VISCOFAN, S.A.

Financial Statements
for the year ended
December 31, 2010

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

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VISCOFAN, S.A.
Balance sheet at December 31, 2010
(Thousands of euros)

ASSETS	Notes	2010	2009
NON-CURRENT ASSETS		**325,648**	**321,589**
Intangible assets	**5**	**7,969**	**7,120**
Concession rights		1,971	2,496
Software		2,362	1,876
Other intangible assets		3,636	2,748
Property, plant and equipment	**6**	**57,435**	**58,554**
Land and buildings		12,048	12,810
Plant and other PP&E items		43,396	45,258
Property, plant and equipment under construction and prepayments		1,991	486
Investment in group companies and associates	**7**	**259,611**	**254,752**
Equity instruments		259,611	254,752
Financial investments	**8**	**115**	**90**
Equity instruments		67	42
Other financial assets		48	48
Deferred tax assets	**16**	**518**	**1,073**
CURRENT ASSETS		**93,677**	**65,610**
Inventories	**9**	**15,261**	**17,246**
Commercial inventories		2,218	1,757
Raw materials and other consumables		6,045	5,918
Work in progress		3,518	4,808
Finished products		3,480	4,763
Trade and other receivables	**8**	**33,436**	**43,237**
Trade receivables		21,604	26,721
Trade receivables from group companies and associates		8,871	14,590
Other receivables		342	43
Receivable from employees		66	13
Other receivables from public administrations	16	2,553	1,870
Investments in group companies and associates	**8**	**2,364**	**2,338**
Loans to companies		2,085	2,059
Other financial assets		279	279
Investments	**8**	**6,275**	**2,540**
Derivatives		3,271	2,527
Other financial assets		3,004	13
Accruals		**94**	**107**
Cash and cash equivalents	**10**	**36,247**	**142**
Cash		31,247	142
Cash equivalents		5,000	-
TOTAL ASSETS		**419,325**	**387,199**

VISCOFAN, S.A.
Balance sheet at December 31, 2010
(Thousands of euros)

EQUITY AND LIABILITIES	Notes	2010	2009
EQUITY		**316,361**	**282,271**
CAPITAL AND RESERVES		**313,296**	**280,936**
Share capital	**11.1**	**13,981**	**13,981**
Issued capital		13,981	13,981
Share Premium	**11.2**	**12**	**16,650**
Reserves	**11.3**	**250,305**	**223,126**
Legal and statutory reserves		2,935	2,935
Other reserves		247,370	220,191
Profit for the year	**3**	**62,979**	**39,296**
Interim dividend	**3.1**	**(13,981)**	**(12,117)**
UNREALIZED GAINS (LOSSES) RESERVE	**12**	**2,212**	**1,147**
Hedging instruments		2,212	1,147
GRANTS, DONATIONS AND LEGACIES	**13**	**853**	**188**
NON-CURRENT LIABILITIES		**25,410**	**32,176**
Borrowings	**15**	**20,298**	**28,274**
Payable to credit institutions		15,874	24,306
Liabilities from capital leases		91	30
Other financial liabilities		4,333	3,938
Deferred tax liabilities	**16**	**5,112**	**3,902**
CURRENT LIABILITIES		**77,554**	**72,752**
Provisions	**14**	**2,360**	**2,943**
Borrowings	**15**	**48,382**	**34,392**
Bank borrowings		42,749	30,076
Finance leases		68	33
Derivatives		87	79
Other financial liabilities		5,478	4,204
Payables to group companies and associates	**15**	**6,968**	**10,052**
Trade and other payables	**15**	**19,844**	**25,365**
Suppliers		3,711	2,328
Suppliers, group companies and associates		1,279	7,305
Other payables		7,127	9,955
Employee benefits payable		1,274	880
Current tax liabilities	16	2,143	712
Other payables to public administrations	16	4,053	3,795
Customer advances		257	390
TOTAL EQUITY AND LIABILITIES		**419,325**	**387,199**

VISCOFAN, S.A.
Income statement for the year ended December 31, 2010
(Thousands of euros)

	Notes	2010	2009
CONTINUING OPERATIONS			
Revenue	**17.1**	**147,059**	**168,766**
Sale of goods		146,541	167,102
Rendering of services		518	1,664
Changes in inventory of finished goods and work in progress		**(2,573)**	**1,667**
Cost of sales		**(36,408)**	**(69,624)**
Consumption of goods for resale	17.2	(17,159)	(46,404)
Consumption of raw materials and other consumables	17.2	(18,813)	(23,176)
Impairment of goods for resale, raw materials and other consumables	9	(436)	(44)
Other operating income		**9,457**	**8,583**
Ancillary income		9,003	8,231
Grants related to income	13	454	352
Employee benefits expense		**(29,513)**	**(31,054)**
Wages, salaries, et al		(23,025)	(24,574)
Social security costs, et al	17.3	(6,488)	(6,480)
Other operating expenses		**(55,339)**	**(50,310)**
External services	17.4	(52,876)	(47,646)
Taxes		(161)	(141)
Losses on, impairment of and change in trade provisions	8.1	58	(294)
Other operating expenses	14	(2,360)	(2,229)
Depreciation and amortization	**5 y 6**	**(8,985)**	**(7,843)**
Grants related to non-financial assets and other grants	**13**	**31**	**29**
Impairment gains (losses) on disposal of non-current assets		**223**	**(90)**
Impairment gains and losses	5 y 6	2	40
Gains (losses) on disposals	5 y 6	221	(130)
OPERATING PROFIT		**23,952**	**20,124**
Finance income		**45,758**	**23,167**
From equity investments	7.1	45,199	23,101
In group companies and associates		45,199	23,101
From marketable securities and other financial instruments		559	66
Of group companies and associates		25	63
Of third parties		534	3
Finance costs	**17.5**	**(1,446)**	**(1,475)**
On borrowings from group companies and associates		(161)	-
Third-party borrowings		(1,285)	(1,475)
Exchange gains (losses)		**(966)**	**653**
Impairment and gains (losses) on disposal of financial instruments		**(282)**	**-**
FINANCE INCOME		**43,064**	**22,345**
PROFIT BEFORE TAX		**67,016**	**42,469**
Income tax	**16**	**(4,037)**	**(3,173)**
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**62,979**	**39,296**
DISCONTINUED OPERATIONS			
Profit (Loss) alter tax for the year from discontinued operations		**-**	**-**
PROFIT FOR THE YEAR	**3**	**62,979**	**39,296**

VISCOFAN, S.A.
Statement of changes in equity for the year ended December 31, 2010
(Thousands of euros)

A) Statement of recognized income and expenses for the year ended December 31, 2010

	Notes	2010	2009
PROFIT FOR THE PERIOD		**62,979**	**39,296**
INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY			
From measurement of financial instruments		**-**	**-**
Available-for-sale financial assets		**-**	**-**
Other income/expense		**-**	**-**
From cash flow hedges	**12**	**2,590**	**1,638**
Grants, donations and bequests received	**13**	**3,340**	**2,444**
Tax effect		**(1,779)**	**(1,224)**
TOTAL INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY		**4,151**	**2,858**
AMOUNTS TRANSFERRED TO INCOME STATEMENT			
From measurement of financial instruments		**-**	**-**
Available-for-sale financial assets		**-**	**-**
Other income/expense		**-**	**-**
From cash flow hedges	**12**	**(1,069)**	**494**
Grants, donations and bequests received	**13**	**(2,390)**	**(2,371)**
Tax effect		**1,038**	**563**
TOTAL AMOUNTS TRANSFERRED TO INCOME STATEMENT		**(2,421)**	**(1,314)**
TOTAL RECOGNIZED INCOME AND EXPENSE		**64,709**	**40,840**

VISCOFAN, S.A.
Statement of changes in equity for the year ended December 31, 2010
(Thousands of euros)

B) Statement of all changes in equity for the year ended December 31, 2010

	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)	Interim dividend (Note 3)	Net unrealized gains (losses) reserve (Note 12)	Grants, donations and bequests received (Note 13)	TOTAL
ADJUSTED BALANCE AT JANUARY 1, 2009	**14,020**	**30,165**	**202,145**	**(1,699)**	**32,195**	**-**	**(346)**	**137**	**276,617**
Total recognized income and expense	-	-	-	-	39,296	-	1,493	51	40,840
Transactions with shareholders and owners									
Capital decreases	(39)	-	(1,660)	-	-	-	-	-	(1,699)
Dividends paid	-	(13,515)	-	-	(9,554)	(12,117)	-	-	(35,186)
Transactions with treasury shares or own equity instruments (net)	-	-	-	1,699	-	-	-	-	1,699
Other changes in equity	-	-	22,641	-	(22,641)	-	-	-	-
BALANCE AT DECEMBER 31, 2009	**13,981**	**16,650**	**223,126**	**-**	**39,296**	**(12,117)**	**1,147**	**188**	**282,271**
Total recognized income and expense	-	-	-	-	62,979	-	1,065	665	64,709
Transactions with shareholders and owners									
Dividends paid	-	(16,638)	-	-	(12,117)	(1,864)	-	-	(30,619)
Other changes in equity	-	-	27,179	-	(27,179)	-	-	-	-
BALANCE AT DECEMBER 31, 2010	**13,981**	**12**	**250,305**	**-**	**62,979**	**(13,981)**	**2,212**	**853**	**316,361**

VISCOFAN, S.A.

Cash flow statement for the year ended December 31, 2010

(Thousands of euros)

	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**67,016**	**42,469**
Adjustments to profit		**(35,056)**	**(11,061)**
Depreciation and amortization	5 y 6	8,985	7,843
Impairment losses	6	(2)	(40)
Changes in provisions		(269)	3,506
Grants released to income	13	(485)	(381)
Results on disposal of property, plant and equipment		(221)	129
Gains (losses) from retirement and disposal of financial instruments		282	-
Finance income		(45,758)	(23,167)
Finance costs	17.5	1,446	1,475
Exchange gains (losses)		966	(653)
Other income and expenses		-	227
Change in working capital		**4,607**	**1,244**
Inventories		2,195	(1,361)
Trade and other receivables		9,386	5,461
Other current assets		13	35
Trade and other payables		(5,779)	(1,812)
Other current liabilities		(1,208)	(1,079)
Other cash flows from operating activities		**34,618**	**12,513**
Interest paid		(1,186)	(1,260)
Dividends received		35,577	14,989
Interest received		534	76
Income tax receipts (payments)		(773)	(1,725)
Other payments (receipts)		466	433
CASH FLOW FROM OPERATING ACTIVITIES		**71,185**	**45,165**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments on investments		**(16,962)**	**(26,730)**
Group and associates	7	(7,069)	(8,550)
Intangible assets	5	(887)	(3,161)
Property, plant and equipment		(5,986)	(15,014)
Other financial assets	8	(3,004)	(5)
Non-current assets held for sale		(16)	-
Proceeds from disposals		**2,449**	**2,102**
Group companies and associates		2,210	1,500
Property, plant, and equipment		236	599
Other financial assets		3	3
CASH FLOWS FROM INVESTING ACTIVITIES		**(14,513)**	**(24,628)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from and payments of financial liabilities		**10,052**	**14,595**
Issues			
Bank borrowings		11,396	15,705
Accounts payable to Group and associated companies		6,000	10,000
Other borrowings		1,431	1,214
Repayment and redemption of			
Bank borrowings		(7,433)	(11,075)
Other borrowings		(1,342)	(1,249)
Dividends paid and payments on other equity instruments		**(30,619)**	**(35,186)**
Dividends	3 y 11.2	(30,619)	(35,186)
CASH FLOWS FROM FINANCING ACTIVITIES		**(20,567)**	**(20,591)**
NET FOREIGN EXCHANGE DIFFERENCE		**-**	**-**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		**36,105**	**(54)**
Cash and cash equivalents at January 1		**142**	**196**
Cash and cash equivalents at December 31		**36,247**	**142**

VISCOFAN, S.A.
Notes to the financial statements for the year ended December 31, 2010

1. ACTIVITY

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

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

Its industrial installations are located in Cáseda and Urdiáin (Navarra). During 2009, its main office was moved to Tajonar (Navarra). Its registered address is still 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.

At the same date the Group's corresponding consolidated financial statements for 2010 have been also prepared.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the new accounting principles approved by Royal Decree 1514/2007 of November 16, amended by Royal Decree 1159/2010, of September 17, and prevailing mercantile law.

These financial statements have been prepared by the directors of the company and will be submitted for approval by the shareholders in general meeting within the periods established by prevailing legislation. The directors of the Company consider that no significant changes will be made to the 2010 financial statements as a result of these meetings.

The directors have prepared the 2010 financial statements separately, applying the international financial reporting standards adopted by the European Union (IFRS-EU).

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

2.1 True and fair view

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

2.2 Comparison of information

In compliance with Spanish mercantile law, for comparative purposes for each of the headings presented in the balance sheet, the income statement, the statement of changes in equity, the cash flow statement, and in the Notes thereto, in addition to the figures for 2010, those of 2009 have been included. The Notes likewise contain quantitative information from 2009, unless an accounting standard specifically states that this is not required.

Application of new accounting standards

This is the first year the Company has applied the following amendments to standards or new standards; therefore, this should be borne in mind when making comparisons with the prior year.

Amendments to Spanish GAAP (2007) introduced by Royal Decree 1159/2010

These financial statements are the first prepared by the Company's directors in which they apply the amendments introduced to Spanish GAAP (2007) by Royal Decree 1159/2010, of 17 September. Transitional Provision Five section a) of this Royal Decree stipulates that comparative information should be presented without any changes to adapt it to the new criteria. Consequently, the financial statements are classified as first time in terms of the application of the accounting uniformity principle and the comparability requirement.

Information on late payment to suppliers in commercial transactions.

This is the first year in which the Resolution of December 29, 2010 passed by the Spanish Institute of Accounting and Auditors of Accounts (ICAC) is applicable to the information concerning late payment to suppliers in commercial transactions to be included in the Notes to the financial statements. By virtue of the stipulations in Transitional Provision Two, for first-time application, the Company only provides information related to the overdue amounts payable to suppliers which at year end exceed the legal payment deadline. Exclusively for this item, the financial statements are considered first-time financial statements in terms of uniformity and comparability and thus comparative information with respect to this new obligation is not presented.

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 2010 profit proposed by the directors, which is expected to be approved by the shareholders in general meeting, is as follows:

(Thousands of euros)	2010
Proposed appropriation	
Profit for the year	62,979
	62,979
Appropriation to	
Other reserves	39,491
Final dividend	9,507
Dividends	13,981
	62,979

3.1 Interim dividend

On November 25, 2010, the Board of Directors approved an interim dividend against 2010 profit of 13,981 thousand euros based on profit projections for the period. This dividend was paid on December 22, 2010. The amount of the dividend is less than the maximum limit established by prevailing legislation relating to distributable profit from the previous year end.

The following table shows the provisional statement issued by the directors to substantiate that the Company has sufficient liquidity to distribute this dividend:

(Thousands of euros)	
Available cash at November 25, 2010	45,626
Cash flows from/(used in) operating activities	
Trade and other receivables	137,306
Other income	530
Accounts payable and suppliers	(86,350)
Payments made to employees	(29,173)
Interest paid	(732)
Other payments	(1,000)
Cash flow related to investment activities	
Dividends	45,000
Purchases of property, plant and equipment	(21,600)
Cash flow related to financing activities	
Repayment of non-current borrowings	(6,068)
Dividends paid	(36,351)

Projected liquidity at November 25, 2011	**47,188**

3.2 Limitations on the distribution of dividends

The Company is obliged to transfer 10% of the profit for the year to a legal reserve until this reserve reaches an amount at least equal to 20% of share capital. Unless the balance of the reserve exceeds this amount, it cannot be distributed to shareholders (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, 2010 all the Company's assets had a finite useful life.

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

Concession rights

Concession rights are recognized at the cost incurred, and are amortized over the ten-year period during which they are put to use.

Software

"Software" 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.

During 2008, emission rights equivalent to 430,315 tons were received for the 2008-2012 period, as per the 2008-12 National Allocation Plan approved by Royal Decree 1370/2006.

During 2009 and 2010, in compliance with Article 19.4 of Law 1/2005, dated March 9, the Company obtained an individual new entry assignment of emission rights from the Ministry of the Environment and Rural and Marine Affairs. These assignments are equivalent to 329,656 tons and 245,744 tons, respectively. For 2008-2012: 41,956 emission rights were assigned in respect of 2008, 101,894 rights for 2009 and 143,850 rights for each year thereafter.

Thus in 2010 the Company received 86,063 tons corresponding to the first plan and 71,925 tons for each of the new assignments in 2009 and 2010 related to new entries. The rights are recognized at their market price at January 1 each year, recording deferred income for the same amount.

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

4.2 Property, plant and equipment

Property, plant and equipment are initially measured at either acquisition or production cost. 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 at year end 2010 and 2009 are as follows:

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

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

4.3 Impairment of non-financial assets

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

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

Impairment loss and its reversion are recognized in the income statement. Impairment loss is reversed only if the circumstances giving rise to it have ceased to exist. The reversal is limited to the carrying amount that would have been determined had no impairment loss been recognized.

4.4 Leases

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

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

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

4.5 Financial assets

Recognition and measurement

Loans and receivables

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

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

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

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

Investments in group companies, joint ventures and associates

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

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

Investments in group companies are recognized, where applicable, based on accounting principles for transactions with group companies and those used for determining the cost of the business combination in accordance with the accounting policy governing business combinations (Note 4.20).

When an investment is newly classified as a Group company, joint venture or associate, the carrying amount of that investment immediately prior to its new classification is taken as the cost of that investment. If applicable, any unrealized value adjustments to the investment which have been previously recognized directly in equity are left in equity until the investment is either sold or impaired.

The initial value includes preferential subscription and similar rights acquired.

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

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

Available-for-sale financial assets

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

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

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

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

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

Hedging derivatives

This category includes derivatives classified as hedging instruments.

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

Cancelation

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

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

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

Interest and dividends received from financial assets

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

are recognized when the right to receive them is established.

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

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

4.6 Impairment of financial assets

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

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

Debt instruments

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

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

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

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

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

Equity instruments

There is objective evidence that equity instruments are impaired when one or more events have occurred after initial recognition that indicate that the cost of the investment in equity instruments may not be recovered due to a prolonged or significant decline in fair value.

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

For investments in group companies, joint ventures and associates, the reversal of an impairment loss is recognized in the income statement and is limited to the carrying value of the investment that would have been recognized on the reversal date had the original impairment not occurred.

4.7 Financial liabilities

Recognition and measurement

Trade and other payables

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

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

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

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

Hedging derivatives

This category includes derivatives classified as hedging instruments.

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

Cancellation

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

When debt instruments are exchanged, provided that their contractual terms are substantially different, the original financial liability is derecognized and the new financial liability is

recognized. Financial liabilities whose contractual terms are substantially modified are treated in the same manner.

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

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

4.8 Hedge accounting

The Company uses fair value hedges for trade receivables denominated in foreign currency, cash flow hedges on floating-rate loans and cash flow hedges attributable to the price of certain raw materials.

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

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

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

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

For the purpose of hedge accounting, hedges are classified as *cash flow hedges.* Thus, cash flow hedges are designed to hedge exposure to variability in cash flows attributable to the changes in the exchange rates for purchases and sales carried out in foreign currency, the variability in cash flows attributable to changes in interest rates on loans taken out and the changes in prices of raw materials. The portion of the gain or loss of the hedging instrument that is determined to be an effective hedge is recognized temporarily in equity; gains or losses are taken to the income statement in the year or years in which the hedged item affects profit or loss.

4.9 Treasury shares

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

4.10 Inventories

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

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

The Company measures inventory at weighted average cost.

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

4.11 Cash and cash equivalents

This heading includes cash and current accounts, as well as deposits which meet the following requirements:

- They are readily convertible to cash.
- They mature within less than three months from the acquisition date.
- The risk of change in value is insignificant.
- They are part of the Company's standard cash management strategy.

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

4.12 Grants

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

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

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

4.13 Provisions

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

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

Provision for CO_2 emission rights

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

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

4.14 Provisions for long-term employee benefits

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

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

4.15 Income tax

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

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

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

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

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

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

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

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

4.16 Classification of current and non-current assets and liabilities

Assets and liabilities are classified in the balance sheet as current and non-current. Accordingly, assets and liabilities are classified as current when they are associated with the Company's operating cycle and it is expected that they will be sold, consumed, realized or settled within the normal course of that cycle; 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.

4.20 Related-party transactions

Related-party transactions are measured as described above, except for the following:

- Non-monetary contributions from a business to a Group company are generally measured at the carrying amount of the assets delivered in the consolidated financial statements at the transaction date.
- In mergers and spin-offs the acquired assets are generally valued at their carrying amount in the consolidated financial statements after the transaction. Any differences are recognized in reserves.

The prices of related-party transactions are adequately documented; hence the Company's directors consider there to be no risk of significant liabilities arising from these.

4.21 Termination benefits

In accordance with prevailing mercantile legislation, the Company is required to pay indemnities to employees who are dismissed under certain circumstances. Reasonably quantifiable indemnity payments are recognized as an expense in the year in which the Company creates a valid expectation on the part of the affected third parties that the dismissals will occur.

5. INTANGIBLE ASSETS

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

(Thousands of euros)	Balance at January 1	Additions and allowances	Disposals and reversal of impairment loss	Transfers	Balance at December 31
2010					
Cost					
Patents	36	-	-	-	36
Concession rights	2,627	-	-	-	2,627
Software	6,926	679	(2)	304	7,907
Greenhouse gas emission rights	2,444	3,326	(2,342)	-	3,428
Payments on account for non-current intangible assets	304	208	-	(304)	208
	12,337	4,213	(2,344)	-	14,206
Accumulated amortization					
Patents	(36)	-	-	-	(36)
Concession rights	(131)	(525)	-	-	(656)
Software	(5,050)	(497)	2	-	(5,545)
	(5,217)	(1,022)	2	-	(6,237)
Net carrying amount	**7,120**				**7,969**
2009					
Cost					
Patents	36	-	-	-	36
Concession rights	-	1,935	-	692	2,627
Software	5,543	982	-	401	6,926
Greenhouse gas emission rights	1,697	2,444	(1,697)	-	2,444
Payments on account for non-current intangible assets	1,154	243	-	(1,093)	304
	8,430	5,604	(1,697)	-	12,337
Accumulated amortization					
Patents	(36)	-	-	-	(36)
Concession rights	-	(131)	-	-	(131)
Software	(4,836)	(214)	-	-	(5,050)
	(4,872)	(345)	-	-	(5,217)
Net carrying amount	**3,558**				**7,120**

At December 31, 2010 and 2009, the cost value of fully amortized intangible assets amounted to 4,791 and 4,448 thousand euros, respectively.

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

5.1 Other information

The Company has no intangible assets located outside Spain, nor has it made any acquisitions from group companies at December 31, 2010 and 2009.

At December 31, 2010, there were no firm purchase commitments for the acquisition of intangible assets. However, at December 31, 2009 there were firm purchase commitments of 222 thousand euros for software, which were financed using the Company's capital and credit facilities.

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
2010					
Cost					
Land	206	-	-	-	206
Buildings	23,185	-	(4)	-	23,181
Plant and other PP&E items	201,641	4,933	(3,329)	418	203,663
Property, plant, and equipment under construction and payments on account	486	1,923	-	(418)	1,991
	225,518	6,856	(3,333)	-	229,041
Accumulated depreciation					
Buildings	(10,541)	(761)	1	-	(11,301)
Plant and other PP&E items	(156,383)	(7,202)	3,318	-	(160,267)
	(166,924)	(7,963)	3,319		(171,568)
Impairment losses					
Buildings	(40)	-	2	-	(38)
	(40)	-	2	-	(38)
Net carrying amount	**58,554**				**57,435**
2009					
Cost					
Land	206	-	-	-	206
Buildings	21,604	1,154	(285)	712	23,185
Plant and other PP&E items	186,387	12,863	(2,828)	5,219	201,641
Property, plant, and equipment under construction and payments on account	5,825	592	-	(5,931)	486
	214,022	14,609	(3,113)	-	225,518
Accumulated depreciation					
Buildings	(9,940)	(709)	108	-	(10,541)
Plant and other PP&E items	(151,619)	(6,789)	2,025	-	(156,383)
	(161,559)	(7,498)	2,133		(166,924)
Impairment losses					
Buildings	(42)	-	2	-	(40)
Plant and other PP&E items	(38)	-	38	-	-
	(80)	-	40	-	(40)
Net carrying amount	**52,383**				**58,554**

6.1 Significant movements

Additions in 2010 mainly relate to machinery acquired to improve productivity and increase capacity at the Company's manufacturing plants. "Property, plant and equipment under construction and prepayments" under non-current assets at December 31, 2010 relates mainly to prepayments for machinery (Note 6.4)

Additions recognized in 2009 were related mainly to the second phase of construction to increase the co-generation plant's capacity, which amounted to 13,4 million euros.

In 2010 and 2009 items of property, plant and equipment carried at 14 thousand euros and 980 thousand euros, respectively, were either retired or disposed of, generating gains of 221 thousand euros in 2010 and an accounting loss of 130 thousand euros in 2009.

All transfers in 2010 and 2009 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 net carrying amount of these assets at year end 2010 and 2009 is 608 thousand and 689 thousand euros, respectively, while depreciation for these years amounted to 81 thousand euros each.

6.2 Finance leases

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

(Thousands of euros)	**2010**	**2009**
Plant		
Cost	222	183
Accumulated depreciation	(21)	(82)
	201	**101**

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

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

	2010		2009	
(Thousands of euros)	**Future minimum payments**	**Present value (Note 15.1)**	**Future minimum payments**	**Present value (Note 15.1)**
Within one year	73	68	44	33
Between one and four years	92	91	31	30
	165	**159**	**75**	**63**

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 1,25 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 Urdiáin (Navarra) where it carries out its activity and a commercial office in Moscow at an annual total cost of 95 thousand euros during 2010 and 2009 each. The Company rents the Urdiáin 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 signed a lease agreement for the office building in Tajonar (Navarra) in 2008 that expires on December 15, 2028. Thereafter the agreement may be extended provided that both parties express their agreement in writing at least six months before it expires.

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

(Thousands of euros)	**2010**	**2009**
Within one year	264	261
Between one and five years	1,057	1,044
More than five years	3,435	3,654
	4,756	**4,959**

6.4 Other disclosures

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

(Thousands of euros)	2010	2009
Plant and machinery		
Cost	2,310	2,282
Accumulated depreciation	(2,057)	(2,010)
Other property, plant and equipment		
Cost	34	34
Accumulated depreciation	(34)	(34)
Property, plant, and equipment under construction	-	28
	253	**300**

At December 31, 2010 the company has property, plant and equipment measured at 29 thousand euros located abroad. At December 31, 2009 the Company had no assets located outside Spain.

At December 31 of 2010 and 2009, the Company had firm purchase commitments for property, plant, and equipment totaling 3,020 and 103 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 is as follows:

(Thousands of euros)	2010	2009
Buildings	1,701	1,701
Plant and machinery	110,128	106,933
Plant and other PP&E items	16,630	15,028
Other property, plant and equipment	5,088	5,095
	133,547	**128,757**

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
2010					
Equity instruments	260,208	7,069	(7,666)	-	259,611
Impairment losses	(5,456)	-	5,456	-	-
	254,752				**259,611**
2009					
Equity instruments	246,679	13,550	(21)	-	260,208
Impairment losses	(5,456)	-	-	-	(5,456)
	241,223				**254,752**

In 2010 the Company carried out the following transactions:

- It paid 3.95 million euros which were pending at December 31, 2009 to fully pay in the capital of Viscofan Technology (Suzhou) Co. Ltd. (China).
- It fully subscribed a capital increase of 1.98 million euros carried out at Koteks Viscofan, d.o.o.
- It has carried out a restructuring to reduce and simplify the Group's company structure:
  a. In July 2010 the Company purchased all the shares of Stephan & Hoffmann AG (Germany) at a cost of 1.13 million euros from Naturin Inc. Delaware (USA), a wholly owned subsidiary.
  b. After the purchase-sale of the Stephan & Horrmaann AG shares, Naturin Inc. Delaware was liquidated since its sole activity was as a holding company for the shares in the German company, which were its main asset.
  c. Stephan & Hoffmann AG and Naturin Viscofan, Gmbh, both German companies, wholly owned by Viscofan, S.A. were merged.
- In December 2010 Viscofan Poland Sp.z.o.o. was liquidated. As a result of this company's liquidation, 447 thousand euros related to the cost of the investment at December 31, 2009 were derecognized. The company's activity was merely commercial and this has been transferred to other Group companies.

In 2009 the Company carried out the following transactions:

- It fully subscribed the capital increases carried out by Viscofan de México S.R.L. de C.V. (6 million euros) and Koteks Viscofan, d.o.o. (4 million euros).
- The Company transferred 100% of its ownership interest in Naturin Verwaltung, Gmbh to its subsidiary, Naturin Viscofan Gmbh. The companies merged in 2010 without any involvement of the parent.

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

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

	Thousands of euros			Local currency (thousands)					
	Net carrying amount	**Dividends distributed during the year**	**% of direct equity interest**	**Currency**	**Share capital**	**Reserves**	**Profit (loss) for the year**	**Total capital and reserves**	**Operating profit (loss)**
2010									
Industrias Alimentarias de Navarra, S.A.U.	15,602	1,000	100%	EUR	10,938	31,525	3,814	46,277	4,907
Naturin Viscofan, GMBH	90,570	9,061	100%	EUR	29,604	20,678	8,628	58,910	11,047
Viscofan do Brasil, soc. Com. e ind. Ltda	53,138	23,162	100%	BRL	86,868	41,722	47,392	175,983	66,341
Gamex CB Sro	7,498	2,146	100%	CZK	250,000	25,022	5,542	280,564	10,943
Viscofan USA Inc.	34,729	-	100%	USD	35,587	34,056	12,846	82,489	19,283
Naturin LTD	1,841	-	100%	GBP	10	1,772	72	1,854	113
Viscofan CZ, S.r.o	10,503	5,932	100%	CZK	345,200	309,999	393,330	1,048,529	467,062
Viscofan de México S.R.L. de C.V.(2)	13,741	3,664	99,99%	MXP	219,777	139,005	135,925	494,707	211,770
Viscofan Centroamérica Comercial, S.A.(2)	166	-	99,50%	USD	200	514	74	788	52
Koteks Viscofan, d.o.o.	24,307	-	100%	RSD	2,156,842	(1,121,801)	28,018	1,063,059	212,747
Viscofan de México Servicios, S.R.L. de C.V.(2)	16	234	99,99%	MXP	103	3,482	(253)	3,332	532
Viscofan Technology (Suzhou) Co. Ltd	7,500	-	100%	CNY	69,098	(1,343)	(11,157)	56,598	(10,992)
	259,611	**45,199**							
2009									
Industrias Alimentarias de Navarra, S.A.U.	15,602	-	100%	EUR	10,938	30,685	1,841	43,463	2,173
Naturin Viscofan, GMBH(3)	89,436	10,756	100%	EUR	29,604	20,686	8,490	58,780	12,832
Naturin Inc. Delaware (1)	1,763	-	100%	USD	10	964	(12)	962	(12)
Viscofan do Brasil, soc. Com. e ind. Ltda	53,138	10,623	100%	BRL	86,868	55,726	42,738	185,331	62,635
Viscofan Poland Sp.z.o.o.	447	-	100%	PLN	2,000	598	1,166	3,765	991
Gamex CB Sro	7,498	1,722	100%	CZK	250,000	24,247	55,044	329,291	72,525
Viscofan USA Inc.	34,729	-	100%	USD	35,587	24,248	9,808	69,643	16,103
Naturin LTD	1,841	-	100%	GBP	10	1,658	113	1,782	162
Viscofan CZ, S.r.o	10,503	-	100%	CZK	345,200	282,333	177,666	805,199	192,774
Viscofan de México S.R.L. de C.V.(2)	13,741	-	99,99%	MXP	219,777	33,238	168,273	421,287	237,986
Viscofan Centroamérica Comercial, S.A.(2)	166	-	99,50%	USD	200	259	254	714	378
Koteks Viscofan, d.o.o.	22,322	-	100%	RSD	1,946,372	(879,317)	(242,484)	824,571	(102,993)
Viscofan de México Servicios, S.R.L. de C.V.(2)	16	-	99,99%	MXP	103	6,453	1,029	7,585	355
Viscofan Technology (Suzhou) Co. Ltd	3,550	-	100%	CNY	35,206	-	(1,343)	33,863	(975)
	254,752	**23,101**							

(1) The acquisition cost of the investment was 7,219 thousand euros and the related impairment provision amounted to 5,456 thousand euros. In 2010, as previously disclosed, this company was liquidated.

(2) The Company controls 100% of these subsidiaries through the ownership interests held in other Group companies.

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

The description of the main activity and registered address of each of the companies listed above at December 31 2010 is as follows:

Company	Activity	Registered office
Industrias Alimentarias de Navarra, S.A.U.	Manufacture and sale of preserved vegetables	Villafranca (Navarra)
Naturin Viscofan GMBH	Manufacture and sale of artificial casings	Weinheim (Germany)
Viscofan do Brasil, soc. com. e ind. Ltda	Manufacture and sale of artificial casings	Sao Paulo (Brazil)
Gamex CB Sro	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	Seven Oaks (UK)
Viscofan CZ, S.r.o	Manufacture and sale of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan de México S.R.L. de C.V.	Manufacture and sale of artificial casings	San Luís de Potosí (Mexico)
Viscofan Centroamérica Comercial, S.A.	Commercial office	San José (Costa Rica)
Koteks Viscofan, d.o.o.	Manufacture and sale of artificial casings	Novi Sad (Serbia)
Viscofan de México Servicios, S.R.L. de C.V.	Service company	Zacapu Michoacán (Mexico)
Viscofan Technology (Suzhou) Co. Ltd. (*)	Manufacture and sale of artificial casings	Suzhou (China)

(*) During 2009, the Company's main activity consisted in obtaining the necessary permits and carrying out the administrative procedures to set up the Company, as well as acquiring the rights to use the site of the manufacturing plant. In 2010 construction of the manufacturing plant was completed. In the last weeks of the year manufacturing tests were performed which produced satisfactory results. Consequently, the company will commence its commercial activity and production in the first weeks of 2011.

The business activity and registered addresses of companies that were liquidated and, therefore, ceased to be part of the Group in 2010 are as follows:

Company	Business activity	Registered address
Naturin Inc.. Delaware	Finance company	Dover (USA)
Viscofan Poland Sp.z.o.o.	Commercial activity	Krakow (Poland)

In 2010 no impairment testing was performed as the Group's fine performance was general to all cash-generating units. In recent years, the Group has carried out an impairment test on the subsidiary, Koteks Viscofan, d.o.o, which had accumulated losses in prior years. However, the subsidiary has made a profit as a result of the investment received and the measures implemented in recent years. Forecasts regarding its future performance are much more positive than those in the last test performed, therefore, it was not considered necessary this year.

Information on indirect investments in group companies and associates at December 31, 2010 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)
Zacapu Power, S.R.L. de C.V.	100%	Cogeneration plant	Zacapu Michoacán (Mexico)
Viscofan Canada Inc.	100%	Commercial office	St, Laurent, Québec (Canada)

The business activity and registered addresses of the companies that disappeared in 2010 due to their merger with Naturin Viscofan GMBH are as follows:

Company	Indirect investment	Business activity	Registered address
Stephan & Hoffmann AG	100%	Finance company	Weinheim (Germany)
Naturin Verwaltung, GMBH	100%	Finance company	Weinheim (Germany)

8 FINANCIAL ASSETS

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

	Equity instruments		Loans, derivatives and other financial assets		Total	
(Thousands of euros)	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Non-current financial assets						
Held-to-maturity investments	-	-	48	48	48	48
Available-for-sale financial assets						
Measured at cost	67	42	-	-	67	42
	67	42	48	48	115	90
Current financial assets						
Held-to-maturity investments	-	-	3,004	4	3,004	4
Loans and receivables	-	-	35,800	45,575	35,800	45,575
Available-for-sale financial assets						
Measured at fair value	-	-	-	9	-	9
Hedging derivatives (Note 15)	-	-	3,271	2,527	3,271	2,527
	-	-	42,075	48,115	42,075	48,115
	67	**42**	**42,123**	**48,163**	**42,190**	**48,205**

These amounts are disclosed in the balance sheet as follows:

	Equity instruments		Loans, derivatives and other financial assets		Total	
(Thousands of euros)	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Non-current financial assets						
Investments	67	42	48	48	115	90
	67	42	48	48	115	90
Current financial assets						
Trade and other receivables	-	-	33,436	43,237	33,436	43,237
Investments in group companies and associates						
Loans to companies	-	-	2,085	2,059	2,085	2,059
Loans and receivables	-	-	279	279	279	279
Investments						
Hedging derivatives	-	-	3,271	2,527	3,271	2,527
Current financial investments	-	-	3,004	13	3,004	13
	-	-	42,075	48,115	42,075	48,115
	67	**42**	**42,123**	**48,163**	**42,190**	**48,205**

8.1 Loans and receivables

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

(Thousands of euros)	2010	2009
Non-current financial assets		
Deposits given and prepayments	48	48
	48	**48**
Current financial assets		
Trade and other receivables	33,436	43,237
Loans to group companies (Note 19.1)	2,000	2,000
Short-term interest on loans granted to group companies (Note 19.1)	85	59
Dividends receivable from group companies (Note 19.1)	279	279
	35,800	**45,575**

Trade and other receivables

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

(Thousands of euros)	2010	2009
Trade receivables	21,604	26,721
Receivable from group companies and associate (Note 19.1)	8,871	14,590
Other receivables	342	43
Receivables from employees	66	13
Other receivables from public administrations (Note 16)	2,553	1,870
	33,436	**43,237**

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

(Thousands of euros)	2010	2009
US Dollar	13,118	12,766
Canadian Dollar	510	911
Australian Dollar	-	532
Japanese Yen	137	284
Pounds Sterling	786	1,060
Polish Zloty	26	-
	14,577	**15,553**

Impairment losses

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

(Thousands of euros)	2010	2009
Balance at January 1	278	10
Allowance for the year	25	294
Amounts applied during the year	(84)	-
Transfer to irrecoverable debts	(25)	(26)
Balance at December 31	**194**	**278**

Loans to Group companies

At year end 2010 and 2009, loans to Group companies corresponded to the loan granted to Koteks Viscofan, d.o.o., which matured after the latest renewal on March 31, 2011. This loan bears interest at a 90-day Euribor plus a spread of 0,5.

8.2 Hedging derivatives

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

	2010		2009	
(Thousands of euros)	Notional in euros	Fair value	Notional in euros	Fair value
Exchange rate hedges	31,114	577	65,416	1,262
Raw materials interest rate swap	-	2,694	-	1,265
	31,114	**3,271**	**65,416**	**2,527**

Commodity swaps

The Company arranged two commodity swaps in 2009 with respect to the notional cost of 666.666Kwh of gas. Each of these had monthly maturities of 1/12 of the notional amount each month throughout 2010 and 2011. The Group is thus hedging 2/3 of its expected gas consumption in Spain for both years; it is paying 1,7270 euro cents per KWh in 2010 and 1,7915 euro cents per KWh in 2011. The valuation formula used includes, among other variables, Brent forward prices. Through the commodity swaps, the Company aims to mitigate any negative effects of varying energy prices. The hedge's efficiency is measured by comparing the price of the swaps and the spot price for KWh of natural gas in Spain.

Exchange rate hedges

At December 31, 2010 the fair value of exchange rate hedges amounted to 577 thousand (2009: 1,262 thousand euros). Of this amount 24 thousand euros (2009: 810 thousand euros) were recognized as exchange gains in the income statement, due to the fact that they were linked to trade receivables denominated in foreign currency recognized at the prevailing year-end exchange rate. The remaining amount, i.e., 550 thousand euros (2009: 452 thousand euros) were recognized directly in equity, net of the related tax effect, as this was related to exchange rate hedges which were sold in the subsequent year; therefore, there were no related receivables.

In 2010 the Company transferred 1,638 thousand euros (exchange gains) from equity to the income statement, (2009: 494 thousand euros of exchange losses) as a result of the exchange rate hedges.

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
2010			
Balance at January 1	406	1,109	1,515
Impairment losses	436	-	436
Recoveries in value	-	(646)	(646)
Balance at December 31	**842**	**463**	**1,305**
2009			
Balance at January 1	362	745	1,107
Impairment losses	120	364	484
Recoveries in value	(76)	-	(76)
Balance at December 31	**406**	**1,109**	**1,515**

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, 2010 and 2009 there were no firm purchase commitments for raw materials or for the sale of finished goods other than those related to purchase and sales orders from the Company's normal business activity.

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

10. CASH AND CASH EQUIVALENTS

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

(Thousands of euros)	2010	2009
Cash	24	114
Current accounts	31,223	28
Bank deposits	5,000	-
	36,247	**142**

Current accounts were at market interest rates.

The bank deposits at December 31, 2010 mature on March 23, 2011 and earn interest at 2.8%.

Cash and cash equivalents are unrestricted.

11. EQUITY – CAPITAL AND RESERVES

11.1 Issued capital

The Company's share capital consisted of 46,603,682 shares with a par value of 0,30 euros each. The shares were fully subscribed and paid in. All shares are of the same class, bear the same rights, except for own shares.

At December 31, 2010 and 2009 the Company had no shareholders whose ownership interest was more than 10%.

At December 31, 2010 and 2009, the Company did not own any treasury shares.

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

11.2 Share premium

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

(Thousands of euros)	2010	2009
Balance at January 1	16,650	30,165
Partial repayment of share premium	(16,638)	(13,515)
Balance at December 31	**12**	**16,650**

On June 01, 2010 the shareholders at their general meeting agreed to partial repayment of share premium of 0,357 euros per share, which was paid to shareholders on June 23, 2010.

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	Appropriation of results	Transfers	Balance at December 31
2010					
Legal reserve	2,935	-	-	-	2,935
Revaluation reserve Navarra Regional Law 23/1996	8,905	-	-	(235)	8,670
Merger reserves	119	-	-	-	119
Voluntary reserves	211,167	-	27,179	235	238,581
	223,126	**-**	**27,179**	**-**	**250,305**
2009					

Legal reserve	2,935	-	-	-	2,935
Revaluation reserve Navarra Regional Law 23/1996	8,962	-	-	(57)	8,905
Merger reserves	119	-	-	-	119
Voluntary reserves	190,129	(1,660)	22,641	57	211,167
	202,145	**(1,660)**	**22,641**	**-**	**223,126**

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

At December 31, 2010 and 2009 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 Voluntary reserves and merger reserves

These reserves are freely distributable.

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
2010						
Hedging derivatives (Note 15.2)	1,147	2,590	(777)	(1,069)	321	2,212
	1,147	**2,590**	**(777)**	**(1,069)**	**321**	**2,212**
2009						
Hedging derivatives (Note 15.2)	(346)	1,638	(491)	494	(148)	1,147
	(346)	**1,638**	**(491)**	**494**	**(148)**	**1,147**

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
2010						
Non-repayable grants	117	14	(4)	(31)	9	105
Grants for greenhouse gas emission rights	71	3,326	(998)	(2,359)	708	748
	188	**3,340**	**(1,002)**	**(2,390)**	**717**	**853**
2009						
Non-repayable grants	137	-	-	(29)	9	117
Grants for greenhouse gas emission rights	-	2,444	(733)	(2,342)	702	71
	137	**2,444**	**(733)**	**(2,371)**	**711**	**188**

"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, 2010 and 2009, the Company had 83,178 and 37,009 unused emission rights, respectively.

Throughout 2010 and 2009, the Company received grants related to income totaling 454 and 352 thousand euros, respectively. These grants basically financed R&D expenses during both years, as well as training given to Company staff.

14. PROVISIONS AND CONTINGENCIES

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

(Thousands of euros)	Current	Total
2010		
Provision for greenhouse gas emission rights	2,360	2,360
	2,360	**2,360**
2009		
Provisions for termination benefits and commitments with personnel	601	601
Provision for greenhouse gas emission rights	2,342	2,342
	2,943	**2,943**

The movements in these items are as follows:

(Thousands of euros)	Balance at January 1	Allowances	Utilized and payments	Balance at December 31
2010				
Provisions for termination benefits and commitments with personnel	601	-	(601)	-
Provision for greenhouse gas emission rights	2,342	2,360	(2,342)	2,360
	2,943	**2,360**	**(2,943)**	**2,360**
2009				
Provisions for termination benefits and commitments with personnel	-	601	-	601
Provision for greenhouse gas emission rights	1,697	2,229	(1,584)	2,342
	1,697	**2,830**	**(1,584)**	**2,943**

15. FINANCIAL LIABILITIES

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

	Bank borrowings		Derivatives and other financial liabilities		Total	
(Thousands of euros)	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Non-current financial liabilities						
Trade and other payables	15,965	24,336	4,333	3,938	20,298	28,274
	15,965	24,336	4,333	3,938	20,298	28,274
Current financial liabilities						
Trade and other payables	42,817	30,109	32,290	39,621	75,107	69,730
Hedging derivatives	-	-	87	79	87	79
	42,817	-	32,377	39,700	75,194	69,809
	58,782	**54,445**	**36,710**	**43,638**	**95,492**	**98,083**

These amounts are disclosed in the balance sheet as follows:

	Bank borrowings		Derivatives and other financial liabilities		Total	
(Thousands of euros)	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Non-current financial liabilities						
Borrowings	15,965	24,336	4,333	3,938	20,298	28,274
	15,965	24,336	4,333	3,938	20,298	28,274
Current financial liabilities						
Borrowings	42,817	30,109	5,565	4,283	48,382	34,392
Borrowings from group companies and associates	-	-	6,968	10,052	6,968	10,052

Trade and other payables	-	-	19,844	25,365	19,844	25,365
	42,817	30,109	32,377	39,700	75,194	69,809
	58,782	**54,445**	**36,710**	**43,638**	**95,492**	**98,083**

15.1 Bank borrowings

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

(Thousands of euros)	**2010**	**2009**
Non-current		
Loans and borrowings	15,874	24,306
Obligations under finance leases (Note 6.2)	91	30
	15,965	24,336
Current		
Loans and borrowings	42,681	30,024
Obligations under finance leases (Note 6.2)	68	33
Accrued interest payable	68	52
	42,817	30,109
	58,782	**54,445**

Loans and borrowings

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

	2010		**2009**	
(Thousands of euros)	**Amount pending payment**	**Accrued finance cost (Note 17,6)**	**Amount pending payment**	**Accrued finance cost (Note 17,6)**
Loans	24,307	580	31,740	715
Borrowings	34,248	464	22,590	490
	58,555	**1,044**	**54,330**	**1,205**

The loans and borrowings accrue floating interest at market rates.

At December 31 2010 and 2009, the Company has been granted credit facilities up to a total limit of 35,005 and 34,005 thousand euros, respectively.

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

(Thousands of euros)	**2010**	**2009**
1 - 2 years	7,852	8,440
2 - 3 years	6,251	7,850
3 - 4 years	1,771	6,245
4 - 5 years	-	1,771
	15,874	**24,306**

At December 31 2010 and 2009, the Company has undrawn discount facilities amounting to 4,000 and 2,000 thousand euros, respectively.

15.2 Derivatives and other financial liabilities

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

(Thousands of euros)	2010	2009
Non-current		
Loans at a subsidized interest rate	4,333	3,938
	4,333	**3,938**
Current		
Borrowings from group companies and associates (Note 19.1)	6,968	10,052
Trade and other payables	19,844	25,365
Loans at a subsidized interest rate	974	1,311
Payable to shareholders and directors (Note 19.2)	2,073	1,313
Payable to suppliers of non-current assets	2,425	1,562
Security deposits received and other financial liabilities	-	12
Other borrowings	6	6
Hedging derivatives	87	79
	32,377	**39,700**

Loans at a subsidized interest rate

At December 31, 2010 and 2009 the Company has obtained loans at a subsidized interest rate from entities reporting to the Navarre Regional Government, the CDTI (Industrial Technological Development Center) and the Ministry of Science and Technology. The Company measures these loans at amortized cost, recognizing the related implicit interest accrued by these as a result of discounting the cash flows on the basis of market interest rates at the date obtained.

	2010		2009	
(Thousand of euros)	Nominal value	Fair value	Nominal value	Fair value
Non-current				
Loans at a subsidized interest rate	5,075	4,333	4,619	3,938
Current				
Loans at a subsidized interest rate	974	974	1,331	1,311
	6,049	**5,307**	**5,950**	**5,249**

The total amount recognized under finance costs in during 2010 and 2009 corresponding to these loans are 239 and 221 thousand euros, respectively (Note 17.5).

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

(Thousand of euros)	2010	2009
1 - 2 years	952	908
2 - 5 years	1,042	869
3 - 5 years	724	887
4 - 5 years	554	532
More than 5 years	1,061	742

	4,333	**3,938**

Payable to suppliers of non-current assets

"Suppliers of non-current assets" basically includes suppliers of machinery acquired by the Company.

Hedging derivatives

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

	2010		**2009**	
(Thousands of euros)	**Notional value**	**Fair value**	**Notional value**	**Fair value**
Interest rate swap	6,875	(87)	9,375	(79)
		(79)		**(79)**

Interest rate swap

During 2009, the Company signed two swap agreements for which it pays a fixed interest of 2,07% (swap 1) and 2,29% (swap 2), at a three-month floating Euribor rate. Both swaps were designated as cash flow hedges of the interest rate risk inherent in the loans.

The breakdown by maturity of notional amount of these contracts is the following:

	2010		**2009**	
(Thousands of euros)	**Swap 1**	**Swap 2**	**Swap 1**	**Swap 2**
2010	-	-	1,250	1,250
2011	1,250	1,250	1,250	1,250
2012	1,250	1,250	1,250	1,250
2013	625	1,250	625	1,250
	3,125	**3,750**	**4,375**	**5,000**

Trade and other payables

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

(Thousands of euros)	**2010**	**2009**
Suppliers	3,711	2,328
Suppliers, group companies and associates (Note 19.1)	1,279	7,305
Other payables	7,127	9,955
Employee benefits payable	1,274	880
Current deferred tax liabilities (Note 16)	2,143	712
Other payables to public administrations (Note 16)	4,053	3,795
Customer advances	257	390
	19,844	**25,365**

16. TAXES

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

(Thousands of euros)	2010	2009
Deferred tax assets		
Temporary differences	251	332
Unused tax credits and rebates	267	741
Other payables to public administrations		
VAT	2,217	1,240
Grants received	241	630
Withholdings and payments on account	95	-
	3,071	**2,943**
Deferred tax liabilities	(5,112)	(3,902)
Current income tax liabilities (Note 15.2)	(2,143)	(712)
Other payables to public administrations (Note 15.2)		
Personal income tax withholdings	(3,395)	(3,084)
Social security	(658)	(711)
	(11,308)	**(8,409)**

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

16.1 Income tax

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

	Income statement			Income and expense recognized directly in equity		
(Thousands of euros)	**Increase**	**Decrease**	**Increase**	**Decrease**	**Increase**	**Decrease**
2010						
Income and expenses for the year						
Continuing operations			62,979			1,730
Discontinuing operations			-			-
			62,979			1,730
Income tax						
Continuing operations			4,037			741
Discontinuing operations			-			-
			4,037			741
Income and expenses for the year before tax			67,016			2,471
Permanent differences	226	(48,513)	(48,287)	-	-	-
Temporary differences						
Arising in 2009	837	(1,560)	(723)	-	(5,930)	(5,930)
Arising in prior years	-	(1,108)	(1,108)	3,459	-	3,459
Tax result			**16,898**			**-**
2009						
Income and expenses for the year						
Continuing operations			39,296			1,544
Discontinuing operations			-			-
			39,296			1,544
Income tax						
Continuing operations			3,173			661
Discontinuing operations			-			-
			3,173			661
Income and expenses for the year before tax			42,469			2,205
Permanent differences	187	(545)	(358)	-	-	-
Temporary differences						
Arising in 2009	1,108	(2,755)	(1,647)	-	(4,082)	(4,082)
Arising in prior years	-	(781)	(781)	2,371	(494)	1,877
Tax result			**39,683**			**-**

Increases from permanent differences are due to non-deductible expenses relating to the per diems paid to shareholders for attending general meetings. The decreases are due to the 50% reduction in taxable profit generated by royalties collected from subsidiaries located abroad, international double taxation relief in relation to dividends from entities not resident in Spain, as well as tax losses arising in 2010 as a result of liquidating Naturin Inc.

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

	2010		2009	
(Thousands of euros)	**Income statement**	**Income and expense recognized directly in equity**	**Income statement**	**Income and expense recognized directly in equity**
Income and expenses for the year before tax	67,016	2,472	42,469	2,205
Tax charge (tax rate: 30%)	20,104	742	12,741	661
Deduction for double taxation on dividends	(300)	-	(6,930)	-
Deduction for international double taxation (royalties and other services)	(165)	-	(404)	-
Deductions for research and development	(841)	-	(1,287)	-
Investment tax credits	(862)	-	(1,210)	-
Deductions from foreign investments	(197)	-	(593)	-
Impact of permanent differences	(14,487)	-	(107)	-
Tax expense (income)	**3,252**	**742**	**2,210**	**661**
Tax paid abroad (*)	785		963	
Tax expense (income)	**4,037**	**742**	**3,173**	**661**

(*) Amounts prepaid abroad for services, royalties and other items.

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

	2010		2009	
(Thousands of euros)	**Income statement**	**Recognized directly in equity**	**Income statement**	**Recognized directly in equity**
Current income tax	2,248	-	367	-
Changes in deferred taxes				
From cash flow hedges	-	457	-	640
Grants, donations and bequests received	-	285	-	21
Other temporary differences	549	-	729	-
Deductions generated	(2,365)	-	(3,494)	-
Deductions applied	2,820	-	4,608	-
	3,252	**742**	**2,210**	**661**

Refundable income tax was calculated as follows:

(Thousands of euros)	**2010**	**2009**
Current income tax	2,248	367
Withholdings	(105)	-
Income tax payable(*)	**2,143**	**367**

(*) "Income tax payable" at December 31, 2009 includes 345 thousand euros corresponding to Naturin GmbH & Co's 2008 income tax (the subsidiary is currently known as Naturim Viscofan GMBH).

16.2 Deferred tax assets and liabilities

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

(Thousands of euros)	Balance at January 1	Change in Income statement	Change in Equity	Balance at January 1
2010				
Deferred tax assets				
Trade receivables	111	(46)	-	65
Inventories	36	-	-	36
Deductions pending application	741	(474)	-	267
Other financial assets	185	(35)	-	150
	1,073	(555)	-	518
Deferred tax liabilities				
Non-current investments in group companies	(3,330)	(468)	-	(3,798)
Cash flow hedges	(492)	-	(457)	(949)
Non-repayable grants	(80)	-	(285)	(365)
	(3,902)	(468)	(742)	(5,112)
	(2,829)	**(1,023)**	**(742)**	**(4,594)**
2009				
Deferred tax assets				
Trade receivables	180	(69)	-	111
Inventories	54	(18)	-	36
Deductions pending application	2,102	(1,361)	-	741
Other financial assets	-	185	-	185
	2,336	(1,263)	-	1,073
Deferred tax liabilities				
Non-current investments in group companies	(2,508)	(822)	-	(3,330)
Cash flow hedges	148	-	(640)	(492)
Non-repayable grants	(59)	-	(21)	(80)
Other financial liabilities	(241)	241	-	-
	(2,660)	(581)	(661)	(3,902)
	(324)	**(1,844)**	**(661)**	**(2,829)**

The Company has unused deductions of 267 thousand euros, recognized under "Deferred tax assets", the breakdown of which is as follows:

(Thousands of euros) Arising in	Last year for utilization	Deductions
2010	2020	267
		267

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)	2010	2009
By business segment		
Sale of meat, cellulose, plastic and collagen casings	108,485	141,259
Sale of replacement parts and machinery	5,161	4,989
Sale of energy	32,805	20,787
Other sales	90	67
Services provided	518	1,664
	147,059	**168,766**
By market segments		
National market	43,143	30,385
Foreign market	103,916	138,381
	147,059	**168,766**

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

17.2 Consumption of raw materials and other consumables

The breakdown is as follows:

(Thousands of euros)	2010	2009
Consumption of raw materials and other consumables		
Purchases in Spain	6,604	9,214
EU acquisitions	10,394	10,210
Imports	2,193	3,348
Changes in raw material and other consumables	(378)	404
	18,813	**23,176**

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

(Thousands of euros)	2010	2009
Purchases of goods for resale		
Purchases in Spain	5,969	6,736
EU acquisitions	10,027	37,970
Imports	1,809	1,432
Change in goods for resale	(646)	266
	17,159	**46,404**

17.3 Social security costs, et al

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

(Thousands of euros)	2010	2009
Social security	5,487	5,852
Other employee welfare expenses	1,001	628
	6,488	**6,480**

17.4 External services

The breakdown of "External services" is as follows:

(Thousands of euros)	2010	2009
Research expenses	882	588
Lease payments	785	730
Repairs and maintenance	11,324	10,289
Independent professional services	4,220	4,177
Transportation services	1,891	2,507
Insurance premiums	2,249	1,873
Bank services	138	220
Publicity, advertising, and public relations	711	720
Utilities	25,674	22,294
Other services	5,002	4,248
	52,876	**47,646**

17.5 Finance costs

The breakdown of "Finance costs" is as follows:

(Thousands of euros)	2010	2009
Loans	741	715
Credits	464	490
Loans with subsidized interest rates	239	221
Other financial liabilities	2	49
	1,446	**1,475**

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 is as follows:

(Thousands of euros)	2010	2009
Revenue		
Sales	65,353	65,817
Goods for consumption		
Purchases of raw materials and other consumables	(7,599)	(8,172)
Purchases of goods for resale	(697)	(505)
Other operating income		
Ancillary income	164	146
Employee benefits expense		
Wages and salaries	(74)	(77)
Social security costs, et al,	(7)	(14)
Other operating expenses		
External services	(2,370)	(1,756)
Taxes (other than income tax)		(297)
Losses on, impairment of and change in trade provisions	(187)	-

19. RELATED PARTY DISCLOSURES

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

19.1 Group companies

The balances with related entities are as follows:

(Thousands of euros)	Direct parent	Companies with an indirect investment
2010		
Customers (Note 8.1)	8,215	656
Current loans (Note 8.1)	2,085	-
Current dividends receivable	279	-
Suppliers (Note 15.2)	1,279	-
Current accounts payable (Note 15.2)	6,968	-
2009		
Customers (Note 8.1)	13,536	1,054
Current loans (Note 8.1)	2,059	-
Current dividends receivable	279	-
Suppliers (Note 15.2)	7,305	-
Current accounts payable (Note 15.2)	10,052	-

Transactions entered into with related parties were as follows:

	2010		2009	
(Thousands of euros)	**Direct parent**	**Companies with an indirect investment**	**Direct parent**	**Companies with an indirect investment**
Revenue				
Sale of casings	39,699	1,884	50,432	3,540
Sale of replacement parts and machinery	4,836	41	4,877	81
Services provided	518	-	1,664	-
Goods for consumption				
Purchases of casings and other	14,020	-	43,708	-
Sale of replacement parts – machinery	-	-	28	-
Other income				
Other operating income	4,967	169	4,098	101
Employee benefits expense				
Other employee benefits expense	3	-	7	-
Other operating expenses				
External services	1,129	-	1,128	-
Net finance income (expense)				
Finance income - dividends	45,199	-	23,101	-
Finance income - interest	25	-	63	-
Revenue	161	-	45	-

19.2 Directors and senior executives

Members of the Board of Directors only receive the remuneration stipulated in Articles 27 and 30 of Company bylaws: 1,5% of the Company's pre-tax profit for the Board, and 1,5% of the Company's pre-tax profit for the Executive Committee. Based on the abovementioned Articles and Statutes, the Board of Directors and Executive Committee decide on the distribution among the respective members of these bodies.

The breakdown of the remuneration is as follows:

			Per diems			
Name	**Committee**	**Board**	**Audit committee**	**Board of directors**	**Boards of other group companies**	**Total**
2010	1,001,34	921,342	70,000	80,000	244,800	2,317,483
2009	628,740	550,743	56,000	78,000	238,620	1,552,103

At December 31, 2010 and 2009, 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 2010 and 2009 the members of the board of directors have not carried out operations with the Company or Group companies other than ordinary operations under market conditions.

Viscofan's directors have communicated that insofar as articles 229 and 230 of the Capital Companies Law are concerned they do not have any conflicts of interest with the Company. They have stated that they do not have equity interests, hold positions or carry out duties in companies with identical, similar or complementary activities to those of the company, other than those described below.

Name	Company	Position
D. José Domingo de Ampuero y Osma	Naturin Viscofan GMBH	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 Technology Suzhou Co. Ltd.	Chairman, Board of directors
	Viscofan Centroamérica Comercial, S.A.	Chairman, Board of directors
	Viscofan Canada, Inc.	Chairman, Board of directors
	Viscofan Do Brasil	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 Viscofan GMBH	Vice-Chairman
	Gamex, CB, s.r.o.	Vice-Chairman
	Viscofan USA Inc.	Vice-Chairman
	Industrias Alimentarias de Navarra, S.A.U.	Vice-Chairman
	Koteks Viscofan d.o.o.	Vice-Chairman
	Viscofan CZ, s.r.o.	Vice-Chairman
	Viscofan Technology Suzhou Co. Ltd.	Vice-Chairman
	Viscofan Centroamérica Comercial, S.A.	Vice-Chairman
	Viscofan Canada, Inc.	Vice-Chairman
	Viscofan de México, S. de R.L. de C.V.	Vice-Chairman
	Naturin Limited	Vice-Chairman

During 2010 and 2009, senior management received remuneration amounting to 1,637 and 1,749, respectively. The Company does not have any commitments with Board members in respect of pension, life insurance, or stock option plans. No loans or advances have been granted to current or former Board members, neither have any guarantees been assumed on their behalf.

20. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

20.1 Credit risk

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

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

(Thousands of euros)	2010	2009
Non-current financial investments	115	90
Trade and other receivables	33,436	43,237
Current loans to group companies	2,085	2,059
Current financial investments	6,275	2,540
	41,910	**47,926**

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

Operating activities

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

Each month a breakdown giving the age of each of the accounts receivable is prepared which serves as a base to control collection. The Finance Department requests settlement of past due accounts on a monthly basis until they are more than 90 days old, at which point they are submitted to the insurer to arrange recovery. In addition the Legal Department is notified so it can monitor collection and if necessary, subsequently, claim the debt through the courts.

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

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

(Thousands of euros)	2010	2009
Not due	20,236	22,496
Past due, not impaired		
Less than 3 months	1,699	4,151
3 – 6 months	21	117
6 – 12 months	(25)	-
More than 12 months	15	-
	21,946	26,764
Doubtful (more than 6 months)	194	278
Impairment allowances	(194)	(278)
Total	**21,946**	**26,764**

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, 2009 were hedged at that date.

Maximum exposure to foreign currency risk for accounts receivable at December 31, 2009 was as follows:

	2010		2009	
(Thousands of euros)	**Receivables**	**Payables**	**Receivables**	**Payables**
In US dollars	13,118	1,271	12,461	619
In Canadian dollars	510	-	886	-
In pounds sterling	786	-	1,041	-
Rest	163	-	784	-
	14,577	**1,271**	**15,172**	**619**

Interest rate risk

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

The Company manages its interest rate risk by distributing financing received between fixed and floating rates. Company policy consists in maintaining a percentage of non-current net loans (net of non-current investments) received from third parties at a fixed interest rate. To manage this, the Company enters into interest rate swaps which are designated as hedges of the respective loans. At December 31, 2010, after taking into account interest rate swaps, 28,54% of non-current net financing was at a fixed rate (December 31, 2009: 30%).

20.3 Liquidity risk

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

The undiscounted contractual maturity dates of financial liabilities were as follows:

(Thousands of euros)	Up to 3 months	3 months – 1 year	1 year – 5 years	More than 5 years	Total
2010					
Bank borrowings					
Loans	929	7,504	15,874	-	24,307
Borrowings (*)	8,600	25,648	-	-	34,248
Accrued interest payable	68	-	-	-	68
Liabilities from capital leases	16	52	91	-	159
Derivatives	-	87	-	-	87
Other financial liabilities	2,623	2,855	3,272	1,061	9,811
Payable to group companies	6,968	-	-	-	6,968
Trade and other payables	19,809	35	-	-	19,844
	39,013	**36,181**	**19,237**	**1,061**	**95,492**
2009					
Bank borrowings					
Loans	1,010	6,424	24,306	-	31,740
Borrowings (*)	5,301	17,289	-	-	22,590
Accrued interest payable	52	-	-	-	52
Liabilities from capital leases	10	23	30	-	63
Derivatives	-	79	-	-	79
Other financial liabilities	179	4,025	3,197	741	8,142
Payable to group companies	10,052	-	-	-	10,052
Trade and other payables	25,365	-	-	-	25,365
	41,969	**27,840**	**27,533**	**741**	**98,083**

(*) 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**	
2010				
Senior executives	11	1	12	13
Engineers and technicians	98	12	110	108
Administrative personnel	7	33	40	37
Specialized personnel	74	16	90	91
Laborers	246	79	325	310
	436	**141**	**577**	**559**
2009				
Senior executives	13	1	14	14
Engineers and technicians	95	11	106	104
Administrative personnel	7	31	38	38
Specialized personnel	75	17	92	96
Laborers	259	70	329	335
	449	**130**	**579**	**587**

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, 2010 and 2009:

(Thousands of euros)	**2010**	**2009**
Fees for audit of the financial statements	84	82
Other services	22	17
	106	**99**

The above amounts include all 2010 and 2009-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
2010				
Cost	10,167	-	(4)	10,163
Accumulated depreciation	(7,030)	(697)	1	(7,726)
	3,137			**2,437**
2009				
Cost	9,917	408	(158)	10,167
Accumulated depreciation	(6,268)	(831)	69	(7,030)
	3,649			**3,137**

The expenses to protect and improve the environment during 2010 and 2009 were ordinary and amounted to 986 and 908 thousand euros, respectively.

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

21.4 Information on late payment to suppliers in commercial transactions.

In accordance with the ICAC resolution of December 29, 2010 and Transitional Provision Two thereof, the Company discloses that at December 31, 2010 it had a balance of 35 thousand euros payable to suppliers which had not been paid within the legal payment deadline (85 days during the transition period until December 31, 2011).

With regards to the obligation to disclose the information given in this Note, exclusively for this item these financial statements are considered first-time financial statements in terms of uniformity and comparability.

22. EVENTS AFTER THE BALANCE SHEET DATE

No significant events have taken place subsequent to year end which would have an effect on the financial statements at year-end 2010.

Management report 2010

Business performance and situation of the Viscofan Group

In 2010 Viscofan, S,A, posted revenue of 147,1 million euros, 12,9% down on 2009.

The decrease in revenue is due to the fact that in 2010 local subsidiaries served a significant number of customers served by Viscofan S.A. in 2009 as the Group seeks closer proximity to the end customer.

This change is in line with the Viscofan Group's BeONE strategy for 2009-2011. As part of this strategy the Viscofan Group has redesigned its commercial activity and production to maximize the operating and scale synergies of the worldwide leader in artificial casings and at the same time improve the level of service to existing customers in 120 countries worldwide.

The reduction in Viscofan, S.A.'s commercial and productive activity together with improved production efficiency in Spain and savings obtained from purchasing raw materials for the Viscofan Group's requirements centrally, have led to a 42.6% reduction in consumption costs[11], which totaled 39 million euros, compared to the same period last year.

Personnel expenses were 29.5 million euros, 5.0% lower than in 2009. In 2010 the average headcount went from 587 to 559 employees as a result of the reorganization of production at the Viscofan Group and the production improvements achieved in Spain.

The 5.8% year-on-year increase in EBITDA reflects the savings in consumption and the reduction in personnel expenses. In 2010 the EBITDA margin was 22.4% and EBITDA for the year was 32.9 million euros, up 17.8% on 2009.

Depreciation and amortization increased by 14.6% due mainly to the major investments at the production centers in Spain, at the new cogeneration plant in 2009 and technological improvements and machinery introduced in 2009 and 2010.

All the above has led to an operating profit of 24.0 million euros in 2010, up 19.0% on 2009.

There was also a marked increase in the operating margin in 2010; at 16.3% it was 4.4 percentage points above the 11.9% achieved in 2009.

The sharp increase in finance income, up 92.7% to 43.1 million euros, is mainly due to the distribution of dividends from Group companies.

Profit before tax was 67.0 million euros, up 57.8% on 2009 profit. After deducting tax of 4.0 million euros, net profit for 2010 was 63.0 million euros, up 60.3% on the 39.3 million euros obtained in 2009.

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 in an environment in which growth recovery is uncertain.

[1] Consumption costs = Supplies +/- Changes in inventory.

In 2011, the Company will reap the benefits of its increased collagen production capacity. In addition, it will seek to further automate the production process and speed up the production of cellulose and collagen casings to take more advantage of economies of scale and greater production efficiency. It will continue to be a center of excellence which through its more extensive know-how will set new benchmarks as targets to be used by the other Viscofan Group production centers.

Viscofan SA's main R&D investments

In 2010 Viscofan S.A. has invested 7.7 million euros in R&D, mainly on technology and capacity improvements. In 2009 it invested 20.2 million euros, most of which was spent on enlarging the cogeneration plant in Cáseda.

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

At year-end 2010, the Company did not possess own shares.

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, the Group's activities are exposed to various operational, financial and strategic risks. The group manages risk according to the policies approved by the Board of Directors, who have tasked the Audit Committee with supervision of this area.

Accordingly, internal audit has been improved and its internal control responsibilities have been extended to various additional areas: investments (Committee and procedures).

In addition, a plan has been implemented to establish an internal control system for financial information, based on the Spanish Securities Exchange Commission's (CNMV) recommendations which has led to the improvement and consolidation of the processes already implemented.

At the same time, crime prevention and detection measures are being introduced to improve internal control in all areas in order to limit the risk of criminal responsibility that could fall on the corporate entities due to the legislative changes introduced.

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

Risk management policy

Improvement of internal audit, extending its internal control to various areas: investments (Committee and procedures).

A plan has been implemented to establish an internal control system for financial information, responding in advance to the requirements of the Spanish Securities Exchange Commission, (CNMV) which has led to the improvement and consolidation of the processes already implemented.

Crime prevention and detection measures are being developed to improve internal control in all its areas.

The control and management of financial risk is based on measuring *Value at Risk (VaR)* to reply to the following question: What is the most pessimistic scenario based on a certain confidence level? This is a statistical estimation of risk which includes a specific time frame (hours, days, months, years), an estimated confidence level of between 95-99%, and a maximum loss expressed as a percentage, Viscofan uses the Montecarlo simulation method to calculate VaR.

These analyses quantify Viscofan's exposure to changes in foreign currency and interest rates. There are two types of foreign currency risk. The first is related to balance sheet items including certain assets (building and machinery,,,) and liabilities (bank debt, payables,,,) reflected in foreign currency, which might lose value based on fluctuating exchange rates.

The second is related to cash flow exposure due to type of currency, Viscofan covers the latter using EBITDA for the following year to carry out its simulations.

Decisions regarding the amount to hedge for each currency are made based on the result of analyses for currencies in which a relevant net risk has been detected, depending on the degree of risk the company is willing to assume.

In order to mitigate interest rate risk, Viscofan SA has obtained hedge agreements.

The increased activity of the co-generation plant in Cáseda has increased the Company's exposure to energy markets, due to income from sales of electricity as well as expenses from its gas supply. This has created the need to monitor and intervene in the futures markets to ensure uninterrupted operations, and to sign up for the tariff plan for the next year in order to guarantee positive operating margins.

Counterparty risk materializes in the possibility that the Company's clients might not comply with payment commitments. The Company has an insurance policy to cover its client risk, Due to the current economy in general, however, hedges provided by suppliers have deteriorated; consequently, procedures have been tightened and internal controls have been intensified to avoid increased delinquency.

The Company's gearing level and available credit facilities suggest that its financial needs can be met on favorable terms; therefore, liquidity risk is not relevant, despite the financial restrictions which continue to mark 2010 and are expected to continue into 2011.

Operations with the board of directors or persons acting on their behalf, carried out during 2010, 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 2010 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.

EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred after 2010 year end.

Information to be included in the management report according to art, 116 bis of the securities market law.

The current explanatory report was prepared by the Board in its meeting held on February 28, 2011 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;

Share capital stands at 13,981,104.60 euros and consists of 46,603,682 shares of 0,30 euros par value each. Share capital is fully subscribed and paid in.

All shares have the same voting and dividend rights, are renegotiated on OTC markets in Spain, and are represented by book entries.

Regarding this point, the following are the Company's bylaws:

"Article 5: Share capital stands at 13,981,104.60 euros (thirteen million nine hundred and eighty-one thousand one hundred and four euros and 60 euro cents) and consists of 46,603,682 shares (forty-six million six hundred and three thousand six hundred and eighty-two) of 0,30 euros (30 euro cents) 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"

"Article 8: Each share confers the status of shareholder on its lawful owner and confers, at the very least, the right to participate in the distribution of earnings and any assets if the Company were liquidated, to exercise pre-emptive subscription rights in the issuance of new shares or convertible bonds, to attend and vote at the General Shareholders' Meetings and challenge the resolutions adopted, the right to receive information, and any other right which might be recognized by Law".

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, 2010, direct or indirect shareholdings exceeding 3% of share capital that the Company was aware of are as follows:

Marathon Asset Management, LLP: 2,338,952 shares which are indirectly distributed in direct holding, all under 3%, equivalent to 5,019% of Viscofan's share capital calculated based on a total of 46,603,582 shares.

Onchena S.L.: 2,366,000 direct shares. These represent 5.077% of Viscofan's share capital, based on a total of 47,296,842 shares.

Blackrock Inc.: 1.463.530 indirect shares held via direct holdings which all represent less than 3%. Together they represent 3.140% of the share capital calculated on a total of 46,603,682 shares.

BNP Paribas, Societé Anonyme: 1,436,592 direct shares. Together they represent 3.083% of the share capital calculated on a total of 46,603,682 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.

In this respect, the bylaws regulate the voting rights as expressed in Article 8 (Section A).

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

The abovementioned are internally regulated by the Company bylaws and the Board of Directors Regulations.

According to the bylaws, Articles 26 and 27 determine the following, among other aspects:

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

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.

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) Their permanence on the board places the company's interests at risk.

c) The reasons for which they were appointed cease to apply.

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

Article 8 of the Board of Directors' Regulations states that 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.

Regarding the removal of directors, article 27 of the Board regulations states:

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 shareholder they represent disposes of a substantial portion of their ownership interest.

The Board of Directors shall not propose the removal of independent directors before the end of the term for which they were appointed unless the Board considers there is just cause, based on a report from the Nomination Committee.

Directors who resign or for whatever reason give up their place on the board before their tenure expires, should state their reasons in a letter to be sent to all members of the board.

The CNMV must be informed of a director's departure as a significant event and the reason for that departure must be stated in the Corporate Governance Report for the year.

In addition, in compliance with art. 22 of the Board regulations on the duty of loyalty:

"Directors must inform the company and, if necessary, resign in cases that might affect the Company's credit or reputation. In particular, they must inform of any criminal charges brought against them and any developments in this respect. In this case, the Board shall examine each case. It shall monitor developments and decide whether the Director is to continue or not in light of these."

The Company has no specific regulations for changing its by-laws other than those set out in the applicable legislation. Article 194 of the Capital Companies Law sets out the requirements of a strengthened quorum and Title VIII of the same law establishes other regulations.

Requirements regarding the adoption of agreements set out in Article 21 of the Company bylaws and Article 18 of the Board of Directors' Regulations are the same as those stated.

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 27, 2011 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 may 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.

f) Determining the contents of the corporate website.

g) Delegating and revoking authority to any members under the terms established by Law and the statutes.

h) Appointing a director to cover a vacancy, following the recommendations of the Nomination and Remuneration Committee, until such time as the next General Shareholders Meeting is held.

i) Accepting directors' resignations.

j) Any other duties assigned to them by applicable legislation, the prevailing by-laws or this regulation."

Finally, at the General Shareholders' Meeting of the Company held on June 1, 2010, 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 3, 2009.

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 12500% of their nominal value.

The proposed authorization is for the legally established maximum period from the agreement date and is granted to the Board of Directors subject to the legal restrictions on the acquisition of treasury shares and, more specifically, the contents of art. 75 of the Revised Text of the 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 two managers.

Madrid, February 28, 2011