VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Financial Statements and Management Report

Prepared under International Financial Reporting Standards Endorsed by the European Union

31 December 2008 and 2007

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

Audit Report

VISCOFAN, S.A. and subsidiaries
Consolidated Financial Statements and
Consolidated Management Report
for the year ended December 31, 2008

(Translated from the original in Spanish)

ERNST & YOUNG

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

AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
VISCOFAN, S.A.

We have audited the consolidated financial statements of VISCOFAN, S.A. and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2008, the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated cash flow statement and the notes thereto for the year then ended, the preparation of which is the responsibility of the Parent Company's directors. Our responsibility is to express an opinion on the aforementioned consolidated financial statements taken as a whole, based upon work performed in accordance with auditing standards generally accepted in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the financial statements, and the evaluation of their presentation, of the accounting principles applied, and of the estimates made.

In accordance with mercantile law, for comparative purposes the Parent Company's directors have included for each of the captions included in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and the notes thereto, in addition to the figures of 2008, those of 2007. Our opinion refers only to the consolidated financial statements for 2008. On March 28, 2008, we issued our audit report on the 2007 consolidated financial statements, in which we expressed an unqualified opinion.

In our opinion, the accompanying 2008 consolidated financial statements give a true and fair view, in all material respects of the equity and financial position of VISCOFAN, S.A. and its subsidiaries at December 31, 2008 and the consolidated results of its operations, the changes in consolidated equity contained in the consolidated statement of recognised income and expense and the consolidated cash flow for the year then ended and contain the required information necessary for their adequate interpretation and comprehension, in conformity with the international financial reporting standards adopted by the European Union which are consistent with those applied to the figures and information corresponding to the 2007 consolidated financial statements.

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The accompanying consolidated management report for the year ended December 31, 2008 contains such explanations as the Parent Company's directors consider appropriate concerning the situation of VISCOFAN, S.A. and its subsidiaries, the evolution of their business and other matters, and is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the consolidated management report mentioned above agrees with the consolidated financial statements for the year ended December 31, 2008. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of the consolidated companies.

ERNST & YOUNG, S.L.

(Signed on the original)

Javier Ezcurra Zubeldía

March 31, 2009

VISCOFAN, S.A. Y SOCIEDADES DEPENDIENTES

Consolidated balance sheets
at 31 December 2008 and 2007

(In thousands of Euros)

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

Assets	Note:	2008	2007
Property, plant and equipment	6	277,940	279,017
Intangible assets	7	11,976	9,919
Deferred tax assets	9	15,286	9,717
Other financial assets	8	1,583	977
Total non-current assets		306,785	299,630
Inventory	10	156,540	143,013
Trade and other receivables	11	118,343	104,817
Prepayments		172	1,213
Other financial assets	8	612	-
Cash and cash equivalents	12	14,014	17,107
Total current assets		289,681	266,150
Total assets		596,466	565,780

Equity and liabilities	Note	2008	2007
Share capital	13	14,020	14,189
Share premium	13	30,165	41,844
Other reserves	13	3,281	3,281
Accumulated gains	13	277,163	243,739
Treasury shares	13	(1,699)	(3,728)
Currency translation differences	13	(19,617)	(3,518)
Hedge transaction reserves	13	(38)	-
Total equity	13	303,275	295,807
Deferred income	14	3,111	3,543
Borrowings	15	53,151	40,344
Other financial liabilities	15	5,051	5,259
Deferred tax liabilities	9	28,272	28,333
Provisions	16	35,393	36,906
Total non-current liabilities		124,978	114,385
Borrowings	15	83,287	71,442
Other financial liabilities	15	4,142	1,242
Trade and other payables	17	53,558	44,494
Provisions	16	4,569	2,259
Other current liabilities	17	21,710	31,740
Current tax liabilities	9	947	4,411
Total current liabilities		168,213	155,588
Total equity and liabilities		596,466	565,780

VISCOFAN, S.A. Y SOCIEDADES DEPENDIENTES

Consolidated income statements
for the years ended
31 December 2008 and 2007

(In thousands of Euros)

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

	Note	2008	2007
Sales and services rendered	20	551,818	506,024
Other income	21	7,094	4,652
Changes in inventories of finished goods and work		(2,143)	6,346
Work performed by the Group on non-current assets		355	236
Consumption of raw material and other consumables	10	(167,088)	(154,296)
Employee benefits expense	23	(128,291)	(130,093)
Depreciation and amortization	6 & 7	(37,459)	(38,075)
Other operating expenses	22	(156,436)	(134,317)
Finance revenue	24	22,730	11,424
Finance costs	24	(30,299)	(16,750)
Profit before tax		60,281	55,151
Income tax expense	9	(8,878)	(8,973)
Profit for the year		51,403	46,178
Basic earnings per share (in euros)	25	1,1005	0,9772
Diluted earnings per share (in euros)		1,1005	0,9772

VISCOFAN, S.A. Y SOCIEDADES DEPENDIENTES

Consolidated cash flow statements
for the years ended
31 December 2008 and 2007

(In thousands of Euros)

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

	2008	2007
Cash flows from operating activities		
Profit before tax	60,281	55,151
Adjustments for:		
Depreciation and amortization	37,459	38,075
Changes in provisions	(1,637)	(5,361)
Capital grants	(405)	-
Gain (loss) on disposal of non-current assets	65	574
Interest income	(1,066)	(1,158)
Interest expenses	7,771	7,093
Foreign currency translation differences (net)	864	108
	103,332	94,482
Changes in working capital, net of the impact of acquisitions and currency translation differences		
Inventory	(15,239)	(13,254)
Trade and other receivables	(17,080)	(2,931)
Trade and other payables	(5,237)	275
Funds obtained from operations	65,776	78,572
Income tax receipts (payment)	(9,917)	(7,721)
Cash flows from operating activities	55,859	70,851
Cash flows from investing activities		
Payments for acquisition of property, plant and equipment and intangible assets	(44,123)	(32,884)
Payments for the acquisition of financial assets	(3,277)	(41)
Proceeds from disposals of property, plant and equipment	2,242	1,271
Proceeds from other assets	776	-
Contribution to US pension plan	(1,091)	(1,965)
Cash flows from investing activities	(45,473)	(33,619)
Cash flows from financing activities		
Changes in borrowings	25,904	(8,294)
Acquisition of treasury shares	(6,070)	(5,129)
Compensation to shareholders		
Dividends	(8,908)	(6,625)
Return of share premium	(11,679)	(7,562)
Interest received	1,066	1,224
Interest paid	(7,426)	(7,159)
Other payments from financing activities	(2,487)	(521)
Foreign currency translation differences (net)	(864)	(108)
Cash flows from financing activities	(10,464)	(34,174)
Impact of changes in exchange rates on cash and cash equivalents	(3,015)	1,816
Net increase (decrease) in cash and cash equivalents	(3,093)	4,874
Cash and cash equivalents	17,107	12,233
Cash and cash equivalents at December 31	14,014	17,107

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated statements of recognised income and expense
for the years ended
31 December 2008 and 2007

(In thousands of Euros)

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

	2008	2007
Profit (loss) recognized directly in equity		
In other reserves		
Actuarial gains (losses) on pension plans		
Germany	1,017	-
United States	(2,316)	-
Tax effect	464	-
	(835)	-
Hedges taken to reserves		
Remeasurement of hedge derivatives	(79)	-
Tax effect	41	-
	(38)	-
Translation differences	(16,099)	775
Total profit (loss) recognized directly in equity	(16,972)	775
Profit for the year	51,403	46,178
Total recognized income and expenses for the year	34.431	46,953

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial statements

31 December 2008 and 2007

(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, to a lesser extent, the generation of electricity by any technical means, both for own consumption and for sale to third parties. Its industrial installations are located in Cáseda and Urdiain (Navarra). 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, plastic and collagen casing sectors, as explained in more breakdown in Appendix 1, which forms an integral part of Note 2.

Viscofan, S.A.'s shares are quoted on the Madrid, Barcelona and Bilbao stock exchanges.

(2) Viscofan Group

Details of the subsidiaries and associates comprising the Viscofan Group at 31 December 2008 and 2007, 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 2008 were as follows:

- In April 2008, through the subsidiary, Industrias Alimentarias de Navarra, S.A., the Group acquired 50% of the voting rights upon incorporation of the company, Lingbao Baolihao Food Industrial Co., Ltd, which processes asparagus in the Chinese region of Henan.

In 2007 there were no changes to the consolidation scope.

(3) Basis of Preparation

The consolidated Financial Statements have been prepared on the basis of the accounting records of Viscofan, S.A. and the companies forming the Group. The consolidated Financial Statements for 2008 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 2008 and 2007, as well as the consolidated results from its operations, its consolidated cash flows and consolidated recognized income and expenses for the year then ended. The Group adopted EU-IFRS on 1 January 2004 and applied IFRS 1 First-time Adoption of International Financial Reporting Standards at that date.

The 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 financial statements. The only standards approved which would have had elements applicable to the VISCOFAN Group are as follows:

- IFRS 8: Operating Segments. This standard would lead to changes in the disclosures in the 2009 financial statements; however, it would not impact consolidated profit or consolidated equity.

- IFRS 23: According to this standard, commencing in the first financial year after December 31, 2008, the Group would have to capitalize all finance costs directly attributable to the acquisition, construction or production of property, plant and equipment. To date the Group has not capitalized these expenses. If it had applied the new standard in 2008 profit for the year would have increased by approximately 27 thousand euros.

On occasions the IFRSs contemplate more than one alternative accounting treatment for a transaction. The Group adopted the following criteria for the most significant transactions where alternative accounting treatments are available:

- Interests in joint ventures can be consolidated by the proportional method or the equity method. The Group has applied the latter.

- Grants can be recognized as a reduction in the cost of the assets for which the grant was provided or as deferred income. The Group has applied the latter.

- Actuarial gains and losses on pension plans may be deferred under certain conditions or recognized in the year incurred. The Group applies the latter option, using the additional alternative offered in this case, which is to recognize them off the income statement, directly in equity.

- Certain assets can be measured at market value or historic cost less, if applicable, any depreciation/amortization or impairment losses. The latter criteria is applied by the Viscofan Group.

The directors of the Parent Company consider that the consolidated Financial Statements for 2008, prepared on 30 March 2009, will be approved by the shareholders without significant changes.

(3.1) Bases of preparation of the consolidated financial statements

These consolidated Financial Statements have been prepared based on a historical cost basis except for derivative financial instruments, which have been recorded at fair value at 31 December 2008 and 2007.

(3.2) Comparison of information

These consolidated Financial Statements present for comparative purposes, for each of the headings on the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of recognized income and expenses, and the notes to the consolidated financial statements, in addition to the consolidated figures for 2008 the corresponding figures for 2007 included in the consolidated Financial Statements approved by the shareholders at their general meeting on June 3, 2008.

Except for the matter described in Note 4.16 regarding the recognition of actuarial gains and losses, the Viscofan Group's accounting policies explained in Note 4 have been applied in a consistent manner in the years ended December 31, 2008 and 2007. The effect of this change in the accounting criteria on consolidated equity has not been significant.

(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 Financial Statements are detailed below.

(a) Relevant accounting estimates and assumptions

-Pension plans: Note 4.16
-Provisions: Note 4.17
-Useful lives of property, plant and equipment and intangible assets: Notes 4.4 and 4.5
-Assessment of impairment of assets: Note 6
-Recoverability of deferred tax assets: Note 9

(b) Changes in accounting estimates

Although estimates were based on the best information available at 31 December 2008, 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

The main sources of uncertainty which could affect profit (loss) for the year in the future are due to contingent assets and liabilities (Note 16.7).

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

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

A summary of the most significant principles is as follows:

(4.1) 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 the subsidiaries were consolidated using the full consolidation method.

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

The Financial Statements or Financial Statements of subsidiaries are included in the consolidated Financial Statements 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.

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.

Business combinations

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

Under the equity method, investments in jointly controlled companies are recognized on the consolidated balance sheet at cost plus any post-acquisition changes in the Group's investment based on its share of the investee's net assets, less any impairment losses. The consolidated income statement reflects the percentage share of the investee's profit (loss).

(4.3) Effects of changes in foreign exchange rates

(a) Foreign currency transactions

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

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

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

(b) Translation of foreign operations

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

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

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

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

The Group does not carry out business in hyperinflationary countries.

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 less the residual value. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

	Estimated useful life (years)
Buildings	30-50
Plant and equipment	10
Other installations, equipment and furniture	5-15
Other property, plant and equipment	4-15

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

(c) Subsequent recognition

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

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

(d) Investment property

At 2007 and 2008 year end the VISCOFAN Group had no assets which by their nature must be classified as investment property.

(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, are stated at fair value, which is generally the market value of the rights at the beginning of the corresponding calendar year. Said value is recognized as a credit to “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.

Emission rights are not amortized.

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

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

(b) Operating leases

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

(4.7) Financial instruments

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. Management determines the classification of investments at initial recognition and re-evaluates this designation at every reporting date. At December 31, 2008 and 2007 the Group had no financial assets classified as financial assets at fair value through profit.

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) Available-for-sale financial assets

Are all those which do not fall within the above categories or are not financial assets at fair value through profit and loss. These are recognized at their fair value at year end. Changes in fair value are charged or credited to equity until divested or impaired, at which time the cumulative amount up to that date is transferred to the consolidated income statement. At 2007 and 2008 year end the Group has no assets thus classified.

(d) 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.

(e) 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.

(f) 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).

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.

(g) 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.

At December 31, 2007 and 2008 there were no financial liabilities at fair value through profit and loss.

(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:

- 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.

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 commitments

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

(i) Defined benefit plans

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

Defined benefit liabilities recognized in the consolidated balance sheet reflect the present value of defined benefit plans at year end, less the fair value of the assets related to those benefits.

Defined benefit plan costs are recognized under employee benefits in the consolidated income statement and comprise current service costs plus the effect of any reduction or liquidation of the plan. Interest costs arising due to the commitment and finance income earned on plan assets are recognized in finance income (cost).

Actuarial gains or losses, which until 2007 inclusive were recognized in profit and loss, from 2008 onwards are recognized directly in equity, as prescribed by IAS 19.93A. The directors' understanding is that by applying this criterion, the Financial Statements provide more reliable and relevant information since the volatility in financial markets and interest rates allow external factors beyond the Group's control to have a direct impact on the measurement of related liabilities and assets, and consequently, may distort the Group’s operating results. Group policy has been to use financial instruments to hedge risks, as far as possible, and in no event for speculative purposes. The decision to change this criterion was taken at the beginning of the year and its effect was already included in the interim financial information prepared at June 30, 2008. This change of criterion does not significantly effect the financial statements.

A description of each of the Group’s defined benefit pension plans is included in Note 16.

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 seniority bonuses. To cover these commitments the Parent Company externalized these commitments through insurance policies.

(b) Termination benefits

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

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

(c) Short-term employee benefits

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

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

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

(d) Equity-settled transactions

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

(4.17) 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 expenses

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

(d) Emission rights provision

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

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

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

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

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

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

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

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

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

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

At 2007 and 2008 year end the Group had no assets or liabilities which must be classified in these categories.

(4.24) Discontinued operations

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

(4.25) Related-party disclosures

Related-party transactions are recognized according to the measurement bases described within this Note 4. The only transactions with related parties are described in Note 26 ("Information on the Board of Directors of the Parent Company and Key Group Personnel").

(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 2008 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. The Group aims to achieve three objectives from the installation of this plant: reduce energy costs, attain self-sufficiency, and reduce CO_2 emissions into the atmosphere. These activities are not organized as business segments nor do they constitute segments on which the Group is obliged to provide disclosures.

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 2008 and 2007 are included in Appendix 2, which forms an integral part of these notes.

(6) Property, Plant and Equipment

Details of property, plant and equipment and movement in 2008 and 2007 are included in Appendix 3, which forms an integral part of these notes to the consolidated financial statements.

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

	Thousands of euros	
	Cost	Depreciation
At 1 January 2007	1,322	(352)
Depreciation	-	(34)
At 31 December 2007	1,322	(386)
Depreciation	-	(44)
At 31 December 2008	1,322	(430)

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			
	2008		2007	
	Minimum payments (Note 15)	Interest	Minimum payments (Note 15)	Interest
Up to 1 year	114	42	68	41
Between 1 and 5 years	737	123	774	158
Total	851	165	842	199

Details of fully depreciated property, plant and equipment in use at 31 December 2008 and 2007 are as follows:

	Thousands of euros	
	2008	2007
Buildings	2,550	2,049
Plant and machinery	180,345	146,593
Other installations, equipment and furniture	24,498	22,056
Other property, plant and equipment	10,979	11,986
	218,372	182,684

The Group's buildings, plant and equipment were partly financed by government grants of 76 and 1,075 thousand euros in 2008 and 2007, respectively (see Note 14).

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 11,524 thousand euros: These commitments were mainly related to the enlargement of the cogeneration plant at the Parent's production facility in Cáseda.

The Group did not have any investment property at the end of 2007 and 2008.

Impairment test

As stated in Note 4, the Group identified indications of impairment in the property, plant and equipment of Koteks Viscofan, d.o.o., a subsidiary that in recent years has accumulated losses and has carried out an impairment test. The recoverable amount of the property, plant and equipment was determined through its value-in-use, using cash flow projections from financial budgets approved by Management for the coming years.

Based on the results obtained it was determined that the assets are not impaired and that their value will be recovered in the normal course of business.

(7) Other Intangible Assets

Details of other intangible assets and movement in 2008 and 2007 are included in Appendix 4, which forms an integral part of these notes to the consolidated financial statements.

Under the National Assignment Plan 2008-2012 approved by Royal Decree 1370/2006 and National Assignment Plan 2005-2007 approved by Royal Decree 1866/2004, the Group received free emission rights equivalent to 92,489 tons in 2008 and 107,636 tons in 2007. The Group consumed 92,180 tons in 2008 and 87,811 tons of emission rights in 2007.

Details of the cost of fully amortized intangible assets in use at 31 December 2008 and 2007 are as follows:

	Thousands of euros	
	2008	2007
Software	6,710	3,868
Concessions, patents and licences	36	36
	6,746	3,904

(8) Other Current and Non-Current Financial Assets

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

	Thousands of euros	
	2008	2007
Investment in associates	998	-
Held-to-maturity investments	565	89
Loans and receivables	20	888
Provisions	-	-
Total, non-current	1,583	977
Financial assets at fair value from hedging transactions (Note 15)	11	-
Loans and receivables	601	-
Total, current	612	-

The Group owns 50% of Lingbao Baolihao Food. This company is domiciled in Lingbao (China) and produces asparagus. At year end this company had not yet commenced activity. The following table provides financial information regarding this investment:

	Thousands of euros	
	2008	2007
Share in the associate's balance sheet:		
Current assets	636	-
Non-current assets	616	-
Current liabilities	(254)	-
Non-current liabilities		-
Net assets	998	-
Share of associate's income and profit:		
Income	-	-
Profit	-	-

Apart from the contribution to the company's share capital upon formation, no transactions have been carried out with this associate.

Details of current and non-current financial assets held in foreign currencies are shown in Note 18.

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

	Thousands of euros	
	2008	2007
Balance at 1 January	-	(1)
Cancellation of financial assets	-	1
Balance at 31 December	-	-

(9) Income tax

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

	Thousands of euros					
	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Temporary differences						
Non-current assets	165	165	27,303	27,023	(27,138)	(26,858)
Current assets	6,080	1,459	931	677	5,149	782
Non-current liabilities	4,792	5,168	38	-	4,596	5,168
Current liabilities	325	1,040	-	633	483	407
	11,362	7,832	28,272	28,333	(16,910)	(20,501)
Other borrowings						
Tax credits for loss carryforwards	993	-	-	-	993	-
Unused tax credits	2,931	1,885	-	-	2,931	1,885
	3,924	1,885	-	-	3,924	1,885
	15,286	9,717	28,272	28,333	(12,986)	(18,616)

Non-current deferred tax assets for the years ended December 31, 2008 and 2007 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.

The deferred tax assets on current assets are basically generated by provisions in respect of inventories which are not tax deductible in certain countries. The tax effect of eliminating the margin on inventory stock acquired between Group companies is likewise included. Finally, this also includes temporary differences which arise in certain countries, basically the US, as a result of applying different measurement bases for stock bought from Group companies.

Deferred tax assets on non-current deferred tax liabilities relate mainly to provisions at different Group companies that will be used for tax purposes when applied. A large number of the provisions described in Note 16 have led to adjustments in tax assessment basis in the different countries.

The breakdown of changes in deferred tax assets and liabilities from temporary differences which have been recognized against the tax expense / (income) on deferred income on the consolidated income statement and against consolidated equity is as follows:

	Thousands of euros	
	2008	2007
Consolidated Income Statement		
Non-current assets	167	4,362
Current assets	4,275	664
Non-current liabilities	(702)	(843)
Current liabilities	(45)	3,090
	3,695	7,273
Consolidated statement of equity		
Non-current assets	(447)	-
Current assets	92	-
Non-current liabilities	325	-
Current liabilities	(75)	-
	(105)	7,273
Total changes in taxes and deferred tax liabilities due to temporary differences	3,590	7,273

The breakdown of deferred taxes charged directly against equity in 2008 is as follows:

	Thousands of euros
	2008
Actuarial gains (losses) on pension plans	
United States	750
Germany	(286)
Unrealized gains (losses) on cash flow hedges	42
Changes due to translation differences	(611)
	(105)

The major components of income tax expense for the years ended December 31, 2008 and 2007 are as follows:

	Thousands of euros	
	2008	2007
Current income tax		
Income tax expense for the year	12,573	16,472
Current income tax of previous years	-	(226)
	12,573	16,246
Deferred income tax		
Origination and reversal of temporary differences	(3,695)	(7,273)
	8,878	8,973

A reconciliation between tax expense (income) and the product of profit before tax multiplied by the tax rate prevailing in Spain at December 31, 2008 is as follows:

	Thousands of euros	
	2008	2007
Profit before tax for the year	60,281	55,151
0% tax rate (32,5% in 2007)	18,084	17,924
Effect of application of tax rates in each country	(220)	396
Deductions generated in 2008	(4,001)	(1.993)
Tax assets from corporate restructuring	-	(3.510)
Adjustment in deferred taxes due to lower tax rates in certain countries[1]	-	(3,763)
Tax incentives recognized in the Czech Republic ([2])	(1,958)	-
Tax credits arising from losses at Koteks Viscofan, d.o.o.	(993)	
Other	(2.034)	(81)
	8,878	8,973

(1) In 2007 lower tax rates were approved in Germany and the Czech Republic.

(2) In 2008 tax incentives which had been approved in the Czech Republic were used. These had not been recognized until present due to uncertainty regarding their application.

At December 31, 2008 the breakdown of unused tax loss carryforwards from the Serbian subsidiary, Koteks Viscofan, d.o.o., is as follows:

Arising in	Last year for utilization	Thousands of euros
		2008
2006 and earlier	2013	5,160
2007	2017	2,110
2008	2018	2,661
		9,931

The Group has estimated the taxable profit it expects to obtain in the coming years at Koteks Viscofan, d.o.o. and has analyzed the reversal of taxable temporary differences, identifying those that reverse in years in which they can be used. Based on this analysis, the Group recognized deferred tax assets amounting to 993 thousand euros in respect of tax loss carryforwards still to be offset, as it considers probable that sufficient future taxable profit will be generated to offset this amount, applying the prevailing tax rate of 10% in Serbia.

In addition the Group has recognized 2,931 thousand euros in deductions still pending application: 2,229 thousand euros in respect of the parent, Viscofan, S.A. and 702 thousand euros in respect of the subsidiary, Industrias Agroalimentarias de Navarra, S.A. All were generated in 2008 and can be applied in the next ten years.

The Group has tax incentives of 9.7 million euros in the Czech Republic. The amounts have not been assessed by the tax authorities nor have they been recognized as there are doubts regarding the recoverable amount, due to uncertainty as to whether the last year for their application is 2010 or 2012, and moreover to certain interpretations regarding fulfillment of all the official requirements, which might affect their recoverability.

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 2008 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 financial statements.

(10) Inventories

Details of inventories at 31 December 2008 and 2007 are as follows:

	Thousands of euros	
	2008	2007
Goods for resale	49,888	32,306
Raw materials and other supplies	43,078	45,934
Semi-finished products	26,150	23,852
Finished products	37,424	40,921
	156,540	143,013

Raw materials and other supplies consumed in 2008 and 2007 amounted to euros 167.088 thousand and euros 154.296 thousand, respectively.

At 31 December 2008 and 2007 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.

(11) Trade and other receivables

Details at 31 December 2008 and 2007 are as follows:

	Thousands of euros	
	2008	2007
Trade receivables	101,612	93,150
Other receivables	6,346	4,772
Advances to employees	119	129
Public entities	11,607	8,676
Others	152	478
Provisions for bad debts	(1,493)	(2,388)
	118,343	104,817

At December 31, 2008, 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
2008	101,612	84,282	10,913	3,040	488	2,889
2007	93,150	74,224	12,975	2,968	1,079	1,904

(12) Cash and cash equivalents

Cash and cash equivalents at 31 December 2008 and 2007 comprise cash balances with Group companies and banks. The Group does not have bank overdrafts at these dates and all balances are freely distributable.

(13) Equity

(13.1) Share capital

Movements in shares in circulation during 2008 and 2007 were as follows:

	Shares		Thousands of euros	
	2008	2007	2008	2007
At 1 January	47,959,806	47,959,806	14,189	14,388
Capital decrease	(561,963)	(662,964)	(169)	(199)
At 31 December	46,734,879	47,296,842	14,020	14,189

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

At 31 December 2008 the share capital of the Parent Company is represented by 46,734,879 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, 2008, the Parent Company is aware of the following shareholders with shareholdings greater than 3%:

Entity	%
Marathon Asset Management, LLP	5.86
Onchena, S.L.	5.06
Bestinver Gestión, S.A.	3.69

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 2008, the Group's target was to maintain a solid capital position. The gearing ratios at December 31, 2007 and 2008 were as follows:

	Thousands of euros	
	2008	2007
Net financial debt		
Borrowings and finance leases (Note 15)	145,631	118,287
Cash and cash equivalents (Note 12)	(14,014)	(17,107)
Other financial assets (Note 8)	(612)	-
Total financial debt	131,005	101,180
Equity		
Total equity (Note 13)	303,275	295,807
Gearing ratio	0.43	0.34

(13.2) Share premium

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

In 2008 and 2007, a portion of the share premium was returned to shareholders, for a total amount of 11,679 and 7,562 thousand euros, respectively.

(13.3) Other reserves

The breakdown of this balance is as follows:

	Thousands of euros
Conversion to IFRS reserve	(5,826)
Legal revaluation reserve	8,988
Merger reserve	119
Balance at December 31, 2008	3,281

There were no movements in this account in 2007 and 2008.

(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 9,282,000 euros. The resulting revaluation reserve, which comprises the revaluation of items of property, plant and equipment, net of a 3% tax charge, amounts to 9,003,000 euros.

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

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

(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 Financial Statements for the year the operation was carried out.

(13.4) Retained earnings

Movements in the years ended December 31, 2008 and 2007 were as follows:

	Thousands of euros					
	Legal reserve	Special reserve	Voluntary reserves	Other reserves in consolidated companies	Profit (loss) for the year	Total
Balance at January 1, 2007	**2,935**	**25**	**142,505**	**31,588**	**31,300**	**208,353**
Appropriation of profit (loss) for the year						
Reserves	-	-	20,834	10,466	(31,300)	-
Dividends	-	-	(6,625)	-	-	(6,625)
Cancellation of treasury shares	-	-	(7,879)	-	-	(7,879)
Other movements	-	-	40	(1)	-	39
Transfers (Note 13.5)	-	-	3,673	-	-	3,673
Profit for the year	-	-	-	-	46,178	46,178
Balance at December 31, 2007	**2,935**	**25**	**152,548**	**42,053**	**46,178**	**243,739**
Appropriation of profit (loss) for the year						
Reserves	-	-	30,677	15,501	(46,178)	-
Dividends	-	-	(8,908)	-	-	(8,908)
Cancellation of treasury shares	-	-	(7,931)	-	-	(7,931)
Actuarial gains (losses)				(835)		(835)
Other movements	-	-	(305)			(305)
Profit for the year	-	-	-	-	51,403	51,403
Balance at December 31, 2008	**2,935**	**25**	**166,081**	**56,719**	**51,403**	**277,163**

(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 2008 and 2007 the Parent Company had appropriated to this reserve the minimum amount required by law.

(b) Voluntary reserves

These reserves are freely distributable.

(13.5) Movement in treasury shares

Movement in treasury shares in 2008 and 2007 was as follows:

	2008		2007	
	Number of shares	Thousands of euros	Number of shares	Thousands of euros
Balance at 1 January	236,385	3,728	581,071	3,004
Acquisitions	456,775	6,071	324,868	5,207
Disposals	-	-	(6,590)	(78)
Cancellation	(561,963)	(8.100)	(662,964)	(8,078)
Transfer (Note 13.4)	-	-	-	3,673
Balance at 31 December	131,197	1,699	236,385	3,728

The shareholders at their Ordinary General Meeting on June 3, 2008 agreed to renew, up to a maximum of 18 months, the authorization granted to the Board of Directors to buy and sell Company shares on the stock market at the quoted price on the day of the transaction, up to the legal maximum number of shares permitted by Spanish Corporation Law and related provisions, at a minimum price of 100% of the nominal share value and a maximum price of 5,000 times that value.

(13.6) Hedge transaction reserves

Net changes in the value of derivatives designated as hedges are reflected in this consolidated balance sheet account.

(13.7) Distribution of Dividends

Parent Company profits for the year ended 31 December 2007 were distributed, as approved by the shareholders at their annual general meeting held on 3 June 2008, as follows:

	Thousands of euros
Dividends	8,908
Voluntary reserves	21,492
Distributable profits attributable to the parent	30,400

The proposed distribution of dividends is equivalent to euros 0.19 per share for all the shares comprising share capital.

Details of the distribution of the Parent Company's 2008 dividends proposed by the directors of the Parent Company, pending approval at the shareholders' general meeting, are as follows:

	Thousands of euros
Dividends	9,554
Other reserves	22,641
Distributable profits	32,195

The proposed distribution of dividends is equivalent to euros 0.205 per share.

At 31 December 2008 and 2007 details of non-distributable reserves are as follows:

	Thousands of euros	
	2008	2007
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	57,554	42,053
	63,676	48,175

(14) Deferred Income

Movement in deferred income during 2008 and 2007 was as follows:

	01.01.07	Additions	Taken to income	31.12.07	Additions	Taken to income	31.12.08
Capital grants	2,856	1.075	(491)	3,440	76	(405)	3,111
Grants for emission rights of greenhouse gases	12	112	(21)	103	2,127	(2,230)	-
	2.868	1,187	(512)	3,543	2,203	(2,635)	3,111

Details of capital grants in 2008 and 2007 are as follows:

	Thousand of euros	
Granting entity	2008	2007
Navarre regional government	1,028	1,298
FEOGA	1,330	1,543
Ministry of Science and Technology	663	488
Spanish Autonomous Communities	90	111
	3,111	3,440

(15) Current and Non-Current Financial Liabilities

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

	Thousands of euros	
	2008	2007
Non-current		
Borrowings	52,414	39,570
Finance lease liabilities (Note 6)	737	774
Other financial liabilities	5,051	5,259
Total non-current	58,202	45,603
Current		
Borrowings	83,173	71,374
Finance lease liabilities (Note 6)	114	68
Other financial liabilities	4,142	1,242
Total current	87,429	72,684

Details of the carrying amount of financial liabilities in foreign currency, their classification by maturity and effective interest rates are shown in Note 18. Loans and other borrowing facilities accrue interest at variable market rates.

At 31 December 2008 the Group has a limit on its borrowing facilities and discount lines of euros 107,096 thousand (euros 78,917 thousand in 2007) of which euros 61,156 thousand has been drawn down at 31 December 2008 (euros 46,726 thousand in 2007).

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

	2008	2007
	I.R.S.	I.R.S.
Notional amount (thousands of euros)		2,146
Date of contract		02.05.03
Inception date		06.05.03
Expiry		30.06.08
Interest rate paid by the Company		3%
Interest rate collected by the Company		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 2008 and 2007 is as follows:

	Thousands	
Currency	2008	2007
US Dollar	48,855	37,718
Canadian Dollar	1,170	1,238
Japanese Yen	15,789	40,571
Polish Zloty	1,480	3,138
Pound Sterling	360	-
Euro	4,800	-

The breakdown of fair value measurement of derivative financial instruments contracted by the Group at 31 December 2008 and 2007 is as follows:

	Thousands of euros	
	2008 Asset /(Liability)	2007 Asset /(Liability)
Exchange rate insurance		
Other current financial assets (Note 8)	601	760
Other current financial liabilities	(1,260)	-
IRS (Interest Rate Swap)	-	18
	(659)	778(*)

(*) In 2007 the positive fair value of the derivatives arranged by the Group was included in current financial liabilities.

The value of derivatives recognized against profit and loss and directly against equity in each year is as follows:

	Thousands of euros			
	2008		2007	
	Profit (loss)	Equity	Profit (loss)	Equity
Exchange rate insurance	(580)	(79)	760	-
IRS (Interest Rate Swap)	18	-	(42)	-
	(562)	(79)	(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.

"Current liabilities - Other financial liabilities" and "Non-current liabilities – Other financial liabilities", besides the fair value of the derivatives, 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.

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

(16) Current and Non-Current Provisions

Details at 31 December 2008 and 2007 are as follows:

	Thousands of euros	
	31.12.08	31.12.07
Non- Current		
Provisions for employee benefits		
Defined benefit	33,526	33,543
Taxes	20	110
Provisions for other litigation	1,520	2,740
Others	327	513
Total non-current	35,393	36,906
Current		
Restructuring provision	563	1,019
Guarantees / Refunds	740	589
Safety in the workplace provision	1,379	606
Emission rights	1,819	45
Others	68	-
Total current	4,569	2,259

(16.1) Provisions for defined benefit plans

(16.1) Provisions for defined benefit plans

The Group made contributions to nine defined benefit plans, six in the US and three in Germany through its subsidiaries, Viscofan USA Inc and Naturin Gmbh & Co KG.

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

	Thousands of euros	
	2008	2007
Pension for Hourly Employees [1]	4,595	1,925
Salaried Employees Pension Plan [2]	1,410	256
Pension for Hourly Employees Service Center [3]	269	76
Non qualified pension plans [4]	1,557	1,512
	7,831	3,769

[1] Life pension for employees and ex-employees of the Danville plant (of the absorbed company, Teepak USA), has 608 beneficiaries, currently in force.

[2] Life pension with 249 participants likewise from the absorbed company, Teepak USA. This plan was frozen in September 2005. There are no unrecognized costs for past services and the only costs recognized in the income statement relate to finance costs arising from the commitment and from expected income from the plan assets.

[3] Although not officially frozen this plan has not been in force since 2006 given that it applied to Teepak USA's NQC Service Center which was closed that year. There are 165 beneficiaries between retired employees and ex-employees. As with the above plan there are no unrecognized costs for past services.

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

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

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

	Thousands of euros	
	2008	2007
Life pension	18,247	19,373
Seniority bonuses	2,429	2,566
Semi-retirement	4,651	4,718
	25,327	26.657

The number of beneficiaries of each plan is as follows:

	2008		2007	
	Employees	Retired and ex-employees	Employees	Retired and ex-employees
Life pension	645	1.150	669	1.149
Seniority bonuses	645	-	669	-
Semi-retirement	54	-	52	-

The following table summarizes the components of the net benefit expense recognized in the 2008 and 2007 income statements for the pension plans, except those classified as "Non-qualified":

	Thousands of euros		
Net benefit expense 2008	United States	Germany	Total
Current service cost	240	529	769
Interest cost	1,873	1,355	3,228
Expected return on plan assets	(2,106)	-	(2,106)
Recognized expense (net income)	7	1,884	1,891
Net benefit expense 2007			
Current service cost	281	609	890
Interest cost	1,919	1,151	3,070
Expected return on plan assets	(2,137)	-	(2,137)
Actuarial gain/(loss)	(1,252)	(1,516)	(2,768)
Recognized expense (net income)	(1,189)	244	(945)

The "non-qualified" plans bore interest costs of 121 thousand euros in 2007 and 113 thousand euros in 2008. There are no costs for current services as all the plans are linked to former employees of the US subsidiary.

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

	Thousands of euros		
Benefit asset/(liability) 2008	United States	Germany	Total
Present value of the obligation	(32,637)	(25,327)	(57,964)
Present value of plan assets	26,363	-	26,363
	(6,274)	(25,327)	(31,601)
"Non-qualified" plans and other	(1,557)	-	(1,557)
Others			(368)
Recognized benefit liability	(7,831)	(25,327)	(33,526)
Benefit asset/(liability) 2007			
Present value of the obligation	(30,527)	(26,657)	(57,184)
Present value of plan assets	28,270	-	28,270
	(2,257)	(26,657)	(28,914)
"Non-qualified" plans and other	(4,629)	-	(4,629)
Recognized benefit liability	(6,886)	(26,657)	(33,543)

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

	Thousands of euros		
	United States	Germany	Total
Obligation at January 1, 2007	35,492	28,262	63,754
Current service cost	281	609	890
Interest cost	1,919	1,150	3,069
Benefits paid	(2,263)	(1,848)	(4,111)
Actuarial (gains)/losses	(1,253)	(1,516)	(2,769)
Translation differences	(3,649)	-	(3,649)
Obligation at December 31, 2007	30,527	26,657	57,184
Current service cost	240	529	769
Interest cost	1,873	1,355	3,228
Benefits paid	(2,173)	(2,197)	(4,370)
Actuarial (gains)/losses	388	(1,017)	(629)
Translation differences	1,782	-	1,782
Obligation at December 31, 2008	32,637	25,327	57,964

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, 2007	29,603
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
Actual return on plan assets	(2,267)
Contribution by the Company	1,091
Benefits paid	(2,172)
Translation differences	1,441
Fair value of plan assets at December 31, 2008	26,363

The Group expects to contribute 1,455 thousand euros to eligible assets of pension plans in the US in 2009.

The percentage weight of plan assets by category in 2008 and 2007 is similar, as follows:

Equities	33%
Fixed-income investments	67%

The principal actuarial assumptions used are as follows:

	%	
United States	2008	2007
Annual discount rate	6.5%	6.25%
Expected rate of return on assets	7.5%	7.5%
Expected rate of salary increases	2.5%	2.5%
Germany		
Annual discount rate	5.75%	5.25%
Expected rate of salary increases	2%	2%
Expected age of retirement for employees	60-65	60-65

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

Germany:	*Richttafeln 2005 G*
United States:	*RP 2000 Annultant*

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 153 thousand euros in 2008 (2007: 167 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.

(16.2) Provisions for other litigation

Movement at 31 December 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Balance at 1 January	2,740	2,687
Translation differences	(352)	194
Allowances	71	-
Applications	(939)	(141)
Balance at 31 December	1,520	2,740

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 2009. 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 2008.

(16.3) Restructuring provision

The movement in this heading at December 31, 2008 and 2007 is as follows:

	Thousands of euros	
	2008	2007
Balance at 1 January	1,019	1,516
Charge	185	697
Utilized (payments made)	(641)	(1,194)
Balance at 31 December	563	1,019

In line with Group policy to reduce costs, in 2007 and 2008 decisions were focused on restructuring certain activities to improve efficiency in certain production processes. These decisions led to the elimination of employee positions in certain of the subsidiaries. Of the amount provisioned, 432 thousand euros relate to termination benefits paid in January 2009 to employees of a subsidiary in Germany.

(16.4) Provision for guarantees / refunds

The provision for guarantees mainly corresponds to products sold by the German subsidiary in the years ended 31 December 2008 and 2007. This provision has been estimated based on historical information of the Group.

(16.5) Safety in the workplace provision

The safety in the workplace provision covers claims brought against the Group by certain employees in respect of occupational accidents. Rulings are expected to be issued in 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 2008.

(16.6) Emission rights provision

Gas emission expenses were 1,819 thousand euros in 2008.

The criterion for estimating these expenses consists of a market price valuation of the Company's emission rights in 2008.

(16.7) Contingent assets and liabilities

At year end there were tax and labor-related legal proceedings underway against the Brazilian subsidiary amounting to three million euros. As stated in Note 16.2, at December 31, 2008 a provision of 1.5 million euros had been set aside. None of the unresolved litigation is for significant amounts. All the litigation cases which have not been recognized as liabilities are cases which the Group's legal advisor in Brazil classifies as an improbable risk or are for amounts which, if settled, cannot be quantified at the present date.

The most significant contingent assets at December 31, 2008 are as follows:

- 3,667 thousand euros are included under "Financial liabilities" as a provision for interest on a third party's claims. The litigation underway in respect of these claims might give rise to no obligation to pay all or part of the claims and, therefore, this would have a positive impact in future years.

- As stated in Note 9, in the Czech Republic there are tax credits which have not been recognized due to uncertainties regarding their recoverability.

- Legal proceedings have been started in the US for claims against a supplier of auxiliary raw materials. If the Group wins the claim it could obtain up to a maximum 1,600 thousand euros from the resolution of this litigation, expected in 2010.

(17) Trade payables, other payables and other current liabilities

Details of trade and other payables are as follows:

	Thousands of euros	
	2008	2007
Trade payables	53,558	44,494
Other current liabilities		
Salaries payable	5,639	8,081
Public entities	9,120	9,223
Other payables	6,951	14,436
	21,710	31,740

"Other payables" mainly comprise suppliers of property, plant and equipment.

(18) Risk Management

(18.1) 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 38% and 16% 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	
	31.12.08	31.12.07
+5%	6,811	5,010
- 5%	(6,163)	(4,542)

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

	Thousands of euros							
	US Dollar		Czech Crown		Brazilian Real		Other	
	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07
+5%	3,038	3,373	1,515	1,265	2,745	2.634	3,023	559
- 5%	(2,749)	(3,728)	(1,371)	(1,398)	(2,483)	(2.912)	(2,735)	(618)

Details of the Group's exposure to exchange rate risks at 31 December 2008 and 2007 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	Czech Crone	Serbian Dinar	Mexican Peso	Brazilian Real	Others	Total
At 31 December 2008							
Assets							
Non-current financial assets	76	-	20	157	222	5	480
Other financial assets	-	-	-	-	-	-	-
Total non-current assets	76	-	20	157	222	5	480
Trade and other receivables	33,489	2,606	1,306	14,208	10,697	4,709	67,015
Other financial assets	482	114	-	21	-	37	654
Cash and cash equivalents	48	2,865	13	3,315	2,728	775	9,744
Total current assets	34,019	5,585	1,319	17,544	13,425	5,521	77,413
Total assets	34,095	5,585	1,339	17,701	13,647	5,526	77,893
Liabilities							
Borrowings	23,404	-	-	-	-	-	23,404
Other financial liabilities	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-
Total non-current liabilities	23,404	-	-	-	-	-	23,404
Borrowings	19,067	12,804	-	-	-	4,177	36,048
Trade and other payables	9,521	3,420	944	5,649	4,034	1,983	25,551
Total current liabilities	28,588	16,224	944	5,649	4,034	6,160	61,599
Total liabilities	51,992	16,224	944	5,649	4,034	6,160	85,003

	US Dollar	Czech Crone	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	2.527	717	2,776	9,094	6,528	59,880
Other financial assets	873	-	-	-	5,798	12	6,683
Cash and cash equivalents	1,364	276	190	2,315	322	2,602	7,069
Total current assets	40,475	2,803	907	5,091	15,214	9,142	73,632
Total assets	40,910	2,803	939	5,323	15,402	9,144	74,521
Liabilities							
Borrowings	32,055	-	-	-	-	2,076	34,131
Other liabilities	-	-	-	-	188	-	188
Total non-current liabilities	32,055	-	-	-	188	2,076	34,319
Borrowings	10,756	11,467	442	-	-	228	22,893
Trade and other payables	12,293	1,171	829	6,361	3,304	1,489	25,447
Total current liabilities	23,049	12,638	1,271	6,361	3,304	1,717	48,340
Total liabilities	55,104	12,638	1,271	6,361	3,492	3,793	82,659

(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 borrowing facilities to settle the market positions of its short-term investments. Given the dynamic nature of its underlying business, the Group aims to be flexible with regard to financing through drawdowns on its contracted credit lines.

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

The following ratios show the level of liquidity at December 31, 2008 and 2007.

	Thousands of euros	
	2008	2007
Current assets	289,682	266,150
Current liabilities	(168,212)	(155,588)
Provision for gas emission rights	1,819	45
Working capital	**123,289**	**110,607**
Current liabilities for emission rights, net of provision	166,393	155,543
% working capital/current liabilities without emission rights provision	**74.1%**	**71.1%**
Cash and cash equivalents	14,014	17,107
Available borrowing facilities	38,982	32,191
Available discount lines	14,275	18,897
Cash and available on credit and discount lines	**67,271**	**68,195**
% cash and cash equivalents+ available on credit and discount lines /Current liabilities without emission rights provision	**40.4%**	**43.8%**

The undiscounted contractual maturity dates of financial liabilities at December 31, 2008 were as follows:

(Thousands of euros)	**Up to 3 months**	**3 months - 1 year**	**1 year - 5 years**	**More than 5 years**	**Total**
Bank borrowings					
Loans	7.071	16.709	45.728	-	69.508
Borrowings (*)	16.997	37.474	6.686	-	61.157
Advances on invoices and discount lines (**)	3.418	-	-	-	3.418
Accrued interest payable	1.505	-	-	-	1.505
Finance leases	14	99	356	381	850
Derivatives	767	494	-	-	1.261
Other financial liabilities	1.338	1.543	4.280	771	7.932
Current provisions	-	2.750	-	-	2.750
Trade and other payables	76.214	-	-	-	76.214
	107.324	**59.069**	**57.050**	**1.152**	**224.595**

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

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

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

The Group has no significant assets which earn income other than the financial assets linked to pension plans in the US and their impact on the income statement is determined by the expected future gains thereon (see Note 16.1).

The Company's exposure to interest rate risk is mainly related to loans and borrowing facilities received from financial entities at floating interest rates. At 2008 and 2007 year end, the Group had no external financing at fixed interest rates. Financing at floating interest rates is for the most part linked to Euribor and Libor dollar. The Group is likewise exposed to interest rate changes used to calculate the pension plan obligations in the US and Germany (Note 16.1).

At December 31, 2008 the Group had no interest rate hedges, hence it was exposed to changes in interest rates.

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

	Thousands of euros							
	Pension plan commitments							
	USA		Germany		Euribor		Libor –dollar USA	
	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07
+1%	(316)	(330)	(260)	(275)	(838)	(747)	(441)	(467)
- 1%	316	330	260	275	799	721	416	436

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 2008							
Assets							
Trade and other receivables	118,343	-	-	-	-	-	118,343
Other financial assets	612	-	-	-	-	-	612
Total assets	118,955	-	-	-	-	-	118,955
Liabilities							
Borrowings							
Debt principal	83,287	19,353	16,562	13,067	3,787	382	136,438
Interest	3,430	1,595	1,014	517	125	11	6,692
Trade and other payables	53,558	-	-	-	-	-	53,558
Other financial liabilities							
Debt principal	4,142	1,367	1,027	947	939	771	9,193
Interest	276	152	111	80	51	23	693
Total Liabilities	144,693	22,467	18,714	14,611	4,902	1,187	206,574
At 31 December 2007							
Assets							
Trade and other receivables	104,817	-	-	-	-	-	104,817
Other financial assets	-	-	-	-	-	-	-
Total assets	104,817	-	-	-	-	-	104,817
Liabilities							
Borrowings							
Debt principal	71,442	15,902	7,052	4,891	12,499	-	111,786
Interest	4,325	1,815	1,100	783	562	-	8,585
Trade and other payables	44,494	-	-	-	-	-	44,494
Other financial liabilities							
Debt principal	1,242	1,254	1,171	874	949	1,011	6,501
Interest	293	237	180	128	88	45	971
Total Liabilities	121,796	19,208	9,503	6,676	14,098	1,056	172,337

(19) Environmental Information

The breakdownof costs and accumulated depreciation of property, plant and equipment in respect of the Group's environmental activities at 31 December 2008 and 2007 are as follows:

	Thousands of euros			
	2008		2007	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Vapour boiler	1,091	(541)	1,091	(432)
Water-cooler circuit	697	(329)	697	(266)
Waste management plant	1,886	(1,218)	1,827	(1,036)
Gas washers	3,057	(2,450)	3,057	(2,153)
Purifier	4,179	(1,699)	1,552	(227)
Others	4,775	(2,546)	3,788	(1,689)
	15,685	(8,783)	12,012	(5,803)

During 2008 and 2007 the Parent Company incurred expenses for protection and improvement of the environment amounting of 876 y 941 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.

(20) Ordinary Income

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

(21) Other Income

Details of other income are as follows:

	Thousands of euros	
	2008	2007
Government grants	1,968	1,198
Surplus provision for fixed assets - not applied (see Note 6)	182	72
Gains on sale of fixed assets	396	138
Other income	4,548	3,244
	7,094	4,652

(22) Other Operating Expenses

Details of other expenses are as follows:

	Thousands of euros	
	2008	2007
Research and development costs	849	767
Repairs and maintenance	19,510	20,817
Administrative and selling costs	57,834	46,352
Supplies	70,910	50,975
Losses on sale of fixed assets	461	129
Other expenses	6,872	15,277
	156,436	134,317

The Group has no significant operating leases.

(23) Personnel Expenses

Details of personnel expenses during 2008 and 2007 are as follows:

	Thousands of euros	
	2008	2007
Wages and salaries	100,194	101,366
Indemnity payments	846	1,738
Contributions to defined benefit plans (Note 16.1)	769	(1,623)
Provisions for other benefits (Note 16.2)	-	877
Company social security contributions	23,672	25,303
Other welfare benefits and taxes	2,810	2,432
	128,291	130,093

Group employees in 2008 and 2007, by professional category and gender, were as follows:

	Average headcount at 2008 year end			Average number of employees in 2008
	Men	Women	Total	
Executives	62	7	69	69
Technicians and middle management	446	125	571	585
Administrative personnel	146	182	328	333
Specialized personnel	552	99	651	652
Unskilled workers	1,601	756	2,357	2,446
	2,807	1,169	3,976	4,085

	Average headcount at 2007 year end			Average number of employees in 2007
	Male	Female	Total	
Executives	57	8	65	68
Technicians and middle management	414	124	538	507
Administrative personnel	154	177	331	331
Specialized personnel	581	136	717	715
Unskilled workers	1,708	769	2,477	2,499
	2,914	1,214	4,128	4,120

(24) Financial Income and Expense

Details of financial income and expense are as follows:

	Thousands of euros	
	2008	2007
Financial income		
Other financial income	1,066	1,157
Exchange gains	21,664	9,549
Net profits on adjustment to fair value of derivative financial instruments	-	718
Total financial income	22,730	11,424
Financial expenses		
Other financial expenses	7,771	7,093
Exchange losses	22,528	9,657
Total financial expenses	30,299	16,750

(25) Earnings per Share

(25.1) 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	
	2008	2007
Profit attributable to ordinary equity holders of the Parent Company	51,403	46,178
Weighted average number of ordinary shares in circulation	46,707,907	47,255,226
Basic earning per share (in euros)	1.1005	0.9772

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

	2008	2007
Weighted average number of ordinary shares in circulation	46,971,981	47,603,804
Effect of treasury shares	(264,074)	(348,578)
Average number of ordinary shares in circulation at 31 December	46,707,907	47,255,226

(25.2) 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.

(26) 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 519,582 and euros 500,949 for 2008 and 2007, respectively, and another 1.5% of the Parent Company's profit before income tax for the executive board, which amounted to euros 519,582 and euros 500,949 for 2008 and 2007, 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	173,194	66,494	-	10,000	142,600	392,288
Mr. José María Cuevas Salvador	173,194	54,124	-	7,000	-	234,318
Mr. Nestor Basterra LarrouMr.é	173,194	66,494	-	10,000	78,800	328,488
Mr. Iñigo Soláun Garteiz-Goxeascoa	-	66,494	-	10,000	-	76,494
Mr. Agatha Echevarría Canales	-	66,494	12,000	10,000	-	88,494
Mr. José Cruz Pérez Lapazarán	-	66,494	12,000	10,000	-	88,494
Mr.Gregorio Marañón Bertrán de Lis	-	66,494	12,000	10,000	-	88,494
Mr. Alejandro Legardea Zaragüeta	-	66,494	12,000	10,000	-	88,494
	519,582	519.582	48,000	77,000	221,400	1,385,564

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.

In 2007 and 2008, members of the Board of Directors had not carried out any transactions with the Company or Group companies.

The directors of 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
	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 2008 and 2007 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.

Key management personnel received compensation amounting to 2,857 thousand euros in 2008 and 2,630 thousand euros in 2007, as shown below:

Name	**Position**	**Company**
Mr. José Antonio Canales	Managing Director	Viscofan Group
Dª. Elena Ciordia	Legal Director	Viscofan Group
Mr. Gabriel Larrea	Commercial Director	Viscofan Group
Mr. César Arraiza	Financial Director	Viscofan Group
Mr. Armando Ares	Director of Investor Relations and Communication	Viscofan Group
Mr. Pedro Eraso	Director of Extrusion	Viscofan Group
Mr. José Vicente Sendin	Director of Converting	Viscofan Group
Mr. José Ignacio Recalde	Research and Development Director	Viscofan Group
Mr. Andrés Díaz	Director of Production	Viscofan Group
Mr. José Antonio Moriones	Technical Advisor to Production Management	Viscofan, S.A.
Mr. Juan José Rota	Director of Human Resources	Viscofan, S.A.
Mr. Manuel Nadal	IT Director	Viscofan, S.A.
Mr. Ricardo Royo	Financial Director	Viscofan, S.A.
Mr. Miroslav Kamis	Managing Director	Gamex Cb S.R.O, Viscofan Cz, S.R.O.
Mr. Juan Carlos García De La Rasilla	Managing Director	Koteks Viscofan, D.O.O.
Mr. Wilfred Schoebel	Director of Production	Naturin Gmbh & Co. Kg
Mr. Bertram Trauth	Managing Director	Naturin Gmbh & Co. Kg
Mr. Alfred Bruinekool	Managing Director	Naturin UK, Ltd
	Commercial Director	Naturin Gmbh & Co. Kg
Mr. Yunny Soto	Managing Director	Viscofan Centroamérica Comercial, S.A.
Mr. Óscar Ponz	Managing Director	Viscofan De México S.R.L. De C.V,
Mr. Luis Bertoli	Managing Director	Viscofan Do Brasil S. Com. E Ind. Ltda.
Mr. Waldemar Szymanski	Managing Director	Viscofan Poland Sp. Z.O.O.
Mr. José Maria Fernández	Managing Director	Viscofan Usa Inc..
Mr. Alejandro Martínez Campo	Managing Director	Industrias Alimentarias de Navarra, S.A.U.

(27) Audit Fees

The auditors of the consolidated Financial Statements of the Group and other related companies as defined in the fourteenth additional disposition of legislation governing the reform of the financial system have accrued fees for professional services for the years ended 31 December 2008 and 2007 as follows:

	Thousands of euros	
	2008	2007
Principal auditor		
Audit services	118	113
Other services	10	-
	128	113

Audit services detailed in the above table include the total fees for services rendered in 2008 and 2007, irrespective of the date of invoice.

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

	Thousands of euros	
	2008	2007
Audit services	437	371
Other services	98	-
	535	371

(28) Subsequent Events

On 28 January 2009, as agreed by the directors at their meeting held on 8 January 2009, a gross interim dividend of euros 0.205 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 2008 profits, which includes treasury shares, is as follows:

	Euros	
I. Balance at January 8, 2009		126,334
II. Cash flows from/(used in) operating activities		
- Trade and other receivables	144,215,000	
- Other income	315,000	
- Payments to suppliers and other payables	(86,066,000)	
- Payments to employees	(25,467,238)	
- Interest expense	(1,383,955)	
- Other payments	(1,200,000)	
		30,412,807
III. Cash flows from/(used in) investing activities		
- Dividends received	27,338,915	
- Purchases of property, plant and equipment	(36,527,800)	
		(9,188,885)
IV. Cash flows from/(used in) financing activities		
- Proceeds from non-current borrowings	2,000,000	
- Shareholder remuneration	(23,040,295)	
		(21,040,295)
V. Balance at January 8, 2010		309,961

VISCOFAN, S.A. AND SUBSIDIARIES

Details of the Viscofan Group
31 December 2008

(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	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)
Lingbao Baolihao Food	-	50,00%	Asparagus production	Lingbao (China)
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.	99.99%	0.01%	Services rendered	San Luis de Potosí (Mexico)

VISCOFAN, S.A. AND SUBSIDIARIES
Details of the Viscofan Group
31 December 2008

Group companies	Percentage interest		Activity	Registered offices
	Direct	Indirect		
Zacapu Power S.R.L. de C.V.	-	100.00%	Cogeneration plant	Zacapu Michoacan (Mexico)
Viscofan Canadá Inc	-	100.00%	Commercial activity	Quebec (Canada)

In 2008, apart from the capital contribution upon the formation of Lingbao Baolihao Food, there were the following changes in the structure of the Viscofan Group:

- The Parent fully subscribed the capital increase carried out by Koteks Viscofan d.o.o. equivalent to 4,000 thousand euros.

- On January 1, 2008, Viscofan USA Inc. absorbed its wholly owned subsidiary, Teepak USA, LLC.

- On January 1, 2008, Viscofan de México, S.R.L. de C.V. absorbed Teepak Holding de México S. de R.L. de C.V. and Viscofan de México Servicios, S.R.L. de C.V. absorbed Teepak de México, S.R.L. de C.V, and Teepak Servicios de México, S.R.L. de C.V. The absorbing companies wholly owned the absorbed companies.

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	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)

The variations in the Viscofan Group corporate structure 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 subscribed the entire rights issues 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.

VISCOFAN, S.A. AND SUBSIDIARIES
Segment reporting
31 December 2008 and 2007

(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 and others		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
Income and expenses								
Sales and services rendered	458,623	418,065	93,270	88,032	(75)	(73)	551,818	506,024
Material consumed	(111,711)	(95,398)	(57,520)	(52,552)	-	-	(169,231)	(147,950)
Other operating income	6,511	3,805	938	1,083	-	-	7,449	4,888
Other operating expenses	(288,648)	(270,216)	(33,613)	(32,343)	75	73	(322,186)	(302,486)
	64,775	56,256	3,075	4,220	-	-	67,850	60,476
Financial loss	(6,680)	(4,107)	(889)	(1,218)	-	-	(7,569)	(5,325)
Income tax expense	(10,840)	(8,469)	1,962	(504)	-	-	(8,878)	(8,973)
Profit for the year	47,255	43.680	4,148	2,498	-	-	51,403	46,178
Assets and Liabilities								
Total segment assets	509,765	486,025	86,701	79,755	-	-	596,466	565,780
Total segment liabilities	248,183	230,915	45,008	39,058	-	-	293,191	269,973
Other segment information								
Capital expenditure								
- Property, plant and equipment	41,672	30,255	2,478	2,291	-	-	44,150	32,546
- Intangible assets	3,747	1,833	232	37	-	-	3,979	1,870
Depreciation and amortization								
- Property, plant and equipment	(32,136)	(32,579)	(2,907)	(2,786)	-	-	(35,043)	(35,365)
- Intangible assets	(2,304)	(2,555)	(112)	(155)	-	-	(2,416)	(2,710)
Cash Flows								
Cash flows from operating activities	51,477	69,823	2,427	(1,045)	-	-	53,904	68,778
Cash flows from investing activities	(41,307)	(29,558)	(3,075)	(2,096)	-	-	(44,382)	(31,654)
Cash flows from financing activities	(13,552)	(35,367)	937	3,117	-	-	(12,615)	(32,250)

VISCOFAN, S.A. AND SUBSIDIARIES
Segment reporting
31 December 2008 and 2007

(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	
	2008	2007	2008	2007	2008	2007	2008	2007
Ordinary income from external clients	320,122	289,033	159,164	157,587	72,532	59,404	551,818	506,024
Segment assets	378,109	352,494	153,571	143,221	64,786	70,065	596,466	565,780
Other segment information								
Capital expenditure								
- Property, plant and equipment	30,855	22,763	4,135	7,129	9,160	2,654	44,150	32,546
- Intangible assets	3,500	639	401	1,224	78	7	3,979	1,870
Cash flows								
Cash flows from operating activities	46,619	41,941	1,729	11,342	5,556	15,495	53,904	68,778
Cash flows from investing activities	(33,961)	(22,307)	(2,961)	(7,802)	(7,460)	(1,545)	(44,382)	(31,654)
Cash flows from financing activities	(12,048)	(14,439)	39	(1,736)	(606)	(16,075)	(12,615)	(32,250)

VISCOFAN, S.A. AND SUBSIDIARIES
Details and movement in property, plant and equipment
31 December 2008 and 2007
(In thousands of euros)

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

	01.01.07	Translation differences	Additions	Disposals	Transfers	31.12.07	Translation differences	Additions	Disposals	Transfers	31.12.08
Revalued cost											
Land and buildings	183,414	1,298	262	(48)	(14,852)	170,074	(3,780)	1,065	(2,425)	1,926	166,860
Plant and machinery	399,585	(2,773)	6,739	(5,724)	24,829	422,656	(10,556)	13,209	(4,059)	16,654	437,904
Other installations, equipment and furniture	58,756	(30)	2,735	(131)	566	61,896	(159)	2,282	(493)	2,039	65,565
Other property, plant and equipment	20,412	(416)	1,858	(1,592)	203	20,465	(172)	437	(2,237)	214	18,707
Advances and assets under construction	8,497	119	20,952	(54)	(10,754)	18,760	(699)	27,157	(21)	(21,134)	24,063
	670,664	(1,802)	32,546	(7.549)	(8)	693,851	(15,366)	44,150	(9,235)	(301)	713,099
Restated accumulated depreciation											
Buildings	(62,081)	(158)	(4,256)	2	(124)	(66,617)	1,102	(4,268)	616	-	(69,167)
Plant and machinery	(259,490)	(779)	(25,419)	4,717	(7,920)	(288,891)	7,765	(25,810)	2,254	-	(304,682)
Other installations, equipment and furniture	(44,269)	(470)	(3,847)	82	6,459	(42,045)	108	(4,020)	482	34	(45,441)
Other property, plant and equipment	(18,608)	298	(1,843)	1,588	1,438	(17,127)	113	(945)	2,172	-	(15,787)
	(384,448)	(1,109)	(35,365)	6,389	(147)	(414,680)	9,088	(35,043)	5,524	34	(435,077)
Provisions	(226)	-	-	72	-	(154)	-	-	72	-	(82)
	285,990	(2,911)	(2,819)	(1,088)	(155)	279,017	(6,278)	9,107	(3,639)	(267)	277,940
										(note 7)	

VISCOFAN, S.A. AND SUBSIDIARIES

Details and movement in intangible assets
31 December 2008 and 2007
(In thousands of Euros)

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

	01,01,07	Translation differences	Additions	Disposals	Transfers	31.12.07	Translation differences	Additions	Disposals	Transfers	31.12.08
Cost											
Technology and contracts	6,896	(727)	-	-	-	6,169	457	196	-	-	6,822
Trademark and customer portfolio	2,672	-	-	-	-	2,672	-	-	-	-	2,672
Software	9,796	35	624	(254)	182	10,383	(93)	747	(8)	301	11,330
Concessions, patents and licences	1,966	-	1,224	-	-	3,190	71	-	-	-	3,261
Issue rights	346	-	22	(353)	(11)	4	-	2,127	(307)	-	1,824
Prepayments	-	-	-	-	-	-	-	1,155	-	-	1,155
	21,676	(692)	1,870	(607)	171	22,418	435	4,225	(315)	301	27,064
Accumulated amortisation											
Technology and contracts	(973)	157	(788)	-	-	(1,604)	(229)	(614)	-	-	(2,447)
Trademark and customer portfolio	(712)	-	(534)	-	-	(1,246)	-	(534)	-	-	(1,780)
Software	(8,280)	(26)	(481)	253	1,024	(7,510)	88	(783)	8	(34)	(8,231)
Concessions, patents and licences	(338)	-	(907)	-	(894)	(2,139)	(6)	(485)	-	-	(2,630)
	(10,303)	131	(2,710)	253	130	(12,499)	(147)	(2,416)	8	(34)	(15,088)
	11,373	(561)	(840)	(354)	301	9,919	288	1,809	(307)	267 (*) (note 6)	11,976

(*) Transfers recognized under “Intangible assets” were made from “property, plant and equipment”.

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Management Report

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

Consolidated Management Report

Business performance and situation of Viscofan Group companies

2008 has been marked by great volatility in the macroeconomic climate worldwide, with steep increases in raw material and energy costs. These impacts were accompanied by a very weak US dollar against the euro, which in the second half of the year gradually reversed with the slowing of world economic growth.

Against this backdrop Viscofan has consolidated its business growth, as shown by increased revenues in 4Q08, which rose to 144.1 million euros, up 14.7% compared to 4Q07, boosted by the excellent performance of the casings division which was up 18.1% on 4Q07, compared to a slight drop in income from the vegetable division (-0.06% versus 4Q07).

This higher growth enabled the Group to achieve accumulated income of 551.8 million euros at December 2008, 9% more than in 2007, a new record high for the fourth consecutive year. This record achievement is due to both the traditional casings business and electricity sales, which in the second half of the year obtained revenues of 9.8 million euros thanks to the new cogeneration plant.

It is worth highlighting that increased revenues have been consolidated in the context of depreciation of all the currencies in the countries where the Group operates, except for the Czech crown and Polish zloty, against the euro, particularly significant in the case of the US dollar (7.3%) and the pound sterling (16.4%).

Higher production volume together with tremendous raw material price pressure, in both the casings and the vegetable businesses, has led to a significant increase in the consumption of goods for resale[1], which rose 14.4% compared to 2007.

Other operating costs, at 156 million euros, rose 16.3% compared to 2007, due to higher electricity costs (up 37.9% on 2007) resulting from the marked increase in electricity and gas prices together with greater consumption of the latter due to the increased capacity of the cogeneration plant in Spain, as well as from increased transport costs due to fuel price increases and the higher sales volume.

Employee benefits expense was 128.3 million, 1.4% down on 2007. The containment of employee benefits expense is especially significant bearing in mind that the Viscofan Group achieved record production levels in 2008 and that at 2008 year end the Viscofan Group had reduced its total workforce by 152 employees compared to 2007 (3.7% of total workforce) due to enhanced production methods and process automation introduced in the year.

In 2008 accumulated EBITDA[2], at 105.3 million euros, was up 6.9% on 2007, due mainly to the casings business, which saw its year-on-year EBITDA [2] rise 8.6% compared to a drop of 14.9% in the IAN Group.

The EBITDA of 28.7 million euros achieved in 4Q08 was the highest quarterly EBITDA[2] of the year, up 20% on 4Q07, and a major contributor to overall EBITDA growth, consolidating the growth tendency seen in the second half of 2008.

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[1] Consumption: Change in stock + Supplies

[2] 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.

The accumulated EBITDA margin in 2008 was 19.1%, only 0.4 p.p. down on that of 2007. Especially significant was the EBITDA of 4Q08 which at 19.9% was the first quarterly EBITDA in 2008 to surpass the same quarter in 2007 (up 0.9 p.p. on 4Q07).

Timing investments to market growth, together with their adequate monitoring in latter years, has enabled the Group to reduce amortizations by 1.6% compared to 2007 to 37.5 million euros.

The improved EBITDA, together with the reduction in amortizations, is reflected in the accumulated operating profit for the year[3], which at 67.9 million euros, is a 12.2% increase on that of 2007.

Net finance loss stood at -7.6 million euros, up 42.2% on 2007, contrasting with the decrease seen in accumulated finance costs at September 2008 (-41.0% compared to 9 million in 2007). This is mainly due to exchange losses on exchange risk hedges, principally US dollars, as a result of the US dollar's appreciation in 4Q08.

The Viscofan Group's financial position is solid, with net borrowings of 121.8 million at December 31, 2008, up 27.1 million on 2007 year end and financial gearing[4] of 40.2%.

The increase in borrowings in 2008, despite the Company's sound cash-flow generation, is due mainly to:

- Planned investments (45.3 million euros were invested in 2008) were brought forward to step up capacity in response to faster growth in the casings market,

- Prepayments of tax,

- The increase in current assets due to the repayment of loans with no financial cost in the last quarter of 2008,

- Higher inventory values due to raw material price increases.

The Viscofan Group has consolidated gross debt of 136.4 million euros, of which 83.3 million is short term, mainly borrowing facilities (57.4 million), and 53.2 million is long term.

Accumulated profit before tax for 2008 is 60.3 million, up 9.3% on 2007 as a result of steady income and the containment of operating expenses.

Accumulated tax payable for 2008 was 8.9 million euros, 1.1% less than in 2007, as a result of taking advantage of tax credits and deductions for investments. This represents a tax rate of 14.7%, 1.5 p.p. less than in 2007.

Hence, in a particularly difficult and volatile 2008, Viscofan obtained a record-breaking profit of 51.4 million euros, up 11.3% on 2007.

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[3] Operating profit: Profit before taxes, before finance income and costs

[4] Financial gearing: Net financial liabilities / Equity

Forecast for the Group

a) Casings

In 2008 the casings market saw strong growth, led by developing countries, especially in Latin American and Asia.

The global economic crisis, together with a more restrictive risk management policy, will tend to slow down market growth compared to that seen in 2008.

Given this context, the Viscofan Group has defined a strategy with two clear objectives: consolidate its market leadership and increase operating profit.

To achieve this it will implement measures aimed at improving economies of scale, with better alignment of the organization, while maintaining a disciplined commercial policy and improving efficiency and productivity at existing plants, in which it will continue to invest at the same pace to ensure that production capacities can satisfy market demands. In addition, it will introduce a management model which includes centers of excellence by product group.

Meanwhile, the Group plans to complete the second phase of enlargement of its co-generation facility at the production plant in Cáseda (Spain), by starting up two new engines with a combined capacity of 16.6MW, in addition to the 28.6 MW already in operation. This project is a very efficient method of augmenting Viscofan's energy capacity in Spain and, therefore, will help to reduce the environmental impact of generating electricity.

b) Vegetable products

In an especially adverse climate due to the decline in the Spanish economy and stagnant consumption, the IAN Group will continue with its current strategy, whereby it aims to maintain income levels, boosting sales of products marketed under the "Carretilla" brand, increasing the range of convenience and healthy products, while seeking to rationalize costs.

At the same time, work will continue on fitting out the facilities in China which are part of the joint venture in Lingbao Baolihao Food Industrial Co. Ltd. for the production and sale of preserved white asparagus. This facility is expected to commence activity in 2010.

Principal Group investments and R&D activity

In 2008 the Group invested 48.4 million euros, a considerable increase on the 34.4 million euros invested in 2007.

This increase is basically due to the investment in enlarging the cogeneration plant in Cáseda (Spain), to complete the first phase, which came on line in 2008, and the second phase, which is expected to commence activity at 2009 year end.

To respond to the rapid market growth seen in 2008, the Viscofan Group has made investments aimed at increasing production capacity at its plants as well as technological advances and improved efficiency.

In preserves, investments were mainly made to comply with safety and environmental standards, to develop new ready meals product lines, and to build the asparagus production plant in China.

Viscofan has a proactive policy in terms of R&D activities in respect of both business lines, supported by technology and research centers in various countries:

- In casings the emphasis is on, inter alia, developing new products, or perfecting existing products with the aim of increasing market share in the main groups of meat casings or other areas of strategic interest. Alongside this, activities continue to innovate and improve production processes in order to achieve optimum industrialization and maximize production output by introducing technological advances and developing advanced engineering solutions.

- As for diversification, the support of technology and research centers in various countries has given rise to a new bioengineering application: Collagen as a matrix for growing stem cells "in vitro."

- In vegetables, the Group continues to push forward with the development of new products, with ready meals the business line with the best prospects from both a growth and added value standpoint.

Acquisition of treasury shares

On October 13, 2008, the public deed for the 168,588.90 euro capital decrease due to the cancellation of 561,963 Viscofan S.A. treasury shares was registered at the Mercantile Register. Share capital after the decrease stood at 14,020,463.70 euros and consisted of 46,734,879 shares. The Company spent over 8 million euros to remunerate shareholders.

Under the authorization granted at the previous General Shareholders' Meeting, the Parent gradually acquired treasury shares in 2008. At December 31, 2008 the Company owned 131,197 shares, with a nominal value of 0.30 euros each, in total equivalent to 0.28% of the Company's voting rights.

Risks and uncertainty

The Viscofan Group produced higher revenues in a period of high volatility and uncertainty and is well placed to take advantage of market increases in its main businesses. However, it must be remembered that due to the nature of its transactions, the Group is exposed to various operational, financial, and economic risks. The Group manages risk according to the policies approved by the Board of Directors.

Among the specific risks worthy of particular note are less favorable exchange rates; increases in production costs, such as energy and raw material prices; or worse market conditions due to the global economic crisis.

Risk management policy

Due to the globalization of sales, the Group carries out numerous transactions in currencies other than those between companies located in the eurozone. It is general Group policy to insure against the exchange rate risk associated with these companies' commercial transactions by arranging exchange rate insurance to cover only the collection period of the sales of group products, not any longer. Normally it is the Group manufacturing company which is exposed to exchange rate risk, as the commercial divisions or customers only work in the currency of their area.

No exchange rate hedges were arranged to cover the Parent's investments in subsidiaries which operate in other currencies or for the profit repatriated from these. The Group has shown that it can compete in very competitive price markets. Therefore, this is not considered to be a factor to be referred to as a risk factor; however, it is a determining factor in the profit from sales.

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

The Group's financial leverage together with the borrowing facilities available to it suggest that the Group will be able to meet its funding requirements on favorable terms.

Transactions with directors or anyone acting on their behalf carried out in the year to which the Financial Statements refer, with the quoted company or any group company, when these transactions are not part of the normal business of the company or are not carried out on an arm's length basis:

In 2008, there were no transactions carried out by the directors with the Company or Group companies which were not part of the normal course of the Company's business or carried out on an arm's length basis.

SUBSEQUENT EVENTS

The Company's Board of Directors agreed to increase the capital of Koteks Viscofan d.o.o. by 4,000 thousand euros in 2009 in order to repay loans and reduce its exposure to Serbian currency fluctuations, as well as improve the structure of its balance sheet and finance investments to improve the plant. The Company has paid the equivalent of 1,400 thousand euros of this amount in 2008.

It likewise agreed to increase the capital of Viscofan México S.R.L. de C.V. by 6,000 thousand euros in 2009 in order to repay intragroup loans and improve its balance sheet structure given the solid growth in that company's activity. This amount has been paid in full by February 2009.

In January 2009 the Company distributed an interim dividend of 0.205 euros gross per share, representing a payment of 9,554 thousand euros.

Viscofan, S.A.'s board of directors, in the meeting held in February 2009, at the proposal of the Appointment and Remuneration Committee, agreed to appoint Mr. José Domingo Ampuero Osma as an independent board member to replace Mr. José María Cuevas Salvador (deceased). They likewise agreed, after receiving a report from the Appointment and Remuneration Committee, to appoint Ms. Agatha Echevarría Canales and Mr. José Domingo Ampuero Osma as members of the Company's Executive Committee.

VISCOFAN, S.A. AND SUBSIDIARIES

Mr. Jaime Echevarría Abona

Mr. Jose Domingo Ampuero Osma

Mr. Nestor Basterra Larroudé

Mr. Iñigo de Solaun Garteiz-Goxeascoa

Ms. Agatha Echevarría Canales

Mr. José Cruz Pérez Lapazarán

Mr. Gregorio Marañón Bertrán de Lis

Mr. Alejandro Legarda Zaragüeta

Secretary to the Board of Directors
Mr. Juan Mª Zuza Lanz

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