VISCOFAN, S.A.

Financial Statements
for the year ended
December 31, 2008

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

Audit Report

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

(Translated from the original in Spanish)

ERNST & YOUNG

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

AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of VISCOFAN, S.A.:

We have audited the financial statements of VISCOFAN, S.A., which comprise the balance sheet at December 31, 2008 and the income statement, the statement of changes in equity, the cash flow statement and the notes thereto for the year then ended, the preparation of which is the responsibility of the Company's directors. Our responsibility is to express an opinion on the aforementioned 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.

The accompanying 2008 financial statements are the first prepared by the directors under the Spanish GAAP enacted by Royal Decree 1514/2007. In this regard, in accordance with section one of Transitional Provision Four of said Royal Decree, these financial statements have been considered as first-time financial statements and, therefore, no comparative figures are included. Note 22 to the financial statements, "Issues relating to the transition to new accounting principles," provides the balance sheet and income statement included in the approved 2007 financial statements, which were prepared in accordance with generally accepted accounting principles and standards in force in Spain at that time. In addition, there is an explanation of the main differences between the accounting criteria applied in 2007 and those currently applicable, as well as the quantification of the impact on equity at January 1, 2008 (the date of transition) caused by the change in accounting criteria. Our opinion refers only to the financial statements for 2008. On March 28, 2008 we issued our audit report on the 2007 financial statements, prepared in conformity with generally accepted accounting principles and standards in force in Spain for that year, in which we expressed an unqualified opinion.

In our opinion, the accompanying 2008 financial statements give a true and fair view, in all material respects, of the equity and financial position of VISCOFAN, S.A. at December 31, 2008 and the results of its operations, changes in equity and cash flow for the year then ended, and contain the required information necessary for their adequate interpretation and understanding, in conformity with the applicable accounting principles and standards generally accepted in Spain.

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

ERNST & YOUNG, S.L.

(signed on the original)

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Javier Ezcurra Zubeldía

March 31, 2009

CONTENTS

- Balance sheet at December 31, 2008
- Income statement for the year ended December 31, 2008
- Statement of changes in equity for the year ended December 31, 2008
- Cash flow statement for the year ended December 31, 2008
- Notes to the financial statements for the year ended December 31, 2008

VISCOFAN, S.A.
Balance sheet at December 31, 2008
(Thousands of euros)

ASSETS	Notes	2008
NON-CURRENT ASSETS		**299.590**
Intangible assets	**5**	**3.558**
Software		707
Other intangible assets		2.851
Property, plant and equipment	**6**	**52.383**
Land and buildings		11.828
Plant and other PP&E items		34.730
Property, plant and equipment under construction and prepayments		5.825
Investment in group companies and associates	**7**	**241.223**
Equity instruments		241.223
Financial investments	**8**	**90**
Equity instruments		42
Other financial assets		48
Deferred tax assets	**16**	**2.336**
CURRENT ASSETS		**75.422**
Inventories	**9**	**16.294**
Commercial inventories		1.947
Raw materials and other consumables		6.441
Work in progress		4.658
Finished products		3.248
Trade and other receivables	**8**	**55.023**
Trade receivables		24.444
Trade receivables from group companies and associates		28.012
Other receivables		260
Receivable from employees		20
Other receivables from public administrations	16	2.287
Investments in group companies and associates	**8**	**3.755**
Loans to companies		3.572
Other financial assets		183
Investments	**8**	**12**
Other financial assets		12
Accruals		**142**
Cash and cash equivalents	**10**	**196**
Cash		196
TOTAL ASSETS		**375.012**

VISCOFAN, S.A.
Balance sheet at December 31, 2008
(Thousands of euros)

EQUITY AND LIABILITIES	Notes	2008
EQUITY		**276.617**
CAPITAL AND RESERVES		**276.826**
Share capital	**11.1**	**14.020**
Issued capital		14.020
Share Premium	**11.2**	**30.165**
Reserves	**11.3**	**202.145**
Legal and statutory reserves		2.935
Other reserves		199.210
Treasury shares and equity investments	**11.7**	**(1.699)**
Profit for the year	**3**	**32.195**
UNREALIZED GAINS (LOSSES) RESERVE	**12**	**(346)**
Hedging instruments		**(346)**
GRANTS, DONATIONS AND LEGACIES	**13**	**137**
NON-CURRENT LIABILITIES		**28.421**
Borrowings	**15**	**25.761**
Payable to credit institutions		21.725
Liabilities from capital leases		32
Other financial liabilities		4.004
Deferred tax liabilities	**16**	**2.660**
CURRENT LIABILITIES		**69.974**
Provisions	**14**	**1.697**
Borrowings	**15**	**33.303**
Bank borrowings		27.591
Finance leases		43
Derivatives		1.261
Other financial liabilities		4.408
Payables to group companies and associates	**15**	**7.512**
Trade and other payables	**15**	**27.462**
Suppliers		4.801
Suppliers, group companies and associates		9.483
Other payables		9.457
Employee benefits payable		146
Current tax liabilities	16	2.070
Other payables to public administrations	16	1.369
Customer advances		136
TOTAL EQUITY AND LIABILITIES		**375.012**

VISCOFAN, S.A.
Income statement for the year ended December 31, 2008
(Thousands of euros)

	Notes	2008
CONTINUING OPERATIONS		
Revenue	**17.1**	**155.346**
Sale of goods		153.641
Rendering of services		1.705
Changes in inventory of finished goods and work in progress		**409**
Cost of sales		**(65.842)**
Consumption of goods for resale		(39.573)
Consumption of raw materials and other consumables	17.2	(26.013)
Impairment of goods for resale, raw materials and other consumables	9	(256)
Other operating income		**4.228**
Ancillary income		3.166
Grants related to income	13	1.062
Employee benefits expense		**(30.851)**
Wages, salaries, et al		(24.184)
Social security costs, et al	17.3	(6.667)
Other operating expenses		**(44.426)**
External services	17.4	(42.090)
Taxes		(588)
Losses on, impairment of and change in trade provisions	8.1	(51)
Other operating expenses		(1.697)
Depreciation and amortization	**5 & 6**	**(7.795)**
Grants related to non-financial assets and other grants	**13**	**48**
Impairment gains (losses) on disposal of non-current assets		**102**
Impairment gains and losses	5 & 6	172
Gains (losses) on disposals	5 & 6	(70)
OPERATING PROFIT		**11.219**
Finance income	**17.5**	**25.422**
From equity investments		25.329
In group companies and associates		25.329
From marketable securities and other financial instruments		93
Of group companies and associates		67
Of third parties		26
Finance costs	**17.6**	**(2.405)**
Third-party borrowings		(2.405)
Exchange gains (losses)		**(637)**
FINANCE INCOME		**22.380**
PROFIT BEFORE TAX		**33.599**
Income tax	**16**	**(1.404)**
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**32.195**
DISCONTINUED OPERATIONS		
Profit (Loss) alter tax for the year from discontinued operations		**-**
PROFIT FOR THE YEAR	**3**	**32.195**

VISCOFAN, S.A.
Statement of changes in equity for the year ended December 31, 2008
(Thousands of euros)

A) Statement of recognized income and expenses for the year ended December 31, 2008

	Notes	2008
PROFIT FOR THE PERIOD		**32.195**
INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY		
From measurement of financial instruments		**-**
Available-for-sale financial assets		**-**
Other income/expense		**-**
From cash flow hedges	**15.2**	**(494)**
Grants, donations and bequests received	**13**	**2.003**
From actuarial gains and losses and other adjustments		**-**
Tax effect		**(453)**
TOTAL INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY		**1.056**
AMOUNTS TRANSFERRED TO INCOME STATEMENT		
From measurement of financial instruments		**-**
Available-for-sale financial assets		**-**
Other income/expense		**-**
From cash flow hedges	**15.2**	**(370)**
Grants, donations and bequests received	**13**	**(2.130)**
Tax effect		**751**
TOTAL AMOUNTS TRANSFERRED TO INCOME STATEMENT		**(1.749)**
TOTAL RECOGNIZED INCOME AND EXPENSE		**31.502**

VISCOFAN, S.A.
Statement of changes in equity for the year ended December 31, 2008
(Thousands of euros)

B) Statement of all changes in equity for the year ended December 31, 2008

	Issued capital (Note 11.1)	Share premium (Note 11.2)	Reserves (Note 11.3)	Treasury shares and equity investments (Note 11.7)	Profit for the year (Note 3)	Net unrealized gains (losses) reserve (Note 12)	Grants, donations and bequests received (Note 13)	TOTAL
BALANCE AT DECEMBER 31 2007	**14.189**	**41.844**	**192.808**	**-**	**-**	**-**	**-**	**248.841**
Adjustments for conversion to new accounting principles (Note 22.2)	-	-	26.176	(3.728)	-	259	225	22.932
ADJUSTED BALANCE AT JANUARY 1, 2008	**14.189**	**41.844**	**218.984**	**(3.728)**	**-**	**259**	**225**	**271.773**
Total recognized income and expense	**-**	**-**	**-**	**-**	**32.195**	**(605)**	**(88)**	31.502
Transactions with shareholders and owners								
Capital decreases	(169)	-	(7.931)	-	-	-	-	(8.100)
Dividends paid	-	(11.679)	(8.908)	-		-	-	(20.587)
Transactions with treasury shares or own equity instruments (net)	-	-	-	2.029	-	-	-	2.029
Other changes in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
BALANCE AT DECEMBER 31, 2008	**14.020**	**30.165**	**202.145**	**(1.699)**	**32.195**	**(346)**	**137**	**276.617**

VISCOFAN, S.A.
Cash flow statement for the year ended December 31, 2008
(Thousands of euros)

	Notes	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		**33.599**
Adjustments to profit		**(13.939)**
Depreciation and amortization	5 & 6	7.795
Impairment losses	5 & 6	(172)
Changes in provisions		411
Grants released to income	13	(1.110)
Finance income	17.5	(25.396)
Finance costs	17.6	2.405
Exchange gains (losses)		(129)
Change in fair value of financial instruments		767
Other income and expenses		1.490
Change in working capital		**(10.887)**
Inventories		(1.702)
Trade and other receivables		(11.988)
Other current assets		(180)
Trade and other payables		3.907
Other current liabilities		(924)
Other cash flows from operating activities		**20.837**
Interest paid		(2.112)
Dividends received		23.686
Interest received		45
Income tax receipts (payments)		(814)
Other payments (receipts)		32
CASH FLOW FROM OPERATING ACTIVITIES		**29.610**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on investments		**(23.404)**
Group and associates		(4.000)
Intangible assets		(1.239)
Property, plant and equipment		(15.165)
Other financial assets		(3.000)
Proceeds from disposals		**750**
Other financial assets		750
CASH FLOWS FROM INVESTING ACTIVITIES		**(22.654)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from and payments on equity instruments		**(6.353)**
Acquisition of own equity instruments		(6.353)
Proceeds from and payments of financial liabilities		**19.536**
Issues		
Bank borrowings		25.000
Other borrowings		1.178
Repayment and redemption of		
Bank borrowings		(3.371)
Other borrowings		(3.271)
Dividends paid and payments on other equity instruments		**(20.587)**
Dividends		(20.587)
CASH FLOWS FROM FINANCING ACTIVITIES		**(7.404)**
NET FOREIGN EXCHANGE DIFFERENCE		**-**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**(448)**
Cash and cash equivalents at January 1		**644**
Cash and cash equivalents at December 31		**196**

VISCOFAN, S.A.
Notes to the financial statements for the year ended December 31, 2008

1. ACTIVITY

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

Its statutory and principal activity consists of the manufacture of cellulose, plastic and collagen casings, mainly for use in the meat industry, as well as the generation of electricity by any technical means, both for own consumption and for sale to third parties.

Its industrial installations are located in Cáseda and Urdiáin (Navarra). The head and registered offices of the Company are located in Pamplona.

The Company is the parent of a group of companies which operate mainly in the food and cellulose, plastic and collagen casing sectors. On the same date the directors approved the Group's consolidated financial statements.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the new accounting principles approved by Royal Decree 1514/2007 of November 16 and prevailing mercantile law.

The figures shown in these financial statements are presented in thousands of euros unless otherwise indicated.

2.1 True and fair view

The accompanying financial statements have been prepared from the Company's auxiliary accounting records in accordance with prevailing accounting legislation to give a true and fair view of its equity, financial position and results. The cash flow statement has been prepared to present fairly the origin and usage of monetary assets such as cash and cash equivalents.

These financial statements have been prepared by the directors of the parent company and will be submitted for approval by the shareholders in general meeting. It is expected that they will be approved without modification.

The directors have prepared the consolidated annual accounts for 2008 separately under International Financial Reporting Standards adopted by the European Union (IFRS-EU).

2.2 Comparison of information

The 2008 financial statements are the first financial statements to be prepared based on the new Spanish GAAP approved by Royal Decree 1514/2007 of November 16. The Company has opted to measure its assets and liabilities as per the new accounting principles at the transition date.

The Company has taken January 1, 2008 as the transition date and, accordingly, presents no comparative figures in these financial statements.

The main differences between the accounting principles applied in the previous years and those applied this year, as well as the quantification of the impact of this change in principles at January 1 and at December 31, 2007 on equity and on 2007 results, are explained in Note 22 "Issues related to the transition to the new accounting principles." In addition, this note includes the balance sheet and the income statement for the year ended December 31, 2007 approved by the shareholders in General Meeting on June 3, 2008.

2.3 Critical issues concerning the assessment of uncertainty

The directors have prepared the financial statements using estimates based on historical experience and other factors considered reasonable under the circumstances. The carrying amount of assets and liabilities, which is not readily apparent from other sources, was established on the basis of these estimates. The Company periodically reviews these estimates. However, given the uncertainty inherent in them, the need may arise to make significant adjustments to the carrying amounts of assets and liabilities affected in future periods should changes occur in the hypotheses or circumstances on which the resulting values were based.

Impairment of investments in group companies

When measuring investments in group companies estimates must be made to determine their fair value to assess if there is any impairment. To determine their fair value the Company's directors estimate expected future cash flows from the ordinary activities of the investees as well as from their disposal.

3. APPROPRIATION OF PROFIT

The appropriation of 2008 profit proposed by the directors, which is expected to be approved by the shareholders in general meeting, is as follows:

(Thousands of euros)	**2008**
Proposed appropriation	
Profit for the year	32.195
	32.195
Appropriation to	
Voluntary reserves	22.641
Dividends	9.554
	32.195

The Company is obliged to transfer 10% of the profit for the year to a legal reserve until this reserve reaches an amount at least equal to 20% of share capital. Unless the balance of the reserve exceeds this amount, it cannot be distributed to shareholders (Note 11.3).

Once the legal and company bylaw requirements have been met, dividends may only be distributed against profit for the year or freely distributable reserves, if the value of equity is not lower than share capital or would not become lower than share capital as a result of distributing dividends. Accordingly, profit recognized directly in equity cannot be directly or indirectly distributed. Where losses exist from previous years that reduce the Company's equity to below the amount of share capital, profit must be allocated to offset these losses.

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied in the preparation of these financial statements are the following:

4.1 Intangible assets

Intangible assets are initially measured at either acquisition or production cost. The cost of intangible assets acquired in a business combination is fair value as of the date of acquisition.

Following initial measurement, they are stated at cost less accumulated amortization and any impairment loss.

The Company assesses the intangible asset's useful life to be either finite or indefinite. At December 31, 2008 all the Company's assets had a finite useful life.

Intangible assets having finite useful lives are amortized on a straight-line basis over their remaining estimated useful lives and residual value. Amortization methods and periods are reviewed at year end and adjusted prospectively where applicable. Intangible assets are tested for impairment at least at year end and are written down where applicable.

Software

"Software" includes the costs incurred by the Company to develop its own software, which meets the development expenses capitalization criteria defined above, in addition to the cost of acquiring software from third parties. These expenses are amortized on a straight-line basis over the useful life of the asset (five years).

Expenses for repairs which do not prolong the useful life of the assets, as well as expenses for maintenance, are taken to the income statement in the year incurred.

CO_2 emission rights

It is Company policy to recognize Co_2 emission rights as a non-amortizable intangible asset. The rights allocated free of charge under the National Assignment Plan are measured at the prevailing market price at the date received, recognizing deferred income for the same amount.

In 2008 the Company received free emission rights equivalent to 430,315 tonnes for 2008 through 2012, 86,063 tonnes per year, under the National Assignment Plan 2008-2012 approved by Royal Decree 1370/2006. The Company estimates that in 2008 it used all the emission rights it was granted for the first year (Notes 5, 13 and 14).

4.2 Property, plant and equipment

Property, plant and equipment are initially measured at either acquisition or production cost. The cost of property, plant and equipment acquired in a business combination is its fair value as of the date of acquisition.

Following initial measurement, they are stated at cost less accumulated depreciation and any recognized impairment loss.

The cost of assets acquired or produced subsequent to January 1, 2008 with installation periods exceeding one year includes financial expenses accrued prior to putting the assets to use when these expenses meet capitalization requirements.

Expenses for repairs which do not prolong the useful life of the assets, as well as maintenance expenses, are taken to the income statement in the year incurred. Expenses incurred for expansion or improvements which increase the productivity or prolong the useful life of the asset are capitalized as an increase in the value of the item.

When available for use, property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives.

The estimated useful lives of property, plant and equipment are as follows:

	Useful lives
Buildings	30 years
Plant and machinery	10 years
Furniture	10 years
Other property, plan and equipment	5-15 years

The Company reviews the assets' residual value, useful lives and depreciation methods at year end and adjusts them prospectively where applicable.

4.3 Impairment of non-financial assets

The Company assesses at each year end whether there is an indication that a non-current asset or, where applicable, a cash-generating unit may be impaired. If any indication of impairment exists, the Company estimates the asset's recoverable amount.

The recoverable amount is the higher of the cash-generating unit's (CGU) fair value less cost to sell and value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired. To assess value in use, expected future cash flows are discounted to their present value using risk free market rates, adjusted by the risks specific to the asset. For those assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, the recoverable amount is determined for the cash-generating units to which the asset belongs.

Impairment loss and its reversion are recognized in the income statement. Impairment loss is reversed only if the circumstances giving rise to it have ceased to exist. The reversal is limited to the carrying amount that would have been determined had no impairment loss been recognized. The Company assesses at each year end whether there is an indication that a non-current asset or, where applicable, a cash-generating unit may be impaired. If there is any indication of impairment, the Company estimates the asset's recoverable amount.

4.4 Leases

Leases are considered to be financial leases when, based on the economic terms of the arrangement, all risks and rewards incidental to ownership of the leased item are substantially transferred to the Company. All other lease arrangements are classified as operating leases.

Assets acquired under financial lease arrangements are recognized, based on their nature, at the fair value of the leased item or, if lower, the present value at the commencement of the lease of the minimum lease payments. A financial liability is recorded for the same amount. Lease payments are apportioned between finance charges and reduction of the lease liability. These assets are depreciated, impaired, and derecognized using the same criteria applied to assets of a similar nature.

Operating lease payments are recognized as expenses in the income statement when accrued.

4.5 Financial assets

Recognition and measurement

Loans and receivables

The Company recognizes in this category trade and non-trade receivables, which include financial assets with fixed or determinable payments not quoted on active markets and for which the Company expects to recover the full initial investment, except, where applicable, in cases of credit deterioration.

Upon initial recognition in the balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs.

Following initial recognition, these financial assets are measured at amortized cost.

Nevertheless, non-trade receivables which mature within less than one year with no contractual interest rate, as well as advances and loans to personnel, receivable dividends and called-up payments on equity instruments, the amount of which is expected in the short term, are carried at nominal value both at initial and subsequent measurement, when the effect of not discounting cash flows is not significant.

Investments in group companies, joint ventures and associates

This category includes investments in companies in which the entity exercises control, joint control via company bylaw requirements or contractual arrangement, or has significant influence.

Upon initial recognition in the balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs. In the case of non-monetary contributions to a Group company for the purpose of a business, however, the investment is measured at the carrying amount of the assets constituting the business. The initial value includes preferential subscription and similar rights.

Following initial measurement, these financial assets are stated at cost, less any accumulated impairment loss.

When an investment is classified as an investment in a Group company, joint venture or associate, cost value is deemed to be the asset's recognized carrying amount, whereas previously recognized value adjustments are shown in equity until the investment is either sold or impaired.

Where preferential subscription or similar rights are sold or separated for the purpose of exercising them, the cost of these rights decreases the carrying amount of the respective assets.

Available-for-sale financial assets

This category includes debt securities and equity instruments that have not been classified in any of the preceding categories.

Upon initial recognition in the balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs. For equity instruments, initial value includes preferential subscription and similar rights.

After initial recognition, these assets are stated at fair value including any transaction costs which could be incurred when sold. Changes in fair value are recognized directly in equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is taken to the income statement. However, foreign exchange gains and losses on monetary assets denominated in foreign currency are recognized in the income statement.

Equity instruments whose fair value cannot be reliably determined are measured at cost, less any cumulative impairment.

Where preferential subscription or similar rights are sold or separated for the purpose of exercising them, the cost of these rights decreases the carrying amount of the respective assets.

Hedging derivatives

This category includes derivatives classified as hedging instruments.

Financial instruments which have been designated as hedging instruments are measured as indicated in Note 4.8.

Cancelation

Financial assets are derecognized when the contractual rights to related cash flows have expired or when the assets are transferred, provided that related risks and rewards are substantially transferred.

If the Company has not substantially transferred or retained the risks and rewards incidental to ownership of the financial asset, it is derecognized if control over the asset has not been retained. If control over the asset is retained, the Company continues to recognize it to the extent to which it is exposed to changes in the value of the transferred asset, i.e. due to its continuing involvement, recognizing as well the associated liability.

The difference between the consideration received, net of attributable transaction costs, including any new financial asset obtained less any liability assumed, plus any cumulative gain or loss directly recognized in equity, determines the gain or loss generated upon derecognition, and is included in the income statement in the year to which it relates.

Interest and dividends received from financial assets

Interest and dividends from financial assets accrued subsequent to acquisition are recognized as income. Interest must be recognized using the effective interest rate method; dividends are recognized when the right to receive them is established.

Financial assets are recognized separately on initial measurement based on maturity, accrued explicit interest receivable at that date, and the proposed dividends up to the date the assets are acquired. Explicit interest refers to the contract interest rate applied to the financial instrument.

In addition, when distributed dividends are derived unmistakably from profit generated prior to the date of acquisition given that the amounts of distributed dividends exceeded the profit generated by the associate since acquisition, the dividends are not recognized as income and decrease the cost of the investment.

4.6 Impairment of financial assets

The carrying amount of financial assets is adjusted against the income statement when there is objective evidence of actual impairment.

To determine impairment loss, the Company assesses the potential loss of individual as well as groups of assets with similar risk characteristics.

Debt instruments

There is objective evidence that debt instruments (trade receivables, loans and debt securities) are impaired when an event has occurred after the initial recognition of the instrument that has a negative impact on related estimated future cash flows.

The Company classifies as impaired assets (doubtful exposures) debt instruments for which there is objective evidence of impairment, which refers basically to the existence of unpaid balances, non-compliance issues, refinancing and data which evidences the possible irrecoverability of total agreed-upon future cash flows or collection delays.

For financial assets measured at amortized cost, impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the current market rate upon initial recognition. For financial assets with floating interest rates, the effective interest rate at the balance sheet date is used. For trade and other receivables, the Company considers balances including items more than six months past due for which collection is uncertain, as well as balances of companies having declared a payment's moratorium, to be doubtful assets. The fair value is used instead of the present value of estimated future cash flows in the case of quoted instruments provided that it is considered sufficiently reliable.

When there is objective evidence of a decline in the fair value of "Available-for-sale financial assets" due to impairment, the underlying capital losses recognized as "Unrealized gains (losses) reserve" in equity are taken to the income statement.

The reversal of an impairment loss is recognized in the income statement. Such reversal is limited to the carrying amount of the financial asset that would have been recognized on the reversal date had no impairment loss been recognized.

Equity instruments

There is objective evidence that equity instruments are impaired when one or more events have occurred after initial recognition that indicate that the cost of the investment in equity instruments may not be recovered due to a prolonged or significant decline in fair value. Accordingly, in all cases, the Company considers that equity instruments are impaired when their value has decreased over 18 months and by 40% of their initial quoted price without having recovered their initial value.

In the case of equity instruments measured at fair value and included in the available-for-sale financial asset portfolio, impairment losses are measured as the difference between acquisition cost and fair value, less any impairment loss previously recognized in the income statement. Underlying capital losses recognized in equity as "Unrealized gains (losses) reserve" are recorded in the income statement when it is determined that the decline in the fair value is due to impairment. If, in a subsequent period, impairment losses are partially or totally recovered, the related amount is recognized in equity as "Unrealized gains (losses) reserve."

In the case of equity instruments included in "Available-for-sale financial assets" and "Investments in group companies, joint ventures and associates," impairment loss is measured as the difference between the carrying amount of the financial asset and the recoverable amount, which is the greater of the asset's fair value, less costs to sell, and the present value of future cash flows derived from the investment. Unless better evidence is available, impairment of this type of asset is estimated taking into account the equity of the subsidiary, adjusted by any unrealized capital gain existing on the measurement date. Such losses are recorded in the income statement as a direct decline in value of the equity instrument.

For investments in group companies, joint ventures and associates, the reversal of an impairment loss is recognized in the income statement and is limited to the carrying value of the investment that would have been recognized on the reversal date had the original impairment not occurred, whereas an impairment loss recognized in previous years from available-for-sale financial assets measured at cost cannot be reversed.

4.7 Financial liabilities

Recognition and measurement

Trade and other payables

This category includes financial liabilities generated by the purchase of goods and services arising from trade transactions, and non-trade payables that are not derivative instruments.

Upon initial recognition in the balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration received, adjusted by directly attributable transaction costs.

Following initial recognition, these financial liabilities are measured at amortized cost. Interest is recognized in the income statement using the effective interest rate method.

Nevertheless, trade payables which mature within less than one year with no contractual interest rate, as well as called-up payments on shares, the amount of which is expected in the short term, are carried at the nominal value when the effect of not discounting cash flows is not significant.

Hedging derivatives

This category includes derivatives classified as hedging instruments.

Financial instruments which have been designated as hedging instruments are measured as indicated in Note 4.8.

Cancelation

The Company derecognizes a financial liability when the obligation under the liability is extinguished.

When debt instruments are exchanged, provided that their contractual terms are substantially different, the original financial liability is derecognized and the new financial liability is recognized. Financial liabilities whose contractual terms are substantially modified are treated in the same manner.

The difference between the carrying amount of the derecognized financial asset (or part of it) and the compensation paid, including any attributable transaction costs, which also includes any new asset transferred other than cash or liability assumed, is recognized in the income statement in the year to which it relates.

When debt instruments are exchanged whose contractual terms are not substantially different, the original financial liability is not derecognized, and the commissions paid are recognized as an adjustment to the carrying amount. The new amortized cost of a financial liability is determined by applying the effective interest rate, which equates the carrying amount of the financial liability on the modification date to the cash flows to be paid as per the new terms.

4.8 Hedge accounting

The Company uses fair value hedges for trade receivables denominated in foreign currency.

Transactions are only deemed hedges when they eliminate efficiently any risk inherent to the hedged item or position throughout the duration of the hedge, which implies that at the inception of the contract, the hedging item is highly effective (prospective effectiveness) and there is sufficient evidence that the hedge will be effective throughout the life of the hedged item or position (retrospective effectiveness).

The Company adequately documents the hedge, including how it intends to achieve and measure its effectiveness under its current risk management policy.

The hedge effectiveness is measured by testing to verify that the differences arising from changes in the value of the hedged item and the corresponding hedging instrument remain within a range of 80% to 125% over the remaining term to maturity, and comply with forecasts established at the related contract dates.

If at any time financial derivatives do not qualify to be treated as hedges, they are reclassified as held-for-trading derivatives.

For the purpose of hedge accounting, hedges are classified as "Cash flow hedges" when they hedge exposure to cash flow variations that are attributable to changes in the cash flows due to fluctuations in the exchange rates of purchases and sales carried out in foreign currencies. The portion of the gain or loss of the hedging instrument that is determined to be an effective hedge is recognized temporarily in equity; gains or losses are taken to the income statement in the year or years in which the hedged item affects profit or loss.

4.9 Treasury shares

Treasury shares are recognized in equity as a decrease in "Capital and reserves" when acquired. No loss or gain is shown in the income statement on sale or cancelation. Expenses incurred in connection with transactions with treasury shares are recognized directly in equity as a decrease in reserves.

4.10 Inventories

Stocks are valued at acquisition price or production cost. Costs of purchase include the invoice price after deducting any trade discounts, rebates and other similar items, plus all other costs incurred until the goods are available for sale, such as transport, customs, insurance, and others directly attributable to the acquisition of inventory items. Production cost is determined by adding the costs directly attributable to the product to the purchase price of raw materials and other consumables. The portion of indirectly attributable costs incurred in preparing the tools for sale that can reasonably be allocated to the products in question are also included, to the extent that such costs are related to the manufacturing or construction process and are based on normal working conditions for the means of production.

Given that Company inventory is available-for-sale in less than one year, finance costs are not included in the acquisition or production cost.

The Company measures inventory at weighted average cost.

When the net realizable value of inventories is less than acquisition or production cost, the corresponding provision is recognized in the income statement. No provision is set aside for raw materials and other consumables used in production, if the finished products in which they are incorporated are sold above cost.

4.11 Cash and cash equivalents

This heading includes cash and current accounts.

In terms of the cash flow statement, occasional bank overdrafts used as part of the Company's cash management strategy are recognized as a decrease in cash and cash equivalents.

4.12 Grants

Grants are recognized as non-repayable when the requirements established for receiving them are met and are recognized directly in equity, net of the corresponding tax effect.

Repayable grants are recognized as liabilities until they meet the criterion for being considered non-repayable. No income is recorded until this criterion is met.

Grants received to finance specific expenses are released to the income statement in the year in which the expenses which they are intended to compensate are incurred. Grants received to acquire property, plant and equipment are released to income in proportion to the depreciation charged for the related assets.

4.13 Provisions

Provisions are recognized in the balance sheet when the Company has a present obligation (derived from a contract through its explicit or implicit terms, legislation or other operation of law) as a result of past events and it is probable that a quantifiable outflow of resources will be required to settle the obligation.

Provisions are measured at the present value of the best estimate of the amount that an entity would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time, recognizing provision discount adjustments as a finance cost as they accrue. No discounts are made on those provisions falling due within twelve months that do not have a significant financial effect. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Provision for CO_2 emission rights

As of 2006, the companies included in the National Assignment Plan that emit CO_2 in their operating activities, in the early months of the subsequent year must submit CO_2 emission rights equivalent to their CO_2 emissions in that year.

The obligation to submit CO_2 emission rights for CO_2 emissions during the year is recorded in "Current provisions" on the balance sheet, while the related cost is recognized under "Other operating expenses." This obligation is measured at the same amount as the CO_2 emission rights submitted to cover CO_2 emissions, which are recognized under "Other intangible assets."

4.14 Provisions for long-term employee benefits

The Company has no pension commitments whereby it is obliged to make contributions to a separate entity, such as an insurance company or a pension plan.

However, the Company does have early retirement and seniority bonus commitments with employees. The Company has externalized these commitments through insurance policies and has recognized the amounts paid under "Employee benefits expense."

4.15 Income tax

Income tax expense for the year is calculated as the sum of current tax resulting from applying the corresponding tax rate to taxable profit for the year, less any applicable rebates and tax credits, taking into account changes during the year in recognized deferred tax assets and liabilities. The corresponding tax expense is recognized in the income statement, except when it relates to transactions recognized directly in equity, in which case the corresponding tax expense is likewise recognized in equity.

Deferred income tax is recognized using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. The tax base of an asset or liability is the amount attributed to it for tax purposes.

The tax effect of temporary differences is included in "Deferred tax assets" or "Deferred tax liabilities" on the balance sheet, as applicable.

Deferred tax liabilities are recognized for all temporary differences, except where disallowed by prevailing tax legislation.

The Company recognizes deferred tax assets for all deductible temporary differences, unused tax credits and unused tax loss carryforwards, to the extent that it is probable that future taxable profit will be available against which these assets may be utilized, except where disallowed by prevailing tax legislation.

At each financial year end, the Company assesses the deferred tax assets recognized and those that have not yet been recognized. Based on this analysis, the Company derecognizes the asset recognized previously if it is no longer probable that it will be recovered, or it recognizes any deferred tax asset that had not been recognized previously, provided that it is probable that future taxable profit will be available against which these assets may be utilized.

Deferred tax assets and liabilities are measured at the tax rate expected to apply to the period in which they reverse, as required by enacted tax laws and in the manner in which it reasonably expects to recover the asset's carrying value or settle the liability.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets or non-current liabilities, respectively.

4.16 Classification of current and non-current assets and liabilities

Assets and liabilities are classified in the balance sheet as current and non-current. Accordingly, assets and liabilities are classified as current when they are associated with the Company's operating cycle and it is expected that they will be sold, consumed, realized or settled within the normal course of that cycle; if they differ from the aforementioned assets, and are expected to mature, to be sold or settled within one year; if they are held for trading or are cash and cash equivalents the use of which is not restricted to more than one year.

4.17 Income and expenses

In accordance with the accruals principle, income and expenses are recognized when the goods or services represented by them take place, regardless of when actual payment or collection occurs

Trade receivables

Income is recognized when it is probable that the profit or economic benefits from the transaction will flow to the entity and the amount of income and costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, less any discounts, rebates, and other similar items given by the Company, and any interest included in the nominal amount of loans. Applicable indirect taxes on transactions which are reimbursed by third parties are not included.

4.18 Transactions in foreign currency

The Company's functional and presentation currency is the euro.

Transactions in foreign currency are initially translated at the spot rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency are translated at the spot rate prevailing at the balance sheet date. All exchange gains or losses arising from translation as well as those resulting on settlement of balance sheet items are recognized in the income statement.

Non-monetary items measured at historical cost are translated at the exchange rate prevailing on the date of the transaction.

Non-monetary items measured at fair value are translated at the exchange rate prevailing when the fair value is determined. When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in the income statement.

4.19 Environmental assets and liabilities

Expenses relating to decontamination and restoration work in contaminated areas, as well as the elimination of waste and other expenses incurred to comply with environmental protection legislation, are expensed in the year to which they relate, unless they correspond to purchases of assets incorporated in equity to be used over an extended period, in which case they are recognized in the corresponding line of "Property, plant and equipment" and depreciated using the same criteria.

5. INTANGIBLE ASSETS

The movements in the items composing "Intangible assets" are as follows:

(Thousands of euros)	Balance at January 1	Additions and allowances	Disposals and reversal of impairment loss	Transfers	Balance at December 31
Cost					
Patents	36	-	-	-	36
Software	5.391	152	-	-	5.543
Greenhouse gas emission rights	105	1.697	(105)	-	1.697
Payments on account for non-current intangible assets	67	1.087	-	-	1.154
	5.599	2.936	(105)	-	8.430
Accumulated amortization					
Patents	(36)	-	-	-	(36)
Software	(4.520)	(316)	-	-	(4.836)
	(4.556)	(316)	-	-	(4.872)
Impairment losses	(101)	-	101	-	-
Net carrying amount	**942**				**3.558**

5.1 Significant movements

At 31 December 2008 intangible assets include fully amortized items with a cost of 4,391 thousand euros

"Greenhouse gas emission rights" include free of charge rights allocated by the National Assignment Plan (see notes 13 and 14).

5.2 Other information

The Company has no intangible assets located outside Spain, nor has it made any acquisitions from group companies at December 31, 2008.

At December 31, 2008 there are firm purchase commitments for software of 372 thousand euros, which will be financed using the Company's capital and undrawn credit facilities. These commitments, together with the investments in progress, are due to the implementation of new software in the Company, mostly in the area of production.

6. PROPERTY, PLANT AND EQUIPMENT

The movements in the items composing "Property, plant and equipment" are as follows:

(Thousands of euros)	Balance at January 1	Additions and allowances	Disposal and reversal of an impairment loss	Transfers	Balance at December 31
Cost					
Land	206	-	-	-	206
Buildings	19.772	567	-	1.265	21.604
Plant and other PP&E items	173.421	7.568	(2.228)	7.626	186.387
Property, plant, and equipment under construction and payments on account	8.967	5.749	-	(8.891)	5.825
	202.366	13.884	(2.228)	-	214.022
Accumulated depreciation					
Buildings	(9.259)	(681)	-	-	(9.940)
Plant and other PP&E items	(146.843)	(6.798)	2.022	-	(151.619)
	(156.102)	(7.479)	2.022		(161.559)
Impairment losses					
Buildings	(44)	-	2	-	(42)
Plant and other PP&E items	(107)	-	69	-	(38)
	(151)	-	71	-	(80)
Net carrying amount	**46.113**				**52.383**

6.1 Significant movements

In 2008 the main investments were related to the first phase of the enlargement of the cogeneration plant. This investment amounted to 11.6 million euros, of which 6.6 million euros were under construction or had been prepaid in 2007. It is hoped that three objectives will be achieved through this investment: reduce energy costs, be self-sufficient and reduce CO_2 emissions into the atmosphere. The remaining additions relate to the acquisition of plant and machinery to increase productivity and the production capacity at the Company's manufacturing plants.

The Company constantly seeks to increase efficiency and productivity and, consequently, has in progress or has prepaid investments for future acquisitions. The main investment in progress relates to prepayments made for the second phase of the cogeneration plant at Cáseda (Spain) which amounts to approximately 3.2 million euros. The rest of the items in progress relate basically to machinery and facilities aimed at greater efficiency; however, the fitting out of the new offices where it is expected the Company will relocate in the first half of 2009 is also included, at 0.7 million euros.

In 2008 property, plant and equipment carried at 206 thousand euros was sold, generating gains of this amount. The machinery was sold to the group company, Gamex CB S.r.o.

All transfers in 2008 are due to the inclusion of assets which were under construction.

The Company took advantage of the tax provisions included in Regional Law 23/1996 regarding the remeasurement of assets and that year increased the cost and cumulative depreciation of its property, plant and equipment, which gave rise to net unrealized gains of 9,282 thousand euros (Note 11.4). The carrying amount of these remeasured assets at December 31, 2008 was 770 thousand euros and the depreciation charge for the year was 81 thousand euros.

6.2 Finance leases

The net carrying amount of property, plant and equipment held under finance leases at December 31, 2008 is as follows:

(Thousands of euros)	2008
Plant	
Cost	148
Accumulated depreciation	(53)
	95

The initially recognized cost value for assets held under finance leases was the present value of future minimum lease payments on the date the lease agreement was signed.

The reconciliation between the total future minimum lease payments and the present value at December 31, 2008 is as follows:

(Thousands of euros)	Future minimum payments	Present value (Note 15.1)
Within one year	47	43
Between one and four years	37	32
	84	**75**

The principal terms of finance lease agreements are as follows:

- The lease is for a term between 2 and 4 years.
- The interest rate is floating and is linked to 12-month Euribor plus a fixed spread of between 0.6 and 1.1 percentage points.
- Repair and maintenance expenses are assumed by the lessor.
- The amount of the purchase option is equivalent to the last lease payment.
- There are no contingent lease payments.

6.3 Operating leases

The Company rents the building in Urdiain (Navarra) where it carries out its activity and a commercial office in Moscow at an annual cost of 46 thousand euros in both cases. The Company rents the Urdiain building under a lease agreement which is tacitly renewed each year. The agreement signed in respect of the commercial office is likewise for one year, renewable annually. Neither includes a purchase option.

In addition, the Company plans to move its central offices in Pamplona to a new rented building for which it signed a lease agreement in December 2008 valid until December 31, 2028. Thereafter, the lease will be automatically renewed if both parties are in agreement.

The future minimum payments under non-cancelable operating leases at December 31 are as follows:

(Thousands of euros)	**2008**
Within one year	261
Between one and five years	1.044
More than five years	3.915
	5.220

6.4 Other information

The Company has acquired the following property, plant and equipment from group companies at December 31, 2008:

(Thousands of euros)	**2008**
Plant and machinery	
Cost	2.282
Accumulated depreciation	(1.958)
Other property, plant and equipment	
Cost	34
Accumulated depreciation	(33)
	325

No property, plant and equipment items were located outside Spain at December 31, 2008.

At December 31, 2008 the Company had firm purchase commitments for property, plant and equipment totaling 8,798 thousand euros from investments under construction or prepayments made (Note 6.1) which will be financed with Company capital or undrawn credit facilities.

The breakdown of fully depreciated property, plant and equipment at December 31, 2008 is as follows:

(Thousands of euros)	2008
Buildings	1.696
Plant and machinery	100.486
Plant and other PP&E items	13.851
Other property, plant and equipment	4.825
	120.858

The Company has arranged insurance policies to cover the carrying amount of these assets.

Property, plant and equipment items for environmental activity are described in Note 21.3.

7. INVESTMENTS IN GROUP COMPANIES, JOINT VENTURES, AND ASSOCIATES

The movements in the items composing "Investments in group companies, joint ventures and associates" are as follows:

(Thousands of euros)	Balance at January 1	Additions	Disposals	Transfers	Balance at December 31
Equity instruments	242.679	4.000	-	-	246.679
Impairment losses	(5.456)	-	-	-	(5.456)
	237.223	**4.000**	**-**	**-**	**241.223**

In 2008 the Company fully subscribed the 4,000 thousand euro capital increase carried out by Koteks Viscofan, d.o.o..

7.1 Description of investments in group companies, joint ventures and associates

The information relating to group companies, joint ventures and associates at December 31, 2008 is as follows:

	Thousands of euros			Local currency (thousands)					
	Net carrying amount	Dividends distributed in 2008	% of direct equity interest	Currency	Share capital	Reserves	Profit (loss) for the year	Total capital and reserves	Operating profit (loss)
Industrias Alimentarias de Navarra, S.A.	15.602	-	100%	EUR	10.938	28.400	2.285	41.623	2.883
Naturin GMBH & Co	89.436	9.846	100%	EUR	29.604	22.790	8.651	61.045	13.241
Naturin Inc. Delaware (*)	1.763	-	100%	USD	10	983	(19)	974	(19)
Naturin Verwaltung, GMBH	21	-	100%	EUR	26	(2)	1	25	-
Viscofan do Brasil, soc. com. E ind. Ltda	53.138	12.754	100%	BRL	86.868	34.222	50.101	171.191	65.609
Viscofan Poland Sp.z.o.o.	447	-	100%	PLN	2.000	176	422	2.598	560
Gamex CB Sro	7.498	2.729	100%	CZK	250.000	20.361	49.763	320.124	43.379
Viscofan USA Inc.	34.729	-	100%	USD	35.587	19.085	5.163	59.835	10.851
Naturin LTD	1.841	-	100%	GBP	10	1.610	48	1.668	72
Viscofan CZ, S.r.o	10.503	-	100%	CZK	345.200	115.298	167.035	627.533	133.959
Viscofan de México S.R.L. de C.V.	7.741	-	99,99%	MXP	107.000	23.017	10.221	140.238	63.259
Viscofan Centroamérica Comercial, S.A.	166	-	99,50%	USD	200	116	143	459	243
Koteks Viscofan, d.o.o.	18.322	-	100%	CSD	1.567.738	(639.783)	(239.533)	688.421	(98.340)
Viscofan de México Servicios, S.R.L. de C.V.	16	-	99,99%	MXP	103	6.018	435	6.556	2.235
	241.223	**25.329**							

(*) The acquisition cost of the investment was 7,219 thousand euros and the related impairment provision amounted to 5,456 thousand euros.

The operating profit (loss) of the group companies, joint ventures and associates shown in the above table correspond entirely to continuing operations. None of the above companies is listed on the stock exchange.

The description of the main activity and registered address of each of the companies listed above at December 31, 2008 is as follows:

Company	Activity	Registered office
Industrias Alimentarias de Navarra, S.A.	Manufacture and sale of preserved vegetables	Villafranca (Navarre)
Naturin GMBH & Co	Manufacture and sale of artificial casings	Weinheim (Germany)
Naturin Inc. Delaware	Finance company	Dover (USA)
Naturin Verwaltung, GMBH	Finance company	Weinheim (Germany)
Viscofan do Brasil, soc.com. e ind. Ltda	Manufacture and sale of artificial casings	Sao Paulo (Brazil)
Viscofan Poland Sp.z.o.o.	Commercial office	Krakow (Poland)
Gamex CB Sro	Manufacture and sale of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan USA Inc	Manufacture and sale of artificial casings	Montgomery (USA)
Naturin LTD	Commercial office	Sevenoaks (United Kingdom)
Viscofan CZ, S.r.o	Manufacture and sale of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan de México S.R.L. de C.V.	Manufacture and sale of artificial casings	San Luis de Potosí (Mexico)
Viscofan Centroamérica Comercial, S.A.	Commercial office	San José (Costa Rica)
Koteks Viscofan, d.o.o.	Manufacture and sale of artificial casings	Novi Sad (Serbia)
Viscofan de México Servicios, S.R.L. de C.V.	Service company	Zacapu Michoacán (Mexico)

As stated in Notes 2 and 4.5, the Company has assessed impairment of subsidiaries where there are objective indications of impairment.

- Koteks Viscofan, d.o.o: This company made a loss of 2,941 thousand euros in 2008, which together with prior years' losses and the devaluation of the Serbian currency have led to the value of the company's assets being considerably lower than the cost of the investment. The Company has assessed the possibility that the carrying amount of the investment may not be recoverable. For this reason, the Company has calculated the present value of the future cash flows from the investment which Koteks Viscofan, d.o.o. is expected to generate. As a result of this assessment it was determined that the amount of the investment will be recoverable in the future, and no provision has been made for the value of the investment.

- Naturin Inc. Delaware: This company's main assets are its investments in Stephan & Hoffmann AG, which has land and a warehouse in Germany as its main assets. The recoverable amount of this investment has been estimated on the basis of the fair value of said land and warehouse.

Information on indirect investments in group companies and associates at December 31, 2008 is as follows:

Company	Indirect investment	Activity	Registered office
IAN Perú, S.A.	100%	Asparagus production	Cañete (Peru)
Lingbao Baolihao Food	50%	Asparagus production	Lingbao (China)
Stephan & Hoffmann AG	100%	Holding company	Weinheim (Germany)
Viscofan de México S.R.L. de C.V.	0,01%	Manufacture and sale of artificial casings	San Luís de Potosí (Mexico)
Viscofan Centroamérica Comercial, S.A.	0,50%	Commercial office	San José (Costa Rica)
Viscofan de México Servicios, S.R.L. de C.V.	0,01%	Service company	San Luís de Potosí (Mexico)
Zacapu Power, S.R.L. de C.V.	100%	Cogeneration plant	Zacapu Michoacán (Mexico)
Viscofan Canada Inc.	100%	Commercial office	St. Laurent, Quebec (Canada)

8. FINANCIAL ASSETS

The breakdown of financial assets, except for the investments in group companies, joint ventures and associates (Note 7), at December 31, 2008 is as follows:

(Thousands of euros)	Equity instruments	Loans, derivatives and other financial assets	Total
Non-current financial assets			
Loans and receivables	-	48	48
Available-for-sale financial assets			
Measured at cost	42	-	42
	42	48	90
Current financial assets			
Loans and receivables	-	58.790	58.790
	-	58.790	58.790
	42	**58.838**	**58.880**

These amounts are disclosed in the balance sheet as follows:

(Thousands of euros)	Equity instruments	Loans, derivatives and other financial assets	Total
Non-current financial assets			
Investments	42	48	90
	42	48	90
Current financial assets			
Trade and other receivables	-	55.023	55.023
Investments in group companies and associates			
Loans to companies	-	3.572	3.572
Loans and receivables	-	183	183
Investments	-	12	12
	-	58.790	58.790
	42	**58.838**	**58.880**

8.1 Loans and receivables

The breakdown of financial assets included in this category at December 31, 2008 is as follows:

(Thousands of euros)	2008
Non-current financial assets	
Deposits given and prepayments	48
	48
Current financial assets	
Trade and other receivables	55.023
Loans to group companies (Note 19.1)	3.500
Short-term interest on loans granted to group companies (Note 19.1)	72
Dividends receivable from group companies	183
Deposits given and other receivables	12
	58.790

Trade and other receivables

The breakdown of "Trade and other receivables" at December 31, 2008 is as follows:

(Thousands of euros)	2008
Trade receivables	24.444
Receivable from group companies and associate (Note 19.1)	28.012
Other receivables	260
Receivables from employees	20
Other receivables from public administrations (Note 16)	2.287
	55.023

The breakdown of "Trade and other receivables" denominated in foreign currency at December 31, 2008 is as follows:

(Thousands of euros)	2008
US Dollar	24.510
Canadian Dollar	1.206
Australian Dollar	123
Japanese Yen	176
Norwegian Crown	62
Pounds Sterling	951
Polish Zloty	846
	27.874

Impairment losses

The balance of "Trade receivables" is presented net of impairment. The movements in said impairment losses are as follows:

(Thousands of euros)	2008
Balance at January 1	-
Allowance for the year	51
Transfer to irrecoverable debts	(41)
Balance at December 31	**10**

Loans to Group companies

The amount under "Loans to group companies" relates to a loan granted to Koteks Viscofan, d.o.o. which matures on December 31, 2009. The loan earns interest equivalent to 90-day Euribor plus 0.5 percentage points.

9. INVENTORIES

The movements in "Impairment losses" are as follows:

(Thousands of euros)	Goods for resale, raw material and other consumables	Work in progress and finished products	Total
Balance at January 1	106	679	785
Impairment losses	256	66	322
Recoveries in value	-	-	-
Balance at December 31	**362**	**745**	**1.107**

The impairment losses on inventories are due mainly to the fall in market price of certain lines of semi-finished products and finished products, as well as slow moving product lines.

At December 31, 2008 there were no firm purchase commitments for raw materials or for the sale of finished goods other than those related to purchase and sales orders from the Company's normal business activity.

The company has arranged insurance policies which guarantee recovery of the carrying amount of inventories in the event of possible damage affecting their use or sale.

10. CASH AND CASH EQUIVALENTS

The breakdown of "Cash and cash equivalents" at December 31, 2008 is as follows:

(Thousands of euros)	2008
Cash	97
Current accounts	99
	196

Current accounts were at market interest rates.

Cash and cash equivalents are unrestricted.

11. EQUITY – CAPITAL AND RESERVES

11.1 Issued capital

At January 1, 2008, the Company's share capital consisted of 47.296.842 shares with a par value of 0.30 euros each. The shares were fully subscribed and paid in.

At the general meeting held on June 03, 2008, the shareholders authorized a 168,588.90 euro capital decrease through the buyback and cancellation of 561,963 treasury shares held by the Company.

Consequently, at December 31. 2008, share capital consisted of 46.734.879 shares with a par value of 0.30 euros each. All shares are of the same class, bear the same rights, except for own shares.

Consequently, at December 31. 2008, share capital consisted of 46,734,879 shares with a par value of 0.30 euros each. All the shares are of the same class and bear the same voting and economic rights, except treasury shares.

At December 31, 2008 the Company had no shareholders whose ownership interest was more than 10%.

The percentage of treasury shares held by the Company is within the limits established by prevailing legislation.

All of the Company's shares are listed on the Spanish Stock Exchange.

11.2 Share premium

The movements in the items composing "Share Premium" are as follows:

(Thousands of euros)	
Balance at January 1	41.844
Partial repayment of share premium	(11.679)
Balance at December 31	**30.165**

On June 03, 2008 the shareholders at their general meeting agreed to partial repayment of share premium of 0.25 euros per share, which was paid to shareholders on June 25, 2008.

This reserve is freely distributable, subject to the same restrictions as those for the voluntary reserves.

11.3 Reserves

The movements in the items composing "Reserves" are as follows:

(Thousands of euros)	**Balance at January 1**	**Capital decrease**	**Other changes(*)**	**Transfers**	**Balance at December 31**
Legal reserve	2.935	-	-	-	2.935
Revaluation reserve Navarra Regional Law 23/1996	8.988	-	-	(26)	8.962
Merger reserves	119	-	-	-	119
Voluntary reserves	150.366	(7.931)	47.668	26	190.129
	162.408	**(7.931)**	**47.668**	**-**	**202.145**

(*) Under "Other changes" 26,176 thousand euros are included from the impact of the application of Spanish GAAP 2007 (Note 22.2) and 21,492 thousand euros related to the distribution of profit from 2007.

In accordance with Spanish Corporation Law, until the balance of the legal reserve is equivalent to at least 20% of share capital, it cannot be distributed to shareholders and can only be used to offset losses if no other reserves are available. This reserve can be used to increase capital by the amount exceeding 10% of the new capital after the increase.

At December 31, 2008 this reserve is higher than the legally stipulated minimum.

11.4 Revaluation reserve Navarra Regional Law 23/1996

As permitted by legislation prevailing at that time, at December 31, 1996 the Company revalued its tangible assets by 9.282 thousands of euros (see note 6.1). The resulting revaluation reserve, which comprises the revaluation of fixed assets, net of a 3% tax charge, amounts to 9.003 thousands of euros.

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

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

11.5 Merger reserves

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

11.6 Voluntary reserves

These reserves are freely distributable to shareholders at December 31, 2008.

11.7 Treasury shares

At 31 December 2008 the Company holds 131.197 treasury shares. Details of movement in treasury shares during 2008 is as follows:

	Number of shares	(Thousands of euros)
Balance at December 31, 2007	236.385	3.728
Acquisition	456.775	6.071
Cancellation	(561.963)	(8.100)
Balance at December 31, 2008	**131.197**	**1.699**

12. EQUITY – NET UNREALIZED GAINS (LOSSES) RESERVE

The movements in the items composing "Unrealized gains (losses) reserve" are as follows:

(Thousands of euros)	Balance at January 1	Additions	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Balance at December 31
Hedging derivatives (Note 15.2)	259	(494)	148	(370)	111	(346)
	259	**(494)**	**148**	**(370)**	**111**	**(346)**

13. EQUITY – GRANTS RECEIVED

The movements in the items composing "Non-repayable grants" are as follows:

(Thousands of euros)	Balance at January 1	Additions	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Balance at December 31
Non-repayable grants	154	24	(7)	(48)	14	137
Grants for greenhouse gas emission rights	71	1.979	(594)	(2.082)	626	-
	225	**2.003**	**(601)**	**(2.130)**	**640**	**137**

"Grants for greenhouse gas emissions" includes the amount of those rights which the Company has not yet consumed (Notes 5 and 14). At December 31, 2008 the Company had received no rights which had not been consumed and had recognized 2,082 thousand euros for this effect under "Other operating income - Ancillary income" on the income statement.

In addition, throughout 2008 the Company received 1,062 euros in operating grants from the Navarre Regional Government. These grants mainly finance the employee benefits expenses of those involved in the research and development of each of the projects in 2008.

14. PROVISIONS AND CONTINGENCIES

The breakdown of "Provisions" at December 31, 2008 is as follows:

(Thousands of euros)	Non-current	Current	Total
Provision for greenhouse gas emission rights	-	1.697	1.697
	-	**1.697**	**1.697**

The movements in these items are as follows:

(Thousands of euros)	Balance at January 1	Allowances	Utilized and payments	Balance at December 31
Provision for greenhouse gas emission rights	2	1.697	(2)	1.697
	2	**1.697**	**(2)**	**1.697**

15. FINANCIAL LIABILITIES

The breakdown of "Financial liabilities" at December 31, 2008 is as follows:

(Thousands of euros)	Bank borrowings	Derivatives and other financial liabilities	Total
Non-current financial liabilities			
Trade and other payables	21.757	4.004	25.761
	21.757	4.004	25.761
Current financial liabilities			
Trade and other payables	27.634	39.382	67.016
Hedging derivatives	-	1.261	1.261
	27.634	40.643	68.277
	49.391	**44.647**	**94.038**

These amounts are disclosed in the balance sheet as follows:

(Thousands of euros)	Bank borrowings	Derivatives and other financial liabilities	Total
Non-current financial liabilities			
Borrowings	21.757	4.004	25.761
	21.757	4.004	25.761
Current financial liabilities			
Borrowings	27.634	5.669	33.303
Borrowings from group companies and associates	-	7.512	7.512
Trade and other payables	-	27.462	27.462
	27.634	40.643	68.277
	49.391	**44.647**	**94.038**

15.1 Bank borrowings

The breakdown of "Bank borrowings" at December 31, 2008 was the following:

(Thousands of euros)	2008
Non-current	
Loans and borrowings	21.725
Obligations under finance leases (Note 6.2)	32
	21.757
Current	
Loans and borrowings	27.527
Obligations under finance leases (Note 6.2)	43
Accrued interest payable	64
	27.634
	49.391

Loans and borrowings

The breakdown of "Loans and borrowings" at December 31, 2008 is as follows:

(Thousands of euros)	Amount pending payment	Accrued finance cost (Note 17.6)
Loans	26.600	778
Borrowings	22.652	1.310
	49.252	**2.088**

The loans and borrowings accrue floating interest at market rates.

The Company has been granted credit facilities up to a total limit of 36, 813 thousand euros.

The breakdown by maturities of loans and borrowings at December 31, 2008 is as follows:

(Thousands of euros)	2008
2010	6.750
2011	5.950
2012	5.950
2013	3.075
	21.725

At December 31, 2008, the Company has undrawn discount facilities amounting to 6.262 thousand euros.

15.2 Derivatives and other financial liabilities

The breakdown of "Financial liabilities" thus classified at December 31, 2008 is as follows:

(Thousands of euros)	2008
Non-current	
Loans at a subsidized interest rate	4.004
	4.004
Current	
Borrowings from group companies and associates (Note 19.1)	7.512
Trade and other payables	27.462
Loans at a subsidized interest rate	1.293
Payable to shareholders and directors (Note 19.2)	1.039
Payable to suppliers of non-current assets	2.030
Security deposits received and other financial liabilities	25
Other borrowings	21
Hedging derivatives	1.261
	40.643

Loans at a subsidized interest rate

At December 31, 2008 the Company has obtained loans at a subsidized interest rate from entities reporting to the Navarre Regional Government, the CDTI (Industrial Technological Development Centre) and the Ministry of Science and Technology. The Company measures these loans at amortized cost, recognizing the related implicit interest accrued by these as a result of discounting the cash flows on the basis of market interest rates at the date obtained.

(Thousand of euros)	Nominal value	Fair value
Non-current		
Loans at a subsidized interest rate	4.671	4.004
Current		
Loans at a subsidized interest rate	1.326	1.293
	5.997	**5.297**

The total amount recognized under finance costs in 2008 related to these loans is 311 thousand euros (Note 17.6).

The breakdown by maturity of the non-current loans with a subsidized interest rate at December 31, 2008 is as follows:

(Thousands of euros)	2008
2010	1.172
2011	825
2012	727
2013	695
2014 and beyond	585
	4.004

Payable to suppliers of non-current assets

"Suppliers of non-current assets" basically includes suppliers who are working on the second phase of the cogeneration plant at the Company's plant in Cáseda and others involved in the remodeling of the new offices.

Hedging derivatives

The breakdown of "Hedging derivatives" at December 31, 2008 is as follows:

(Thousands of euros)	Notional value	Fair value
Exchange rate hedges for cash flows from foreign currency transactions	57.523	(1.261)
		(1.261)

In 2008 the Company transferred a positive 370 thousand euros from equity to the income statement for the effect of the exchange rate hedge. These amounts were recognized under exchange gains (losses), as well as the amounts hedged.

The fair value of the foreign exchange hedges at December 31, 2008 was 1,261 thousand euros (liability), of which 767 thousand euros were recognized as an increased exchange loss on the income statement, as they were associated to accounts receivable in foreign currency, the balance of which had been restated at the exchange rate prevailing at year end on the income statement. The remaining 494 thousand euros which are included under equity, net of the tax effect, relate to exchange rate hedges which will be sold in 2009, therefore, there are no related accounts receivable.

Trade and other payables

The breakdown of "Trade and other payables" at December 31, 2008 is as follows:

(Thousands of euros)	**2008**
Suppliers	4.801
Suppliers, group companies and associates (Note 19.1)	9.483
Other payables	9.457
Employee benefits payable	146
Current deferred tax liabilities (Note 16)	2.070
Other payables to public administrations (Note 16)	1.369
Customer advances	136
	27.462

16. TAXES

The breakdown of balances relating to income tax assets and liabilities at December 31, 2008 is as follows:

(Thousands of euros)	**2008**
Deferred tax assets	
Temporary differences	234
Unused tax credits and rebates	2.102
Other payables to public administrations	
VAT	1.348
Grants received (Note 13)	935
Withholdings and payments on account	4
	4.623
Deferred tax liabilities	(2.660)
Current income tax liabilities (Note 15.2)	(2.070)
Other payables to public administrations (Note 15.2)	
Personal income tax withholdings	(780)
Social security	(589)
	(6.099)

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. The Company is open to inspection of all taxes to which it is liable for the last four years. The Company's directors and tax advisors consider that, in the event of a tax inspection, no significant tax contingencies would arise as a result of varying interpretations of the tax legislation applicable to the Company's transactions.

16.1 Income tax

The reconciliation of net income and expenses for the year with tax results is the following:

	Income statement			Income and expense recognized directly in equity		
(Thousands of euros)	**Increase**	**Decrease**	**Total**	**Increase**	**Decrease**	**Total**
Income and expenses for the year						
Continuing operations			32.195			(694)
Discontinuing operations			-			-
			32.195			(694)
Income tax						
Continuing operations			1.404			(297)
Discontinuing operations			-			-
			1.404			(297)
Income and expenses for the year before tax			33.599			(991)
Permanent differences	168	-	168	-	-	-
Temporary differences						
Arising in 2008	370	(4.283)	(3.913)	2.624	(2.003)	621
Arising in prior years	4.951	-	4.951	370	-	370
Tax result			34.805			**-**

Increases from permanent differences are due to nondeductible expenses relating to fines and penalties.

The reconciliation between income tax expense/(income) and the result of multiplying total recognized income and expenses by applicable tax rates is as follows:

(Thousands of euros)	**Income statement**	**Income and expense recognized directly in equity**
Income and expenses for the year before tax	33.599	(991)
Tax charge (tax rate: 30%)	10.080	(297)
Deduction for double taxation on dividends	(7.456)	-
Deductions for research and development	(1.229)	-
Investment tax credits	(1.964)	-
Non-deductible expenses	50	-
Tax expense (income)	**(519)**	**(297)**
Expense for Naturin Gmbh & Co(*)	1.923	
Tax expense (income)	**1.404**	

(*) In accordance with German legislation, the Company pays part of the income tax of its German subsidiary Naturin Gmbh & Co.

The breakdown of income tax expense / (income) is as follows:

(Thousands of euros)	Income statement	Recognized directly in equity
Current income tax	-	-
Changes in deferred taxes		
From cash flow hedges	-	(259)
Grants, donations and bequests received	-	(38)
Other temporary differences	(311)	-
Deductions generated in 2008	(3.193)	-
Deductions applied in 2008	2.985	-
	(519)	**(297)**

Refundable income tax was calculated as follows:

(Thousands of euros)	2008
Current income tax	-
Withholdings	(4)
Total income tax refund	**(4)**

16.2 Deferred tax assets and liabilities

The movements in the items composing "Deferred tax assets and liabilities" are as follows:

(Thousands of euros)	Balance at January 1	Change in		Balance at December 31
		Income statement	Equity	
Deferred tax assets				
Trade receivables	124	56	-	180
Inventories	-	54	-	54
Deductions pending application	1.894	208	-	2.102
	2.018	318	-	2.336
Deferred tax liabilities				
Non-current investments in group companies	(2.709)	201	-	(2.508)
Cash flow hedges	(111)	-	259	148
Non-repayable grants	(97)	-	38	(59)
Other financial liabilities	(241)	-	-	(241)
	(3.158)	201	297	(2.660)
	(1.140)	**519**	**297**	**(324)**

The Company has unused deductions of 2,102 thousand euros, recognized under "Deferred tax assets", the breakdown of which is as follows:

(Thousands of euros) Arising in	Last year for utilization	Deductions
2008	2018	2.102
		2.102

17. INCOME AND EXPENSES

17.1 Revenue

The distribution of revenue corresponding to the company's ordinary activity by market segment is as follows:

(Thousands of euros)	2008
By business segment	
Sale of meat, cellulose, plastic and collagen casings	133.929
Sale of replacement parts and machinery	6.415
Sale of energy	13.189
Other sales	108
Services provided	1.705
	155.346
By market segments	
National market	22.285
Foreign market	133.061
	155.346

Given that 45% of exports were to group companies, the sales to third parties were not significant enough to warrant a breakdown by geographical area.

17.2 Consumption of raw materials and other consumables

The breakdown is as follows:

(Thousands of euros)	2008
Consumption of raw materials and other consumables	
Purchases in Spain	12.093
EU acquisitions	11.022
Imports	3.323
Changes in raw material and other consumables	(425)
	26.013

The breakdown of "Consumption of goods" is as follows:

(Thousands of euros)	2008
Purchases of goods for resale	
Purchases in Spain	7.387
EU acquisitions	31.485
Imports	1.502
Change in goods for resale	(801)
	39.573

17.3 Social security costs, et al

The breakdown of "Social security costs, et al" is as follows:

(Thousands of euros)	2008
Social security	5.935
Other employee welfare expenses	732
	6.667

17.4 External services

The breakdown of "External services" is as follows:

(Thousands of euros)	2008
Research expenses	440
Lease payments	480
Repairs and maintenance	8.487
Independent professional services	3.521
Transportation services	3.184
Insurance premiums	748
Bank services	132
Publicity, advertising and public relations	339
Utilities	19.937
Other services	4.822
	42.090

18. FOREIGN CURRENCY

The Company makes sales in currencies other than its functional currency. The breakdown of transactions carried out in currencies other than the euro during the year ended December 31, 2008 is as follows:

(Thousands of euros)	2008
Revenue	
Sales	72.173
Goods for consumption	
Purchases of raw materials and other consumables	(8.308)
Purchases of goods for resale	(946)
Other operating income	
Ancillary income	733
Employee benefits expense	
Wages and salaries	(73)
Social security costs, et al.	(7)
Other operating expenses	
External services	(2.294)
Taxes (other than income tax)	(476)

19. RELATED PARTY DISCLOSURES

The related parties with which the Company performed transactions in 2008 and the nature of the relationship are as follows:

	Nature of the relationship
Viscofan group companies	Group companies
Directors	Board members
Senior executives	Executive

All the related-party transactions relate to normal Company trading activity and are carried out on an arm's length basis in a manner similar to transactions with unrelated parties.

19.1 Related entities

The balances with related entities are as follows:

(Thousands of euros)	Direct parent	Companies with an indirect investment
Customers (Note 8.1)	26.580	1.432
Current loans (Note 8.1)	3.572	-
Current dividends receivable	183	-
Suppliers (Note 15.2)	9.483	1
Current accounts payable (Note 15.2)	7.512	-

Transactions entered into with related parties were as follows:

(Thousands of euros)	Direct parent	Companies with an indirect investment
Revenue		
Sale of casings	46.285	5.489
Sale of replacement parts and machinery	6.278	125
Services provided	1.674	31
Goods for consumption		
Purchases of casings and other	36.472	-
Sale of replacement parts - machinery	5	1
Other income		
Other operating income	1.071	-
Employee benefits expense		
Other employee benefits expense	8	-
Other operating expenses		
External services	755	2
Net finance income (expense)		
Finance income - dividends (Note 17.5)	25.329	-
Finance income - interest (Note 17.5)	67	

19.2 Directors and senior executives

As set out in articles 27 and 30 of the Company's bylaws, members of the board of directors receive remuneration equivalent to 1.5% of profit before tax, which amounted to Euros 519,582. In accordance with the same articles, the executive committee receive 1.5% of profit before tax amounting to Euros 519,582. In accordance with the aforementioned articles, the board of directors and the executive committee decide on the distribution of this remuneration among the members of these bodies. In both cases it was unanimously agreed that remuneration would be distributed equally among the members.

The breakdown of the remuneration earned by members of the Company's Board of Directors and senior executives is as follows:

Name	Committee	Board	Audit committee	Per diems	Boards of other group companies	Total
D. Jaime Echevarría Abona	173.194	66.494	-	10.000	142.600	392.288
D. José María Cuevas Salvador	173.194	54.124	-	7.000	-	234.318
D. Nestor Basterra Larroudé	173.194	66.494	-	10.000	78.800	328.488
D. Iñigo Soláun Garteiz-Goxeascoa	-	66.494	-	10.000	-	76.494
Dª. Agatha Echevarría Canales	-	66.494	12.000	10.000	-	88.494
D. José Cruz Pérez Lapazarán	-	66.494	12.000	10.000	-	88.494
D. Gregorio Marañón Bertrán de Lis	-	66.494	12.000	10.000	-	88.494
D. Alejandro Legarda Zaragüeta	-	66.494	12.000	10.000	-	88.494
	519.582	**519.582**	**48.000**	**77.000**	**221.400**	**1.385.564**

At December 31, 2008, the Company had no pension plans or life insurance policies for former or current members of the Board of Directors nor had it given any guarantees on their behalf. The Group has extended no guarantees to any of the directors and remuneration is not linked to the value of shares.

During 2008 the members of the board of directors have not carried out operations with the Company or Group companies other than ordinary operations under market conditions.

The Directors have also confirmed that they hold no positions, except for below mentioned, and carry out no duties in companies with identical, similar or complementary activities to those of the Company, nor do they perform activities on their own behalf or on behalf of third parties that are identical, similar or complementary to those of the Company.

Name	Company	Position
D. Jaime Echevarría Abona	Naturin GMBH & Co KG	Chairman, Board of directors
	Naturin Limited	Chairman, Board of directors
	Gamex, CB, s.r.o.	Chairman, Board of directors
	Viscofan CZ, s.r.o.	Chairman, Board of directors
	Viscofan USA Inc.	Chairman, Board of directors
	Viscofan Poland Sp. Z.o.o.	Chairman, Board of directors
	Viscofan Centroamérica Comercial, S.A.	Chairman, Board of directors
	Viscofan Canada, Inc.	Chairman, Board of directors
	Viscofan Do Brasil	Member, Consultative Council
	Viscofan de México, S. de R.L. de C.V.	Chairman, Board of directors
	Koteks Viscofan d.o.o.	Chairman, Board of directors
	Industrias Alimentarias de Navarra, S.A.U.	Chairman, Board of directors
D. Nestor Basterra Larroudé	Naturin GMBH & Co KG	Director
	Viscofan USA Inc	Director
	Industrias Alimentarias de Navarra, S.A.U.	Director

Senior executives received wages totaling 1,607 thousand euros. The Company has no commitments related to pensions, life insurance or share options. No loans or advances have been granted to senior executives.

20. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Company's risk management policies are established by the Example Group's financial risk committee, having been approved by the Group's directors. Based on these policies, the Company's finance department has established a series of procedures and controls which make it possible to identify, measure, and manage the risks arising from financial instrument activity. These policies establish that no trading in derivatives for speculative purposes will be undertaken by the Company.

Financial instrument activity exposes the Company to credit, market and liquidity risk.

20.1 Credit risk

Credit risk exists when a potential loss may arise from the Company's counterparty not meeting its contractual obligations, i.e. the possibility that financial assets will not be recovered at their carrying amount within the established timeframe.

The maximum exposure to credit risk at December 31, 2008 was as follows:

(Thousands of euros)	2008
Non-current financial investments	90
Trade and other receivables	55.023
Current loans to group companies	3.572
Current financial investments	12
	58.697

For the purposes of credit risk management the Company differentiates between financial assets arising from operations and investments.

Operating activities

The Sales Department and Finance Department set credit limits for each customer, which are based on information obtained from an entity specializing in solvency analysis of companies.

Each month a breakdown giving the age of each of the accounts receivable is prepared which serves as a base to control collection. The Finance Department requests settlement of past due accounts on a monthly basis until they are more than six months old, at which point they are submitted to the insurer to arrange recovery. In addition the Legal Department is notified so it can monitor collection and if necessary, subsequently, claim the debt through the courts.

Each month customers incurring in late payments have their credit status reviewed, with measures taken in respect of credit limit and payment terms.

The breakdown, by counterparty, of the concentration of credit risk related to "Trade and other receivables" at December 31, 2008 is as follows:

(Thousands of euros)	**Rest**
Not due	21.743
Past due, not impaired	
Less than 3 months	2.899
3 – 6 months	61
6 – 9 months	-
9 – 12 months	-
More than 12 months	1
	24.704
Doubtful	10
Impairment allowances	(10)
Total	**24.704**

Investing activities

Loans and borrowing facilities to group companies and third parties, as well as the acquisition of unlisted companies' securities must be approved by Management.

20.2 Market risk

Market risk exists when a potential loss may arise from fluctuations in the fair value or future cash flows of a financial instrument due to changes in market prices. Market risk comprises interest rate risk, currency risk and other price risks.

Foreign currency risk

Foreign currency risk is the risk of possible loss caused by changes in the fair value or future cash flows of a financial instrument because of fluctuations in exchange rates. The Company's exposure to the risk of exchange rate fluctuations is mainly related to sales carried out in currencies other than the functional currency.

As described in Note 18, the Company carries out major transactions in foreign currencies, in particular, dollars. The Viscofan Group's policy is to arrange exchange rate hedges to cover the net cash flows from these transactions. All income in dollars included in the dollar accounts receivable at December 31, 2008 were hedged at that date.

Maximum exposure to foreign currency risk for accounts receivable at December 31, 2008 was as follows:

(Thousands of euros)	Receivables	Payables
In US dollars	24.510	189
In Canadian dollars	1.206	-
In pounds sterling	951	2
Rest	1.207	15
	27.874	**206**

Interest rate risk

Interest rate risk arises when there is a possible loss due to fluctuations in the fair value or future cash flows of a financial instrument due to changes in market interest rates. The Company's exposure to the risk of changes in interest rates is mainly related to non-current loans and credit facilities received at floating interest rates.

The Company manages its interest rate risk by distributing financing received between fixed and floating rates. Nonetheless, given the current economic climate in which there is an observable tendency for interest rates to fall and it is expected that these will remain in low figures for the medium term, the Company has elected not to arrange hedges for any of its current loans.

20.3 Liquidity risk

Liquidity risk is the possibility that the Company will have insufficient funds or access to sufficient funds at an acceptable cost to meet its payment obligations at all times. The Company's objective is to maintain sufficient available funds. Company policies establish the minimum liquidity levels required. The Company adequately monitors each month expected collections and payments to be made in the coming months and analyzes any deviations from expected cash flows in the previous month to identify any possible deviations which might affect liquidity.

The percentages at December 31, 2008 were as follows:

(Thousands of euros)	**2008**
Current assets	75.422
Current liabilities	(69.974)
Provision for greenhouse gas emission rights	1.697
Working capital	**7.145**
Current liabilities for emission rights, net of provisions	68.277
% working capital/current liabilities for emission rights, net of provisions	**10,46%**
Current liabilities for emission rights, net of provisions	68.277
Cash and cash equivalents	196
Available borrowing facilities	14.325
Available discount lines	6.262
	20.783
% cash and cash equivalents+ available on credit and discount lines /Current liabilities for emission rights, net of provisions	**30,44%**

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	1.220	3.655	21.725	-	26.600
Borrowings (*)	10.423	12.229	-	-	22.652
Accrued interest payable	64	-	-	-	64
Liabilities from capital leases	11	32	32	-	75
Derivatives	767	494	-	-	1.261
Other financial liabilities	3.462	946	3.419	585	8.412
Payable to group companies	7.512	-	-	-	7.512
Trade and other payables	27.462	-	-	-	27.462
	50.921	**17.356**	**25.176**	**585**	**94.038**

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

21. OTHER INFORMATION

21.1 Employees

The headcount by professional category is as follows:

	Average headcount at year end			Average headcount during the year
	Men	**Women**	**Total**	
Senior executives	13	1	14	14
Engineers and technicians	95	11	106	102
Administrative personnel	6	33	39	34
Specialized personnel	80	19	99	96
Laborers	288	84	372	378
	482	**148**	**630**	**624**

The Board of Directors consists of 7 members, 6 men and 1 woman.

21.2 Audit fees

Ernst & Young, S.L., the auditor of the Company's financial statements and all other companies with which it has any of the relationships referred to in Additional Provision Fourteen of the Measures to Reform the Financial System Law, agreed with the Company the following fees for the years ended December 31, 2008 and 2007:

(Thousands of euros)	**2008**	**2007**
Fees for audit of the financial statements	84	81
Other services	10	-
	94	**81**

The above amounts include all 2007 and 2008-related fees, irrespective of when they were actually billed.

21.3 Information on environmental issues

Plant and equipment included in "Property, plant and equipment" used for protecting and improving the environment at December 31 are as follows:

(Thousands of euros)	**Balance at January 1**	**Additions**	**Disposals**	**Balance at December 31**
Cost	9.794	123	-	9.917
Accumulated depreciation	(5.309)	(959)	-	(6.268)
	4.485			**3.649**

The additions related to the cogeneration plant which will lead to a significant reduction in the greenhouse gas emissions into the atmosphere are not included in the additions in 2008.

2008 expenses to protect and improve the environment were ordinary and amounted to 876 thousand euros.

The Company's directors consider that no significant contingencies exist with respect to environmental protection and improvement and therefore, no provision has been made in that respect.

22. TRANSITION TO THE NEW ACCOUNTING PRINCIPLES

22.1 General overview

As described in Note 2.2, the accompanying financial statements are the first that the Company has prepared under the new accounting principles approved by Royal Decree 1514/2007. The Company chose to measure all assets and liabilities at January 1, 2008, the transition date, in accordance with the new accounting principles and transitory provisions set forth in that decree.

Pursuant to the transitory provisions, the Company has availed itself of the following exceptions for first-time application of the new accounting principles:

- Finance costs are capitalized as of the transaction date, instead of retroactively.
- Financial instruments were classified in various categories depending on the Company's intentions at the transition date.

The Company took January 1, 2008 as its transition date and, consequently, has not included comparative figures in these financial statements.

The impact of adjustments made to comply with first-time application was recognized in equity pursuant to Transitional Provision Two of Royal Decree 1514/2007.

22.2 Main differences between the accounting policies applied in 2007 and 2008

Differences which impact equity at the transition date

The reconciliation of equity and profit (loss) for the year shown below and the explanatory notes thereto illustrate the main differences in accounting criteria applied in 2007 and 2008.

(Thousands of euros)	Comment	Equity(*)
Under former accounting policies		248.841
Loans at a subsidized interest rate	a	562
Derecognition of the impairment provision for investments in group companies	b	23.140
Transfer of treasury shares to equity	c	(1.254)
Measurement of cash flow hedges	d	259
Reclassification of non-repayable grants	e	225
Under new accounting principles		**271.773**

(*) Net of tax effect

Differences at the transition date recognized in equity were as follows:

(Thousands of euros)	2008
Reserves	26.176
Treasury shares (Note 11.7)	(3.728)
Net unrealized gains (loss) reserve (Note 12)	259
Grants, donations and bequests received (Note 13)	225
	22.932

a) Loans at a subsidized interest rate

Under Spanish GAAP 2007, after initial recognition loans and accounts payable are measured at amortized cost. This adjustment reflects the impact on equity between the nominal value and the amortized cost of the loans received at interest rates lower than market rates.

b) Measurement of investments in group companies

Under Spanish GAAP 2007, the impairment loss recognized on the carrying amount of an investment in group companies or associates, is the difference between cost and the higher of fair value less costs to sell and the present value of future cash flows derived from the investment. Under the previous accounting principles any impairment loss recognized corresponded to the difference between cost and the underlying carrying amount of the investment adjusted by any unrealized gains existing at the acquisition date which prevailed at year end.

The Company remeasured impairment of all its investees at January 1, 2008, derecognizing any provisions which under Spanish GAAP 2007 are no longer applicable, as set out below:

(Thousands of euros)	Adjustment net of tax effect
Naturim GMBH & Co.	13.361
Viscofan USA Inc	6.273
Koteks Viscofan, d.o.o.	3.504
Viscofan de México Servicios, S.R.L. de C.V.	2
	23.140

c) Treasury shares

Treasury shares are recognized as a reduction in equity. Consequently, the 1,254 thousand euros recognized under assets according to the previous GAAP were derecognized and equity reduced by this amount.

d) Measurement of cash flow hedges

At the transition date, the Company had exchange rate insurance designated as hedges for exchange rate risk. Under the new accounting principles, these hedges are measured at fair value, with any gains or losses temporarily recognized in equity and taken to the income statement in the year or years in which the hedged transaction affects profit or loss. At January 1, 2008 the foreign exchange hedges were recognized at a fair value of 370 thousand euros, credited to equity under "Unrealized gains (losses) reserve", after the tax effect of 111 thousand euros had been deducted.

e) Reclassification of non-repayable grants and greenhouse gas emission rights

Under former Spanish GAAP non-repayable grants as well as gas emission rights were included under "Deferred income." Under the new accounting principles these are recognized in equity, net of the related tax effect. Consequently, at the transition date 219 thousand euros, less the related tax effect of 66 thousand euros, in respect of non-repayable grants were reclassified under equity. Gas emission rights received, amounting to 103 thousand euros, less the related tax effect of 31 thousand euros, were likewise reclassified.

Significant differences which had no impact on equity at the transition date

In addition, the following significant differences between the accounting criteria applied in 2007 and those currently applicable arose; however, these had no impact on the Company's equity at the transition date.

a) Assets acquired under finance leases

After the transition date, assets acquired under finance leases are presented on the balance sheet according to their nature instead of as "Fixed assets - Intangible assets."

In addition, at the transition date, finance costs related to existing finance leases, which were recognized under "Deferred expenses" according to the former accounting principles, have been used to reduce the corresponding financial liability.

b) Accumulated amortization/depreciation and impairment provisions

Under the new accounting principles, accumulated amortization/depreciation and impairment provisions are presented net of the amount corresponding to the related assets.

c) Extraordinary income and expenses

Income and expenses which were considered as extraordinary under the previous accounting standards are classified according to their nature under the new standards.

22.3 Balance sheet and income statement included in the 2007 financial statements

Pursuant to Transitional Provision Four of Royal Decree 1514/2007, the balance sheet and profit and loss account included in the 2007 financial statements are presented below in thousands of euros.

- **Balance sheet at December 31, 2007**

ASSETS	2007
FIXED ASSETS	**258.488**
Intangible assets	1.029
Tangible assets	46.026
Investments	211.433
Deferred expenses	**5**
CURRENT ASSETS	**62.662**
Stocks	14.913
Debtors	44.387
Short-term investments	1.315
Own shares	1.254
Cash in hand and at banks	644
Prepaid expenses	149
TOTAL ASSETS	**321.155**

LIABILITIES	2007
SHAREHOLDERS' EQUITY	**248.841**
Share capital	14.189
Share premium	41.844
Reserves	162.408
Profit for the year	30.400
Deferred income	**322**
LONG-TERM CREDITORS	**6.464**
Amounts owed to credit institutions	1.600
Other creditors	4.864
CURRENT LIABILITIES	**65.526**
Amounts owed to credit institutions	26.097
Group companies	14.502
Trade creditors	11.968
Other creditors	12.916
Trade provisions	43
Provisions for charges and liabilities	**2**
TOTAL LIABILITIES	**321.155**

- **Profit and loss account for year ended December 31, 2007**

EXPENSES	2007	INCOME	2007
Operating expenses		Operating income	
Material consumed	50.021	Net sales	127.443
Personnel expenses	29.175	Increase in stocks of finished products and work in progress	505
Amortization and depreciation	8.587	Other operating income	945
Changes in trade provisions	51		
Other operating expenses			
External services	32.739		
Local taxes	630		
Other management expenses, current	21		
OPERATING PROFIT	**7.669**	**OPERATING LOSS**	**-**
Financial expenses		Financial income	
Interest and similar expenses	1.411	Dividends	23.906
Exchange losses	1.374	Other interest and similar income	500
		Exchange gains	897
NET FINANCIAL INCOME	**22.518**	**FINANCIAL LOSSES**	**-**
PROFIT ON ORDINARY ACTIVITIES	**30.187**	**LOSSES ON ORDINARY ACTIVITIES**	**-**
Extraordinary losses and expenses		Extraordinary profit and income	
Changes in provisions for tangible and intangible assets and own shares	(2.533)	Profit on sale of fixed assets	39
Extraordinary expenses	459	Extraordinary income	49
		Capital grants taken to income	33
NET EXTRAORDINARY INCOME	**2.195**	**NET EXTRAORDINARY LOSS**	**-**
PROFIT BEFORE INCOME TAX	**32.382**	**LOSSES BEFORE INCOME TAX**	**-**
Income tax	1.982		
PROFIT FOR THE YEAR	**30.400**	**LOSS FOR THE YEAR**	**-**

23. EVENTS AFTER THE BALANCE SHEET DATE

The Company fully subscribed the 6,000 thousand euro capital increase carried out by Viscofan de México, S. de R.L. de C.V. and that of 4,000 thousand euros carried out by Koteks Viscofan, d.o.o. on January 26, 2009.

On January 28, 2009 the interim dividend in respect of 2008 profit was paid, at a total cost of 9,554 thousand euros.

Management report 2008

Business performance and situation of the Viscofan Group

In 2008 Viscofan, S.A. posted revenue of 155.3 million euros, 21.9% up on 2007.

The increase in revenue is due to several factors. Firstly, due to outstanding growth worldwide in the artificial casing market, especially in developing areas; secondly an increase in the average selling price in the cellulose casing segment and finally, the start-up of the new cogeneration plant in Spain, which in the second half of 2008 contributed considerably to a steep increase in revenue. All of these have more than helped to counterbalance the 7%+ depreciation of the US dollar against the euro.

The sharp increase in the cost of raw materials in 2008 together with the aforementioned increase in sales volume, led to a 32.7% increase in the consumption of raw materials and other consumables[1] compared to 2007. The improved production facilities helped contain staff costs to a 5.7% increase while other operating costs increased 31.7%, mainly due to higher energy costs, due to an increased unit cost and the increase in the electricity production capacity resulting from the enlargement of the cogeneration plant.

In addition, the efforts in recent years to limit investments have made it possible to reduce depreciation and amortization to 7.8 million euros, a 9.3% reduction compared to 2007.

As a result, operating profit rose 45.8% to 11.2 million euros.

Once again, the strong individual results of the other group companies have led to increased dividends from these; however, the increase in finance costs and exchange losses, together with the absence of more positive results from the use of financial provisions in investments in group companies (2.9 million euros recognized in 2007) have had a negative impact on Viscofan S.A.'s finance income, which has fallen by 10.5% to 22.4 million euros compared to the 25 million euros recorded in 2007.

Profit before tax was 33.6 million euros, up 2.8% on 2007 thanks to the higher operating profit which offset the reduction in finance income.

By using and taking advantage of investment-related deductions and investments in R&D it has been possible to reduce the tax burden, thus Viscofan S.A.'s tax expense was 1.4 million euros compared to 2 million euros in 2007.

As a result, net profit for 2008 rose to 32.2 million euros, up 4.8% on the 30.4 million euros obtained in 2007.

[1] Consumption consumables and changes in inventories

Outlook for the Company

In a market with volumes rising worldwide, Viscofan S.A. is in a unique competitive position to continue capturing growth, while taking the necessary steps to bolster its operating efficiency and profitability against a backdrop of increasing pressure on the unit costs of factors of production, especially raw materials and gas.

In 2009, the Company will continue with efforts to recover both cellulose and collagen casings prices, while seeking to achieve greater automation in its production process to further exploit economies of scale and make its production more efficient.

Plans this year include completing the second stage of the enlargement of the co-generation plant in Cáseda (Spain) by bringing on stream two new engines with combined capacity of 16.6MW, and embarking on the second stage, which implies setting up two more engines of similar capacity by the end of the year 2009.

This project will raise Viscofan's power generation capacity more efficiently; while at the same time help reduce the environmental impact of its production processes.

Main Group investments and research and development activities

Additions to property, plant and equipment and intangible assets at Viscofan S.A. rose to 16.8 million euros (2007:12.7 million euros), mainly incorporated in the cogeneration plant at the manufacturing facility in Cáseda (Spain), the investment in enhanced automization in the finishing process at Urdiain and investments in systems together with recurring investments in maintenance and operational and environmental improvements at the various production facilities located in Spain.

Viscofan S.A., through its R&D department in Navarre, centralizes coordination of the R&D activities of the rest of the Viscofan Group and this center has established itself as the specialist center in the cellulose casing segment. Efforts in the area of R&D activities are focused on improving production efficiency as well as developing innovative processed meat products, the Company's business segment.

In the field of research and development the Company has obtained important institutional support both from the Regional Government of Navarre and the Spanish Ministry of Industry (CDTI).

Patents are applied for where considered relevant by technicians and experts.

Acquisition of own shares

On October 13, 2008, the deed for the 168,588.90 euro capital decrease related to the cancellation of 561,963 of Viscofan S.A.'s own shares was inscribed in the Mercantile Register. Share capital after the decrease stood at 14,020,463.70 euros and consisted of 46,734,879 shares. In this way, the Company spent over 8 million euros to remunerate shareholders.

Under the authorization given at the previous General Shareholders' Meeting, the Parent Company acquired own 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

Viscofan S.A. has 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, Viscofan's and its subsidiaries' activities are 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

Due to the globalization of its sales, the Group carries out a number of transactions in currencies other than Euros. General group policy is to hedge against these companies' commercial transaction risks by contracting exchange rate insurance to cover the collection period of the Group's product sales. Long-term insurance is not contracted.

No exchange hedges are contracted to cover Parent company investments in subsidiaries which operate with other currencies or profits contributed by these companies. The Group has shown that it is capable of competing in competitive price markets and therefore does not consider this to be a factor of risk, albeit a determining factor in sales profitability.

Although Viscofan's credit risk is not highly concentrated, in 2008 it pooled, improved and widened its coverage of collection risk for the entire consolidated Group.

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

Operations with the board of directors or persons acting on their behalf, carried out during 2008, with the quoted company or a Group company when operations are different to the Company's ordinary activity or are not carried out in normal market.

In 2008 the directors have not participated in any operations other than the ordinary activity of the Company or Group companies or carried out in abnormal market conditions.

Subsequent events

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.

Information to be included in the management report according to art. 14 of Law 6/2007 reforming the securities market law.

The current explanatory report was prepared by the Board in its meeting held on March 30, 2009 as part of the Management Report included in the Company's Annual Report and was incorporated as part of the Management Report as established by Article 116 bis of the Securities Market Law.

a) The structure of capital, including securities which are not admitted to trading on a regulated market in a Member State, where appropriate with an indication of the different classes of shares and, for each class of shares, the rights and obligations attached thereto and the percentage of total share capital that it represents;

Articles of association:

Article 5: Share capital stands at 14,020,463.70 euros and consists of 46,734,879 shares of 0.30 euros par value each.

Share capital is fully subscribed and paid in.

Article 6: All the shares are represented by book entries in accordance with the provisions of Royal Decree 116/1992 dated February 22. Iberclear (the Spanish clearing house) is in charge of keeping the accounting records.

b) Any restrictions on the transfer of securities;

There are no legal restrictions or restrictions under the Company's articles of association on the transfer of securities.

c) Significant direct and indirect shareholdings;

At December 31, 2008, direct or indirect shareholdings exceeding 3% of share capital that the Company was aware of are as follows:

Marathon Asset Management, LLP: 2,737,788 shares, equivalent to 5.860% of Viscofan's share capital calculated based on a total of 46,734,879 shares.

Bestinver Gestión S.A.: 1,722,874 shares, equivalent to 3.68% of Viscofan's share capital calculated based on a total of 46,734,879 shares.

Onchena S.L.: 2,366,000 shares, equivalent to 5.06% of Viscofan's share capital calculated based on a total of 46,734,879 shares.

d) Any restrictions on voting rights;

There are no legal restrictions or restrictions in the articles of association on the exercise of voting rights, except the restrictions relating to treasury shares.

e) Agreements between shareholders;

The Company has no knowledge of any agreements between shareholders.

f) The rules governing the appointment and replacement of board members and the amendment of the articles of association;

There are no specific regulations for changing the articles of association other than those applicable under the relevant legislation.

Appointment and replacement of board members.

According to the articles of association:

Article 26: The powers of representation and administration of the Company shall be entrusted to a Board of Directors, comprising not less than three and more than nine Directors.

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

Article 27: A Director need not be a shareholder to be appointed. The term of office of Directors shall be six years from the date of appointment.

The appointment of board members expires when, after expiry of their tenure, the next General Meeting has been held or the legal period for holding the Meeting to approve the accounts of the preceding year has elapsed.

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

In addition, the Regulations of the Board of Directors provide the following:

Article 6.- Composition of the Board of Directors

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

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

Article 8.- Appointment of Directors

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

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

The Directors shall discharge their duties during the term foreseen in the articles of association.

Article 27.- Removal of Directors

Directors shall step down and tender their resignation in the following cases:

a) When their circumstances render them incompatible or prohibited from serving on the board for one of the reasons specified under Spanish law.

b) When their continued presence on the Board could jeopardize the interests of the Company or when the reasons for which they were appointed cease to apply.

c) Proprietary directors should resign when the shareholders they represent dispose of a substantial portion of their ownership interest.

In respect of the amendment to the Company's articles of association, article 21 of the articles of association and article 18 of the Regulations of the Board of Directors provide:

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

At second call, votes representing at least 25 per cent of the capital are sufficient.

When shareholders representing less than 50 percent of subscribed voting share capital are in attendance, these resolutions can only be validly adopted pursuant to the favorable vote of two-thirds of the capital in attendance or represented by proxy at the General Meeting."

g) The powers of board members and in particular the power to issue or buy back shares;

According to article 29 of the articles of association: The Board of Directors is vested with the broadest powers to manage, administer and represent the Company in all areas regarding its normal business including, but not limited to, the following:

To represent the Company in or out of court.

To sign or delegate the power to sign on behalf of the company.

To open and make withdrawals from current and credit accounts at any bank, including the Bank of Spain and its branches, to carry out all kinds of banking and credit transactions, including at the Bank of Spain and its branches, or any other Spanish or foreign bank.

To purchase, sell, swap, lease and assign movable goods and property, industrial or mercantile installations and businesses of any kind.

To constitute, modify and cancel real rights to these.

To participate in tenders and auctions of all kinds and enter into supply, work execution and services contracts.

To set up and cancel provisional or definitive guarantees, receive and pay any and all amounts receivable or payable by the Company, even at the central, regional or local tax authorities, payments organisms or other governmental offices.

To carry out all kinds of proceedings and enter into contracts to manage, sell, disburse, own and encumber movable goods and property, to grant all kinds of general or special, mercantile, judicial or administrative powers and, in general, to perform any duty required for the development and progress of the Company.

To acquire, via any legal means, all types of machinery, tools and equipment for: public works, constructions of all kind, industrial and commercial operations.

To lease or assign the use of this machinery or business, with or without purchase options, to any Spanish or foreign, public or private, natural or corporate person.

To intermediate in the sale or acquisition of these assets.

To import, export, promote and participate in this activity in respect of the assets mentioned in the preceding paragraphs.

To finance, in general, any transaction designed for the aforementioned purposes.

To conduct studies and prepare reports on all types of legal, economic and financial issues, as well as provide advisory on them.

To sign financial, industrial or commercial projects and, in general, all types of similar transactions, as well as participate in them.

To purchase all types of credits and bills for trading.

To provide any type of civil or mercantile guarantee to natural or corporate persons deemed appropriate and before any individuals or entities in transactions or commitments made or assumed, signing such public or private documents as may be necessary, including bills of exchange.

In addition, the latest version of the Regulations of the Board of Directors approved at the Board Meeting held on January 8, 2008 provides:

Article 5.- Powers of exclusive knowledge.

In addition to those reserved by law, the following matters are of exclusive competence of the Board of Directors in full:

a) The Company's general policies and strategies, and in particular:
   i) The strategic or business plan, management targets and annual budgets;
   ii) Investment and financing policy;
   iii) Design of the structure of the corporate Group;
   iv) Corporate governance policy;
   v) Corporate social responsibility policy;
   vi) Remuneration and evaluation of senior officers;
   vii) Risk control and management, and the periodic monitoring of internal information and control systems;
   viii) Dividend policy, as well as the policies and limits applying to treasury stock.

b) The following decisions:

   i) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses;
   ii) Directors' remuneration and, in the case of executive directors, the additional consideration for their management duties and other contract conditions;
   iii) The financial information listed companies must periodically disclose;
   iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders' Meeting;
   v) The creation or acquisition of shares in special purpose entities or resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group;

c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

   However, board authorization need not be required for related-party transactions that simultaneously meet the following three conditions:

   1. They are governed by standard form agreements applied on an across the-board basis to a large number of clients;
   2. They go through at market rates, generally set by the person supplying the goods or services;
   3. Their amount is no more than 1% of the company's annual revenues.

Related-party transactions should only be approved on the basis of a favorable report from the Audit Committee.

d) Setting of policies regarding information to shareholders, markets and public opinion.

e) Powers of organization of the Board of Directors and amendments to the Regulations of the Board of Directors.

Finally, at the General Shareholders' Meeting of the Company held on June 3, 2008, the following resolution was adopted:

"Annul the authorization to acquire treasury shares granted to the Board of Directors at the General Shareholders' Meeting held on June 18, 2007.

To authorize the Board of Directors so that, though the individual, company or entity deemed appropriate, it may purchase and sell on the market shares of the Company itself, at the price quoted on the day of such transaction, up to the maximum number of shares permitted by Spanish Corporation Law and related provisions, at a price of no less than 100% and no more than 5000% of their nominal value.

This authority is given to the Board of Directors for a maximum period of 18 months from the date of the present resolution.

This authorization is granted to the Board of Directors subject to the legal restrictions on the acquisition of treasury shares and, specifically, the provisions of Article 75 of the revised Spanish Corporation Law.

Should the Board of Directors be required to make use of the authorization granted at the General Shareholders' Meeting, the treasury shares of the Company would be subject to the restrictions provided for under Article 79 of said law."

h) Any significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the company. This exception shall not apply where the company is specifically obliged to disclose such information on the basis of other legal requirements;

The Company is not party to any agreements of this kind.

i) Any agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

There are agreements of this kind between the company and three managers.

Madrid, March 30, 2009