VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Financial Statements and Management Report

Prepared under International Financial Reporting Standards Endorsed by the European Union

31 December 2010 and 2009

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

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated statements of financial position
as at 31 December 2010 and 2009
[Thousands of euros]

Assets	Note	2010	2009
Property, plant and equipment	6	300,301	289,105
Intangible assets	7	16,918	14,342
Deferred tax assets	9	14,459	8,051
Investments in associates	8	1,565	1,333
Other financial assets	8	1,178	507
Total non-current assets		334,421	313,338
Inventory	10	159,258	150,045
Trade and other receivables	11	129,268	123,796
Prepayments		2,193	47
Other financial assets	8	6,730	3,000
Cash and cash equivalents	12	57,301	25,763
Total current assets		354,750	302,651
Total assets		689,171	615,989

Equity and liabilities	Note	2010	2009
Share capital	13.1	13,981	13,981
Share premium	13.2	12	16,650
Other reserves	13.3	312,050	267,319
Profit for the year		81,346	64,259
Interim dividend	13.6	(13,981)	(12,117)
Currency translation differences		10,684	(5,673)
Hedge transaction reserves	13.4	2,277	788
Total equity		406,369	345,207
Deferred income	14	4,386	2,998
Borrowings	15.a	32,928	46,241
Other financial liabilities	15.a	5,842	5,007
Deferred tax liabilities	9	30,509	25,252
Provisions	16	27,606	37,213
Total non-current liabilities		101,271	116,711
Borrowings	15.a	84,191	70,042
Other financial liabilities	15.a	8,739	3,442
Trade and other payables	15.b	60,816	48,161
Provisions	16	7,639	7,855
Other current liabilities	15.b	18,671	24,031
Current tax liabilities	9	1,475	540
Total current liabilities		181,531	154,071
Total equity and liabilities		689,171	615,989

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated income statements
for the years ended 31 December 2010 and 2009
[Thousands of euros]

	Note	2010	2009
Sales and services rendered	20	633,726	583,414
Other income	21	8,853	7,756
Changes in inventories of finished goods and work	20	(8,298)	12,702
Work performed by the Group on non-current assets		998	253
Consumption of raw material and other consumables	20	(161,201)	(176,631)
Employee benefits expense	23	(136,213)	(134,047)
Depreciation and amortization	6 & 7	(43,757)	(37,735)
Other operating expenses	22	(183,701)	(164,767)
Impairment and gains (losses) on disposal of non-current assets		(22)	(621)
Operating profit		110,385	91,266
Share of results from associates - net of tax	8 & 24	77	(17)
Finance revenue	24	15,371	15,610
Finance costs	24	(20,120)	(20,897)
Profit before tax		105,713	85,962
Income tax expense	9	(24,367)	(21,703)
Profit for the year		81,346	64,259
Basic earnings per share (in euros)	25	1.7455	1.3788
Diluted earnings per share (in euros)	25	1.7455	1.3788

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated statements of comprehensive income
for the years ended December 31, 2010 and 2009
[Thousands of euros]

	2010	2009
Net profit for the year	81,346	64,259
Profit (loss) recognized directly in equity		
In other reserves		
Actuarial gains (losses) on pension plans		
Germany	(7,003)	(1,539)
United States	(1,877)	(1,312)
Tax effect	1,470	938
	(7,410)	(1,913)
Hedges taken to reserves		
Remeasurement of hedge derivatives	2,677	1,262
Tax effect	(777)	(474)
	1,900	788
Translation differences	16,357	13,944
Total profit (loss) recognized directly in equity	10,847	12,819
Transfers to the consolidated income statement		
From cash flow hedges	(728)	103
Tax effect	317	(65)
	(411)	38
Total recognized income and expenses for the year	91,782	77,116

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated statements of changes in equity
for the years ended 31 December 2010 and 2009
[Thousands of euros]

	Equity attributed to the parent								
	Equity								
	Share capital	Share premium	Reserves	Treasury shares and participations	Interim dividend	Profit (loss) attributable to the parent	Unrealized gains (losses) reserve	Translation differences	Total equity
Balance at January 01, 2009	**14,020**	**30,165**	**229,041**	**(1,699)**	**-**	**51,403**	**(38)**	**(19,617)**	**303,275**
Total recognized income and expense	**-**	**-**	**(1,913)**	**-**	**-**	**64,259**	**826**	**13,944**	**77,116**
Transactions with shareholders and owners	**(39)**	**(13,515)**	**(1,660)**	**1,699**	**(12,117)**	**(9,552)**	**-**	**-**	**(35,184)**
Capital increases /(decreases)	(39)	-	(1,660)	-	-	-	-	-	(1,699)
Dividends paid	-	(13,515)	-	-	(12,117)	(9,552)	-	-	(35,184)
Transactions with treasury shares	-	-	-	1,699	-	-	-	-	1,699
Other changes in equity	**-**	**-**	**41,851**	**-**	**-**	**(41,851)**	**-**	**-**	**-**
Transfers between equity accounts	-	-	41,851	-	-	(41,851)	-	-	-
Balance at December 31, 2009	**13,981**	**16,650**	**267,319**	**-**	**(12,117)**	**64,259**	**788**	**(5,673)**	**345,207**
Total recognized income and expense	**-**	**-**	**(7,410)**	**-**	**-**	**81,346**	**1,489**	**16,357**	**91,782**
Transactions with shareholders and owners	**-**	**(16,638)**	**-**	**-**	**(1,864)**	**(12,117)**	**-**	**-**	**(30,619)**
Dividends paid	-	(16,638)	-	-	(1,864)	(12,117)	-	-	(30,619)
Other changes in equity	**-**	**-**	**52,141**	**-**	**-**	**(52,142)**	**-**	**-**	**(1)**
Transfers between equity accounts	-	-	52,141	-	-	(52,142)	-	-	(1)
Balance at December 31, 2010	**13,981**	**12**	**312,050**	**-**	**(13,981)**	**81,346**	**2,277**	**10,684**	**406,369**

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated statements of cash flows
for the years ended 31 December 2010 and 2009
[Thousands of euros]

	2010	2009
Cash flows from operating activities		
Profit before tax	105,713	85,962
Adjustments for:		
Depreciation and amortization	43,757	37,735
Changes in provisions	(2,074)	3,805
Capital grants	(469)	(456)
Gain (loss) on disposal of non-current assets	22	663
Interest income	(1,566)	(680)
Interest expenses	3,431	4,845
Foreign currency translation differences (net)	2,807	1,122
	151,621	132,996
Changes in working capital, net of the impact of acquisitions and currency translation differences		
Inventory	(1,296)	10,881
Trade and other receivables	314	(444)
Trade and other payables	(1,791)	(1,627)
Funds obtained from operations	148,848	141,806
Income tax receipts (payment)	(24,311)	(17,814)
Cash flows from operating activities	124,537	123,992
Cash flows from investing activities		
Payments for acquisition of property, plant and equipment and intangible assets	(43,606)	(47,321)
Payments for the acquisition of financial assets	(7,549)	(26)
Proceeds from disposals of property, plant and equipment	1,596	1,764
Proceeds from other assets	3,148	3
Contributions to pension plans in Germany	(14,736)	-
Contribution to US pension plan	(3,067)	(1,611)
Cash flows from investing activities	(64,214)	(47,191)
Cash flows from financing activities		
Interest-bearing loans and borrowings		
Issuance	25,461	20,005
Repayment and redemption	(27,811)	(40,539)
Compensation to shareholders		
Dividends	(13,981)	(21,671)
Return of share premium	(16,638)	(13,515)
Interest received	1,566	680
Interest paid	(3,083)	(4,877)
Other payments from financing activities	6,638	(3,303)
Foreign currency translation differences (net)	(2,807)	(1,122)
Cash flows from financing activities	(30,655)	(64,342)
Impact of changes in exchange rates on cash and cash equivalents	1,870	(710)
Net increase (decrease) in cash and cash equivalents	31,538	11,749
Cash and cash equivalents	25,763	14,014
Cash and cash equivalents at December 31	57,301	25,763

(1) Nature and Principal Activities

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

Its statutory and principal activity consists of the manufacture of cellulose or artificial casings, mainly for use in the meat industry, as well as, to a lesser extent, the generation of electricity by any technical means, both for own consumption and for sale to third parties. Its industrial installations are located in Cáseda and Urdiain (Navarra). During 2009, its main office was moved to Tajonar (Navarra). However, the registered address continues to be in Pamplona.

Viscofan, S.A. is the Parent of a group of companies (the Viscofan Group or the Group) which carry out their activities mainly in the food, plastic and collagen casing sectors, as explained in more detail in Note 2.

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

(2) Viscofan Group

During 2010, a series of transactions took place with the aim of reducing and simplifying the Viscofan Group structure:

-In July 2010 the Company purchased all the shares of Stephan & Hoffmann AG (Germany) from Naturin Inc. Delaware (USA), a wholly-owned subsidiary.

-After acquiring the shares of Stephan & Hoffmann AG, Naturin Inc. was liquidated, as it was solely devoted to holding shares of the Germany company, which were its main asset.

-During August, the merger between Naturin Viscofan, GmbH, and Stephan & Hoffmann AG was initiated, and in September, Naturin Viscofan, GmbH was merged with Naturin Verwaltung GmbH; therefore, the only company still active in Germany is Naturin Viscofan GmbH.

-In December 2010, Viscofan Poland Sp.z.o.o. underwent definitive dissolution (the process began in September 2009). This Company's activity was strictly commercial, and was transferred to the other group companies.

These transactions had no effect on the equity or results of the Group, as they are all wholly-owned subsidiaries, except for the tax returns filed in their respective countries. This also had no effect on the Group's activity.

In 2010, the construction of the new Viscofan Technology (Suzhou) Co. Ltd. production plant located in China was completed; this company had been incorporated the year before. During the final weeks of 2010, samples produced have proven to be quite satisfactory. The Company will start up production and commercial activities during the first weeks of 2011.

In 2009, the only transaction modifying the Viscofan Group's structure was the incorporation of Viscofan Technology (Suzhou) Co. Ltd. (China). The subsidiary's activity focused on obtaining commercial licenses, land use rights for a new production plant, and formalization of contracts related to their construction.

Details of the subsidiaries and associates comprising the Viscofan Group at 31 December 2010 and 2009, as well as certain additional information is the following:

Group companies	Percentage interest		Activity	Registered offices
	Direct	Indirect		
Industrias Alimentarias de Navarra, S.A.U.	100.00%	-	Manufacture and marketing of tinned vegetables	Villafranca (Navarra)
Naturin Viscofan GmbH	100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Viscofan Canadá Inc	-	100.00%	Commercial activity	Quebec (Canada)
Viscofan do Brasil, soc. com. e ind. Ltda.	100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Zacapu Power S.R.L. de C.V.	-	100.00%	Cogeneration plant	Zacapu Michoacán (Mexico)
Koteks Viscofan, d.o.o.	100.00%	-	Manufacture and marketing of artificial casings	Novi Sad (Serbia)
Gamex, C.B. s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan USA Inc.	100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Naturin Ltd.	100.00%	-	Commercial activity	Sevenoaks (United Kingdom)
Viscofan CZ, s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan Technology (Suzhou) Co. Ltd.	100.00%	-	Manufacture and marketing of artificial casings	Suzhou (China)
IAN Perú, S.A.	-	100.00%	Asparagus production	Lima (Peru)
Lingbao Baolihao Food	-	50.00%	Asparagus production	Lingbao (China)
Viscofan de México S.R.L. de C.V.	99.99%	0.01%	Manufacture and marketing of artificial casings	San Luís de Potosí (Mexico)
Viscofan Centroamérica Comercial, S.A.	99.50%	0.50%	Commercial activity	San José (Costa Rica)
Viscofan de México Servicios, S.R.L. de C.V.	99.99%	0.01%	Services rendered	San Luís de Potosí (Mexico)

Group companies	Percentage interest		Activity	Registered offices
	Direct	Indirect		
Industrias Alimentarias de Navarra, S.A.U.	100.00%	-	Manufacture and marketing of tinned vegetables	Villafranca (Navarra)
Naturin Viscofan GmbH	100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Naturin Inc Delaware	100.00%	-	Financial activity	Dover (USA)
Viscofan do Brasil, soc. com. e ind. Ltda.	100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Viscofan Poland Sp.z.o.o., in liquidation	100.00%	-	Commercial activity	Krakow (Poland)
Koteks Viscofan, d.o.o.	100.00%	-	Manufacture and marketing of artificial casings	Novi Sad (Serbia)
Gamex, C.B. s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan USA Inc.	100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Naturin LTD	100.00%	-	Commercial activity	Sevenoaks (United Kingdom)
Viscofan CZ, s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan Technology (Suzhou) Co. Ltd.	100.00%	-	Manufacture and marketing of artificial casings	Suzhou (China)
IAN Perú, S.A.	-	100.00%	Asparagus production	Lima (Peru)
Lingbao Baolihao Food	-	50.00%	Asparagus production	Lingbao (China)
Stephan & Hoffmann AG	-	100.00%	Financial activity	Weinheim (Germany)
Naturin Verwaltung GmbH	-	100.00%	Financial activity	Weinheim (Germany)
Viscofan de México S.R.L. de C.V.	99.99%	0.01%	Manufacture and marketing of artificial casings	San Luís de Potosí (Mexico)
Viscofan Centroamérica Comercial, S.A.	99.50%	0.50%	Commercial activity	San José (Costa Rica)
Viscofan de México Servicios, S.R.L. de C.V.	99.99%	0.01%	Services rendered	San Luís de Potosí (Mexico)

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

(3) Basis of Preparation

The consolidated Financial Statements have been prepared on the basis of the accounting records of Viscofan, S.A. and the companies forming the Group. The consolidated Financial Statements for 2010 have been prepared under EU-endorsed International Financial Reporting Standards (EU-IFRS) to present fairly the consolidated equity and consolidated financial position of Viscofan, S.A. and subsidiaries at 31 December 2010 and 2009, as well as the consolidated results from its operations, its consolidated cash flows and consolidated recognized income and expenses for the year then ended. The Group adopted EU-IFRS on 1 January 2004 and applied IFRS 1 First-time Adoption of International Financial Reporting Standards at that date.

The accounting policies used in the preparation of the consolidated financial statements for the year ended December 31, 2010 are the same applied to the consolidated financial statements for the year ended December 31, 2009, except for the following standards and interpretations, which are applicable to the years beginning January 1, 2010:

- Revised IFRS 2 "Share-based Payments"
- Revised IFRS 3 "Business combinations" and amendment to IAS 27 "Separate and Consolidated Financial Statements"
- IAS 39 - "Financial Instruments": "Recognition and Measurement" – Eligible hedged items"
- IFRIC 12 - “Service Concession Arrangements”
- IFRIC 15 - "Agreements for the construction of real estate":
- IFRIC 16 - "Hedges of Net Investments in Foreign Operations"
- IFRIC 17 - "Distributions of non-cash assets to owners"
- IFRIC 18 - "Customer loyalty programs"
- Amendments to IFRS 5 "Non-current assets held for sale and discontinued operations" (including the IFRS improvements made in May 2008)
- Improvements to the IFRS issued in April 2009

Adopting these standards, interpretations, and modifications had no impact on the Group’s financial position or results.

The Group has not early adopted any standard, interpretation or amendment issued but not effective.

The Group is evaluating the effect that the following standards and interpretations issued by the IASB and adopted by the European Union but not applicable might have on the accounting policies, financial position or performance of the Group:

- IAS 32 "Classification of rights issues": Effective from years beginning February 1, 2010;
- IAS 24 "Related party disclosures:" Effective from years beginning January 1, 2011.
- IFRIC 19 “Extinguishing financial liabilities with equity instruments”: Effective from years beginning July 1, 2010;

- IFRIC 14 “Prepayments of a minimum funding requirement”: Effective from years beginning January 1, 2011.

At the date of publication of these consolidated financial statements, the following IFRSs and amendments had been issued by the IASB but not were neither mandatory nor approved by the EU:

- IFRS 9 "Financial Instruments": Effective from years beginning January 1, 2013.

- Improvements to IFRS (May 2010): Effective from years beginning January 1, 2011 (except the amendments to IFRS 3 (2008) regarding the measurement of non-controlling interests and share-based remuneration plans, as well as the amendments to IAS 27 (2008) and IFRS 3 (2008) regarding contingent payments arising during business combinations with acquisition dates prior to the date the amendments became effective, which come into effect for years beginning July 1, 2010).

- Amendment to IFRS 7 “Disclosures – Transfers of financial assets:” Effective from years beginning July 1, 2011.

- Amendment to IFRS 12 “Deferred taxes – Recovery of underlying assets”: effective for annual periods beginning on or after January 1, 2012.

The Group is currently analysing the impact of the application of these standards and amendments.

Based on the analyses conducted to date, the Group estimates that their application will not have a significant impact on the consolidated financial statements in the initial period of application. However, the changes introduced by IFRS 9 will affect financial instruments as well as their related future transactions beginning January 1, 2013.

International Financial Reporting Standards occasionally contemplate more than one alternative accounting treatment for a transaction. The criteria adopted by the Group for its most relevant transactions are the following:

- Shares in jointly controlled entities may be consolidated using either the proportional consolidation method or the equity method; the Group used the latter.
- Capital grants can be recognized reducing the cost of the assets for which financing was granted or as deferred income, which was the Group's choice.
- Pension plan actuarial gains and losses can be deferred under certain conditions. The Group recognizes them during the year they are produced directly in equity.
- Certain property, plant, and equipment may be measured at market value or historical cost less amortizations and impairment loss. Viscofan has chosen the latter criteria.

The Parent's directors expect these 2010 consolidated financial statements, which were prepared on February 28, 2011, to be approved by the shareholders in general meeting without modification.

(3.1) Comparison of information

These consolidated financial statements present for comparative purposes, for each of the headings on the consolidated statement of financial position, the consolidated income statement, the consolidated comprehensive income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and the notes to the consolidated financial statements, in addition to the consolidated figures for 2010 the corresponding figures for 2009 included in the consolidated financial statements approved by the shareholders at their general meeting on June 01, 2010.

(3.2) Relevant accounting estimates, assumptions and judgments

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

Aspects which involves a greater degree of judgment or complexity in preparation of these consolidated Financial Statements are detailed below.

(a) Relevant accounting estimates and assumptions

- Pension plans: Note 4.16
- Provisions: Note 4.17
- Useful lives of property, plant and equipment and intangible assets: Notes 4.4 and 4.5
- Assessment of impairment of assets: Note 6
- Recoverability of deferred tax assets: Note 9
- Measurement of derivatives: Note 4.8

(b) Changes in accounting estimates

Although estimates were based on the best information available at 31 December 2010, future events may require these estimates to be modified in subsequent years. The effects on the preliminary Financial Statements of any adjustment which may arise in subsequent years would be recognized prospectively.

(c) Sources of uncertainty

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

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

(3.3) Business combinations

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

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

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

(4) Significant Accounting Principles

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

A summary of the most significant principles is as follows:

(4.1) Going concern and accruals basis

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

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

(4.2) Method of consolidation

All the subsidiaries were consolidated using the full consolidation method.

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

The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases. Subsidiaries are excluded from the consolidation scope from the moment control is lost. Note 2 breaks down the nature of the relationships between the parent and its subsidiaries.

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

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

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

The Financial Statements of consolidated subsidiaries reflect the same reporting date and period as that of the Parent.

Business combinations

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

Under the equity method, investments in jointly controlled companies are recognized on the consolidated statement of financial position at cost plus any post-acquisition changes in the Group's investment based on its share of the investee's net assets, less any impairment losses. The result of measuring investments in associates using the equity method (after eliminating intra-group transactions) is recognized under "Other reserves" and "Share of results from associates -net of tax" on the consolidated statement of financial position and consolidated income statement, respectively.

(4.3) Effects of changes in foreign exchange rates

(a) Foreign currency transactions

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

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

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

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

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

(b) Translation of foreign operations

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

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

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

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

The Group does not carry out business in hyperinflationary countries.

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

Translation differences related to foreign businesses recognized in equity are recognized on one line in the consolidated income statement when these are recognized in profit (loss) at the time such businesses are sold.

(4.4) Property, plant and equipment

(a) Initial recognition

Property, plant and equipment is stated at cost, less accumulated depreciation and any impairment losses. The cost of self-constructed assets is determined using the same principles as for an acquired asset, considering the principles established to determine the cost of production. The cost of production is capitalized with a charge to work performed by the Group on non-current assets in the consolidated income statement.

The cost of assets acquired or produced subsequent to January 01, 2009 which have long installation periods includes finance costs accrued prior to their being put to use. Such costs meet the capitalization requirements described above.

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

(b) Amortization and depreciation

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

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

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

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

(c) Subsequent recognition

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

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

(d) Investment property

At 2010 and 2009 year end the VISCOFAN Group had no assets which by their nature must be classified as investment property.

(4.5) Intangible assets

(a) Goodwill

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

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

Internally generated goodwill is not recognized as an asset.

(b) Self-constructed assets

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

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

(c) Intangible assets acquired through business combinations

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

(d) Other intangible assets

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

Software maintenance costs are expensed as incurred.

(e) Emission rights

The Viscofan Group recognizes emission rights when it owns them. Rights assigned free of charge to each plant under each national emission rights assignment plan are initially measured at market value on the date granted and are recognized as a credit to "Deferred income" (*Note 4.14*) on the consolidated statement of financial position. Rights acquired from third parties are recognized at their acquisition cost.

These assets are measured using the cost method. At each year end they are analyzed for any indications of impairment of their carrying amounts.

These emission rights are eliminated from the statement of financial position when they are sold, delivered, or have expired. Should the rights be delivered, they are derecognized from the provision made when the CO2 emissions take place.

Emission rights are not amortized. However, any differences from market value are provisioned.

(f) Useful lives and amortization rates

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

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

	Estimated useful life (years)
Concessions, patents and licences	10
Software	5

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

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

(4.6) Leases

(a) Finance leases

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

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

(b) Operating leases

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

(4.7) Financial instruments

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

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

(a) Financial assets at fair value with changes in fair value through profit and loss

These are assets classified as held for trading, as the Group expects to obtain gains from their price fluctuations and they have been recognized in this category since their initial recognition.

Assets included in this category are recorded in the consolidated statement of financial position at fair value and fluctuations in their value are recognized under "Finance costs" and "Finance revenue," as applicable, on the consolidated statement of income.

The Viscofan Group classifies derivatives in this category when they do not meet the conditions necessary to be recognized as hedges as per the requirements of IAS 39 "Financial Instruments" (Note 4.8).

At December 31, 2010 and 2009 no assets have been classified in this category on the consolidated statement of financial position.

(b) Loans

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

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

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group’s management has the intention and ability to hold to maturity and which are recognized at amortized cost.

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

(d) Available-for-sale financial assets

Are all those which do not fall within the above categories. These are recognized at their fair value at year end. Changes in fair value are charged or credited to equity until divested or impaired, at which time the cumulative amount up to that date is transferred to the consolidated income statement.

(e) Impairment and default of financial assets

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

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

(f) Derecognition of financial assets

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

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

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

(g) Financial liabilities

Financial liabilities, including trade and other payables, the fluctuations of which are not charged or credited to the consolidated income statement, are initially recognized at fair value, less, as applicable, directly attributable transaction costs. Subsequent to initial recognition, the liabilities classified in this category are measured at amortized cost using the effective interest method.

(4.8) Derivatives and hedge accounting

Under the Group's finance policies derivatives may not be acquired or held for trading. If any derivative does not qualify fulfill the requirements to be considered a hedge it is recognized as a financial instrument held for trading.

Derivatives are recognized initially at cost. Subsequent to initial recognition derivatives are stated at fair value. Any gains or losses arising from such changes in value are recognized in the consolidated income statement unless the derivative has been designated as a cash flow hedge.

For accounting purposes, hedges are classified as:

- Fair value hedges and hedges of net investment in a foreign entity: At December 31, 2010 and 2009, as well as throughout both years, the Viscofan Group did not use this type of hedges.

- Cash flow hedges: when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or to the foreign currency risk in a firm commitment.

When arranging each hedge transaction the Viscofan Group formally documents each transaction for which hedge accounting will be applied. The documentation identifies the hedge instrument, the item hedged, the nature of the risk to be hedged and how the effectiveness of the hedge will be measured. In addition, hedges are assessed on an ongoing basis to determine that they are highly effective (80%-125%).

Cash flow hedges are recognized as follows:

- Changes in the market value of hedging derivatives are recognized, in the case of the ineffective portion of the hedges in the consolidated income statement. Those related to the effective portion are recognized under "Unrealized gains (loss) reserve" and "Translation differences" in the consolidated statement of financial position. The cumulative gain or loss recognized in these headings is transferred to the related consolidated income statement heading (i.e. the heading affected by the hedged item) as it impacts profit or loss in the year in which the item is sold.

- When hedging of futures transactions gives rise to a non-financial asset or non-financial liability, their amount is taken into account when determining the initial carrying amount of the asset or liability which gives rise to the transaction hedged.

- When hedging futures transactions gives rise to a financial asset or liability, this balance is recognized under "Unrealized gains (loss) reserve" until the risk hedged in relation to the futures transaction impacts the consolidated income statement.

- If the hedged transaction does not give rise to an asset or liability, the amounts debited or credited to "Unrealized gains (loss) reserve" in the consolidated statement of financial position are taken to the consolidated income statement in the same period as the hedged transaction.

- When the hedge is discontinued, the cumulative gain or loss recognized in "Unrealized gains (loss) reserve" is held under this heading until the hedged transaction is carried out, at which time the gain or loss on the transaction is adjusted by the cumulative gain or loss. If the forecast transaction is no longer expected to occur, the gain or loss previously recognized in this heading is taken to the consolidated income statement.

All the hedging instruments used by the Viscofan Group in 2010 and 2009 were derivatives not traded in organized financial markets. Consequently, these are measured using assumptions based on market conditions at year end:

- The fair value of interest rate swaps is measured as the value of the rate swap spreads discounted to present value at market interest rate.

- Exchange rate futures contracts are measured by discounting to present value future cash flows based on forward exchange rates at year end.

- The market value of purchase-sale agreements of non-financial items to which IAS 39 is applicable, is calculated from the best estimate of the future price curves of these items available at year end.

(4.9) Parent treasury shares

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

The subsequent redemption of treasury shares results in a decrease in share capital for the par value of these shares and positive or negative differences between the acquisition price and the par value of the shares are debited or credited to Reserves, with no recognition in the consolidated income statement.

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

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

(4.10) Inventories

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

Cost comprises all costs of acquisition, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

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

- Finished and semi-finished products are stated at weighted average cost of raw and other materials and includes direct and indirect labor, other manufacturing overheads.

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

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

- Raw materials and other supplies: replacement cost: The Group only makes adjustments if the finished products in which the raw materials are incorporated are expected to be sold at a price equivalent to their production cost or lower;
- Goods for resale and finished products: estimated sale price, less selling costs.
- Work in progress: estimated sale price for corresponding finished products, less the estimated costs for completion of their production and selling costs.

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

(4.11) Trade and other receivables

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

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

(4.12) Cash and cash equivalents

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

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

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

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

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

(a) Calculation of recoverable amount

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

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

(b) Reversals of impairment

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

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

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

(4.14) Government grants

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

(a) Capital grants

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

Non-repayable grants related to emission rights are recognized in the consolidated income statement as they are used, under "Other income" on the consolidated income statement.

(b) Operating subsidies

Operating subsidies are recognized as "Other income" in the consolidated income statement.

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

(c) Interest rate subsidies

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

(4.15) Interest-bearing borrowings

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

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

(4.16) Employee benefits

(a) Liabilities for retirement benefits and other commitments

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

(i) Defined benefit plans

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

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

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

Actuarial gains and losses are recognized directly in equity as set out in IAS 19.93A.

A description of each of the Group's defined benefit pension plans is included in Note 16.1.

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

(ii) Other benefits

The Parent has commitments with its employees for early retirement and seniority bonuses. To cover these commitments the Parent externalized these commitments through insurance policies.

(b) Termination benefits

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

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

(c) Short-term employee benefits

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

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

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

(d) Equity-settled transactions

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

(4.17) Provisions

(a) General criteria

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

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

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

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

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

(b) Onerous contracts

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

(c) Restructuring expenses

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

(d) Emission rights provision

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

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

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

(4.18) Revenue recognition

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

(a) Goods sold

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

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

(b) Services rendered

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

(4.19) Income tax

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

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

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

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

(a) Taxable temporary differences

Taxable temporary differences are recognized in all cases except where:

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

(b) Deductible temporary differences

Deductible temporary differences are recognized provided that:

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

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

(c) Measurement

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

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

Deferred tax assets which do not comply with the aforementioned conditions are not recognized in the consolidated statement of financial position. At year end the Group reassesses unrecognized deferred tax assets.

(d) Classification and offsetting

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

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

Deferred tax assets and liabilities are recognized on the consolidated statement of financial position under non-current assets or liabilities, irrespective of the date of realization or settlement.

(4.20) Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to the parent by the weighted number of ordinary shares outstanding during that year, excluding the average number of shares of the Parent, Viscofan, S.A. held by any of the Group companies.

Diluted earnings per share are calculated by dividing net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares which would be in issue if all potential ordinary shares were converted into ordinary shares of Viscofan, S.A.

In the case of the Viscofan Group's financial statements for the years ended December 31, 2010 and 2009 there is no difference in basic earnings per share and diluted earnings per share as there were no instruments potentially convertible into ordinary shares during those years.

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

The Group classifies assets and liabilities in the consolidated statement of financial position as current or non-current based on the following criteria:

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

- Liabilities are classified as current when expected to be settled in the Group's ordinary course of business within 12 months of the balance sheet date and when essentially held for trading, or where the Group does not have an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date.
- Current liabilities such as trade creditors, personnel expenses and other operating costs are classified as current, even if maturing more than 12 months from the balance sheet date.

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

(4.22) Environment

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

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

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

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

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

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

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

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

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

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

At 2010 and 2009 year end the Group had no assets or liabilities which must be classified in these categories.

(4.24) Discontinued operations

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

(4.25) Related-party disclosures

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

(4.26) Dividends

The interim dividends approved by the Board of Directors in 2010 and 2009 are included as a reduction of the Viscofan Group's equity.

(5) Segment Reporting

IFRS 8: "Operating segments" establishes that an operating segment is a component of an entity:

a) when it engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

b) when its operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

c) for which discrete financial information is available.

Given the characteristics of the Viscofan Group's activities, its reported segments relate to strategic business units which are defined by the products manufactured and sold.

The Viscofan Group's operating segments are as follows:

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

The Group also produces and sells electrical energy through a cogeneration plant located at its Parent installations. The Group aims to achieve three objectives from the installation of this plant: reduce energy costs, attain self-sufficiency, and reduce CO_2 emissions into the atmosphere. These activities are not organized as business segments nor do they constitute segments on which the Group is obliged to provide disclosures.

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

The casings segment is managed internationally and operates basically in three geographic areas; Europe and Asia, North America and South America. The vegetable products segment mainly operates in Europe, chiefly in Spain.

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

Details of financial information by business and geographical segments for 2010 and 2009 are included in Note 20.

(6) Property, Plant and Equipment

The breakdown and movements in property, plant, and equipment during 2010 and 2009 are as follows:

	1/1/2009	Translation differences	Additions	Disposals	Transfers	12/31/2009	Translation differences	Additions	Disposals	Transfers	12/31/2010
Revalued cost											
Land and buildings	166,860	1,726	3,375	(432)	5,350	176,879	3,155	304	(206)	5,028	185,160
Plant and machinery	437,904	10,582	16,718	(8,613)	17,895	474,486	14,045	15,262	(8,716)	4,857	499,934
Other installations, equipment and furniture	65,565	-	2,232	(873)	3,009	69,933	339	2,970	(563)	4,988	77,667
Other property, plant and equipment	18,707	31	721	(638)	3,284	22,105	668	894	(1,107)	1,023	23,583
Advances and assets under construction											
Revalued cost	24,063	1,665	19,121	(332)	(30,441)	14,076	795	26,491	(245)	(19,946)	21,171
	713,099	14,004	42,167	(10,888)	(903)	757,479	19,002	45,921	(10,837)	(4,050)	807,515
Restated accumulated depreciation											
Buildings	(69,167)	(835)	(4,203)	253	15	(73,937)	(1,004)	(7,761)	174	-	(82,528)
Plant and machinery	(304,682)	(7,417)	(24,478)	7,872	1,652	(327,053)	(7,809)	(26,981)	8,329	5,258	(348,256)
Other installations, equipment and furniture	(45,441)	(34)	(4,233)	734	(793)	(49,767)	(203)	(4,385)	496	(2,767)	(56,626)
Other property, plant and equipment	(15,787)	(73)	(1,202)	581	(870)	(17,351)	(512)	(1,098)	1,096	(1,387)	(19,252)
	(435,077)	(8,359)	(34,116)	9,440	4	(468,108)	(9,528)	(40,225)	10,095	1,104	(506,662)
Provisions	(82)	-	(226)	42	-	(266)	(11)	(277)	187	(185)	(552)
	277,940	5,645	7,825	(1,406)	(899) (*)	289,105	9,463	5,419	(555)	(3,131) (*)	300,301

(*) The amount of net transfers corresponds to property, plant, and equipment (Note 7).

Details of fully depreciated property, plant and equipment in use at 31 December 2010 and 2009 are as follows:

	Thousands of euros	
	2010	2009
Buildings	22,612	5,894
Plant and machinery	266,817	187,799
Other installations, equipment and furniture	35,389	26,981
Other property, plant and equipment	15,722	8,218
	340,540	228,892

The Group's buildings, plant and equipment were partly financed by government grants of 894 and 242 thousand euros in 2010 and 2009, respectively (see Note 14).

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

Firm commitments to purchase non-current property, plant and equipment at year end 2010 and 2009 amounted to 7,420 thousand euros and 3,604 thousand euros, respectively. 2010 commitments basically relate to the expansion of the production plants in both Weinheim (Germany) and Cáseda (Spain); 2009 commitments are mainly related to the construction of a warehouse in China for Viscofan Technology (Suzhou) Co. Ltd. recognized that year.

The Group did not have any investment property at the end of 2010 and 2009. The Group did not capitalize any borrowing costs in 2010 and 2009.

Finance leases

The Group has buildings and other items contracted under finance leases, as follows:

	Thousands of euros	
	Cost	Depreciation
At 1 January 2009	1,505	(483)
Depreciation	-	(73)
At 31 December 2009	1,505	(556)
Depreciation	39	(430)
At 31 December 2010	1,544	(986)

The main item included under "Property, plant and equipment" is a warehouse corresponding to the vegetable preserves division. The lease agreement is dated March 8, 1999, has a duration of 180 months and the purchase option is 360 thousand euros.

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

	Thousands of euros			
	2010		2009	
	Minimum payments (note 15)	Interest	Minimum payments (note 15)	Interest
Up to 1 year	148	19	111	33
Between 1 and 5 years	636	31	655	89
Total	784	50	766	122

Operating leases

The Group leases various warehouses and other PP&E items in various countries. The future minimum payments for these operating leases at year end are as follows:

	Thousands of euros	
	2010	2009
Up to 1 year	852	261
Between 1 and 5 years	2,881	1,044
More than 5 years	3,548	3,654
	7,281	4,959

Nevertheless, the only lease agreement which entails significant future minimum payments relates to its headquarters in Tajonar (Navarra), signed in December 2009 and in effect until December 15, 2028. The lease may be extended when both parties agree to this in writing at least six months before it expires.

Impairment test

In 2010 no impairment tests were conducted, as all of the Group's cash-generating units are performing well. In recent years, the Group performed tests of its subsidiary Koteks Viscofan, d.o.o., which had been accumulating losses in prior years. Investments made as well as measures implemented in recent years have helped it reap a profit, however. Forecasts regarding its future are much more positive than those resulting from the last test carried out the year before, and therefore, it was not considered necessary to perform another this year.

(7) Other Intangible Assets

The breakdown and movements in other intangible assets during 2010 and 2009 are as follows:

	1/1/2009	Translation differences	Additions	Disposals	Transfers	12/31/2009	Translation differences	Additions	Disposals	Transfers	12/31/2010
Cost											
Technology and contracts	6,822	(232)	-	-	-	6,590	566	-	-	(7,156)	-
Software	11,330	158	1,490	(12)	1,299	14,265	333	949	-	4,304	19,851
Concessions, patents and licenses	5,933	3	2,678	-	696	9,310	198	20	-	5,668	15,196
Issue rights	1,824	-	2,539	(1,668)	-	2,695	-	3,409	(2,433)	(152)	3,519
Prepayments	1,155	-	92	-	(1,093)	154	7	500	-	(111)	550
	27,064	(71)	6,799	(1,680)	902	33,014	1,104	4,878	(2,433)	2,553	39,116
Accumulated amortization											
Technology and contracts	(2,447)	102	(568)	-	-	(2,913)	(250)	-	-	3,163	-
Software	(8,231)	(83)	(801)	12	-	(9,103)	(167)	(1,707)	-	(664)	(11,641)
Concessions, patents and licenses	(4,410)	7	(2,250)	-	(3)	(6,656)	(155)	(1,825)	-	(1,921)	(10,557)
	(15,088)	26	(3,619)	12	(3)	(18,672)	(572)	(3,532)	-	578	(22,198)
	11,976	(45)	3,180	(1,668)	899(*)	14,342	532	1,346	(2,433)	3,131 (*)	16,918

(*) Transfers recognized under "Intangible assets" were made from "Property, plant and equipment".

In 2010 the Group received free emission rights equivalent to 430,722 tons (2009: 206,370 tons) as per the 2008-2012 National Allocation Plan approved by Royal Decree 1370/2006. The Group consumed 358,116 tons in 2010 and 163,026 tons of emission rights in 2009.

Details of the cost of fully amortized intangible assets in use at 31 December 2010 and 2009 are as follows:

	Thousands of euros	
	2010	2009
Software	9,649	5,115
Concessions, patents and licences	5,119	1,360
	14,768	6,475

(8) Investments in associates and Other Financial Assets under Current and Non-current Assets

The breakdown of these headings is as follows:

	(Thousands of euros)	
	2010	2009
Investments in associates	1,565	1,333
Total	1,565	1,333
Non-current assets - Other financial assets		
Held-to-maturity investments	1,111	445
Loans and receivables	-	20
Available-for-sale financial assets	67	42
	1,178	507
Total, non-current	2,743	1,840
Loans and receivables	24	442
Held-to-maturity investments	3,066	-
Financial assets at fair value from hedging transactions (Note 17)		
	3,640	2,558
Total, current	6,730	3,000

Investments in associates

The Group owns 50% of Lingbao Baolihao Food. This company is domiciled in Lingbao (China) and produces asparagus. In 2009 capital was increased by 567 thousand euros, which entailed a contribution of 284 thousand euros by the Group to commence activity.

The movement in the carrying amount of this investment in an associate is as follows:

	Thousands of euros	
	2010	2009
Ligbhao Baolihao Food:		
Balance at January 1	1,333	998
Increase in investment	-	284
Profit for the year	77	(17)
Translation differences	155	68
Balance at December 31	1,565	1,333

The following table provides all the significant financial information regarding this investment:

	Thousands of euros	
	2010	2009
Current assets	426	1,048
Non-current assets	3,028	2,812
Current liabilities	(356)	(1,194)
Net assets	3,098	2,666
Ordinary revenues	7,402	2,872
Operating profit (EBIT)	315	6
Profit for the year	154	(34)

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

Lingbao Baolihao Food's total ordinary income corresponds to the sale of asparagus to Industrias Alimentarias de Navarra, S.A.U., and is therefore considered Group purchases. In 2010 and 2009, payables to this company amounted to 147 and 0 thousand euros, respectively. No other transactions took place with this subsidiary, and it has no other outstanding receivables and payables.

(9) Income tax

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

	Thousands of euros					
	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Temporary differences						
Non-current assets	235	136	27,991	23,970	(27,756)	(23,834)
Current assets	4,885	2,192	2,514	525	2,371	1,667
Non-current liabilities	4,594	2,547	-	498	4,594	2,049
Current liabilities	3,410	551	4	259	3,406	292
	13,124	5,426	30,509	25,252	(17,385)	(19,826)
Other borrowings						
Tax credits for loss carryforwards	1,068	1,169	-	-	1,068	1,169
Unused tax credits	267	1,456	-	-	267	1,456
	1,335	2,625	-	-	1,335	2,625
	14,459	8,051	30,509	25,252	(16,050)	(17,201)

Non-current deferred tax liabilities for the years ended December 31, 2010 and 2009 mainly relate to the application of different amortization rates by certain Group subsidiaries than those used for tax purposes. Also included is the tax effect of net unrealized gains on assets acquired in several business combinations that still exist at the balance sheet date.

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

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

The breakdown of changes during the year in recognized deferred tax assets and liabilities arising from temporary differences recognized as income tax expense/(income) on the consolidated statement of recognized income and expenses and as "Other income and expenses" on the consolidated comprehensive income statement is as follows:

	Thousands of euros	
	2010	2009
Consolidated income statement		
Non-current assets	3,184	(2,900)
Current assets	(1,164)	3,269
Non-current liabilities	(1,076)	3,697
Current liabilities	(3,114)	(367)
	(2,170)	3,699
"Other comprehensive income" on the consolidated statement of comprehensive income		
Non-current assets	737	(404)
Current assets	460	213
Non-current liabilities	(1,470)	(1,150)
Current liabilities	1	558
	(272)	(783)
Total changes in taxes and deferred tax liabilities due to temporary differences	(2,442)	2,916

The breakdown of deferred taxes charged directly against "Other comprehensive income" on the consolidated income statement is as follows:

	Thousands of euros	
	2010	2009
Actuarial gains (losses) on pension plans		
United States	(694)	(433)
Germany	(776)	(505)
Unrealized gains (losses) on cash flow hedges	460	539
Changes due to translation differences	738	(384)
	(272)	(783)

The major components of income tax expense for the years ended December 31, 2010 and 2009 are as follows:

	Thousands of euros	
	2010	2009
Current income tax		
Income tax expense for the year	25,247	17,407
	25,247	17,407
Deferred income tax		
Change in deductions pending application	1,189	773
Change in unused tax credits	101	(176)
Origination and reversal of temporary differences	(2,170)	3,699
	(880)	4,296
	24,367	21,703

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

	Thousands of euros	
	2010	2009
Profit before tax for the year	105,713	85,962
30% tax rate	31,714	25,788
Effect of application of tax rates in each country	(17)	1,038
Deductions generated in 2010	(6,528)	(5,422)
Impact of permanent differences	(802)	299
	24,367	21,703

At December 31, 2010 the breakdown of unused tax loss carryforwards from the Serbian subsidiary, Koteks Viscofan, d.o.o., is as follows:

Arising in	Last year for utilization	Thousands of euros
2006 and earlier	2013	4,151
2007	2017	2,110
2008	2018	2,661
2009	2019	1,758
		10,680

Income tax payable was calculated as follows:

	Thousands of euros	
	2010	2009
Current tax	25,247	17,407
Withholdings and payments on account	(23,772)	(16,867)
	1,475	540

The Group has estimated the taxable profit it expects to obtain in the coming years at Koteks Viscofan, d.o.o. and has analyzed the reversal of taxable temporary differences, identifying those that reverse in years in which they can be used. Based on this analysis, the Group recognized deferred tax assets amounting to 1,068 thousand euros in respect of tax loss carryforwards still to be offset, as it considers probable that sufficient future taxable profit will be generated to offset this amount, applying the prevailing tax rate of 10% in Serbia (2009: 1,169 thousand euros).

In addition the Group has recognized 267 thousand euros in deductions still pending application: (31 December 2009: 1,456 thousand euros) corresponding to the parent Viscofan, S.A. All were generated in 2010, and are applicable for a 10-year period.

The Group has tax incentives of 7.1 million euros in the Czech Republic. (December 31, 2009: 8.3 million euros). These amounts have not yet been inspected nor have they been recognized, as doubts remain as to their recoverability, due to the uncertainty regarding certain interpretations of the total compliance with formal requirements which might affect their recoverability.

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the tax authorities or before the inspection period of four years has elapsed. At 31 December 2010 the Parent and subsidiaries in Spain have open to inspection by the tax authorities all applicable taxes to which they are liable and for which the corresponding inspection periods have yet to expire. The situation of foreign companies depends on the legislation prevailing in each country.

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

(10) Inventories

Details of inventories at 31 December 2010 and 2009 are as follows:

	Thousands of euros	
	2010	2009
Goods for resale	35,725	32,612
Raw materials and other supplies	53,215	40,593
Semi-finished products	23,347	25,497
Finished products	46,029	51,343
Prepayments to suppliers	942	-
	159,258	150,045

At 31 December 2010 and 2009 there are no inventories with a reimbursement period greater than 12 months from the consolidated statement of financial position.

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

(11) Trade and other receivables

Details at 31 December 2010 and 2009 are as follows:

	Thousands of euros	
	2010	2009
Trade receivables	116,591	107,154
Other receivables	4,765	7,377
Advances to employees	146	148
Public entities	9,943	10,690
Others	-	143
Provisions for bad debts	(2,177)	(1,716)
	129,268	123,796

At December 31, 2010 and 2009, the age of accounts receivable on sales by maturity is as follows:

	Thousands of euros					
	Total	Not due	< 30 days	30-60 days	60-90 days	> 90 days
2010	116,591	101,918	10,505	1,973	647	1,548
2009	107,154	89,739	13,797	1,781	486	1,351

All the provisions for bad debts relate to debt shown in the last two columns of the above table.

(12) Cash and cash equivalents

Cash and cash equivalents at 31 December 2010 and 2009 comprise cash balances with Group companies and banks. The Group does not have bank overdrafts at these dates and all balances are freely distributable.

The Group had bank deposits amounting to 8,381 thousand euros at year end 2010. They all mature prior to March 31, 2011, and earn 2.8% interest.

(13) Equity

(13.1) Share capital

Movements in shares in circulation during 2010 and 2009 were as follows:

	Shares		Thousands of euros	
	2010	2009	2010	2009
At 1 January	46,603,682	46,734,879	13,981	14,020
Capital decrease	-	(131,197)	-	(39)
At 31 December	46,603,682	46,603,682	13,981	13,981

The capital reduction during 2009 was carried out through the cancellation of treasury shares.

At 31 December 2010 the share capital of the Parent is represented by 46,603,682 bearer shares of euros 0.30 par value each, subscribed and fully paid. All shares have the same voting and profit sharing rights, except own shares.

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

At December 31, 2010 and 2009, the Parent is aware of the following shareholders with shareholdings greater than 3%:

Entity	%	
	2010	2009
Marathon Asset Management, LLP	5.019	5.019
Onchena, S.L.	5.077	5.077
Blackrock Inc.	3.140	-
BNP Paribas, S.A.	3.083	-

Capital management

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

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

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

The Viscofan Group's primary objective is to maintain a healthy capital position. The gearing ratios at December 31, 2010 and 2009 were as follows:

	Thousands of euros	
	2010	2009
Net financial debt		
Borrowings and finance leases (Note 15)	131,700	124,732
Cash and cash equivalents	(57,301)	(25,763)
Other financial assets (Note 8)	(6,730)	(3,000)
Total financial debt	67,669	95,969
Equity		
Total equity	406,369	345,207
Gearing ratio	0,17	0.28

(13.2) Share premium

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

In 2010 and 2009, a portion of the share premium was returned to shareholders, for a total amount of 16,638 and 13,515 thousand euros, respectively.

(13.3) Reserves

The breakdown and movements of reserves are as follows:

	Thousands of euros				
	Legal reserve	Revaluation reserves	Merger reserve	Retained earnings and other reserves	Total
Balance at January 1, 2009	**2,935**	**8,988**	**119**	**216,999**	**229,041**
Capital decreases	-	-	-	(1,660)	(1,660)
Actuarial gains (losses)	-	-	-	(1,913)	(1,913)
Transfers	-	(83)	-	83	-
Appropriation of 2008 results	-	-	-	41,851	41,851
Balance at December 31, 2009	**2,935**	**8,905**	**119**	**255,360**	**267,319**
Actuarial gains (losses)	-	-	-	(7,410)	(7,410)
Transfers	-	(235)	-	235	-
Appropriation of 2009 results	-	-	-	52,141	52,141
Balance at December 31, 2010	**2,935**	**8,670**	**119**	**300,326**	**312,050**

(a) Legal reserve

Companies registered in Spain are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital, according to the Capital Companies Law. This reserve may only be used to offset losses if no other reserves are available. At 31 December 2010 and 2009 the Parent had appropriated to this reserve the minimum amount required by law.

(b) Revaluation reserve Navarra Regional Law 23/1996

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

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

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

(13.4) Unrealized gains (losses) reserve

Movements in the years ended December 31, 2010 and 2009 were as follows:

	Thousands of euros			
	Interest rate swaps	Exchange rate insurance	Raw material derivatives	Total
Balance at January 01, 2009	-	(38)	-	(38)
Changes in market value	(55)	(43)	886	788
Taken to profit and loss	-	38	-	38
Balance at December 31, 2009	(55)	(43)	886	788
Changes in market value	(45)	488	1,454	1,897
Taken to profit and loss	3	43	(454)	(408)
Balance at December 31, 2010	(97)	488	1,886	2,277

(13.5) Movement in treasury shares

No transactions with treasury shares were carried out in 2010.

The movement in treasury shares during 2009 was as follows:

	2009	
	Number of shares	Thousands of euros
Balance at 1 January	131,197	1,699
Acquisitions	-	-
Cancellation	(131,197)	(1,699)
Balance at 31 December	-	-

The shareholders at their Ordinary General Meeting on June 1, 2010 agreed to renew, up to a maximum of 18 months, the authorization granted to the Board of Directors to buy and sell Company shares on the stock market at the quoted price on the day of the transaction, up to the legal maximum number of shares permitted by Article 75 of the revised text of the Spanish Corporation Laws (in compliance with Article 146 of the revised text of Spanish Capital Companies Law) and related provisions, at a minimum nominal value price and a maximum which is 125 times the nominal value.

(13.6) Distribution of Dividends

Parent profits for the year ended 31 December 2009 were distributed, as approved by the shareholders at their annual general meeting held on 1 June 2010, as follows:

	Thousands of euros
Dividends	12,117
Voluntary reserves	27,179
Distributable profits attributable to the parent	39,296

The proposed distribution of dividends is equivalent to euros 0.260 per share for all the shares comprising share capital,

Part of the balance of the share premium account was returned (0.357 euros per share), a total of 16,638 thousand euros, which was paid to the shareholders on June 23, 2010.

Details of the distribution of the Parent's 2010 dividends proposed by the directors of the Parent, pending approval at the shareholders' general meeting, are as follows:

	Thousands of euros
Interim dividend	13.981
Final dividend	9,507
Other reserves	39,491
Distributable profits	62,979

On November 25, 2010, based on projected profit for the year, the Board of Directors approved an interim dividend for 2010 of 13,981 thousand euros, equal to 0.30 euros per share. This dividend was paid on December 22, 2010. The amount of the dividend is less than the maximum limit permitted by prevailing legislation on distributable profit after the previous year end.

The statement required by current legislation and prepared by the Parent's Board of Directors in respect of the distribution of the interim dividend for 2010, which takes into account treasury shares, is as follows:

	(Thousands of euros)	
I. Balance at November 25, 2010		45,626
II. Cash flows from/(used in) operating activities		
- Trade and other receivables	137,306	
- Other income	530	
- Payments to suppliers and other payables	(86,350)	
- Payments to employees	(29,173)	
- Interest expense	(732)	
- Other payments	(1,000)	
		20,581
III. Cash flows from/(used in) investing activities		
- Dividends received	45,000	
- Purchases of property, plant and equipment	(21,600)	
		23,400
IV. Cash flows from/(used in) financing activities		
- Proceeds from non-current borrowings	(6,068)	
- Dividends paid	(36,351)	
		(42,419)
V. Balance at November 25, 2011		47,188

(14) Deferred Income

Movement in deferred income during 2010 and 2009 was as follows:

	Thousands of euros							
	01.01.09	Additions	Taken to income	31.12.09	Currency translation differences	Additions	Taken to income	31.12.10
Capital grants	3,111	242	(457)	2,896	(3)	894	(469)	3,318
Grants for emission rights of greenhouse gases	-	2,539	(2,437)	102	-	3,407	(2,441)	1,068
	3,111	2,781	(2,894)	2,998	(3)	4,301	(2,910)	4,386

Details of capital grants in 2010 and 2009 are as follows:

Granting entity	Thousands of euros 2010	2009
Navarra regional government	1,174	1,151
FEOGA	1,137	1,210
Ministry of Science and Technology	61	466
Spanish Autonomous Communities	379	69
International organizations	567	-
	3,318	2,896

(15) Current and Non-Current Financial Liabilities Trade and other payables

a) Current and non-current financial liabilities

The breakdown of current and non-current financial liabilities is as follows:

	Thousands of euros 2010	2009
Non-current		
Borrowings	32,292	45,586
Finance lease liabilities (Note 6)	636	655
Other financial liabilities	5,842	5,007
Total non-current	38,770	51,248
Current		
Borrowings	84,043	69,931
Finance lease liabilities (Note 6)	148	111
Financial assets at fair value from hedging transactions (Note 17)	405	533
Other financial liabilities	8,334	2,909
Total current	92,930	73,484

Details of the carrying amount of financial liabilities in foreign currency, their classification by maturity and effective interest rates are shown in Note 18. Loans and other borrowing facilities accrue interest at variable market rates, generally linked to Euribor and Libor plus a 0.5 - 1.5 point market spread.

At 31 December 2010 the Group has a limit on its borrowing facilities and discount lines of euros 114,787 thousand (euros 122,788 thousand in 2009) of which euros 60,375 thousand has been drawn down at 31 December 2010 (euros 47,287 thousand in 2009).

Current and non-current "Other financial liabilities" includes mainly loans with subsidized interest rates from entities such as the Navarra government, CDTI, and the Ministry of Science and Technology. The Group recognizes the implicit interest on these loans using market interest rates. Current - Other financial liabilities includes 3,148 thousand euros corresponding to the amount owed to PP&E suppliers.

The loans received do not contain covenants which, if not met, could lead to the early repayment of the debt, apart from those from the CDTI, which is subject to utilizing the entirety of the amount loaned by the receiver, as well as total compliance with the project receiving assistance under the conditions foreseen in the corresponding contract.

b) Current and non-current financial liabilities

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

	Thousands of euros	
	2010	2009
Trade payables	42,815	36,910
Amounts owed for services received	18,001	18,854
	60,816	55,764
Other current liabilities		
Remuneration pending payment	8,237	7,039
Payable to Public Administrations	10,366	9,389
Accruals	68	-
	18,671	16,428

(16) Current and Non-Current Provisions

Details at 31 December 2010 and 2009 are as follows:

	Thousands of euros	
	2010	2009
Non- Current		
Provisions for employee benefits		
Defined benefit	25,217	35,559
Provisions for other litigation	1,195	1,294
Others	1,194	360
Total non-current	27,606	37,213
Current		
Restructuring provision	2,115	2,835
Guarantees / Refunds	541	710
Safety in the workplace provision	2,396	1,873
Emission rights	2,448	2,432
Others	139	5
Total current	7,639	7,855

(16.1) Provisions for defined benefit plans

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

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

	Thousands of euros	
	2010	2009
Pension for Hourly Employees [1]	4,012	4,888
Salaried Employees Pension Plan [2]	1,291	1,129
Pension for Hourly Employees Service Center [3]	189	220
Non qualified pension plans [4]	1,633	1,480
	7,125	7,717

[1] Life pension for employees and ex-employees of the Danville plant (of the absorbed company, Teepak USA), has 593 beneficiaries (599 in prior year), currently in force; there is no expense for unrecognized past service.

[2] Life pension with 247 participants (248 in 2009) likewise from the absorbed company, Teepak USA. This plan was frozen in September 2005. There are no unrecognized costs for past services and the only costs recognized in the income statement relate to finance costs arising from the commitment and from expected income from the plan assets.

[3] Although not officially frozen this plan has not been in force since 2006 given that it applied to Teepak USA's NQC Service Center which was closed that year. In 2010 and 2009 there were a total of 165 beneficiaries including retired employees and ex-employees. As with the above plan there are no unrecognized costs for past services.

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

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

In 2010, Naturin Viscofan, GmbH paid 14,743 thousand euros to a life insurance company. This contribution was used for the acquisition of the assets linked to the aforementioned plan. Specifically, with this plan, assets were acquired to cover current obligations with the retirees it covered under the age of 80 (640 employees). The agreement does not imply cutting back or canceling the policy, as the obligation ultimately lies with Naturin Viscofan GmbH. Nonetheless, due to the plan's characteristics, the value of assets and liabilities remains unchanged for its duration, and thus the related assets and liabilities net each other, rendering the current value of the obligation nil.

The difference between the amount paid and the obligation prior to signing the contract was considered an actuarial loss, and was recognized directly in equity, in keeping with the accounting treatment of the remaining actuarial gains and losses.

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

	Thousands of euros	
	2010	2009
Life pension	11,343	19,625
Seniority bonuses	2,352	2,411
Semi-retirement	4,397	5,435
	18,092	27,471

The number of beneficiaries of each plan is as follows:

	2010		2009	
	Employees	Retired and ex-employees	Employees	Retired and ex-employees
Life pension	601	1,094	622	1,153
Seniority bonuses	601	-	622	-
Semi-retirement	59	-	72	-

The following table summarizes the components of the net benefit expense recognized in the 2010 and 2009 income statements for the pension plans, except those classified as "Non-qualified":

	Thousands of euros		
Net benefit expense 2010	United States	Germany	Total
Current service cost	220	1,021	1,241
Interest cost	2,070	1,287	3,357
Expected return on plan assets	(2,263)	-	(2,263)
Recognized expense (net income)	27	2,308	2,335

Net benefit expense 2009	United States	Germany	Total
Current service cost	236	1,077	1,313
Interest cost	2,071	1,406	3,477
Expected return on plan assets	(1,950)	-	(1,950)
Recognized expense (net income)	357	2,483	2,840

The "non-qualified" plans bore interest costs of 113 thousand euros in 2009 and 92 thousand euros in 2010. There are no costs for current services as all the plans are linked to former employees of the US subsidiary.

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

	Thousands of euros		
Benefit asset/(liability) 2010	United States	Germany	Total
Present value of the obligation	(38,747)	(32,834)	(71,581)
Present value of plan assets	33,255	14,742	47,997
	(5,492)	(18,092)	(23,584)
"Non-qualified" plans	(1,633)	-	(1,633)
Liability recognized in the consolidated statement of financial position	(7,125)	(18,092)	(25,217)

	Thousands of euros		
Benefit asset/(liability) 2009	United States	Germany	Total
Present value of the obligation	(33,698)	(27,471)	(61,169)
Present value of plan assets	27,460	-	27,460
	(6,238)	(27,471)	(33,709)
"Non-qualified" plans	(1,479)	-	(1,479)
Others	-	-	(371)
Liability recognized in the consolidated statement of financial position	(7,717)	(27,471)	(33,559)

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

	Thousands of euros		
	United States	Germany	Total
Obligation at January 1, 2009	32,637	25,327	57,964
Current service cost	236	1,078	1,314
Interest cost	2,071	1,406	3,477
Benefits paid	(2,381)	(1,879)	(4,260)
Actuarial (gains)/losses	2,316	1,539	3,855
Translation differences	(1,181)	-	(1,181)
Obligation at December 31, 2009	33,698	27,471	61,169
Current service cost	220	1,021	1,241
Interest cost	2,070	1,287	3,357
Benefits paid	(2,584)	(3,948)	(6,532)
Actuarial (gains)/losses	2,727	7,003(*)	9,730
Translation differences	2,616	-	2,616
Obligation at December 31, 2010	38,747	32,834	71,581

(*) Includes 4,418 thousand euros related to a contract signed for the acquisition of an assets plan for retirees under the age of 80.

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

	Thousands of euros
Fair value of plan assets at January 1, 2009	26,363
Return on plan assets	2,829
Contribution by the Company	1,611
Benefits paid	(2,381)
Translation differences	(962)
Fair value of plan assets at December 31, 2009	27,460
Actual return on plan assets	3,192
Contribution by the Company	3,067
Benefits paid	(2,584)
Translation differences	2,120
Fair value of plan assets at December 31, 2010	33,255

The Group expects to contribute 2,316 thousand euros to eligible assets of pension plans in the US in 2011.

The percentage weight of plan assets by category in 2010 and 2009 is similar, as follows:

Monetary assets	0-5%
Equities	28-38%
Fixed-income investments	62-72%

The principal actuarial assumptions used are as follows:

United States	2010	2009
Annual discount rate	5%	5.75%
Expected rate of return on assets	7.5%	7.5%
Expected rate of salary increases	2.5%	2.5%
Germany		
Annual discount rate	5.15%	5.25%
Expected rate of salary increases	2%	2%
Expected age of retirement for employees	60-65	60-65

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

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

The Group has three pension plans in the US classified as "Non-qualified," whose main feature is the different consideration for tax purposes. Beneficiaries of these plans are retired former managers who receive life-long income. Beneficiaries of these plans were paid 220 thousand euros in 2010 (2009: 153 thousand euros). The actuarial assumptions used in these plans are the same as those for the other plans in the US. None of these plans has assets.

(16.2) Provisions for other litigation

Movement at 31 December 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Balance at 1 January	1,294	1,520
Translation differences	133	457
Allowances	-	20
Applications	(232)	(703)
Balance at 31 December	1,195	1,294

The provision for other litigation mainly covers claims brought against the Brazilian subsidiary by the Brazilian tax authorities and certain company employees. These claims are expected to be resolved after 2011. According to the directors' opinion and corresponding legal assessment, the result of this litigation is not expected to differ significantly from the amounts provided for at 31 December 2010.

(16.3) Restructuring provision

The movement in this heading at December 31, 2010 and 2009 is as follows:

	Thousands of euros	
	2010	2009
Balance at 1 January	2,835	563
Charge	327	2,742
Utilized (payments made)	(1,047)	(470)
Balance at 31 December	2,115	2,835

In line with Group policy to reduce costs, in 2009 and 2010 decisions were focused on restructuring certain activities to improve efficiency in certain production processes. These decisions led to the elimination of employee positions in certain of the subsidiaries. Consequently, most of the provision set aside in 2010 relates to termination benefits for 20 employees of the Group's subsidiary in Germany and the Czech Republic; these redundancies took place as a result of moving collagen production to Serbia, beginning in 2010 and finalizing sometime in 2011.

The majority of the assets affected by this restructuring have been transferred to Serbia, while the items which either due to their nature or for other reasons were not transferred have been derecognized or written down to their recoverable amount, with little or no effect on the income statement. These transactions are not considered discontinued operations.

(16.4) Provision for guarantees / refunds

This provision is mainly related to sales in Europe. Its estimate is based on the Group's historical information.

(16.5) Safety in the workplace provision

The safety in the workplace provision covers claims brought against the Group by certain employees, most of whom are based in the US, related to workplace accidents. These claims did not arise as a result of a specific incident, but are customary practice in many companies. These claims should be resolved in 2011. Based on conversations with its legal counsel, the Company's directors consider that the result of these litigations will not differ significantly from the amounts provisioned during 2010.

(16.6) Emission rights provision

Gas emission expenses were 2,448 thousand euros in 2010 (2009: 2,432 thousand euros).

The criterion for estimating these expenses consists of a market price valuation of the Company's emission rights in 2010.

(16.7) Contingent assets and liabilities

At year end there were tax and labor-related legal proceedings underway against the Brazilian subsidiary amounting to 9.2 million euros (2009: 5'9 million euros). As stated in Note 16.2, at December 31, 2010 a provision of 1.2 million euros was set aside (December 31, 2009: 1.3 million euros). None of the unresolved litigation is for significant amounts. All the litigation cases which have not been recognized as liabilities are cases which the Group's legal advisor in Brazil classifies as an improbable risk or are for amounts which, if settled, cannot be quantified at the present date. Historical experience indicates that the probable amount resulting from these claims is less than 5%.

At year end, ongoing commercial claims amount to 1.1 million euros. At year end 2010, there was a provision amounting to 0.5 million euros (2009: 0 million euros). This amount corresponds to the probable risk calculated by the Group's legal team. The risk related to the remaining amount is considered possible, rather than probable.

The most significant contingent assets at December 31, 2010 are as follows:

- 6,677 thousand euros are included under "Financial liabilities" related to provisions for debts and interest related to third-party claims (2009: 6,307 thousand euros). The litigation underway in respect of these claims might give rise to no obligation to pay all or part of the claims and, therefore, this would have a positive impact in future years.

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

(17) Derivatives

All the Group's derivatives at December 31, 2010 and 2009 were designated as cash flow hedges.

The breakdown of the balances at December 31, 2010 and 2009 which include the values of derivatives at those dates is as follows:

	2010		2009	
	Current financial assets	Current financial liabilities	Current financial assets	Current financial liabilities
Interest rate hedges	-	137	-	79
Exchange rate insurance	946	268	1,293	454
Raw material hedges	2,694	-	1,265	-
	3,640	405	2,558	533

Part of the fair value of the exchange rate insurances at year end was recognized as finance income or expense on the consolidated income statements for 2010 and 2009. The amount recognized directly in the consolidated income statements relates to exchange rate insurances designated as hedges to cover amounts payable or receivable which are recognized in the consolidated statements of financial position at the exchange rate at year end.

(17.1) Interest rate hedges

In 2010, the Group had the following three interest rate hedges (which were also in existence in 2009):

	2010			2009		
	I.R.S (I)	I.R.S (II)	I.R.S.(III)	I.R.S (I)	I.R.S (II)	I.R.S.(III)
Notional contract amount[(1)]	4,688	5,000	5,000	4,688	5,000	5,000
Notional contract amount[(1)]	3,125	3,750	3,125	4,375	5,000	4,350
Effective start date	8/20/2009	9/18/2009	6/1/2009	8/20/2009	9/18/2009	6/1/2009
Expiry date	5/20/2013	9/18/2013	6/1/2013	5/20/2013	9/18/2013	6/1/2013
Fixed interest rate	2.07%	2.29%	2.45%	2.07%	2.29%	2.45%

Thousands of euros

The expiry dates of the notional amounts of these financial instruments at year end is as follows:

Year	2010	2011	2012	2013
2010	-	3,750	3,750	2,500
2009	3,725	3,750	3,750	2,500

(17.2) Exchange rate insurance

The Viscofan Group uses derivatives to hedge exchange rates in order to mitigate the possible adverse effects that exchange rate fluctuations might have on transactions in currencies other than the functional currency of certain Group companies.

The nominal value of the main exchange rate insurances in effect at December 31, 2010 and 2009 is as follows:

	Thousands	
Currency	2010	2009
US dollar	71,310	82,413
Canadian dollar	175	1,160
Japanese yen	14,927	23,343
Sterling pounds	-	500
	86,412	107,416

(17.3) Raw material hedges

A significant amount of the Group's production costs is linked to energy costs. Accordingly, to mitigate the adverse effect of varying energy prices, in 2009 the Group arranges hedges for some of its casings plants.

During 2009, the Company signed swap agreements for the cost of gas for a notional value of 666,666 MWh for both 2010 and 2011, respectively, with monthly payments of 1/12 of the notional value for which it will pay a fixed amount of 1,7270 and 1,7915 euro cents per kilowatt/hour during 2010 and 2011, respectively. Thus, the Group is covering 2/3 of the expected gas consumption in Spain for both years. This is based on a formula which includes other variables, such as Brent forward prices. In this manner, the Group plans to mitigate the adverse impact of fluctuating energy prices. The effectiveness of the hedge is measured comparing the price of these swap agreements as well as kw/hour spot listing of natural gas in Spain.

(18) Risk Management

(18.1) Financial risks

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

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

(a) Market risks

- Exchange rate risks

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

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

The risk management policy of the Group is to cover the net balance between collections and payments in currencies other than the functional currency with the most net risk. Therefore, forward currency contracts were formalized at the time the yearly budget was prepared; EBITDA forecasts were used as the basis for the following year, the degree of exposure, and the degree of risk the Group is willing to assume.

The main exposure arises from the difference between sales and purchases in foreign currency at several Group companies. In this respect, the main risk arises from the difference between sales and expenses in US dollars. Approximately 39% and 21% of the Group's total sales and expenses, respectively, are in this currency.

The following table shows the sensitivity of consolidated profit to a possible change in the exchange rate of certain currencies of countries where the Group conducts business:

	Thousands of euros							
	US Dollar		Czech Crown		Brazilian Real		Other	
	31.12.10	12.31.2009	12.31.2010	12.31.2009	12.31/2010	12.31.2009	12.31.2010	12.31.2009
+5%	7,004	6,035	(797)	(610)	707	1,188	(1,007)	(265)
- 5%	(6,337)	(5,461)	721	552	(639)	(1,075)	911	240

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

	Thousands of euros							
	US Dollar		Czech Crown		Brazilian Real		Other	
	31.12.10	12.31.2009	12.31.2010	12.31.2009	12.31.2010	12.31.2009	12/31/2010	12.31.2009
+5%	4,559	3,921	2,181	1,687	4,272	3,614	3,239	2,813
- 5%	(4,125)	(3,548)	(1,973)	(1,527)	(3,865)	(3,270)	(2,931)	(2,545)

Details of the Group's exposure to exchange rate risks at 31 December 2010 and 2009 are shown below. The tables reflect the carrying amount of financial instruments or classes of financial instruments of the Group which are denominated in foreign currency.

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	Thousands of euros						
	US Dollar	Czech Crone	Serbian Dinar	Mexican Peso	Brazilian Real	Others	Total
At 31 December 2010							
Assets							
Non-current financial assets	79	-	-	22	206	768	1,075
Total non-current assets	79	-	-	22	206	768	1,075
Trade and other receivables	39,038	1,390	2,321	2,727	23,391	2,545	71,412
Other financial assets	2	369	-	-	-	-	371
Cash and cash equivalents	7,657	1,526	442	688	3,385	1,457	15,155
Total current assets	46,697	3,285	2,763	3,415	26,776	4,002	86,938
Total assets	46,776	3,285	2,763	3,437	26,982	4,770	88,013
Liabilities							
Borrowings	10,916	-	-	-	206	2,627	13,749
Other liabilities	557	9	-	-	-	-	566
Total non-current liabilities	11,473	9	-	-	206	2,627	14,315
Borrowings	8,886	12,992	6,677	-	-	-	28,555
Trade and other payables	9,404	3,229	2,952	5,082	6,317	1,642	28,626
Total current liabilities	18,290	16,221	9,629	5,082	6,317	1,642	57,181
Total liabilities	29,763	16,230	9,629	5,082	6,523	4,269	71,496

	Thousands of euros						
	US Dollar	Czech Crone	Serbian Dinar	Mexican Peso	Brazilian Real	Others	Total
At 31 December 2009							
Assets							
Non-current financial assets	73	-	20	6	307	6	412
Other financial assets	-	-	-	-	-	-	-
Total non-current assets	73	-	20	6	307	6	412
Trade and other receivables	39,893	4.615	755	5,297	13,947	3,118	67,625
Other financial assets	-	-	17	-	-	-	17
Cash and cash equivalents	5,365	481	131	1,389	5,150	4,290	16,806
Total current assets	45,258	5,096	903	6,686	19,097	7,408	84,448
Total assets	45,331	5,096	923	6,692	19,404	7,414	84,860
Liabilities							
Borrowings	18,784	-	-	-	-	-	18,784
Other financial liabilities	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-
Total non-current liabilities	18,784	-	-	-	-	-	18,784
Borrowings	12,815	8,730	-	-	-	2,313	23,858
Trade and other payables	7,523	3,027	723	4,456	4,791	1,792	22,312
Other financial liabilities	-	314	-	-	-	-	314
Total current liabilities	20,338	12,071	723	4,456	4,791	4,105	46,484
Total liabilities	39,122	12,071	723	4,456	4,791	4,105	65,268

(b) Price risks

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

(c) Credit risk

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

(d) Liquidity risk

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

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

The following ratios show the level of liquidity at December 31, 2010 and 2009:

	Thousands of Euros	
	2010	2009
Current assets	354,750	302,651
Current liabilities	(181,531)	(154,071)
Provision for gas emission rights	2,448	2,432
Working capital	**175,667**	**151,012**
Current liabilities for emission rights, net of provision	179,083	151,639
% working capital/current liabilities without emission rights provision	**98.09%**	**99.59%**
Cash and cash equivalents	57,301	25,763
Available borrowing facilities	45,022	66,621
Available discount lines	9,390	8,879
Cash and available on credit and discount lines	**111,713**	**101,263**
% cash and cash equivalents+ available on credit and discount lines /Current liabilities without emission rights provision	**62,38%**	**66.78%**

The undiscounted contractual maturity dates of financial liabilities at December 31 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	39,680	42,545	29,665	2,627	114,517
Loans	*7,668*	*16,809*	*29,665*	-	*54,142*
Borrowings (*)	*31,650*	*25,736*	-	*2,627*	*60,013*
Advances on invoices and discount lines (**)	*362*	-	-	-	*362*
Accrued interest payable	1,819	-	-	-	1,819
Finance leases	36	111	636	-	783
Other financial liabilities	4,831	3,908	5,547	295	14,581
Other current liabilities	18,671	6,310	-	-	24,981
Trade and other payables	55,981	-	-	-	55,981
	121,018	**52,874**	**35,848**	**2,922**	**212,662**
2009					
Bank borrowings	14,127	54,333	45,585	-	114,046
Loans	*6,845*	*14,824*	*45,090*	-	*66,759*
Borrowings (*)	*5,493*	*39,509*	*496*	-	*45,498*
Advances on invoices and discount lines (**)	*1,789*	-	-	-	*1,789*
Accrued interest payable	1,471	-	-	-	1,471
Finance leases	29	82	655	-	766
Other financial liabilities	1,616	1,826	4,452	555	8,449
Other current liabilities	16,428	540	-	-	16,428
Trade and other payables	55,764	-	-	-	55,764
	89,435	**56,781**	**50,693**	**555**	**197,464**

(1) 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.

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

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

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

The Company's exposure to interest rate risk is mainly related to loans and borrowing facilities received from financial entities at floating interest rates. As explained in Note 17, in 2009 the Group arranged hedges to partially mitigate the risk of a possible increase in interest rates. In any case, the Viscofan Group's degree of leverage is low and, therefore, the impact of a possible rise in interest rates would not be significant.

At December 31, 2010 and 2009 the structure of financial liabilities (excluding hedging derivatives) once hedges through the derivatives arranged have been taken into account is as follows:

	Thousands of euros	
	2010	2009
Bank borrowings	117,119	116,283
Other financial liabilities (excluding hedging derivatives)	14,176	7,916
Total financial liabilities	131,295	124,199
Fixed interest rate	24,176	21,641
Variable interest rate	107,119	110,474

Financing at floating interest rates is for the most part linked to Euribor and Libor dollar. The Group is likewise exposed to changes in the interest rates used to calculate the pension plan obligations in US and Germany (Note 16.1).

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

	Thousands of euros							
	Pension plan commitments				Financial debt			
	USA		Germany		Euribor		Libor dólar –USA	
	31.12.10	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009
+1%	(364)	(332)	(228)	(264)	(800)	(843)	(258)	(340)
- 1%	360	332	228	264	793	811	256	334

(f) Gas and electricity price risk

The Group is affected by fluctuating energy prices. In the past and recently, hedges were arranged to provide coverage for this volatility.

+/- 10% oscillations would have had a 7,314 and 6,225 thousand euro impact on 2010 and 2009 results, respectively (a price surge would negatively affect results, and vice versa).

(18.2) Measurement and maturities of financial instruments

Below is a breakdown of the undiscounted values of financial instruments or types of financial instruments by maturity:

	Thousands of euros						
	Less than 1 year	1 –2 years	2–3 years	3–4 years	4–5 years	More than 5 years	Total
At 31 December 2010							
Assets							
Trade and other receivables	129,268	-	-	-	-	-	129,268
Other financial assets	6,730	1,178	-	-	-	-	7,908
Total assets	135,998	1,178	-	-	-	-	137,176
Liabilities							
Borrowings							
Debt principal	82,224	19,334	7,999	2,332	-	2,627	114,516
Interest	2,863	807	258	58	-	-	3,986
Trade and other payables	60,816	-	-	-	-	-	60,816
Other current liabilities	24,981	-	-	-	-	-	24,981
Other financial liabilities							
Debt principal	8,739	1,740	1,633	1,193	981	295	14,581
Interest	365	146	103	62	32	7	715
Total Liabilities	179,988	22,027	9,993	3,645	1,013	2,929	219,595
At 31 December 2009							
Assets							
Trade and other receivables	123,796	-	-	-	-	-	123,796
Other financial assets	3,000	507	-	-	-	-	3,507
Total assets	126,796	507	-	-	-	-	127,303
Liabilities							
Borrowings							
Debt principal	68,571	17,792	17,408	8,371	2,670	-	114,812
Interest	4,341	1,156	711	276	67	-	6,551
Trade and other payables	55,764	-	-	-	-	-	55,764
Other current liabilities	16,968	-	-	-	-	-	16,968
Other financial liabilities							
Debt principal	3,442	1,234	1,168	1,326	724	555	8,449
Interest	211	125	94	65	32	14	541
Total Liabilities	149,297	20,307	19,381	10,038	3,493	569	203,085

The comparison between the carrying amounts and fair values of the Viscofan Group's financial instruments at December 31, 2010 and 2009 is as follows:

	2010		2009	
(Thousands of euros)	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Derivatives	3,640	3,640	2,558	2,558
Other financial assets	4,268	4,268	949	949
Trade and other receivables	129,268	129,268	123,796	123,796
Cash and cash equivalents	57,301	57,301	25,763	25,763
	194,477	**194,477**	**153,066**	**153,066**
Financial liabilities				
Bank borrowings	117,119	117,119	116,283	116,283
Derivatives	405	405	533	533
Other financial liabilities	14,176	14,176	7,916	7,916
Other current liabilities	20,146	20,146	16,968	16,968
Trade and other payables	60,816	60,816	55,764	55,764
	212,662	**212,662**	**197,464**	**197,464**

As shown in the above table, the Viscofan Group recognizes all financial assets and liabilities at fair value, which it classifies using a three-level hierarchy:

- Level 1: Assets and liabilities listed on liquid markets. The Group does not have nor has had assets or liabilities listed in liquid markets either in 2010 or 2009.

- Level 2: Assets and liabilities whose fair values are determined via valuation techniques which use market assumptions. All the asset and liability derivatives at December 31, 2010 and 2009 are included in this level.

- Level 3: Assets and liabilities whose fair value is determined using valuation techniques which do not use observable market assumptions. In 2010 and 2009 the Group does not have nor has had assets or liabilities which it had to classify in this level.

(19) Environmental Information

The breakdownof costs and accumulated depreciation of property, plant and equipment in respect of the Group's environmental activities at 31 December 2010 and 2009 are as follows:

	Thousands of euros			
	2010		2009	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Vapour boiler				
Water-cooler circuit	5,454	(1,082)	4,840	(1,119)
Waste management plant	3,603	(2,047)	3,436	(1,982)
Gas washers	4,441	(2,253)	3,983	(2,412)
Purifier	3,830	(2,926)	3,419	(2,767)
Others	4,718	(2,372)	4,252	(1,994)
Vapour boiler	2,944	(1,333)	2,216	(1,102)
	24,990	(12,013)	22,146	(11,376)

During 2010 and 2009 the Parent incurred expenses for protection and improvement of the environment amounting of 986 y 908 thousand of euros, respectively.

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

(20) Ordinary Income

Business Segments	Thousands of euros							
	Casings		Tinned Food		Eliminations and others		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009
Income and expenses								
Sales and services rendered	538,675	490,493	95,271	93,289	(220)	(368)	633,726	583,414
Material consumed	(113,348)	(104,467)	(56,151)	(59,462)	-	-	(169,499)	(163,929)
Other operating income	9,240	7,687	611	643	-	-	9,851	8,330
Other operating expenses	(328,869)	(304,252)	(35,044)	(32,665)	220	368	(363,693)	(336,549)
	105,698	89.461	4,687	1.805	-	-	110,385	91.266
Financial loss	(4,622)	(4,970)	(50)	(334)	-	-	(4,672)	(5,304)
Income tax expense	(23,398)	(21,684)	(969)	(19)	-	-	(24,367)	(21,703)
Profit for the year	77,678	62,807	3,668	1,452	-	-	81,346	64,259
Assets and Liabilities								
Total segment assets	610,734	539,398	78,437	76,591	-	-	689,171	615,989
Total segment liabilities	250,746	237,835	32,056	32,947	-	-	282,802	270,782
Other segment information								
Capital expenditure								
- Property, plant and equipment	45,140	41,404	781	763	-	-	45,921	42,167
- Intangible assets	1,446	4,163	23	97	-	-	1,469	4,260
Depreciation and amortization								
- Property, plant and equipment	(37,294)	(31,465)	(2,931)	(2,651)	-	-	(40,225)	(34,116)
- Intangible assets	(3,488)	(3,561)	(44)	(58)	-	-	(3,532)	(3,619)
Cash Flows								
Cash flows from operating activities	118,618	110,312	5,919	13,680	-	-	124,537	123,992
Cash flows from investing activities	(63,574)	(46,303)	(640)	(888)	-	-	(64,214)	(47,191)
Cash flows from financing activities	(26,899)	(51,106)	(3,756)	(13,236)	-	-	(30,655)	(64,342)

Geographical segments	Spain		Other European countries and Asia		North America		South America		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Ordinary income from external clients	195,353	201,461	160,928	132,881	188,354	174,727	89,091	74,345	633,726	583,414
Segment assets	225,579	190,516	215,856	197,747	157,484	144,855	90,252	82,871	689,171	615,989
Other segment information										
Capital expenditure										
- Property, plant and equipment	7,637	15,376	26,386	15,479	8,994	7,532	2,904	3,780	45,921	42,167
- Intangible assets	910	2,919	387	1,271	58	70	114	-	1,469	4,260
Cash flows										
Cash flows from operating activities	72,095	64,295	26,772	22,388	24,663	28,465	1,007	8,844	124,537	123,992
Cash flows from investing activities	(7,278)	(18,466)	(43,782)	(14,158)	(9,509)	(10,802)	(3,645)	(3,765)	(64,214)	(47,191)
Cash flows from financing activities	(27,189)	(46,332)	11,639	(3,088)	(15,432)	(12,554)	327	(2,368)	(30,655)	(64,342)

(21) Other Income

Details of other income are as follows:

	Thousands of euros	
	2010	2009
Government grants	999	916
Gains on sale of fixed assets	2,442	2,324
Other income	5,412	4,516
	8,853	7,756

(22) Other Operating Expenses

Details of other expenses are as follows:

	Thousands of euros	
	2010	2009
Research and development costs	1,044	1,048
Repairs and maintenance	23,795	23,629
Supplies	88,307	75,189
Administrative and selling costs	60,147	55,327
Other expenses	10,408	8,632
Administrative and selling costs		
	183,701	163,825

(23) Personnel Expenses

Details of personnel expenses during 2010 and 2009 are as follows:

	Thousands of euros	
	2010	2009
Wages and salaries	103,109	101,306
Indemnity payments	1,417	1,259
Current service cost of defined benefits (Note 16.1)	1,241	1,314
Provisions for other benefits (Note 16.3)	327	2,742
Company social security contributions	21,281	24,561
Other welfare benefits and taxes	8,838	2,865
	136,213	134,047

Group employees in 2010 and 2009, by professional category and gender, were as follows:

	Average headcount at 2010 year end			Average number of employees in 2010
	Men	Women	Total	
Executives	62	10	72	75
Technicians and middle management	763	124	887	594
Administrative personnel	133	195	328	614
Specialized personnel	284	110	394	400
Unskilled workers	1,419	676	2,095	2,133
	2,661	1,115	3,776	3.816

	Average headcount at 2009 year end			Average number of employees in 2009
	Men	Women	Total	
Executives	65	8	73	72
Technicians and middle management	509	138	647	631
Administrative personnel	140	178	318	328
Specialized personnel	538	113	651	644
Unskilled workers	1,418	673	2,091	2,224
	2,670	1,110	3,780	3.899

(24) Financial Income and Expense

Details of financial income and expense are as follows:

	Thousands of euros	
	2010	2009
Financial income		
Other financial income	1,489	680
Exchange gains	13,882	14,930
Results of companies consolidated using the equity method	77	-
Total financial income	15,448	15,610
Financial expenses		
Other financial expenses	3,431	4,845
Exchange losses	16,689	16,052
Results of associates	-	17
Total financial expenses	20,120	20,914

The breakdown of "Other finance costs" is the following:

	Thousands of euros	
	2010	2009
Bank borrowings and other financial liabilities	2,245	3,318
Net finance cost of pension plans	1,186	1,527
	3,431	4,845

(25) Earnings per Share

(25.1) Basic

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

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

	Thousands of euros	
	2010	2009
Profit attributable to ordinary equity holders of the Parent	81,346	64,259
Weighted average number of ordinary shares in circulation	46,603,682	46,603,682
Basic earning per share (in euros)	1.7455	1.3788

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

	2010	2009
Weighted average number of ordinary shares in circulation	46,603,682	46,603,682
Effect of treasury shares	-	-
Average number of ordinary shares in circulation at 31 December	46,603,682	46,603,682

(25.2) Diluted

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

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

The Board of Directors of the Company only accrue remuneration established in articles 27 and 30 of the Company's bylaws, equivalent to 1.5% of the parent's profit before income tax for the parent's Board of Directors and another 1.5% of the parent's profit before income tax of the parent's Executive Committee. The Board of Directors and the Executive Committee, in accordance with the aforementioned bylaw articles, decide the respective share that the members of each body shall receive.

Details of remuneration are as follows:

	Euros					
			Per diems			
Year	Committee	Board	Audit Committee:	Board of Directors	Boards of other Group companies	Total
2010	1,001,342	921,342	70,000	80,000	244,800	2,317,484
2009	628,740	550,743	56,000	78,000	238,620	1,552,103

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

In 2010 and 2009, members of the Board of Directors had not carried out any transactions with the Company or Group companies.

In compliance with articles 229 and 230 of the Spanish Capital Companies Law, the directors of Viscofan, S.A. have provided notification that there are no situations representing a conflict with any other Group companies. They have informed the Company that, apart from the following, they hold no equity investments in companies having identical, similar or complementary activities to those of the parent or the Group.

Name	Company	Position
D. José Domingo de Ampuero y Osma	Naturin Viscofan GmbH	Chairman to the Board of Directors
	Naturin Limited	Chairman to the Board of Directors
	Gamex CB, s.r.o.	Chairman to the Board of Directors
	Viscofan CZ, s.r.o.	Chairman to the Board of Directors
	Viscofan USA Inc.	Chairman to the Board of Directors
	Viscofan Technology Suzhou Co. Ltd	Chairman to the Board of Directors
	Viscofan Centroamérica Comercial, S.A.	Chairman to the Board of Directors
	Viscofan Canada, Inc.	Chairman to the Board of Directors
	Viscofan Do Brasil S. Com. E Ind. Ltda.	Member of Consultant Board
	Viscofan de México, S. de R.L. de C.V.	Chairman to the Board of Directors
	Koteks Viscofan d.o.o.	Chairman to the Board of Directors
	Industrias Alimentarias de Navarra, S.A.U.	Chairman to the Board of Directors
D. Nestor Basterra Larroudé	Naturin Viscofan GmbH	Vice Chairman
	Gamex CB, s.r.o.	Vice Chairman
	Koteks Viscofan d.o.o.	Vice Chairman
	Naturin Limited	Vice Chairman
	Viscofan USA Inc	Vice Chairman
	Viscofan Canada, Inc.	Vice Chairman
	Viscofan Centroamérica Comercial, S.A.	Vice Chairman
	Viscofan CZ, s.r.o.	Vice Chairman
	Viscofan de México, S. de R.L. de C.V.	Vice Chairman
	Industrias Alimentarias de Navarra, S.A.U.	Vice Chairman
	Viscofan Technology Suzhou Co. Ltd	Vice Chairman

Remuneration paid to key management personnel listed below amount to 3,244 and 3,177 thousand euros in 2010 and 2009, respectively. The total amount of remuneration relates to short-term employment benefits paid to these employees. No post-employment, long-term services, or dismissal indemnities are provided, nor do any other share-based payments exist.

Name	Position	Company
Mr. José Antonio Canales	Managing Director	Viscofan Group
Ms. Elena Ciordia	Legal Director	Viscofan Group
Mr. Gabriel Larrea	Commercial Director	Viscofan Group
Mr. César Arraiza	Financial Director	Viscofan Group
Mr. Armando Ares	Director of Investor Relations and Communication	Viscofan Group
Mr. Pedro Eraso	Director of Extrusion, Cellulose and Fibrous	Viscofan Group
Mr. José Vicente Sendin	Director Strategic Projects	Viscofan Group
Mr. José Ignacio Recalde	Research and Development Director	Viscofan Group
Mr. Andrés Díaz	Director of Operations	Viscofan Group
Mr. Juan José Rota	Director of Human Resources	Viscofan Group
Mr. Jesús Calavia	Director of Production	Viscofan, S.A.
Mr. Manuel Nadal	IT Director	Viscofan, S.A.
Mr. Ricardo Royo	Financial Director	Viscofan, S.A.
Mr. Miloslav Kamis	Managing Director	Gamex Cb S.R.O, Viscofan Cz, S.R.O.
Mr. Bertram Trauth	Managing Director	Naturin Viscofan Gmbh
Mr. Wilfried Schobel	Director of Production	Naturin Viscofan Gmbh
Mr. Alfred Bruinekool	Managing Director	Naturin, Ltd
	Commercial Director	Naturin Viscofan Gmbh
Mr. Yunny Soto	Managing Director	Viscofan Centroamérica Comercial, S.A.
Mr. Juan Negri	Managing Director	Viscofan Technology (Suzhou) Co. Ltd
Mr. Óscar Ponz	Managing Director	Viscofan De México S.R.L. De C.V,
Mr. Luis Bertoli	Managing Director	Viscofan Do Brasil S. Com. E Ind. Ltda.
Mr. José Maria Fernández	Managing Director	Viscofan Usa Inc..
Mr. Juan Carlos García De La Rasilla	Managing Director	Koteks Viscofan, D.O.O. (until August 2010)
Mr. Alejandro Martínez Campo	Managing Director	Industrias Alimentarias de Navarra, S.A.U.

(27) Audit Fees

The auditors of the consolidated Financial Statements of the Group and other related companies as defined in the fourteenth additional disposition of legislation governing the reform of the financial system have accrued fees for professional services for the years ended 31 December 2010 and 2009 as follows:

	Thousands of euros	
	2010	2009
Principal auditor		
Audit services	118	116
Other services	58	25
	176	141

Audit services detailed in the above table include the total fees for services rendered in 2010 and 2009, irrespective of the date of invoice.

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

	Thousands of euros	
	2010	2009
Audit services	456	421
Other services	77	98
	533	519

(28) Information on late payments to suppliers. Third additional provision. "Disclosure requirements" of Law 15/2010 of July 5.

In compliance with the resolution of the Spanish Accounting and Auditing Institute of December 29, 2010 and as established in its second transitory provision, the overdue balance payable to suppliers at December 31, 2010 which exceeds the legal payment deadline (transitorily, 85 days up to December 31, 2010) totals 4,032 thousand euros, of which 3,997 thousand euros correspond to contracts signed before Law 15/2010 went into effect on July 5.

For purposes of the disclosure requirement pertaining to this note, the financial statements are considered first-time financial statements exclusively for this item in terms of uniformity and comparability.

(29) Transactions and balances with related parties

The only balances and transactions with related parties are with Lingbao Baolihao Food (Note 8).

Transactions with management and directors and are discussed in Note 26. There are no transactions or receivables and payables with related parties.

(30) Events after the balance sheet date

In the first part of 2011 there were no significant movements.

2010 Consolidated management report

Business performance and financial position of Viscofan Group companies

2010 was characterized by a solid recovery of income, especially during the second half of the year: revenue grew during 2010 for the sixth consecutive year, reaching 633.7 million euros, which is 8.6% more than the year before. This growth was bolstered by the 9.9% increase in the casings business as compared to 2009, as well as the positive contribution of the vegetable foods division to sales: +2.1% as compared to 2009.

Excluding the impact of exchange rate fluctuations, consolidated income at year end 2010 show a 3.6% increase over 2009.

The per-unit cost containment of raw materials and improvements in production have assisted in improving the gross margin: overall during the year this went up 1.4% over 2009 to 73.3%, showing improvement in the casings division (+0.3% over 2009) as well as the vegetable foods division (+4,8% over 2009). These improved margins were accompanied by increased consumer expenses during 2010: 3.4% higher in 2009, totaling 160.2 million euros.

Consumption of raw materials during the last quarter grew 10.7% as compared to the same period the prior year, reaching 41.7 million euros; these were negatively affected by the commissioning of the Chinese finishing plant, which created a higher volume of waste resulting from the period of adaptation inherent to learning the production process.

Technological efficiency improved thanks to the BeONE program, providing for increased automatic production and the elimination of tasks which add little value, leading to a staff reduction and increased production output, with additional capacity provided by the converting plant located in China.

Accumulated employee benefits expenses during 2010 amounted to 136.2 million euros, which is 1.6% higher than the same period the year before. This is the result of the average number of employees (-2.1% as compared to 2009, totaling 3,816), and increased production output and income. 2010 employee benefits expenses represented 21.5% of consolidated income as compared to 23.0% the year before.

"Other operating expenses" during 2010 amounted to 183.7 million euros, 12.1% over the year before, mainly due to increased energy costs (+17.5% higher than last year), increased cogeneration capacity in Spain compared to the year before, higher fuel prices in North America, as well as the costs of setting up production in China the final quarter of the year.

The Viscofan Group grew within the casings market and improved its competitive position within the vegetable food sector. This increase took place with an inter-annual improvement of the consolidated EBITDA margin, which stood at 24.3% in 2010 as compared to 22.1% in 2009. The Viscofan Group's EBITDA is 154.1 million euros, up 19.5% over 2009.

Excluding the impact of exchange rate fluctuations, the accumulated EBITDA at year end 2010 grew 14.6%. as compared to prior year.

Accumulated depreciation at December 2010 totaled 43.8 million euros (16.0% as compared to 2009), including the depreciation of new assets located in China, due to setting up production in the testing phase, as well as the incorporation of the assets of the German production plant.

Thus, 2010 EBITDA reached 110.4 million euros, 20.9% higher than the same period the year before.

During the year, net bank debt was reduced 33.9% to 59.8 million euros, thanks to strong operational flow which helped sustain heavy investment (47.4 million euros), and dividends paid (30.6 million euros), as well as the externalization of German pension funds totaling 14.7 million euros, therefore reducing the risk of future estimated payment commitments and market volatility when valuing these types of financial assets. The Viscofan Group's financial leverage was 14.7% as compared to 26.2% in December 2009.

2010 net financial loss was reduced by 10.2% as compared to the year before, totaling -4.7 million euros as compared to -5.3 million euros in 2009. Reduced finance costs (-29.2% compared with 2009) along with increased finance income (+119.0%) balanced the net negative impact of exchange rate differences, which grew 150.4% as compared to 2009, due to the fluctuating exchange rates during the last quarter of the year.

Profit before tax amounted to 105.7 million euros, and also grew with respect to 2009, thanks to the Company's improved operations and sound financial base: its effective income tax rate during the year was 23.1% (2.2% below 2009). Thus, income tax expense amounted to 24.4 million euros (+12.3% over 2009).

Accumulated net profit in 2010 grew 26.6% as compared to the year before, reaching a new historical maximum of over 81.3 million euros.

Outlook for the Group

a) Casings

Demand, which had stabilized in 2009, resumed its natural volume growth, with a notable acceleration in the collagen casings segment.

This brisk trend should continue through 2011 across the entire casing business line, especially in the collagen segment.

Growth in emerging areas should benefit the development of the demand of artificial casings; this is also creating inflationary tension in some of our main raw materials and in energy.

Against this backdrop, the Viscofan Group' BeOne strategy continues unabated, with a clear vision: consolidate its leading position within the market while improving the profitability of its operations.

Measures are therefore being implemented to improve economies of scale, with a clearer alignment of the organization, improving tmhe efficiency and productivity of its current initiatives thanks to the management model supported by product segment excellence centers, and adherence to disciplined commercial policies.

Record production output is expected thanks to investments carried out in 2010 and the first quarter of 2011 in Germany and Spain, and the new Viscofan plant in China.

Projects are also underway to improve technology as well as the efficiency of the areas of production and energy. This should balance the per-unit price of energy raw materials in 2011, as well as help finalize the transfer of curved inedible collagen production from Germany to Serbia.

b) Vegetable foods

The environment has been an especially adverse one, due to the deteriorating Spanish economy and stagnated consumption. The IAN Group will forge ahead with its current strategy: in the attempt to preserve its income, it will emphasize the sale of its Carretilla brand, while increasing its product line based on their convenience and healthy attributes, while continuing to rationalize costs.

Viscofan S.A.'s main R&D investments

The group has invested 47.7 million euros during 2010, as compared to 46.3 million in 2009.

2011 investments include boosting the Group's production in the face of increasing demand, improving the technological aspects of the Spanish and German production sites, as well optimizing energy consumption in North America.

Investments were made in the area of canned products to adapt to environmental and safety regulations, as well as to develop a new line of pre-cooked meals.

Viscofan has a proactive R&D policy for both business lines, supported by technological and research centers in various countries:

- Efforts in the casings division are focused on the product (the development of new products and perfecting those already available in order to increase market share of the main meat casing families), as well as processes (innovation and improvement of the industrial production process, while introducing new technologies and developing advanced engineering solutions to optimize production).

- In the vegetable foods division, the Group continues to promote the development of new products, while increasing the variety of ready-cooked meals, which is the area with the brightest perspective growth-wise and as far as added value is concerned, thanks to the patented exclusive CARRETILLA WITH NO CONSERVATIVES prepared foods line.

- Viscofan R&D has been focused on diversification into other areas, where its know-how might permit it to be more profitable in the future. These efforts have materialized in a new bio-engineering application: the use of products which are derived from collagen as breeding ground for cells for research.

Acquisition of treasury shares

At year-end 2010, the Company had no treasury shares.

Risks and uncertainties

The Viscofan Group has shown improved results in volatile and uncertain times, and is well-prepared to gain market share in the main areas in which it competes. Due to the nature of its operations, the Group's activities are exposed to operational, financial, and strategic risk. The Group manages risk using policies approved by the Board of Directors, which is supervised by the Audit Committee.

To this end, the Group has carried out improvements in internal auditing, extending internal control to different areas: investments (committee and procedures).

A plan has been established to set up a system to control financial information internally, based on recommendations from the CNMV, which have contributed to the improvement and consolidation of implemented processes.

Measures designed to prevent and detect crime are currently being devised, which should improve all manner of internal control and limit the risk of criminal liability for corporate persons arising from regulatory changes.

Among the specific risks for the Viscofan Group and its subsidiaries are a less-than-favorable exchange rate, increased costs of production-related factors, such as raw materials and energy, and worsening market conditions due to the global economy.

Risk management policy

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, the Viscofan Group has arranged various interest rate swaps.

The increased activity of the co-generation plant in Cáseda has increased the Group's exposure to energy markets, due to income from 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 Group has an insurance policy to cover its client risk; additional risk coverage was added (where necessary) in countries not traditionally covered. 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; a inter-departmental Risk Committee has been created to ensure compliance.

The degree to which the Group is leveraged, as well as the availability of credit facilities indicate that it will be able to comfortably meet its financial needs; therefore, its liquidity risk is not relevant, despite 2010 financial restrictions which may continue into 2011.

The members of the Board of Directors or persons acting on their behalf have not carried out transactions with the Company or with Group companies, provided that they do not form part of the ordinary business and are not carried out under normal market conditions.

During 2010, no transactions with the Company or other Group companies that do not correspond to the normal course of business or were not carried out in keeping with prevailing market conditions took place.

EVENTS AFTER THE BALANCE SHEET DATE

In the first part of 2011 there were no significant movements.

APPENDIX TO THE CONSOLIDATED ANNUAL ACCOUNTS

STATEMENT: STATEMENT: The Secretary of the Board of Directors, Mr. Juan Mª Zuza Lanz, hereby certifies that the Board of Directors, at its meeting of Monday, February 28, 2011, has approved the consolidated annual accounts for the year ended Friday, December 31, 2010, which consist of the documents attached prior to this page and listed below, by signing for the purposes of identification all of the pages.

Consolidated statement of financial position: 1 page
Consolidated income statement: 1 page
Consolidated comprehensive income statement: 1 page
Consolidated statements of changes in equity: 1 page
Consolidated cash flow statements: 1 page
Notes to the financial statements: 76 pages, numbered consecutively from 6 to 81.

Mr. José Domingo de Ampuero y Osma

Mr. Nestor Basterra Larroudé

Ms. Agatha Echevarría Canales

Mr. Ignacio Marco-Gardoqui Ibáñez

Mr. Alejandro Legarda Zaragüeta

Mr. José Cruz Pérez Lapazarán

Mr. Gregorio Marañón Bertrán de Lis

Ms. Laura González Molero

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

APPENDIX TO THE CONSOLIDATED MANAGEMENT REPORT

STATEMENT: The Secretary of the Board of Directors, Mr. Juan Mª Zuza Lanz, hereby certifies that the Board of Directors, at its meeting of Monday, February 28, 2011, has approved the 2010 consolidated management report by signing for the purposes of identification all of the pages numbered consecutively from 1 to 5.

The following members of the Board of Directors have signed this document on this page, which is included as an appendix to the 2010 consolidated management report.

Mr. José Domingo de Ampuero y Osma

Mr. Nestor Basterra Larroudé

Ms. Agatha Echevarría Canales

Mr. Ignacio Marco-Gardoqui Ibáñez

Mr. Alejandro Legarda Zaragüeta

Mr. José Cruz Pérez Lapazarán

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