827 treasury shares, equivalent to 1.002% of share capital.

VISCOFAN, S.A. AND SUBSIDIARIES

Details of the Viscofan Group
31 December 2007

(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		100.00%	-	Financial activity	Weinheim (Germany)
Viscofan do Brasil, soc. com. e inMr. 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, Mr.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		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)
Stephan & Hoffmann AG		-	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%	0.20%	Services rendered	San Luis de Potosí (Mexico)
Teepak Holdings de Mexico, S.R.L. de C.V.		0.01%	99.99%	Holding	Zacapu Michoacan (Mexico)

VISCOFAN, S.A. AND SUBSIDIARIES
Details of the Viscofan Group
31 December 2007

Group companies	Percentage interest		Activity	Registered offices
	Direct	Indirect		
Teepak Mexico S.R.L. de C.V.	0.01%	99.99%	Manufacture and marketing of artificial casings	Zacapu Michoacan (Mexico)
Teepak Servicios de Mexico, S.R.L. de C.V.	99.99%	0.01%	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) The German subsidiary is not required to publish its financial statements under the provisions of articles 264 (b) and 264 (3) of the German Commercial Code.

VISCOFAN, S.A. AND SUBSIDIARIES
Details of the Viscofan Group
31 December 2007

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) and (iv)	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 inMr. 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, Mr.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)
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), (ii) and (iv)	-	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%	0.50%	Commercial activity	Lagunilla Heredia (Costa Rica)
Viscofan México Servicios, S.R.L de C.V		99.80%	0.20%	Services rendered	San Luis de Potosí (Mexico)
Teepak Holding de México, S.R.L. de C.V.		-	100.00%	Holding company	Zacapu Michoacán (México)

VISCOFAN, S.A. AND SUBSIDIARIES
Details of the Viscofan Group
31 December 2007

Group companies	Percentage interest		Activity	Registered offices
	Direct	Indirect		
Teepak de México S.R.L. de C.V.	-	100.00%	Manufacture and marketing of artificial casings	Zacapu Michoacán (México)
Teepak Servicios de México, S.R.L. de C.V.	-	100.00%	Services rendered	Zacapu Michoacán (México)
Zacapu Power S.R.L. de C.V.	-	100,00%	Cogeneration plant	Zacapu Michoacán (México)
Viscofan Canadá Inc	-	100,00%	Commercial activity	Quebec (Canadá)
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
(iv) These German subsidiaries are not required to publish their financial statements under the provisions of articles 264 (b) and 264 (3) of the German Commercial Code.

VISCOFAN, S.A. AND SUBSIDIARIES
Segment reporting
31 December 2007 and 2006

(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	
	2007	2006	2007	2006	2007	2006	2007	2006
Income and expenses								
Sales and services rendered	418,065	416,126	88,032	81,051	(73)	(17)	506,024	497,160
Material consumed	(95,398)	(104,027)	(52,552)	(45,371)	-	-	(147,950)	(149,398)
Other operating income and expenses	(266,411)	(261,136)	(31,260)	(32,743)	73	17	(297,598)	(293,862)
	56,256	50,963	4,220	2,937	-	-	60,476	53,900
Financial loss	(4,107)	(6,778)	(1,218)	(1,242)	-	-	(5,325)	(8,020)
Income tax expense	(8,469)	(14,247)	(504)	(333)	-	-	(8,973)	(14,580)
Profit for the year	43,680	29,938	2,498	1,362	-	-	46,178	31,300
Assets and Liabilities								
Total segment assets	486,025	484,880	79,755	74,228	-	-	565,780	559,108
Total segment liabilities	230,915	254,492	39,058	36,485	-	-	269,973	290,977
Other segment information								
Capital expenditure								
- Tangible fixed assets	30,255	29,907	2,291	2,246	-	-	32,546	32,153
- Intangible fixed assets	1,833	1,624	37	80	-	-	1,870	1,704
Depreciation and amortization								
- Tangible fixed assets	(32,579)	(31,524)	(2,786)	(2,528)	-	-	(35,365)	(34,052)
- Intangible fixed assets	(2,555)	(2,820)	(155)	(150)	-	-	(2,710)	(2,970)
Cash Flows								
Cash flows from operating activities	69,823	25,127	(1,045)	9,172	-	-	68,778	34,299
Cash flows from investing activities	(29,558)	(15,378)	(2,096)	(2,033)	-	-	(31,654)	(17,411)
Cash flows from financing activities	(35,367)	(12,917)	3,117	(7,044)	-	-	(32,250)	(19,961)

VISCOFAN, S.A. AND SUBSIDIARIES
Segment reporting
31 December 2007 and 2006

(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	
	2007	2006	2007	2006	2007	2006	2007	2006
Ordinary income from external clients	289,033	272,763	157,587	175,678	59,404	48,719	506,024	497,160
Segment assets	352,494	354,823	143,221	142,964	70,065	61,321	565,780	559,108
Other segment information								
Capital expenditure								
- Tangible fixed assets	22,763	17,992	7,129	6,515	2,654	7,646	32,546	32,153
- Intangible fixed assets	639	1,697	1,224	-	7	7	1,870	1,704
Cash flows								
Cash flows from operating activities	41,941	38,729	11,342	(16,555)	15,495	12,125	68,778	34,299
Cash flows from investing activities	(22,307)	(18,671)	(7,802)	3,876	(1,545)	(2,616)	(31,654)	(17,411)
Cash flows from financing activities	(14,439)	(18,143)	(1,736)	8,663	(16,075)	(10,481)	(32,250)	(19,961)

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 2007 and 2006
(In thousands of Euros)

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

	01.01.06	Translation differences	Changes in consolidated group	Additions	Disposals	Transfers	31.12.06	Translation differences	Additions	Disposals	Transfers	31.12.07
Revalued cost												
Land and buildings	158,515	800	4,459	2,407	(1,109)	18,342	183,414	1,298	262	(48)	(14,852)	170,074
Plant and machinery	357,087	906	45,137	14,092	(24,870)	7,233	399,585	(2,773)	6,739	(5,724)	24,829	422,656
Other installations, equipment and furniture	73,481	(332)	200	2,465	(4,107)	(12,951)	58,756	(30)	2,735	(131)	566	61,896
Other property, plant and equipment	22,404	(666)	6	1,161	(1,338)	(1,155)	20,412	(416)	1,858	(1,592)	203	20,465
Advances and assets under construction	9,060	97	811	12,028	(313)	(13,186)	8,497	119	20,952	(54)	(10,754)	18,760
	620,547	805	50,613	32,153	(31,737)	(1,717)	670,664	(1,802)	32,546	(7,549)	(8)	693,851
Restated accumulated depreciation												
Buildings	(58,692)	(70)	(2)	(4,250)	847	86	(62,081)	(158)	(4,256)	2	(124)	(66,617)
Plant and machinery	(258,285)	(620)	(108)	(23,462)	22,504	481	(259,490)	(779)	(25,419)	4,717	(7,920)	(288,891)
Other installations, equipment and furniture	(43,651)	188	(23)	(5,240)	3,272	1,185	(44,269)	(470)	(3,847)	82	6,459	(42,045)
Other property, plant and equipment	(19,101)	574	-	(1,100)	1,077	(58)	(18,608)	298	(1,843)	1,588	1,438	(17,127)
	(379,729)	72	(133)	(34,052)	27,700	1,694	(384,448)	(1,109)	(35,365)	6,389	(147)	(414,680)
Provisions	(297)	-	-	-	71	-	(226)	-	-	72	-	(154)
	240,521	877	50,480	(1,899)	(3,966)	(23)	285,990	(2,911)	(2,819)	(1,088)	(155)	279,017
											(note 8)	

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 2007 and 2006
(In thousands of Euros)

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

	01,01,06	Translation differences	Changes in consolidated group	Additions	Disposals	Transfers	31.12.06	Translation differences	Additions	Disposals	Transfers	31.12.07
Cost												
Technology and contracts	-	-	6,896	-	-	-	6,896	(727)	-	-	-	6,169
Trademark and customer portfolio	2,672	-	-	-	-	-	2,672	-	-	-	-	2,672
Software	9,489	31	-	290	(37)	23	9,796	35	624	(254)	182	10,383
Concessions, patents and licences	1,966	-	-	-	-	-	1,966	-	1,224	-	-	3,190
Issue rights	1,188	-	-	1,414	(2,256)	-	346	-	22	(353)	(11)	4
	15,315	31	6,896	1,704	(2,293)	23	21,676	(692)	1,870	(607)	171	22,418
Accumulated amortisation												
Technology and contracts	-	47	-	(1,020)	-	-	(973)	157	(788)	-	-	(1,604)
Trademark and customer portfolio	(178)	-	-	(534)	-	-	(712)	-	(534)	-	-	(1,246)
Software	(6,876)	(35)	-	(1,403)	34	-	(8,280)	(26)	(481)	253	1,024	(7,510)
Concessions, patents and licences	(325)	-	-	(13)	-	-	(338)	-	(907)	-	(894)	(2,139)
	(7,379)	12	-	(2,970)	34	-	(10,303)	131	(2,710)	253	130	(12,499)
	7,936	43	6,896	(1,266)	(2,259)	23	11,373	(561)	(840)	(354)	301[(*)] (note 7)	9,919

[(*)] Of the amount of transfers to intangible assets, 155 thousand euros was recognized under “Property, plant and equipment” and 146 thousand euros under “Other financial assets” in 2006.

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 2007 and 2006

(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 2006	(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)
Provision for 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
Distribution of profit / (application of loss) for the year										
Reserves	-	-	-	-	-	-	20,834	10,466	(31,300)	-
Dividends	-	-	-	-	-	-	(6,625)	-	-	(6,625)
Redemption of treasury shares	-	-	-	-	-	-	(7,879)	-	-	(7,879)
Other movements	-	-	-	-	-	-	40	(1)	-	39
Transfers (note 14.5)	-	-	-	-	-	-	3,673	-	-	3,673
Profit for the year	-	-	-	-	-	-	-	-	46,178	46,178
Balance at 31 December 2007	(5,826)	8,988	119	3,281	2,935	25	152,548	42,053	46,178	243,739

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 2007 and 2006

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

Name	Position	Company
Mr. José Antonio Canales	General manager	Viscofan Group
Mr. Elena Ciordia	Legal Department manager	Viscofan Group
Mr. Gabriel Larrea	Sales manager	Viscofan Group
Mr. César Arraiza	Chief financial officer	Viscofan Group
Mr. Armando Ares	Comunication and investor relations	Viscofan Group
Mr. Pedro Eraso	Extrusion cordinator	Viscofan Group
Mr. José Vicente Sendin	Converting coodinator	Viscofan Group
Mr. José Ignacio Recalde	Research and development manager	Viscofan Group
Mr. Andrés Díaz	Production manager	Viscofan S.A.
Mr. José Antonio Moriones	Production management technical advisor	Viscofan S.A.
Mr. Juan José Rota	Human resources manager	Viscofan S.A.
Mr. Manuel Nadal	Information and systems manager	Viscofan S.A.
Mr. Ricardo Royo	Chief financial officer	Viscofan S.A.
Mr. Miroslav Kamis	General manager	Gamex Cb Sro., Viscofan Cz, S.R.O.
Mr. Juan Carlos García De La Rasilla	General manager	Koteks Viscofan, MR.O.O.
Mr. Wilfred Schobel	Production manager	Naturin Gmbh & Co. Kg
Mr. Bernard Trauth (*)	General manager	Naturin Gmbh & Co. Kg
Mr. Alfred Bruinekool	General manager	Naturin UK, Ltd
Mr. Alfred Bruinekool	Sales manager	Naturin Gmbh & Co. Kg
Mr. Yunny Soto	General manager	Viscofan Centroamérica Comercial, S.A.
Mr. Óscar Ponz (*)	General manager	Viscofan De México S.R.L. De C.V,
Mr. Luis Bertoli	General manager	Viscofan Do Brasil S. Com. E InMr. Ltda.
Mr. Waldemar Szymanski	General manager	Viscofan Poland Sp.Z.O.O.
Mr. José Maria Fernández	General manager	Viscofan Usa Inc..
Mr. Alejandro Martínez Campo	General manager	Industrias Alimentarias de Navarra, S.A.U.

(*) Additions in 2007. Oscar Ponz replaced Antonio Armendáriz Garcia as General Manager of Viscofan de México S.R.L. de C.V. in 2007.