Independent Audit Report

VISCOFAN, S.A. AND SUBSIDIARIES
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2016

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

INDEPENDENT AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of VISCOFAN, S.A.:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of VISCOFAN, S.A. (the parent company) and its subsidiaries (the Group), which comprise consolidated statements of financial position at December 31, 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flow, and the notes thereto for the year then ended.

Directors' responsibility for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the consolidated equity and consolidated financial position and the consolidated results of VISCOFAN, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit. We conducted our audit in accordance with prevailing audit regulations in Spain. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of consolidated financial statements by the directors of the parent company in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid - Inscrita en el Registro Mercantil de Madrid al Tomo 12749, Libro 0, Folio 215, Sección 8ª, Hoja M-23123, Inscripción 116. C.I.F. B-78970506.
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of VISCOFAN, S.A. and its subsidiaries at December 31, 2016, and its consolidated results and consolidated cash flow for the year then ended, in accordance with IFRS, as adopted by the EU, and other provisions in the regulatory framework for financial information applicable in Spain.

Report on other legal and regulatory requirements

The accompanying consolidated 2016 management report contains such explanations as the directors of the parent company consider appropriate concerning the situation of the Group, the evolution of its business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the 2016 consolidated financial statements. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of VISCOFAN, S.A. and its subsidiaries.

ERNST & YOUNG, S.L.

(Signed on the original)

Alberto Peña Martínez

February 28, 2017

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VISCOFAN, S.A. AND SUBSIDIAIRES

Consolidated Financial Statements and Consolidated Management report for the year ended

December 31, 2016

(Free translation from the original in Spanish.

In the event of discrepancy, the Spanish-language version prevails)

Consolidated statements of financial position
(Thousands of euros)

Assets	Note	2016	2015
Property, plant and equipment	7	431,910	382,025
Intangible assets	8	16,425	18,334
Deferred tax assets	19	16,329	14,518
Other non-current financial assets	11	12,793	1,311
Total non-current assets		**477,457**	**416,188**
Inventories	9	229,578	208,637
Trade and other receivables	10.1	147,641	130,937
Receivable from public administrations	10.2	23,781	24,126
income tax receivable	19	3,449	4,233
Prepayments		2,574	2,133
Current financial assets	11	1,460	1,214
Cash and cash equivalents	12	45,054	44,453
Total current assets		**453,537**	**415,733**
Total assets		**930,994**	**831,921**

Consolidated statements of financial position
(Thousands of euros)

Equity and liabilities	Note	2016	2015
Share capital	13.1	32,623	32,623
Share premium	13.2	12	12
Other reserves	13.3	592,173	536,278
Profit for the year		125,084	120,022
Interim dividend	13.6	(26,564)	(24,234)
Translation differences		(17,704)	(28,931)
Hedge transaction reserves	13.4	2,240	(2,861)
Equity attributable to equity holders of the parent		**707,864**	**632,909**
Non-controlling interests		**217**	**290**
Total equity		**708,081**	**633,199**
Grants	14	3,001	3,578
Provisions	15	23,317	20,718
Non-current financial liabilities	17	54,867	37,616
Deferred tax liabilities	19	22,811	20,627
Total non-current liabilities		**103,996**	**82,539**
Current financial liabilities	17	30,119	29,837
Trade and other payables	16.1	65,440	62,777
Payable to public administrations	16.2	10,156	10,401
Income tax payable	19	6,524	8,071
Provisions	15	6,678	5,097
Total current liabilities		**118,917**	**116,183**
Total equity and liabilities		**930,994**	**831,921**

Consolidated income statement
(Thousands of euros)

	Note	2016	2015
Sales and services rendered	20.1	730,833	740,770
Other income	20.2	13,781	7,551
Changes in inventories of finished goods and work in progress		2,387	23,531
Consumption of raw materials and other consumables		(205,307)	(226,980)
Employee benefits expense	20.3	(168,576)	(158,545)
Other operating expenses	20.4	(173,412)	(172,362)
Property, plant and equipment depreciation	7	(46,417)	(49,104)
Intangible assets amortization	8	(3,282)	(3,945)
Impairment and gains (losses) on disposal of non-current assets		(116)	(122)
Negative differences from business combinations	5	4,475	-
Operating profit		**154,366**	**160,794**
Finance income	20.5	431	694
Finance costs	20.5	(1,819)	(3,373)
Losses on non-trade receivables	20.5	(721)	-
Exchange differences	20.5	2,998	(6,608)
Profit before tax		**155,255**	**151,507**
Income tax expense	19	(30,244)	(31,883)
Net result for the year from continued operations		**125,011**	**119,624**
Net result for the year from discontinued operations	**5**	**-**	**411**
Profit for the year		**125,011**	**120,035**
Result attributable to equity holders of the parent		125,084	120,022
Retulst attributable to non-controling interests		(73)	13
Earnings per share, basic and diluted, from profit for the year attributable to equity holders of the parent (in euros)	21	2.6840	2.5754
Earnings per share, basic and diluted, from continuing operations attributable to equity holders of the parent (in euros)	21	2.6840	2.5666

Consolidated statements of other comprehensive income
(Thousands of euros)

	Note	2016	2015
Result attributable to equity holders of the parent		**125,084**	**120,022**
Exchange differences on translation of foreign operations		11,227	(8,313)
Net movement on cash flow hedges		7,164	2,493
Income tax effect		(2,063)	(441)
Net other compehensive income to be reclasified to profit or loss in subsequent periods		**16,328**	**(6,261)**
Re-measurement gains (losses) on defined plans			
Germany		(2,376)	1,527
United States		(125)	(92)
Others		11	(42)
Income tax effect		812	(382)
Net other compehensive income not to be reclasified to profit or loss in subsequent periods	**15.1**	**(1,678)**	**1,011**
Other comprehensive income for the year, net of tax		**14,650**	**(5,250)**
Total comprehensive income for the year, net of tax attibutable to equity holders of the parent		**139,734**	**114,772**

Consolidated statement of changes in equity
(Thousands of euros)

	Equity attributed to the parent								
	Share capital (Note 13.1)	Share premium (Note 13.2)	Reserves (Note 13.3)	Interim dividend (Note 13.6)	Profit for the year attributable to equity holders of the parent	Hedge transaction reserves (Note 13.4)	Currency translation differences	Non-controlling interests	total equity
Balance at January 1, 2015	**32,623**	**12**	**483,283**	**(20,972)**	**106,452**	**(4,913)**	**(20,618)**	**-**	**575,867**
Total recognized income and expense	**-**	**-**	**1,011**	**-**	**120,022**	**2,052**	**(8,313)**	**-**	**114,772**
Profit for the year attributed to equity holders of the parent	-	-	-	-	120,022	-	-	-	120,022
Other comprehensive income	-	-	1,011	-	-	2,052	(8,313)	-	(5,250)
Transactions with shareholders and owners	**-**	**-**	**245**	**(3,262)**	**(54,713)**	**-**	**-**	**-**	**(57,730)**
Dividends paid	-	-	-	(3,262)	(54,713)	-	-	-	(57,975)
Dividends paid	-	-	245	-	-	-	-	-	245
Other changes in equity	**-**	**-**	**51,739**	**-**	**(51,739)**	**-**	**-**	**-**	**-**
Transfers between equity accounts	-	-	51,739	-	(51,739)	-	-	-	-
Non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**290**	**290**
Profit for the year attributed to non-controling interests	-	-	-	-	-	-	-	13	13
Non-controlling interests arising on a business	-	-	-	-	-	-	-	277	277
Balance at December 31, 2015	**32,623**	**12**	**536,278**	**(24,234)**	**120,022**	**(2,861)**	**(28,931)**	**290**	**633,199**
Total recognized income and expense	**-**	**-**	**(1,678)**	**-**	**125,084**	**5,101**	**11,227**	**-**	**139,734**
Profit for the year attributed to equity holders of the parent	-	-	-	-	125,084	-	-	-	125,084
Other comprehensive income	-	-	(1,678)	-	-	5,101	11,227	-	14,650
Transactions with shareholders and owners	**-**	**-**	**-**	**(2,330)**	**(62,449)**	**-**	**-**	**-**	**(64,779)**
Dividends paid	-	-	-	(2,330)	(62,449)	-	-	-	(64,779)
Other changes in equity	**-**	**-**	**57,573**	**-**	**(57,573)**	**-**	**-**	**-**	**-**
Transfers between equity accounts	-	-	57,573	-	(57,573)	-	-	-	-
Non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(73)**	**(73)**
Profit for the year attributed to non-controling interests	-	-	-	-	-	-	-	(73)	(73)
Balance at December 31, 2016	**32,623**	**12**	**592,173**	**(26,564)**	**125,084**	**2,240**	**(17,704)**	**217**	**708,081**

Consolidated statement of cash flows
(Thousands of euros)

	Note	2016	2015
Profit for the year before tax		**155,255**	**151,507**
Depreciation of property, plant and equipment	**7**	46,417	49,104
Amortization of intangible assets	**8**	3,282	3,945
Changes in provisions		1,654	(3,648)
Capital grants	**14**	(1,284)	(671)
Gains/(losses) on disposal of non-current assets		117	122
Negative differences from business combinations	**5**	(4,475)	-
Finance income	**20.5**	(431)	(694)
Finance costs	**20.5**	1,819	3,373
Losses on non-trade receivables	**20.5**	721	-
Foreign currency translation differences (net)	**20.5**	(2,999)	6,608
Adjustments to reconcile profits before tax with net cash flows		**44,821**	**58,139**
Inventories		(7,443)	(19,955)
Trade and other receivables		(11,665)	(20,286)
Trade and other payables		(8,054)	5,808
Changes in working capital		**(27,162)**	**(34,433)**
Income tax paid		(31,330)	(29,943)
Contributions and other payments related to pension plans		(1,065)	(7,572)
Cash flow from operating activities		**140,519**	**137,698**
Acquisition of a subsidiary, net of cash acquired	**5**	1,110	(3,995)
Payments for acquisition of property, plant, equipment and intangible assets		(80,747)	(56,702)
Proceeds from/(payments on) acquisitions of financial assets	**5**	-	55,803
Interest received		678	1,103
Increase (decrease) from discontinued operations		796	694
Cash flows from investing activities		**(78,163)**	**(3,097)**
Proceeds from borrowings		26,532	8,037
Repayment of borrowings		(25,361)	(67,058)
Dividends paid to shareholders of the parent		(64,779)	(57,975)
Interest paid		(1,708)	(3,292)
Other financial liabilities (net)		2,504	(288)
Grants received	**14**	612	1,880
Cash flows from financing activities		**(62,200)**	**(118,696)**
Impact of changes in exchange rates on cash and cash equivalents		445	2,947
Net increase (decrease) in cash and cash equivalents		**601**	**18,852**
Cash and cash equivalents at January 1,	12	44,453	25,601
Cash and cash equivalents at December 31,	**12**	**45,054**	**44,453**

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1. Description and Principal Activities

Viscofan, S.A. (hereinafter the Company or the parent) was incorporated with limited liability on October 17, 1975 as Viscofan, Industria Navarra de Envolturas Celulósicas, S.A. At a meeting held on June 17, 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 artificial casings, mainly for use in the meat industry, as well as, to a lesser extent, the generation of electricity for sale to third parties through cogeneration systems. Its industrial installations are located in Cáseda and Urdiain (Navarra). Its main offices and registered address are in Tajonar (Navarra).

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

The entirety of Viscofan S.A.'s shares have been listed since 1986, and are quoted on the Spanish electronic trading platform (continuous market).

The Group's 2015 consolidated financial statements were approved at the General Shareholders' Meeting held on April 21, 2016.

The parent's directors expect these 2016 consolidated financial statements, which were prepared on February 28, 2017, to be approved by the shareholders in general meeting without modification.

2. Viscofan Group

During October 2016, 100% of the shares in Vector USA Inc and Vector Europe NV were acquired, including their European subsidiaries (Vector Packaging Europe NV and Vector UK Ltd).

The fair value of net assets acquired is reflected in Note 5.2.

In March of 2015 Viscofan finalized its sale of Industrias Alimentarias de Navarra S.A.U. and its subsidiaries, Lingbao Baolihao Food Industrial Co. Ltd. and IAN Perú, S.A. to Servicios Compartidos de Industrias Alimentarias, S.L., managed by Portobello Capital Gestión, S.G.E.C.R., S.A. The Company accepted a 55.8 million euro offer of 100% of its shares, paid for in cash during the signing of the contract, with after-tax capital gains of 0.4 million euros, which was recognized under "Profit (loss) after tax from discontinued operations" on the consolidated income statement.

On May 27, 2015, 51.67% of Nanopack Technology & Packaging, S.L.'s share capital was acquired. The total cost of this transaction was 4 million euros. Subsequent to this date, Viscofan S.A. entered into a capital increase, and now owns 90.57%.

Details of the subsidiaries and associates comprising the Viscofan Group at December 31, 2016 and 2015, including certain additional information, are shown below:

2.1. Details of subsidiaries and associates comprising the Viscofan Group at December 31, 2016

Group companies	Percentage of interest		Activity	Registered offices
	Direct	Indirect		
Gamex, C.B. s.r.o.	100.00%	-	warehouse (to the Group)/Other services	Ceske Budejovice (Czech Republic)
Koteks Viscofan, d.o.o.	100.00%	-	Manufacture and marketing of artificial casings	Novi Sad (Serbia)
Nanopack, Technology and Packaging S.L.	90.57%	-	Manufacture of interleaver film	Tajonar-Navarra (España)
Naturin Viscofan GmbH	100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Vector Europe NV.	100.00%	-	Marketing of artificial casings	Hasselt (Belgium)
Vector Packaging Europe NV.	-	100.00%	Manufacture and marketing of artificial casings	Hasselt (Belgium)
Vector UK Ltd.	-	100.00%	Marketing of artificial casings	Manchester (United Kingdom)
Vector USA Inc.	-	100.00%	Manufacture and marketing of artificial casings	Oak Book, Illinois (USA)
Viscofan Canadá Inc.	-	100.00%	Marketing of artificial casings	Quebec (Canada)
Viscofan Centroamérica Comercial, S.A.	99.50%	0.50%	Marketing of artificial casings	San José (Costa Rica)
Viscofan CZ, s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan de México S.R.L. de C.V.	99.99%	0.01%	Manufacture and marketing of artificial casings	San Luis Potosí (Mexico)
Viscofan de México Servicios, S.R.L. de C.V.	99.99%	0.01%	Services rendered	San Luis Potosí (Mexico)
Viscofan do Brasil, soc. com. e ind. Ltda.	100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Viscofan Technology (Suzhou) Co. Ltd.	100.00%	-	Manufacture and marketing of artificial casings	Suzhou (China)
Viscofan UK Ltd.	100.00%	-	Marketing of artificial casings	Seven Oaks (United Kingdom)
Viscofan Uruguay, S.A.	100.00%	-	Manufacture and marketing of artificial casings	Montevideo (Uruguay)
Viscofan USA Inc.	100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Zacapu Power S.R.L. de C.V.	-	100.00%	Cogeneration plant	Zacapu, Michoacán (Mexico)

2.2. Details of subsidiaries and associates comprising the Viscofan Group at December 31, 2015

Group companies from continued operations	Percentage of interest		Activity	Registered offices
	Direct	Indirect		
Gamex, C.B. s.r.o.	100.00%	-	warehouse (to the Group)/Other services	Ceske Budejovice (Czech Republic)
Koteks Viscofan, d.o.o.	100.00%	-	Manufacture and marketing of artificial casings	Novi Sad (Serbia)
Nanopack, Technology and Packaging S.L.	90.57%	-	Manufacture of interleaver film	Tajonar-Navarra (España)
Naturin Viscofan GmbH	100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Viscofan Canadá Inc.	-	100.00%	Marketing of artificial casings	Quebec (Canada)
Viscofan Centroamérica Comercial, S.A.	99.50%	0.50%	Marketing of artificial casings	San José (Costa Rica)
Viscofan CZ, s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan de México S.R.L. de C.V.	99.99%	0.01%	Manufacture and marketing of artificial casings	San Luis Potosí (Mexico)
Viscofan de México Servicios, S.R.L. de C.V.	99.99%	0.01%	Services rendered	San Luis Potosí (Mexico)
Viscofan do Brasil, soc. com. e ind. Ltda.	100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Viscofan Technology (Suzhou) Co. Ltd.	100.00%	-	Manufacture and marketing of artificial casings	Suzhou (China)
Viscofan UK Ltd.	100.00%	-	Marketing of artificial casings	Seven Oaks (United Kingdom)
Viscofan Uruguay, S.A.	100.00%	-	Manufacture and marketing of artificial casings	Montevideo (Uruguay)
Viscofan USA Inc.	100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Zacapu Power S.R.L. de C.V.	-	100.00%	Cogeneration plant	Zacapu, Michoacán (Mexico)

3. Basis of preparation

The consolidated financial statements have been prepared based on the accounting records of Viscofan, S.A. and the companies comprising the Group. The consolidated financial statements for 2016 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 December 31, 2016 and 2015, 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 January 1, 2004, and also applied IFRS 1 First-time Adoption of International Financial Reporting Standards at that date

3.1. New and amended standards and interpretations

The accounting policies used during the preparation of these consolidated financial statements are the same as those applied for the 2015 consolidated financial statements, apart from the revision of IFRS 3 - Business combinations.

The new standards and amendments applied for the first time during 2016 had no impact on the Group's consolidated financial statements.

Amendments clarifying IAS 16, "Property, plant, and equipment" and IAS 38 "Intangible assets" indicate that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. Revenue-based methods to calculate the depreciation of an asset are not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. They are applied prospectively, and had no impact on the Group, as no revenue-based methods were used.

Amendments to IAS 1 Disclosure initiative

The amendments to IAS 1 "Presentation of financial statements" clarify:

- Its materiality requirements.
- The specific items on the income statement, the statement of other income, and the statement of financial position can be desegregated.
- Entities are allowed flexibility as regards the order in which they present their notes to the financial statements.
- The share of profit or loss of associates and joint ventures which are accounted for under the equity method, the investment must be presented disclosing the related effect on a separate line, and classified among items which should or should not subsequently be reclassified to the income statement.

Amendments clarifying applicable requirements when additional subtotals are presented on the statement of financial position, the income statement, and other comprehensive income. These changes had no effect on the Group.

3.2. Published standards which are not applicable

The Group intends to adopt these standards, interpretations, and amendments thereof published by the IASB but not considered mandatory in the European Union at the date these consolidated financial statements were prepared. However, they will be applied when they come into force. The Group is currently analyzing the impact of application of these new and amended standards and interpretations. Based on the analysis conducted to date, the Group believes that their first-time application will not have a material impact on the consolidated financial statements apart from the following:

IFRS 9 ***Financial instruments***

In July of 2014, the IASB published the definitive version of IFRS 9, "Financial Instruments;" it covers all phases of financial instrument projects, and replaced IAS 39 "Financial Instruments: recognition and measurement," as well as all the prior versions of IFRS 9. This standard includes the three phases of financial instruments: classification, valuation, impairment, and hedge accounting. IFRS 9 indicates applicable standards for the years commencing January 1, 2018, and permits early application, and has not year been accepted by the European Union. Apart from hedge accounting, it requires retroactive application, but no modifications to comparative information. Hedge accounting criteria are generally applied prospectively, excepting for limited exceptions.

The Group plans to adopt the new standards at the required date of application. In general, the Group does not expect notable changes in its balance sheet or equity.

(a) Classification and measurement

The Group does not foresee any important changes in its balance sheet or equity arising from the application of IFRS 9. It expects to continuing measuring its financial assets at fair value as is its current practice.

Loans and trade receivables are held for contractual cash flow, and it is expected that these will be solely used to pay principal and interest. Therefore, the Group expects to continue to recognize amortized cost in accordance with IFRS 9. However, the Group will perform a more in-depth analysis of the characteristics of the contractual cash flows of these instruments prior to concluding on whether they meet the criteria for valuation at amortized cost, in accordance with IFRS 9.

(b) Impairment

IFRS 9 requires the Group to recognize expected credit losses on all its debt instruments, loans, and trade receivables, either on a 12-month period or indefinitely. The Group expects to apply the simplified model, and recognize expected losses over the lives of all its trade receivables. The Group does not expect there to be any relevant changes in the impairment provisions recorded.

IFRS 16 – Leases.

IFRS 16 was published in January of 2016, and represented important changes for lessees, since an asset must be recognized for the right to use, and a liability must be recognized for amounts payable for the majority of leases. Lessors are able to avail themselves of very few amendments with respect to the current IAS 17.

This new standard replaces prior lease legislation. The total or modified retroactive application is necessary for years commencing January 1, 2019 inclusive, making its early application accepted, although this has not yet been adopted in the European Union. The Group plans to adopt the new standards at the required date of application, based on the modified retroactive transition. The Group has begun its preliminary evaluation of IFRS 16 as well as its potential effects on its consolidated financial statements.

Apart from arrangements already considered leases in accordance with IAS 17, and which continue to be recognized as such under the new standard, the Group does not have any other contracts which could be considered leases due to the right to control the use of the identified asset, as there are no service agreements based on the asset's use.

Existing lease agreements were analyzed which also include providing a service, which are not significant.

A practical solution will be applied permitting financial leases still applicable during the date of the application of the new standards to be accounted for in accordance with current regulations (IAS 17).

However, its main effect on the Group's financial statements is the registration of the right to use and debt corresponding to operating leases on the balance sheet. Note 7 reflects non-cancelable minimum future operating leases payments at December 31, 2016, The Group is still determining whether the periods corresponding to these future minimum payments will be similar to those under IFRS 16.

During 2017, the Group plans to evaluate the potential effect of IFRS 16 on its consolidated financial statements.

3.3. Policies used by the Group when several options are permitted

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

· 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). They are recognized in the income statement under "Other income."

· Certain property, plant, and equipment may be measured at market value or historical cost less depreciation and impairment loss. Viscofan has chosen the latter criteria.

3.4. 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, except when an accounting standard specifically establishes that this is unnecessary.

3.5. 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.

This section describes the main assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(c) Taxes

The subsidiaries comprising the Group are individually responsible for their own local tax obligations, and do not file consolidated tax returns.

The Group establishes provisions, based on reasonable estimates, for possible consequences of inspections by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax inspections and differing interpretations of tax regulations by the Group and the corresponding tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the country where the respective Group company is domiciled. The Group's policy, affecting all subsidiaries, is to apply conservative criteria when interpreting the different prevailing regulations in each of the countries where it operates.

Deferred tax assets are recognized for all unused tax losses and other temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon likely timing and future taxable profits together with future tax planning strategies.

The years open for review by the tax authorities vary depending on each country's tax legislation, and returns are not considered definitive until the corresponding inspection period has elapsed or until they have been inspected and accepted by tax authorities.

The Company’s management considers that all applicable taxes have been duly paid so that even in the event of discrepancies in the interpretation of prevailing tax legislation with respect to the treatment applied, the resulting potential tax liabilities, if any, would not have a material impact on the accompanying financial statements.

Further details on taxes are disclosed in Note 19.

(d) Pension benefits

The cost of defined benefit pension plans and other obligations and the present value of pension obligations are determined using actuarial valuations. Actuarial valuations involve making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, and future pension increases. Due to the complexity of the valuation and its long-term nature, calculating the obligation is highly sensitive to changes in these assumptions.

To determine the discount rate, Management considers the interest rates on corporate bonds that have a minimum credit rating of AA established by a reputable rating agency and are denominated in the same currency as the defined benefit commitment, extrapolating the underlying yield curves that correspond to the expected maturities of the defined benefit obligations.

Mortality rates are based on publicly available mortality tables for the specific country. Future salary and pension increases are based on expected future inflation rates for the respective countries.

Details on the hypotheses used and a sensitivity analysis are provided in Note 15.1.

(e) Provisions for litigation and contingent assets and liabilities

Estimation of the amounts to provision with respect to potential assets and liabilities arising from ongoing litigation is carried out based on the professional opinion of the legal representatives hired to deal with such matters and the internal evaluation performed by the Group's Legal Department.

The breakdown of provisions for litigations is shown in Note 15.3, while the main contingent assets and liabilities that may give rise to the future recognition of assets and liabilities are described in Note 15.7.

(f) Other accounting estimates and hypotheses

- Assessment of possible impairment losses on certain assets: (Notes 4.7 and 7).
- Useful life of property, plant, and equipment and intangible assets: (Notes 4.6 and 4.7)
- Measurement of derivative financial instruments: (Note 4.13)

4. Significant accounting principles

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

A summary of the most significant principles is as follows:

4.1. Going concern basis

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

4.2. Method of consolidation

All the subsidiaries were consolidated using the full consolidation method.

Control is obtained when the Group is exposed, or has the rights attached to variable interest rates arising from its involvement in a subsidiary, and is able to influence them as a result of the exercise of power over the subsidiary. Specifically, the Group has control of a subsidiary if, and only if it has:

· Power over the subsidiary (existing rights allowing it to manage relevant subsidiary's activities)
· Exposure, or rights, to variable returns from its involvement with the other company
· The ability to use its power over the other company to affect the amount of the company's return

Generally, it is presumed that the majority of voting rights grants control.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date it 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 January 1, 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.

All of the assets, liabilities, equity, income, expenses, and cash flow arising from transactions between Group companies are totally eliminated during the consolidation process.

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

The financial statements of consolidated subsidiaries reflect the same reporting date and period as that of the parent.

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.

Each Group entity determines its own functional currency and the balances included in the financial statements of each company are measured using this functional currency.

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 translation 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 to 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. Translation 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 arising from the acquisition of businesses, including comparative balances, are translated at the year-end exchange rate at each balance sheet date.

· Income and expenses relating to foreign operations, including comparative balances, are translated at the exchange rates prevailing 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 any business activities in hyperinflationary countries.

Translation differences arising as a result of the sale of foreign businesses recognized in equity are recognized as a single line item in the consolidated income statement when such businesses are sold.

4.4. Business combinations and goodwill

Business combinations are recognized by applying the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. Related acquisition costs are recognized under "Other operating expenses" as they are incurred,

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as financial assets and liabilities in accordance with IAS 39 *Financial Instruments*: The fair value is taken, recognizing changes in fair value as changes in the fair value on the income statement.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the Group conducts a news assessment to ensure that all the acquired assets and assumed obligations have been correctly identified, and reviews the applied procedures to perform the valuation of the amounts recognized at the acquisition date. If an excess in the fair value of net assets acquired over the aggregate amount of the transferred consideration, the difference is recognized as profit on the income statement.

After initial recognition, goodwill is recognized at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

4.5. 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. The Group classifies the remainder of its assets as non-current.

· 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. The Group classifies the remainder of its liabilities as non-current.

· Deferred tax assets and liabilities are classified as non-current assets and liabilities.

4.6. 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).

(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) Reversal 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.

4.7. 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 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 opted to use the previous GAAP revaluation of property, plant, and equipment, as the cost recognized at January 1, 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 PP&E items is the cost of acquisition less the residual value. Each part of a PP&E item with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation of PP&E items is calculated using the straight-line method over their estimated useful lives, as follows:

	Estimate useful life (years)
Buildings	30.50
Plant and equipment	10.
Other installations, tools and furniture	5.15
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 capitalization 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.

4.8. 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.

4.9. Intangible assets

(a) 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. The Group has not capitalized any development expenses.

(b) Other tangible assets

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

Software maintenance costs are expensed as incurred.

(c) 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. At December 31, 2016 and 2015, the Group had no intangible assets with indefinite useful lives.

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:

	Estimate useful life (years)
Concessions, patents, and licenses	10.
Development costs	5.
Concession rights	10.-30
Concession land rights in China	50.
Software	4.6

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.

4.10. 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 normal production capacity or actual production.

Indirect fixed costs distributed to each production unit are not increased as a result of a low level of production or idle production capacity. Indirect costs that are not distributed are recognized as expenses for the financial year in which they are incurred. In periods of abnormally high production, the amount of indirect costs distributed to each production unit is decreased so that inventories are not measured above cost. Variable indirect costs are distributed to each production unit on the basis of the actual use of the production facilities.

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, plus 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 following headings: “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.

(a) Emission rights

The Viscofan Group recognizes its emissions rights under “Inventories;” during the previous year they had been recognized under “Intangible assets.”

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 "Grants" (Note 4.16) in 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 applying the FIFO method (first in, first out).

4.11. 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.

4.12. Financial instruments- Initial recognition and subsequent measurement

(a) FINANCIAL ASSETS

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives designated as hedging instruments in "effective hedges," as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Measurement after recognition

Subsequent measurement of financial assets depends on their classification, as described below:

Loans and receivable

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these financial assets are re-measured at amortized cost using the effective interest rate method, less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest. Interests accrued in accordance with the effective interest rate are included in "Finance income" in the consolidated income statement. The losses arising from impairment are recognized as "Finance costs" for loans and in "Other operating expenses" for receivables.

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.

Interests accrued in accordance with the effective interest rate are included in "Finance income" in the consolidated income statement. The losses arising from impairment are recognized under "Finance costs" in the consolidated income statement.

Available-for-sale financial assets

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. The Group held no debt securities classified under this category during 2016 and 2015.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the consolidated income statement, or if the investment is found to be impaired the cumulative loss is reclassified to "Financial expense" in the income statement. Interest earned while holding available-for-sale financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and Management's intention to do so may significantly change in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

· The rights to receive cash flows from the asset have expired.

· The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations retained by the Group.

(b) Impairment and irrecoverability of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the income statement.

(c) Financial liabilities:

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are initially recognized at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the income statement.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the income statement.

4.13. Derivatives and hedge accounting

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps, and forward commodity contracts, to hedge its foreign currency risks, interest rate risks, and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative under IAS 39 is recognized in the income statement as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

· Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.

· Cash flow hedges when hedging the 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 the foreign currency risk in an unrecognized 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. Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges are recognized as follows:

· Changes in the market value of hedging derivatives are recognized in the consolidated income statement for the ineffective portion of the hedges. Those related to the effective portion are recognized under "Unrealized gains (loss) reserve" 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 give 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 under this heading is taken to the consolidated income statement.

Fair value hedges are recognized as follows:

- The change in fair value of a hedging derivative is recognized in the income statement under "Financial expenses." The change in fair value of the hedged item attributable to the hedged risk is recognized as part of the hedged item's carrying amount and in the income statement under "Financial expenses."

- In the case of fair value hedges related to items recognized at amortized cost, any adjustments to the carrying amounts are recognized in the income statement for the remaining life of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

- If the hedged item is derecognized, the unamortized fair value is recognized immediately in the consolidated income statement.

- All the hedging instruments used by the Viscofan Group in 2016 and 2015 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 rates.

- Exchange rate futures contracts are measured by discounting future cash flows to present value 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.

4.14. 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 offset 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.

4.15. Dividend:

The interim dividends approved by the Board of Directors in 2016 and 2015 are included as a reduction of the Viscofan Group's equity.

4.16. 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 manner, 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 initially recognized at market value on the date granted under "Grants," and are recognized in the consolidated income statement as they are used. They are recognized in "Other income" on the consolidated income statement.

(b) Operating subsidies

Operating subsidies 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.

4.17. Employee benefits

(a) Liabilities for retirement benefits and other commitments

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 expense" in the consolidated income statement and comprise current service costs plus the effect of any reduction or liquidation of the plan.

Interest on the net liability/(asset) relating to the defined benefit plan is calculated by multiplying the net liability/(asset) by the discount rate and is recognized in financial results under "Financial expenses."

Subsequent to initial measurement, the reevaluation, which comprises actuarial gains and losses, the effect of the limit on the assets, excluding amounts included in net interest and performance of the plan assets are recognized immediately in the statement of financial position with a credit or debit to reserves, as appropriate, through other comprehensive income in the period in which they occur. These changes are not reclassified to profit or loss in subsequent periods.

A description of each of the Group's defined benefit pension plans is included in Note 15.1.

(b) Termination benefits

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

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

(c) Short-term employee benefits

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

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

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

4.18. 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 to the provision and, where significant, financial effect of the discount, provided that the expenditures required in each period can be reliably measured. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

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

(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.

4.19. 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 revenue if considered probable at the time of revenue recognition.

(a) Goods sold

Revenue on the sale of goods is 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 or to be incurred costs 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 revenue associated with the transaction is recognized in the income statement by reference to the stage of completion of the transaction at the balance sheet date.

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, 2016 and 2015, 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. Calculation of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or

- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company considers that its cash, trade and other receivables, trade and other payables, and balances of accounts payable to and receivable from public administrations, have a fair value very close to their carrying amounts mainly as a result of their coming due in the short term.

The fair values for the remaining financial assets and liabilities are disclosed in Notes 11 and 17, respectively.

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 4.7.

4.23. Related party transactions

Transactions with related parties are accounted for in accordance with the valuation criteria described in this Note 4. The only transactions that were carried out with related parties are described in Note 25 "Information relating to directors of the parent and key management personnel of the Group."

4.24. Non-current assets held for sale and discontinued operations

The Group classifies assets whose carrying amount is expected to be realized through a sale transaction, rather than through continuing use, as “Non-current assets held for sale” 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 cost 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 standards. These assets are not depreciated 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 measured 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 held for sale and discontinued activities.”

A disposal group of assets is considered a discontinued operation if it is a component of an entity which either has been disposed of or is classified as held for sale and:

- Represents a significant and separate major line of business or geographical area of operations.

- Is part of a single coordinated plan to dispose of a significant and separate major line of business or geographical area of operations.

Discontinued operations are presented in the consolidated income statement separately from income and expenses from continuing operations, on a single line under "Profit from discontinued operations."

Note 5 presents further breakdowns. The remaining notes to the financial statements include amounts corresponding to continuing operations unless otherwise indicated.

5. Business combinations

5.1. Acquisitions in 2016

On October 28, 2016, the date effective control was taken, the Group acquired 100% of the shares in Vector USA and Vector Europe, including its European subsidiaries (Vector Packaging Europe and Vector UK) through its parent Viscofan S.A. and its subsidiary Viscofan USA.

The fair value of the compensation received at the acquisition date amounted to 2,671 thousand euros, of which 641 thousand euros were paid in cash; an agreement was reached to pay the remainder in installments up to two years in total. The amount payable in installments might be less should any liabilities unrecognized be identified which correspond to the period prior to the Group taking control.

A breakdown of these companies with additional information is presented in Note 2.1.

The acquisition of Vector USA Inc. and Vector Europe NV makes it possible to increase the Viscofan Group product range, while improving its plastic technology production offer, to thereby support its strategy to become the reference in the casings market and improve the service worldwide.

Amounts recognized at the date the assets, liabilities, and contingent liabilities were recognized at their fair value follow:

	Thousands of euros
Property, plant and equipment (Note 7)	9,443
Intangible assets (Note 8)	719
Deferred tax assets	442
Inventories	6,887
Receivables	7,107
Cash and cash equivalents	1,716
Total assets	**26,314**
Non-current financial liabilities	(5,217)
Current financial liabilities	(5,301)
Payables	(6,836)
Deferred tax liabilities	(1,814)
Total liabilities	**(19,168)**
Total identifiable net assets	**7,146**
Negative differences from business combinations	(4,475)
Purchase consideration transferred	**2,671**

Subsequent to the acquisition, the Group paid off nearly the entirety of its bank borrowings, representing payment of 9,067 thousand euros (disbursement included in the cash flow of financing activities).

The 1,544 thousand euros in transaction costs were recognized under “Other operating expenses” (including cash flow for operating activities).

The acquired business generated a consolidated profit for the period for the Group amounting to 106 thousand euros during the period ranging from the acquisition date and year end, and ordinary income totaling 5,353 thousand euros, which were incorporated in the consolidated income statement.

Ordinary income generated during the entire year from the acquired business totals 32,794 thousand euros, with net ordinary total results of 40 thousand euros.

The profit arising from the transaction totaled 4,475 thousand euros, and is recognized on the consolidated income statement under “Negative difference on business combinations.”

Net assets recognized on the 2016 financial statements were definitively measured at fair value; in this regard, the Group obtained an independent appraisal on Vector’s land and buildings. The remaining acquired net assets were also valued, including those which are intangible. The Group used an independent expert to carry out the main valuations.

The most relevant factors contributing to the generation of a negative difference on business combinations is the Vector Group’s financial situation, which indicates that it would be not be complying with certain financial ratios. After obtaining control of Vector, the Group paid off all its bank borrowings.

5.2. Acquisitions in 2015

On May 27, 2015, Viscofan, S. A. acquired 51.67% of the voting shares of Nanopack Technology & Packaging, S.L., an unlisted company based in Aiguaviva (Girona).

It is a technological R&D health base, specifically for food film products.

The company is fully consolidated in the Viscofan Group.

The total value of the company’s assets and liabilities was recognized on the consolidated statement of financial position for the year. The consolidated income statement reflected the 7-month impact of the entirety of its transactions.

The Group valued external partners at the aggregate of the consideration transferred.

The fair value of acquired assets and liabilities assumed from Nanopack Technology & Packaging, S.L. during the acquisition was:

	Thousands of euros
Property, plant and equipment	1,510
Intangible assets	668
Other non-current financial assets	3
Inventories	77
Receivables	195
Cash and cash equivalents	5
Total assets	**2,458**
Non-current financial liabilities	(604)
Current financial liabilities	(150)
Payables	(551)
Deferred tax liabilities	(224)
Total liabilities	**(1,529)**
Total identifiable net assets	**929**
Non-controlling interest	(449)
Good will	3,520
Purchase consideration transferred	**4,000**

The Group used the services of an independent expert to value the identifiable assets acquired and the liabilities assumed at their acquisition-date fair value.

Goodwill was initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

Goodwill amounting to 3,520 thousand euros, comprises the fair value of the expected synergies arising from the acquisition, most notably those related to the investigation, development, transfer, and innovation in packaging designed for food use.

A capital increase of 2,000 thousand euros was approved by the shareholders of Nanopack Technology & Packaging, S.L, in general meeting, to which Viscofan, S.A. contributed 1,928 thousand euros, to thereby own 90.57% of its share capital.

With the acquisition of this additional interest, reserves totaling 245 thousand euros were recognized.

5.3. Assets held for sale

In 2015, Viscofan concluded the sale of IAN S.A.U.and subsidiaries, which generated an after-tax capital gains of 411 thousand euros, which is recognize under “Profit (loss) after tax from discontinued operations” in the consolidated income statement.

6. Segment reporting

GIRL 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.

The Group's management bases its decisions on the assignment of resources and performance evaluations on the profitability of the markets in which it operates; its key geographic areas are Spain, Europe, and Asia, North America, and South America. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss on the consolidated financial statements.

The Group also carries out production-related activities, and sells electricity through its cogeneration plants in Spain, Mexico, and Germany. These cogeneration activities have three aims: to decrease the cost of electricity while remaining self-sufficient, and at the same time reducing CO2 emissions. Although the plants located in Spain and Mexico sell part of the energy produced to third parties, these activities are not organized as business segments, nor are they contemplated as business units to be reported on per se.

The following PP&E items and intangible assets in different segments were acquired during 2016 and 2015:

	Thousands of euros					
Year 2016	**Spain**	**Other European and Asian countries**	**North America**	**South America**	**Eliminations and other**	**Consolidated**
Revenue from external customer	97,677	313,399	217,328	102,429	-	730,833
Revenue from inter-segment	78,522	215,432	98,531	14,442	(406,927)	-
Total revenue	176,199	528,831	315,859	116,871	(406,927)	730,833
Depreciation and amortization	(12,437)	(21,661)	(9,358)	(6,243)	-	(49,699)
Finance revenue	47	75	258	51	-	431
Finance costs	(591)	(654)	(380)	(194)	-	(1,819)
Exchange differences	271	244	(450)	2,933	-	2,998
Segment profit	**17,616**	**89,015**	**19,976**	**23,923**	**4,725**	**155,255**
Total assets	**200,285**	**412,160**	**249,113**	**176,066**	**(106,630)**	**930,994**
Total equity and liabilities	**117,179**	**94,331**	**90,400**	**36,204**	**(115,201)**	**222,913**
Acquisition of assets	**26,550**	**20,291**	**21,084**	**18,775**	**-**	**86,700**

	Thousands of euros					
Year 2015	**Spain**	**Other European and Asian countries**	**North America**	**South America**	**Eliminations and other**	**Consolidated**
Revenue from external customer	105,889	305,934	215,864	113,084	-	740,771
Revenue from inter-segment	76,589	208,803	106,232	14,516	(406,140)	-
Total revenue	182,478	514,737	322,096	127,600	(406,140)	740,771
Depreciation and amortization	(11,436)	(21,432)	(14,338)	(5,844)	-	(53,050)
Finance revenue	110	91	89	403	-	693
Finance costs	(847)	(1,269)	(291)	(966)	-	(3,373)
Exchange differences	(173)	(796)	993	(6,632)	-	(6,608)
Segment profit	**23,241**	**83,130**	**26,562**	**20,539**	**(1,965)**	**151,507**
Total assets	**173,629**	**397,851**	**214,522**	**133,768**	**(87,849)**	**831,921**
Total equity and liabilities	**90,064**	**99,377**	**65,163**	**38,792**	**(94,674)**	**198,722**
Acquisition of assets	**12,921**	**14,395**	**20,219**	**9,726**	**-**	**57,261**

7. Property, plant, and equipment

The breakdown and movements in property, plant, and equipment during 2016 and 2015 are as follows:

	Thousands of euros							
	Land and buildings	Plant and machinery	Other installations, equipment and furniture	Other property, plant and equipment	Advances and assets under construction	Depreciation	Impairment	Total
Balance at January 1, 2015	**209,576**	**632,535**	**79,681**	**26,310**	**34,712**	**(601,211)**	**(640)**	**380,963**
Translation differences	(1,648)	(6,192)	(41)	377	(1,526)	4,638	(12)	(4,404)
Acquisition of a subsidiary (Note 5.2)	-	1,374	58	78	-	-	-	1,510
Additions	593	15,140	2,545	852	35,147	(49,104)	-	5,173
Disposals	(2,251)	(2,059)	(111)	(361)	(34)	3,535	64	(1,217)
Transfers	7,848	27,894	1,824	2,169	(39,735)	-	-	-
Balance at December 31, 2015	**214,118**	**668,692**	**83,956**	**29,425**	**28,564**	**(642,142)**	**(588)**	**382,025**
Translation differences	2,296	12,227	230	274	233	(11,410)	5	3,855
Acquisition of a subsidiary (Note 5.1)	6,212	3,080	16	31	104	-	-	9,443
Additions	5,634	28,758	3,237	2,657	43,619	(46,417)	(128)	37,360
Disposals	(709)	(17,145)	(5,211)	(2,682)	(662)	25,280	356	(773)
Transfers	6,724	29,820	1,114	795	(38,347)	(106)	-	-
Balance at December 31, 2016	**234,275**	**725,432**	**83,342**	**30,500**	**33,511**	**(674,795)**	**(355)**	**431,910**

The net balances of this heading at December 31, 2016 and 2015 are the following:

	Thousands of euros					
	31.12.2016			31.12.2015		
	Cost	Depreciation and Impairment	Total	Cost	Depreciation and Impairment	Total
Land and buildings	234,275	(103,389)	130,886	214,118	(96,494)	117,624
Plant and machinery	725,432	(486,786)	238,646	668,692	(459,364)	209,328
Other installations, equipment and furniture	83,342	(63,662)	19,680	83,956	(65,399)	18,557
Other property, plant and equipment	30,500	(21,313)	9,187	29,425	(21,473)	7,952
Advances and assets under construction	33,511	-	33,511	28,564	-	28,564
TOTAL	**1,107,060**	**(675,150)**	**431,910**	**1,024,755**	**(642,730)**	**382,025**

During 2016, investments were made in the Group totaling 83,905 thousand euros, with the most noteworthy following: construction of the plastics plant in Caseda, which began production during the third quarter, installation of a second collagen production line in Uruguay, which started up operations during the fourth quarter of the year and is focused on continuing to improve service provided to the Latin American market, termination and startup of the plastics production plant in Mexico, startup of a new plan for beginning fibrous production in Caseda, and new production lines in China. Investments were still being made in technical improvements focused on energy optimization in all the Group's plants, especially in Mexico.

On November 3, 2016, a fire broke out in the spare parts plant warehouse of its subsidiary Naturim Viscofan, Gmbh in Weinheim (Germany), halting production for two days, and nearly destroying the entire warehouse. During the year, no items of PP&E affected by the fire were derecognized waiting for the expert´s report. The carrying amount of these items totaling 160 thousand of euros.The replacement value and damages were all covered by the Group's insurance policy.

Details of fully depreciated property, plant, and equipment in use at December 31, 2016 and 2015 are as follows:

	Thousands of euros	
	2016	**2015**
Buildings	34,401	33,217
Plant and machinery	333,715	323,250
Other installations, equipment and furniture	50,296	47,750
Other property, plant and equipment	14,004	13,546
Fully depreciated property, plant and equipment	**432,416**	**417,763**

The Group's buildings, plant, and equipment were partly financed by government grants of 78 and 1,880 thousand euros in 2016 and 2015, respectively (Note 14).

The Group has insurance policies covering the various risks to which its items of property, plant, and equipment are exposed. Management considers that these policies provide sufficient coverage.

Within the framework of the annual investment plan, at year-end 2016 there were commitments to acquire PP&E in the amount of 7,460 thousand euros, which were mainly related to optimizing energy use in Mexico and Spain, as well as processes and technological updates

2015 year end acquisition commitments amounted to 12,399 thousand euros are mainly related to the plastic casings production plant project in Mexico, as well as improvements made to increase efficiency and boost cellulose, fiber, and collagen casings production capacity.

Finance leases

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

	Thousands of euros	
	Cost	**Amortization**
At January 1, 2015	1,131	(283)
Net movement	23	(150)
At December 31, 2015	**1,154**	**(433)**
Net movement (*)	-	(142)
At December 31, 2016	**1,154**	**(575)**

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

	Thousands of euros			
	2016		**2015**	
	Minimum payments (Note 17)	**Interest**	**Minimum payments (Note 17)**	**Interest**
Up to one year	182	11	216	20
Between one and five years	160	4	343	16
Total	**342**	**15**	**559**	**36**

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	
	2016	**2015**
Up to one year	3,082	2,016
Between one and five years	4,217	2,818
More than five years	590	558
Total	**7,889**	**5,392**

Lease-related expenses during the year totaled 4,663 thousand euros (2015: 3,974 thousand euros - Note 20.4).

The breakdown of leased items of property, plant, and equipment follows:

	Thousands of euros	
	2016	**2015**
Buildings	2,561	1,495
Machinery and other equipment	3,409	2,831
Vehicles	1,919	1,066
Total	**7,889**	**5,392**

Impairment test

No evidence of impairment was detected in any of the Group's cash-generating units, as they are generally performing well; therefore, it was not considered necessary to perform any impairment tests.

8. Intangible assets

The breakdown and movements in other intangible assets during 2016 and 2015 are as follows:

	Thousands of euros							
	Client portfolio	**Software**	**Concessions, patents, licenses and use rights**	**Emission rights**	**Good will**	**Prepayments**	**Amortization**	**Total**
Balance at January 1, 2015	**-**	**28,063**	**18,043**	**796**	**-**	**388**	**(33,740)**	**13,550**
Translation differences	-	199	1,058	-	-	(60)	(961)	236
Acquisition of a subsidiary	-	-	668	-	-	-	-	668
Additions	-	2,073	171	2,330	3,520	740	(3,945)	4,889
Disposals	-	(329)	-	(1,009)	-	-	329	(1,009)
Transfers	-	192	-	-	-	(192)	-	-
Balance at December 31, 2015	**-**	**30,198**	**19,940**	**2,117**	**3,520**	**876**	**(38,317)**	**18,334**
Translation differences	-	574	191	-	-	35	(822)	(22)
Acquisition of a subsidiary (Note 5.1)	621	98	-	-	-	-	-	719
Additions	-	2,207	-	-	-	586	(3,282)	(489)
Disposals	-	(1,467)	-	-	-	-	1,467	-
Transfers	-	1,272	-	(2,117)	-	(1,258)	(14)	(2,117)
Balance at December 31, 2016	**621**	**32,882**	**20,131**	**-**	**3,520**	**239**	**(40,968)**	**16,425**

The balances of this heading at December 31, 2016 and 2015 are the following:

	Thousands of euros					
	31.12.2016			31.12.2015		
	Cost	Depreciation and Impairment	Total	Cost	Depreciation and Impairment	Total
Client portfolio	621	-	621	-	-	-
Software	32,882	(24,920)	7,962	30,198	(23,049)	7,149
Concessions, patents, licenses and use rights	20,131	(16,048)	4,083	19,940	(15,268)	4,672
Emission rights	-	-	-	2,117	-	2,117
Good will	3,520	-	3,520	3,520	-	3,520
Prepayments	239	-	239	876	-	876
TOTAL	**57,393**	**(40,968)**	**16,425**	**56,651**	**(38,317)**	**18,334**

"Software" includes the ownership and usage rights for IT programs acquired from third parties.

At year-end 2016, greenhouse gas emission rights were classified under "Inventories" as they are used to cancel the obligations arising from the Group's emissions during the year; therefore, they are assets which remain in its equity during a period which generally falls under a year.

Details of the cost of fully amortized intangible assets in use at December 31, 2016 and 2015 are as follows:

	Thousands of euros	
	2016	2015
Software	17,716	14,511
Concessions, patents, licenses and use r	13,088	13,064
Fully anortizated intangible assets	**30,804**	**27,575**

Impairment test

Goodwill recorded on the Group's consolidated balance sheet corresponds to Nanopack Technology & Packaging, S.L.; its CGU corresponds to the legal company or subgroup (Note 5.2). It engages in manufacturing and marketing of film plastics and new products based on the acquired technology and its expected development.

The acquired company is a start-up very focused to R+D+I in the plastic technology, having reach promising developments. As happen with companies of similar characteristics need to be supported both financing and marketing to introduce their novel products in the market. Despite the CGU's negative turnover in 2016, it is expected to increase in 2017, once the Company's performance reflects the efforts made in its new Caseda plant, as well as novel products developed in Girona, which add value and establish the foundations for growth in the future.

During 2016, the first complete year within the Group, Viscofan has invested in new property, plant and equipment items, based in the expected growth projections made by the Management, coherent with the long term and industrial policies of Viscofan Group. The assumptions include an increasing volume of sales during the first year's activity. 5-year projections were done, in which Management established forecasted business figures broken down by CGU managers (by year, country, customer, average product sales prices) based on historic data (internal/external sources), market, competition scenarios, information on new products and those in development, and actions to be implemented aimed at geographical expansion, and available macroeconomic forecasts.

The main assumption affecting to the cash flows arise from the projections made based on hypotheses on increasing volume average and use of the installed capacity, keeping constant price sales an costs. The Management has estimated a prudential use of the 60% of the installed capacity in the calculation of the sustainable cash flow. The residual value includes a growth rate of 1.5%, related with expect growth rate. The pre-tax discount rate (Wacc) is 8%.

The cash flows projections did not contemplate investments from capital increases. Investments during the year made it possible to reach targeted production levels making it possible to meet sales projections, upon which residual value is calculated. Current investments totaling '0.5 million euros should suffice to ensure that the plant remains operational and competitive.

The estimated residual value included a sustainable average flow and a growth rate of 1.5%. The sustainable average flow corresponds to cash flows during the most recently projected period.

Based on a sensitivity analysis;

- Variations of 10% in the discount rate do not imply the recognition of impairment.

- Sensitivity to reasonably-possible changes in turnover (in thousands of euros).

The consolidated carrying amount totaled 7,059 thousand euros (goodwill totaling 3,520 thousand, with PP&E items amounting to 3,539 thousand euros).

Therefore, taking the above into consideration, the Directors consider that at year-end 2016, there were no indications that any impairment losses should be recorded.

9. Inventories

Details of inventories at December 31, 2016 and 2015 are as follows:

	Thousands of euros	
	2016	**2015**
Goods for resale	9,717	5,710
Raw materials and other supplies	62,859	52,525
Semi-finished products	62,654	50,219
Finished products	93,843	97,959
Prepayments to suppliers	505	2,224
Total Inventories	**229,578**	**208,637**

During 2016, “Raw materials and other consumables” include: greenhouse gas emission rights amounting to 2,821 thousand euros.

The expenses incurred during the year corresponding to impairment and obsolescence amounts to 2,600 thousand of euros (1,546 thousand of euros in 2015) and they are recognized under "Consumption of raw materials and other consumables" and “Changes in inventory of finished goods and work in progress” on the consolidated income statement and are recognized under "Consumption of raw materials and other consumables" and “Changes in inventory of finished goods and work in progress” on the consolidated income statement.

At December 31, 2016 and 2015, there were no inventories with a reimbursement period greater than 12 months recognized in 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.

10. Trade and other receivables

10.1. Trade and other receivables

The breakdown for "Trade and other receivables" at December 31, 2016 and 2015 is as follows:

	Thousands of euros	
	2016	**2015**
Trade receivables	143,669	131,111
Other receivables	6,168	1,750
Advances to employees	316	269
Provisions for bad debts	(2,512)	(2,193)
Total trade and oher receivables	**147,641**	**130,937**

"Other non-trade receivables" include, among others, insurance amounts receivable by the Company arising from damage caused by the Weinheim plant fire (Notes 7 and 20.2) and expenses during the year, totaling 4.5 million euros, reduced by 3 million already collected in advance during the year. Also included accounts receivable totaling 1.8 million euros corresponding to the estimated compensations to receive from the insurance company arising form damage and loss of profits caused by a maintenance supplier in Naturin Viscofan GmbH (Note 21.2).

Management considers that the carrying amount of "Trade and other receivables" is similar to its fair value, as its items are recognized at their invoiced amounts, and therefore the effect of discounts is rendered totally immaterial.

At December 31, 2015 and 2015, the age of balances receivable related to sales based on their maturity, including balances which have not yet fallen due, those which have, and those which are totally impaired is the following:

	Thousands of euros					
	Total	**Not due**	**< 30 days**	**31-60 days**	**61-90 days**	**> 90 days**
2016	147,641	128,732	11,752	1,694	2,062	3,401
2015	130,937	112,997	12,114	1,810	250	3,766

The Group has credit insurance contracts which cover the collection of the greater portion of its customer balances.

The movement in provisions for irrecoverable debt from trade receivables and other receivables is as follows:

	Thousands of euros	
	2016	**2015**
Balance at January 1,	(2,193)	(2,083)
Translation differences	(11)	11
Amounts provisioned	(876)	(536)
Amounts applied	568	415
Balance at December 31,	**(2,512)**	**(2,193)**

Trade receivables do not carry interest, and generally payment conditions range from 45 to 90 days.

The breakdown by currency for "Trade and other receivables" is as follows:

	Thousands of euros							
	Euros	**US dollars**	**Czeck crown**	**Brazilian real**	**Mexican peso**	**Chinese yuan**	**Others**	**Total carrying amount**
2016	52,212	63,648	299	19,074	908	8,777	2,723	**147,641**
2015	42,518	62,134	426	14,711	383	7,595	3,170	**130,937**

10.2. Receivables from public administrations

At December 31, 2016 and 2015, balances receivable from public administrations are as follows:

	Thousands of euros	
	2016	**2015**
VAT receivable form the Treasury	23,765	24,050
Withholdings and peyments on account receivable from the T	2	65
Other public bodies	14	11
Balance at December 31,	**23,781**	**24,126**

The breakdown by currency is as follows:

	Thousands of euros							
	Euros	**US dollars**	**Czeck crown**	**Brazilian real**	**Mexican peso**	**Chinese yuan**	**Others**	**Total carrying amount**
2016	7,926	14	712	6,172	5,992	413	2,552	**23,781**
2015	4,874	65	681	9,725	5,929	220	2,632	**24,126**

11. Current and non-current financial assets

All financial instruments at December 31, 2016 and 2015 are included in level 2: assets and liabilities whose fair value has been determined with technical valuation techniques that use hypotheses observable in the market.

The breakdown at December 31, 2016 and 2015 of current and non-current financial assets is as follows:

	Thousands of euros				
Year 2016	**Loans and receivables**	**Available-for-sale**	**Hedges**	**Carrying amount**	**Fair value**
Financial investments	9,116	134	-	9,250	9,250
Cash flow hedges	-	-	2,798	2,798	2,798
Guarantees and deposits	745	-	-	745	745
Non-current financial assets	**9,861**	**134**	**2,798**	**12,793**	**12,793**
Guarantees and deposits	19	-	-	19	19
Cash flow hedges	-	-	1,441	1,441	1,441
Current financial assets	**19**	**-**	**1,441**	**1,460**	**1,460**
Total at December 31, 2016	**9,880**	**134**	**4,239**	**14,253**	**14,253**

	Thousands of euros				
Year 2015	**Loans and receivables**	**Available-for-sale**	**Hedges**	**Carrying amount**	**Fair value**
Financial investments	-	134	-	134	134
Cash flow hedges	-	-	16	16	16
Guarantees and deposits	1,161	-	-	1,161	1,161
Non-current financial assets	**1,161**	**134**	**16**	**1,311**	**1,311**
Guarantees and deposits	882	-	-	882	882
Cash flow hedges	-	-	332	332	332
Current financial assets	**882**	**-**	**332**	**1,214**	**1,214**
Total at December 31, 2015	**2,043**	**134**	**348**	**2,525**	**2,525**

At December 31, 2016, "Other non-current financial assets" includes a balance receivable by ICMS (the equivalent to VAT) of 7,199 thousand euros. In the state of Sao Paulo, the import ICMS increased 18%, while ICMS charged to sales ranges from 4% to 18%, depending upon the jurisdiction in question. This is the reason for the negative ICMS balance which, the Sao Paulo state's tax authorities only permits recovery through offsetting against other balances generated by the same tax. In this regard, during 2016, Viscofan do Brasil took steps to enable it to compensate and recover them within an estimated 3-4 years.

A breakdown of financial instruments by maturity is as follows:

	Thousands of euros						
Year 2016	**Less than 1 year**	**From 1 to 2 years**	**From 2 to 3 years**	**From 3 to 4 years**	**From 4 to 5 years**	**More than 5 years**	**Total**
Cash flow hedges	1,441	2,424	374	-	-	-	4,239
Other financial assets	19	3,046	2,691	2,567	469	1,222	10,014
Total at December 31, 2016	**1,460**	**5,470**	**3,065**	**2,567**	**469**	**1,222**	**14,253**

	Thousands of euros						
Year 2015	**Less than 1 year**	**From 1 to 2 years**	**From 2 to 3 years**	**From 3 to 4 years**	**From 4 to 5 years**	**More than 5 years**	**Total**
Cash flow hedges	332	16	-	-	-	-	348
Other financial assets	882	996	6	10		283	2,177
Total at December 31, 2015	**1,214**	**1,012**	**6**	**10**	**-**	**283**	**2,525**

A breakdown by currency is as follows:

	Thousands of euros							
	Euros	**US dollars**	**Czeck crown**	**Brazilian real**	**Mexican peso**	**Chinese yuan**	**Others**	**Total carrying amount**
2016	6,059	440	-	7,597	8	144	5	**14,253**
2015	188	128	234	353	503	1,113	6	**2,525**

12. Cash and cash equivalents

"Cash and cash equivalents" at December, 31 2016 and 2015 correspond entirely to balances held by the Group in cash and credit accounts, and an account which earns interest at market rates. The Group had no banking overdrafts during the periods, with all its balances freely distributable.

A breakdown by currency is as follows:

	Thousands of euros							
	Euros	**US dollars**	**Czeck crown**	**Brazilian real**	**Mexican peso**	**Chinese yuan**	**Others**	**Total carrying amount**
2016	24,743	9,153	1,612	898	253	4,224	4,171	**45,054**
2015	28,603	3,736	1,254	1,154	537	4,024	5,145	**44,453**

13. Equity

13.1. Share capital

At year end 2016 and 2015, the parent's share capital consisted of 46,603,682 registered ordinary shares with a par value of 0.70 euros each, fully subscribed and paid in. The total value of capital amounts to 32,623 thousand euros.

All shares bear the same voting and dividend rights and obligations, and 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, 2016 and 2015, the parent was aware of the following shareholders with a direct or indirect stake of over 3%:

	% of investment	
	2016	**2015**
Corporación Financiera Alba, S. A. (*)	11.02	6.86
Norges Bank	5.25	-
APG Asset Management N.V.	5.17	5.17
Ana María Bohórquez Escribano (**)	5.00	3.01
Marathon Asset Management, LLP.	4.98	4.93

(*) Indirect ownership interest held through Alba Participaciones SAU
(**) Indirect ownership interest held through Angustias y Sol, S.L.

Additionally, in accordance with Article 32 of Royal Decree 1362/2007, of October 19, on shareholders obliged to notify their residence in tax havens or in countries not requiring the payment of taxes, or with whom there is no effective exchange of tax information. No notification was received during 2016.During 2015, the shareholders Fidelity International Limited and Invesco Limited communicated that they owned respective percentages of 1.027% and 1.017%.

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 leverage 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 leverage ratios at December 31, 2016 and 2015 were as follows:

	Thousands of euros	
	2016	**2015**
Financial liabilities (Note 17)	84,986	67,453
Cash and cash equivalents	(45,054)	(44,453)
Other S.T. financial assets (Note 11)	(1,460)	(1,214)
Total net financial debt	**38,472**	**21,786**
Total equity	**708,081**	**632,909**
Leverage ratio	**5.4%**	**3.4%**

13.2. Share premium

The revised text of the Spanish Corporate Enterprises Act 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.

13.3. Reserves

The breakdown and movements of reserves are as follow:

	Thousands of euros				
	Legal reserve	**Revaluation reserves**	**Merger reserve**	**Retained earnings and other reserves**	**Total**
Balance at January 1, 2015	**2,935**	**15,888**	**119**	**464,341**	**483,283**
Actuarial gain (losses)	-	-	-	1,011	1,011
Apropiation of prior year results	-	-	-	51,739	51,739
Transfers	-	-	-	245	245
Balance at December 31, 2015	**2,935**	**15,888**	**119**	**517,336**	**536,278**
Actuarial gain (losses)	-	-	-	(1,678)	(1,678)
Apropiation of prior year results	-	-	-	57,573	57,573
Balance at December 31, 2016	**2,935**	**15,888**	**119**	**573,231**	**592,173**

(a) Legal reserves

In accordance with the Spanish Corporate Enterprises Act, companies registered in Spain are obliged to transfer 10% of the profits for the year to a legal reserve until it reaches an amount of at least an amount equivalent to 20% of share capital. This reserve cannot be distributed to shareholders.

(b) Revaluation reserve

The parent opted for the voluntary revaluation of PP&E items as established in the Navarre Regional Law 21/2012 of December 26, on modifying various taxes and other tax measures. The revaluation was carried out with respect to items recorded in the balance sheet for the year ended December 31, 2012, with the resulting reserve, net of 5% tax, amounting to 7,329 thousand euros. The effect of said revaluation was not recognized in the consolidated financial statements of the Group.

Once the inspection period had past, during 2016 the balance may be used to:

- Offset prior years' losses.
- Increase share capital.
- Increase freely distributable reserves once ten years have elapsed from the closing date of the balance sheet for the year in which the revaluation was recognized. However, said balance can only be distributed, directly or indirectly, when the revalued equity items have been fully depreciated, transferred, or derecognized.

Revaluation reserve in accordance with Navarra Regional Law 23/1996, is considered as distributable from December 31, 2006, on 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, 2016 and 2015 were as follows:

	Thousands of euros			
	Interest rate swaps	**Exchange rate insurance**	**Raw material derivatives**	**Total**
Balance at January 1, 2015	**(69)**	**(1,147)**	**(3,697)**	**(4,913)**
Gains/(losses), net of tax effects	-	(502)	(2,336)	(2,838)
Reclassification of gains to the income statement, net of tax	46	1,147	3,697	4,890
Balance at December 31, 2015	**(23)**	**(502)**	**(2,336)**	**(2,861)**
Gains/(losses), net of tax effects	-	(806)	3,068	2,262
Reclassification of gains to the income statement, net of tax	19	502	2,318	2,839
Balance at December 31, 2016	**(4)**	**(806)**	**3,050**	**2,240**

13.5. Movement in treasury shares

No transactions were carried out with treasury shares in 2016 and 2015.

The shareholders at their ordinary general meeting on April 29, 2013 agreed to renew the authorization, for the maximum legal period, granted to the Board of Directors to buy and sell Company shares on the stock market at the price quoted on the transaction date, up to the legal maximum number of shares permitted by Article 146 of the revised text of the Corporation Tax Law, and at a minimum price of the nominal value and a maximum 15% greater than the quoted share price in the stock exchange system at the moment of acquisition.

13.6. Appropriation of profit and other remuneration paid to the shareholders

Parent profits for the year ended December 31, 2015 were distributed as approved by the shareholders at their annual general meeting held on May 7, 2016, as follows:

	Thousands of euros
Dividends	62,449
Voluntary reserves	41,554
Distributable profits attributable to the parent	**104,003**

Total shareholder remuneration amounted to 1.34 euros per share. Of the above, the distribution of profit represented a per-share dividend of 1.34 euros and 0.01 euros corresponding to the payment of attendance fees related to the 2016 General Shareholders Meeting. This premium was recognized as an expense for the year.

Details of the distribution of the parent's 2016 dividends proposed by the directors of the parent, pending approval at the shareholders' general meeting, are as follows:

	Thousands of euros
Dividends	67,109
Voluntary reserves	3,602
Distributable profits attributable to the parent	**70,711**

On November 24, 2016, based on projected profit for the year, the Board of Directors approved an interim dividend for 2016 of 26,564 thousand euros, equal to 0.57 euros per share. This dividend was paid on December 22, 2016. 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 2016 is as follows:

	Thousands of euros
I. Cash available at November 23, 2016	**1,900**
Trade and other receivables	186,493
Trade and other payables	(111,941)
Payments to employees	(44,391)
Interest expense	(998)
Other payments	(6,500)
II. Cash flow from operating activities	**22,663**
Dividends received	69,062
Purchases of property, plant and equipment	(33,300)
III. Cash flow from investment activities	**35,762**
Variations in bank borrowings	8,911
Dividends paid	(67,575)
V. Projected liquidity at November 23, 2017	**1,661**

14. Capital grants

The movements under this heading in 2016 and 2015 were as follows:

Thousands of euros	Capital grants
Balance at January 1, 2015	**2,280**
Translation differences	89
Additions	1,880
Taken to profit	(671)
Balance at December 31, 2015	**3,578**
Translation differences	17
Additions	78
Taken to profit	(672)
Balance at December 31, 2016	**3,001**

The breakdown of capital grants during 2016 and 2015, all related to PP&E items, is as follows:

	Thousands of euros	
	2016	**2015**
Navarra regional government	2,260	2,761
Ministry of Science and Technology	-	16
International organizations	741	801
Balance at December 31, 2016	**3,001**	**3,578**

15. Current and non-current provisions

Details at December 31, 2016 and 2015 are as follows:

		Thousands of euros	
	Note	2016	2015
Defined benefit	15.1	19,733	17,178
Other employee benefits	15.2	3,177	3,186
Provisions for other litigation	15.3	398	354
Total non-current provisions		**23,317**	**20,718**
Provisions for warranties/repayments	15.4	1,865	1,082
Provisions for safety in the workplace	15.5	2,276	1,983
Provisions for emission rights	15.6	1,754	1,731
Others		783	301
Total current provisions		**6,678**	**5,097**

15.1. Provisions for defined benefit plans

a) The Group makes contributions to various different defined benefit plans. The most relevant plans are located in Germany and the United States of America, and independent actuarial valuations are used for all of them.

This note discloses the most relevant plans.

- Pension plans in Germany

A contribution is made through the Naturin Viscofan GmbH subsidiary for a defined benefit plan consisting of a life pension plan for retired employees. At December 31, 2016, there were 415 employees, 450 retirees, and ex-employees. At December 31, 2015, there were 435 employees and 444 retirees and ex-employees.

The number of the above beneficiaries does not included retirees which, from 2010 and 2013 are paid by the insurance company. The agreement does not imply cutting back or canceling the policy, as the obligation ultimately lies with Naturin Viscofan GmbH. However, the characteristics of the plan make the value of the assets and liabilities constant for the duration of the contract, so that both the assets and the liabilities offset each other, resulting in a current value of zero for the obligation.

The net obligation corresponding to pension plans amounts to 17,577 thousand euros at December 31, 2016, and 15,027 thousand euros at December 31, 2015. There are no pension plan assets in Germany.

· Pension plans in the United States of America

After canceling its defined employee pension plan commitments in prior years, at December 31, 2016 and 2015, Viscofan USA, Inc. was left with just 3 different pension plans whose recipients are 8 ex-directors of the subsidiary, and receive a lifelong monthly stipend.

These pension plans do not have any related assets or expenses arising from unrecognized past service.

The net commitment of the US pension plans amounts to 1,844 thousand euros at year end (2015: 1,847 thousand euros).

During the year, the Hourly Employees and Salaried Employees pension plans was definitively canceled. Payments made to the insurance company 6,451 thousand euros.

The cancellation of these employee commitments led to a profit of 3,003 thousand euros in 2015, which were recognized as personnel expenses on the consolidated income statements for 2015.

b) The following table presents the status of funds and amounts recognized in the statement of financial position for the respective plans:

	Thousands of euros	
	2016	**2015**
Present value of the obligation	**(19,733)**	**(17,178)**
Plans in Germany	(17,577)	(15,027)
Plans in the USA	(1,844)	(1,847)
Plans in other countries	(312)	(304)
Net obligation recognized	**(19,733)**	**(17,178)**

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

	Thousands of euros					
	Germany		USA		Total	
	2016	2015	2016	2015	2016	2015
Obligations at january 1,	**15,027**	**16,390**	**1,847**	**49,345**	**16,874**	**65,735**
Service cost for the current period (Note 20)	284	319	-	-	284	319
Interest cost	356	323	60	229	416	552
Payments made	(466)	(478)	(198)	(3,064)	(664)	(3,542)
Curtailment of pensions plan	-	-	-	(41,263)	-	(41,263)
Actuarial gains/(losses)	2,376	(1,527)	79	56	2,455	(1,471)
Arising from changes in financial assumptions	*2,258*	*(1,239)*	-	-	*2,258*	*(1,239)*
Arising from experience	*118*	*(288)*	*79*	*56*	*197*	*(232)*
Net value of obligation conributed to the insurance company	-	-	-	*(5,915)*	-	(5,915)
Translations differences	-	-	56	2,459	56	2,459
Obligation at December 31,	**17,577**	**15,027**	**1,844**	**1,847**	**19,421**	**16,874**
Amount corresponding to active beneficiaries	*9,767*	*8,376*	-	-	*9,767*	*8,376*
Amount corresponding to exemployeebeneficiaries	*2,988*	*2,578*	-	-	*2,988*	*2,578*
Amount corresponding to retired beneficiaries	*4,822*	*4,073*	*1,844*	*1,847*	*6,666*	*5,920*

d) The changes in the fair value of plan assets in the USA during 2015 were as follows:

	Thousands of euros
	2015
Fair value of assets at january 1,	**38,907**
Returns on assets	138
Curtailment of pensions plan	(41,263)
Translation differences	2,218
Fair value of assets at December 31,	**-**

e) The following table provides information relating to the amounts recognized in the consolidated income statement. Current service costs for the period are included in employee benefits expenses.

	Thousands of euros	
	2016	**2015**
Current service cost	**321**	**352**
Plans in Germany	284	319
Plans in other countries	37	33
Termination cost Plans in the USA	**-**	**(2,869)**
Net financial cost	**431**	**428**
Interest expense for German plans	356	323
Interest expense for US plans	60	229
Interest expense for plans in other countries	15	14
Expected return on US plan assets	-	(138)
Expense (income) recognized for the year	**752**	**(2,089)**

f) The following table provides information relating to the amounts recognized in the consolidated statement of comprehensive income:

	Thousands of euros	
	2016	**2015**
Actuarial losses and gains of	**(2,490)**	**1,393**
Plans in Germany	(2,376)	1,527
Plans in the USA	(125)	(92)
Plans in other countries	11	(42)
Tax effect	**812**	**(382)**
Net results recognized in the consolidated statement of comprehensive income	**(1,678)**	**1,011**

g) The principal actuarial assumptions used are as follows:

	2016	2015
Germany		
Annual discount rate	1.7%	2.4%
Expected rate of salary increases	2.0%	2.0%
Expected age of retirement for employees	65-67	65-67
United States		
Annual discount rate	3.5%	3.5%

The following mortality tables were used to quantify the defined benefit obligation:

Germany: Heubeck RT 2005 G

US Year 2016: *RP 2000 Annuitant w/no projection*

Future payments expected for coming periods are shown in the following table:

	Thousands of euros		
	Germany	**USA**	**Total**
Payable within the next 12 months	466	204	670
Payable within 1 and 2 years	487	194	681
Payable within 2 and 3 years	497	184	681
Payable within 3 and4 years	521	173	694
Payable within 4 and 5 years	548	163	711
Payable within 5 and 10 years	3,294	663	3,957
Payable within more than 10 years	22,181	754	22,935

The following table shows the sensitivity analysis for each of the main hypotheses on how a possible reasonable change in each hypothesis would affect the obligation at year end:

	Thousands of euros		
	Germany	**USA**	**Total**
Discount rate			
Increase of 50 basic points	(1,658)	(58)	(1,716)
Decrease of 50 basic points	1,914	62	1,976
Increase in pensions			
Increase of 50 basic points	1,244	-	1,244
Decrease of 50 basic points	(1,128)	-	(1,128)
Life expectancy			
Increase of 1 additional year	892	117	1,009

The sensitivity analysis is based on a change in one hypothesis while considering the remaining hypotheses as unchanged.

15.2. Other employee benefits and long-term remuneration

The movement in this heading at December 31, 2016 and 2015, is as follows:

	Thousands of euros	
	2016	**2015**
Balance at January 1,	3,186	3,601
Translation differences	36	(41)
Allowances	359	218
Payments	(404)	(592)
Balance at December 31,	**3,177**	**3,186**

(a) Seniority bonus in Germany

The subsidiary Naturin Viscofan GmbH has established seniority bonuses for when its employees complete 10 years of service (1,000 euros), 25 and 40 years of service (both amounting to 1,000 euros plus the gross monthly salary multiplied by 1.6 and one day of holidays), and, if applicable, 50 years of service (one day of holidays), settled in one-off payments at the date the employees complete the respective periods. The hypotheses used for calculating the obligations were the same as those used for the pension plan of the same subsidiary as described in the previous point.

The number of beneficiaries amounts to 415 employees (435 in the previous period), while the obligation amounts to 2,711 and 2,777 thousand euros at December 31, 2016 and 2015, respectively. The beneficiaries received 235 thousand euros in payments during 2016 (2015: 254 thousand euros). The payable amount expected for 2016 totals 412 thousand euros.

Recognized service costs and financial expenses for the current period amounted to 148 thousand and 154 thousand euros, respectively (2015: 116 thousand and 33 thousand euros, respectively).

15.3. Provisions for other litigations

The movements at December 31, 2016 and 2015, are as follows:

	Thousands of euros	
	2016	**2015**
Balance at January 1,	353	212
Translation differences	80	(80)
Allowances	-	407
Payments	(35)	(185)
Balance at December 31,	**398**	**354**

The provision for other litigation mainly covers claims brought against the Brazilian subsidiary by the Brazilian tax authorities and certain company employees. After seeking appropriate legal counsel, the directors consider that the result of the litigation will not significantly differ from the amounts provisioned at December 31, 2016.

15.4. Provision for guarantees / refunds

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

15.5. 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. After seeking appropriate legal counsel, the directors consider that the result of the litigation will not significantly differ from the amounts provisioned at December 31, 2016.

15.6. Emission rights provision

The amount of the provision for greenhouse gas emissions during the year was 1,754 thousand euros for 2016 (2015: 1,731 thousand euros).

15.7. Contingent assets and liabilities

(a) Contingent liabilities

At year end, there were a number of different legal claims filed against the Brazilian subsidiary totaling 4.4 million euros (2015: 3.6 million euros). As indicated in Note 15.3, at December 31, 2016, a 0.4 million euro provision was recognized (2015: 0.4 million euros). In the opinion of the Group's legal advisors in Brazil, all those which are not recognized under liabilities are considered to be potential risks, or that possible related amounts cannot be determined at the moment. Based on historic experience, the related amounts of all possible claims are under 5%.

Also, at year end, there were a number of ongoing lawsuits against Griffith Colombia, S.A. had held exclusive sales rights for Viscofan Group products in Colombia since 2006. As a result of the of the end of its business relationship, Griffith stopped paying invoices, which total approximately 1.2 million euros, to two Viscofan Group companies, arguing a right to retention because of the indemnity it considered due. Viscofan filed a number of lawsuits demanding payment of these invoices, as it won its lawsuits in Brazil and the Czech Republic. The ruling in Brazil was handed down in 2015, although the debt has yet to be collected there. The Czech Republic ruling was handed down in February of 2017, but Griffith may file an appeal before the Supreme Court. The claims process for terminating the sales relationship started by Griffith in Columbia is still open, with no relevant advances taking place in 2016. The Columbian Industry and Commerce Superintendency ruled in favor of Viscofan in its unfair trade practices proceedings brought by Griffith. At this time, there has been no indication that Griffith has filed an appeal.

Berkes Construcción y Montajes, S.A. and Viscofan Uruguay, S.A. filed reciprocal legal proceedings which are encompassed into a sole proceeding arising from the construction contract for building the plant. Viscofan Uruguay considers that there are deficiencies and areas of lack of compliance in the work done, and has retained amounts so as to force Berkes to rectify the problems; Berkes, on the other hand, considers that the deficiencies and lack of compliance are not relevant, and that the amounts retained by Viscofan Uruguay are excessive, claiming payment of these amounts. The process is still in the testing stage, and the possibility that material payments may be generated on the Viscofan Uruguay, S.A. balance sheet is remote.

(b) Contingent assets

At December 31, 2016, the extraordinary appeal admitted by the Supreme Court on September 22, 2014 rejected the initial appeal IAN S.A.U.'s lawsuit against Mivisa Envases, S.A.; the patent request had been declared null due to lack of originality and inventiveness. Thus, the ruling found that there was no breach on the part of Mivisa Envases, S.L., nor was any indemnity due. According to the sale contract of Industrias Alimentarias de Navarra, S.A.U. dated March 10, 2015, the appeal belongs to Viscofan S.A., and therefore, the indemnity corresponds to Viscofan S.A. The date for votation and court decision date has been set in March 2017. The outcome is uncertain, and therefore no assets were recognized.

Viscofan S.A. filed legal proceedings before the Mercantile Court against Sayer Technologies S.L. for revealing confidential information, once the Appellate Court rejected the legal claims filed. It was admitted by the Court and is currently being transferred to Sayer.

A fire seriously damaged the Weinheim parts warehouse, with an accounting value of 160,000 euros on the consolidated statements. The insurance company Allianz covered the claim. Thanks to prevention and containment measures, production was not affected by the fire, although a partial shutdown took place as a preventative measure; production started up two days later. Despite the fact that the claim is still being evaluated, advance payment in the amount of 3 million euros was received; the insurance inspection should conclude by April 2017. Therefore, results for 2016 will not be affected, with the warehouse construction planning expected for 2017.

Regarding regulation of the Spanish electricity sector, Viscofan S.A. filed an appeal before the Chamber of the Supreme Court against Royal Decree 413/2014 of June 6, and against Order IET/1045/2014, which regulates the activity and approved all the retribution parameters for the electricity generation facilities based on renewable energy sources. Voting and sentencing have been suspended to requested that the Ministry for Industry, Energy, and Tourism and Agenda Digital to rule on certain aspects upon which questions were asked by the company.

Viscofan S.A. also filed ratifications for the tax returns or self-assessments on the Electricity Production Value corresponding to 2013, 2014, and 2015, as it considered that it violates different European legal precepts and of the Spanish constitution.

Finally, Viscofan, S.A. maintained its appeal before the Chamber of the Supreme Court against Royal Decree 413/2014 of July 15, against the ruling of the Directorate General of Energy Policy and Mining on July 15, 2015, which determined the registration of the pre-assigned remuneration of 2,146 MW, requesting the specific remuneration scheme commence from the installation’s startup date, or subsidiarily as of November 9, 2014, (the date upon which this should have been resolved). Currently the procedure is undergoing testing.

Currently, It is impossible to determine the amount of contingent assets which might arise from these rulings in favor of Viscofan S.A., and therefore no amounts recoverable were recognized on Viscofan S.A.’s balance sheet in this regard.

16. Trade and other payables

16.1. Trade and other payables

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

	Thousands of euros	
	2016	**2015**
Suppliers	26,039	26,481
Amounts owed for services received	23,689	20,539
Customer advances	3,799	5,026
Remuneration pending payments	11,913	10,731
Balance at December 31,	**65,440**	**62,777**

The breakdown by currency is as follows:

	Thousands of euros							
	Euros	**US dollars**	**Czeck crown**	**Brazilian real**	**Mexican peso**	**Chinese yuan**	**Others**	**Total carrying amount**
2016	31,389	18,456	2,142	4,205	3,451	2,212	3,585	**65,440**
2015	29,844	20,152	2,217	721	3,446	2,233	4,163	**62,776**

16.2. Payable to public administrations

The breakdown of this heading is as follows:

	Thousands of euros	
	2016	**2015**
VAT payable to Treasury	2,250	1,781
Amounts payable to the Treasury for withholdings	5,416	5,897
Payable to social security agencies	1,781	2,003
Other public bodies	709	721
Balance at December 31,	**10,156**	**10,402**

The breakdown by currency is as follows:

	Thousands of euros							
	Euros	**US dollars**	**Czeck crown**	**Brazilian real**	**Mexican peso**	**Chinese yuan**	**Others**	**Total carrying amount**
2016	6,906	8	432	-	2,032	525	253	**10,156**
2015	6,743	31	478	-	1,968	870	312	**10,402**

16.3. Information on late payments to suppliers in Spain in commercial transactions

In accordance with the Third transitory provision "Disclosure requirements" of Law 15/2010 dated July 5, information the average payment period to Spanish Group suppliers to the Spanish entities included in the consolidated group follows:

	Days	
	2016	**2015**
Average supplier payment period	33.57	35.62
Ratio of transactions paid	38.15	37.13
Ratio of unpaid transactions	11.98	12.84

	Thousands of euros	
	2016	**2015**
Total payments made	129,987	115,286
Total unmade payments	15,430	7,675

17. Current and non-current financial liabilities

The breakdown of current and non-current financial liabilities, taking into account discounted contractual maturities at December 31, 2016 and 2015, is as follows:

	Thousands of euros					
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total carrying amount	Total fair value
Bank borrowings	1,468	9,866	34,287	7,700	53,321	53,321
Accrued interest payable	124	57	-	-	181	181
Finance lease payables	55	127	160	-	342	342
Derivative financial instruments	167	2,667	133	-	2,967	2,967
Other financial liabilities	11,570	4,017	9,918	2,669	28,174	28,174
Total at December 31, 2016	**13,384**	**16,734**	**44,498**	**10,369**	**84,985**	**84,985**

	Thousands of euros					
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total carrying amount	Total fair value
Bank borrowings	5,707	9,018	25,787	-	40,512	40,512
Accrued interest payable	76	60	-	-	136	136
Finance lease payables	52	164	343	-	559	559
Derivative financial instruments	2,811	2,921	471	-	6,203	6,203
Other financial liabilities	4,186	4,842	7,479	3,536	20,043	20,043
Total at December 31, 2015	**12,832**	**17,005**	**34,080**	**3,536**	**67,453**	**67,453**

All current and non-current financial instruments are included in level 2: assets and liabilities whose fair value has been determined with technical valuation techniques that use hypotheses observable in the market.

As can be seen in the previous table, the carrying amount of financial liabilities agrees with the fair value as the long-term debt corresponds to financing obtained in recent years under similar conditions to those currently obtainable in the market.

The classification was determined based on actual maturities of balances drawn down from credit lines. Thus, the balance drawn down from credit lines whose annual renewal has already been agreed upon subsequent to year end are included in the 3-month period.

The financial liabilities corresponding to bank borrowings that accrue interest at variable rates are linked to Euribor or Libor plus an average spread from 1.5%.

"Other financial liabilities" at December 31, 2016, both current and non-current, mainly includes:

- A loan from the parent amounting to 4,167 thousand euros. The nominal amount received from COFIDES (Compañía Española de Financiación del Desarrollo) totaled 5,000 thousand euros. It accrues interest at market rates.
- Loans with interest rates sponsored by entities such as the CTDI and the Ministry of Economy and Competitiveness amounting to 7,973 thousand euros.
- Non-current assets suppliers, amounting to 11,631 thousand euros.

December 31, 2015 mainly includes:

- Loan received by the parent amounting to 5,000 thousand euros from COFIDES (Compañía Española de Financiación del Desarrollo) accruing a market interest rate.
- Loans with interest rates subsidized by entities such as the Government of Navarre, CDTI (Center for Industrial Technological Development), and the Ministry of Science and Technology, amounting to 7,730 thousand euros.
- Non-current assets suppliers, amounting to 5,609 thousand euross.

The Group recognizes the implicit interest on these loans using market interest rates.

The breakdown by currency is as follows:

	Thousands of euros							
	Euros	**US dollars**	**Czeck crown**	**Brazilian real**	**Mexican peso**	**Chinese yuan**	**Others**	**Total carrying amount**
2016	60,794	16,781	2,107	1,283	1,394	-	2,627	**84,986**
2014	51,652	6,824	1,488	4,043	1,750	15	1,681	**67,453**

The limits, the amount drawn down, and the drawable amount under credit and discount lines, as well as customer invoice advances at December 31 are as follows:

	Thousands of euros	
	2016	**2015**
Limit	118,915	127,147
Amount draw down	2,671	223
Drawable amount	116,244	126,924

The undiscounted value of financial liabilities classified by maturity at December 31, 2016 and 2015 is as follows:

	Thousands of euros						
	Less than 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	More than 5 years	Total
Borrowings - debt principa	11,333	4,522	17,422	6,172	6,172	7,700	53,321
Interest	1,333	1,050	937	501	347	193	4,361
Financial liabilities - borrowings	**12,666**	**5,572**	**18,359**	**6,673**	**6,519**	**7,893**	**57,682**
Debt principal	15,770	3,043	3,070	1,907	2,058	2,670	28,518
Interest	713	319	243	166	118	67	1,626
Other financial liablities	**16,483**	**3,362**	**3,313**	**2,073**	**2,176**	**2,737**	**30,144**
At December 31, 2016	**29,149**	**8,934**	**21,672**	**8,746**	**8,695**	**10,630**	**87,826**

	Thousands of euros						
	Less than 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	More than 5 years	Total
Borrowings - debt principa	14,942	7,470	4,397	14,263	-	-	41,072
Interest	1,027	653	467	357	-	-	2,504
Financial liabilities - borrowings	**15,969**	**8,123**	**4,864**	**14,620**	**-**	**-**	**43,576**
Debt principal	9,027	1,818	1,942	1,969	1,750	3,537	20,043
Interest	501	275	230	181	132	88	1,407
Other financial liablities	**9,528**	**2,093**	**2,172**	**2,150**	**1,882**	**3,625**	**21,450**
At December 31, 2015	**25,497**	**10,216**	**7,036**	**16,770**	**1,882**	**3,625**	**65,026**

During 2016 and 2015, the Group had reverse factoring facilities with a joint limit of 3,100 thousand euros, as well as multi-risk policies totaling 8,000 thousand euros.

18. Derivatives

The breakdown of balances which include the values of derivatives at December 31, 2016 and 2015 is as follows:

	Thousands of euros			
	2016		2015	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Exchange rate insurance	-	133	15	283
Interest rate hedges	-	-	-	11
Raw materials hedges	2,798	-	-	177
L.T. Derivatives	**2,798**	**133**	**15**	**471**
Exchange rate insurance	-	2,828	219	2,491
Interest rate hedges	2	7	5	21
Raw materials hedges	1,439	-	109	3,220
S.T. Derivatives	**1,441**	**2,835**	**333**	**5,732**
Total	**4,239**	**2,968**	**348**	**6,203**

18.1. 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, the parent contracts hedges for the gas price, which are netted out:

· During 2016, gas hedging contracts were signed for a total of 1,200,000 MWH covering gas purchases for the period ranging from February 2016 to January 2019. The contracted prices range from 1.65 to 2.00 euro cents per KWh. These contracts were arranged based on the parent's hedging policies, which cover up to 80% of the foreseen gas consumption in its casings manufacturing plant in Spain.

· In 2015, gas hedging contracts were signed for a total of 360,000 MWH covering gas purchases for the period ranging from February 2016 to January 2017. The contracted prices range from 2.07 to 2.29 euro cents per KWh. These contracts were arranged based on the parent's hedging policies, which cover up to 80% of the foreseen gas consumption in its casings manufacturing plant in Spain.

The valuation formula used included, among other variables, Brent forward prices.

There were no significant inefficiencies in any of the contracts signed at year end 2016 or 2015.

18.2. Exchange rate insurance

Part of the fair value of the exchange rate insurances at year end was recognized as income or expense on the consolidated income statements for 2016 and 2015. The amount recognized directly in the consolidated income statements relates to exchange rate insurances designated as hedges to cover amounts payable or receivable recognized in the consolidated statements of financial position at the exchange rate at year end. No significant inefficiencies were noted in 2016 and 2015 in any derivative financial instruments contracted.

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, 2016 and 2015, is as follows:

	Thousands of euros	
	2016	**2015**
US dollar	71,200	85,900
Pounds sterling	7,450	6,615
Canadian dollar	400	2,900
Chinese yuan	-	20,201

18.3. Interest rate hedges

The Group has arranged several interest rate hedges, the details of which are given below:

	Thousands of euros				
	IRS (I)	**IRS (II)**	**IRS (III)**	**IRS (IV)**	**IRS (V)**
Notional contract amount	6,000	4,000	4,000	3,000	10,000
Notional pending amount (2016)	**-**	**-**	**600**	**600**	**2,000**
Notional pending amount (2015)	300	400	1,400	1,200	4,000
Effective start date	01.04.11	02.05.11	15.09.12	30.09.12	12.12.12
Expiry date	01.04.16	03.05.16	15.09.17	30.09.17	27.11.17
Fixed interest rate	3.07%	3.23%	1.56%	1.69%	2.40%

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

Year	2016	2017
2016	-	3,200
2015	4,100	3,200

19. Income tax

The breakdown for deferred tax assets and liabilities, by type, is as follows:

	Thousands of euros					
	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Non-current assets	2,536	2,424	19,590	19,312	(17,054)	(16,888)
Current assets	7,228	6,987	1,635	113	5,593	6,874
Non-current liabilities	4,508	3,429	99	26	4,409	3,403
Current liabilities	2,057	1,679	1,487	1,177	570	502
Total at December 31,	**16,329**	**14,519**	**22,811**	**20,628**	**(6,482)**	**(6,109)**

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. Deferred tax assets arising from current and non-current 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 15 have led to adjustments in the tax assessment basis in the different countries.

Deferred tax liabilities arising from non-current assets for the years ended December 31, 2016 and 2015, mainly relate to the application of different amortization rates by certain Group subsidiaries (mostly in the USA) than those used for tax purposes. Also included is the tax effect of net unrealized gains on PP&E items acquired in different business combinations (Germany and Serbia).

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 expense and as “Other income and expenses” on the consolidated comprehensive income statement is as follows:

	Thousands of euros	
	2016	**2015**
Non-current assets	(1,673)	(1,325)
Current assets	529	(934)
Non-current liabilities	959	2,372
Current liabilities	(1,132)	882
Consolidated income statement	**(1,317)**	**995**
Non-current assets	1,839	911
Current assets	752	429
Non-current liabilities	(1,965)	298
Current liabilities	(750)	55
"Other comprehensive income" on the consolidated statements of comprehensive	**(124)**	**1,693**
Total changes in taxes and deferred tax liablities arising from temporaty diffeences	**(1,441)**	**2,688**

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

	Thousands of euros	
	2016	**2015**
Actuarial gains/(losses) on pension plans		
United States	(46)	(34)
Germany	(768)	429
Other countries	2	(13)
Unrealized gains/(losses) on cash flow hedges	2,063	532
Changes due to translation differences	(1,375)	779
Charged directly against "Other comprehensive income" on the consolidated income statement	**(124)**	**1,693**

The major components of income tax expense for the years ended December 31, 2016 and 2015, are as follows:

	Thousands of euros	
	2016	**2015**
Income tax expense for the year	31,573	30,591
Adjustment to income tax from prior years	(12)	297
Current income tax	**31,561**	**30,888**
Origination and reversal of temporaty differences	(1,317)	995
Deffered income tax	**(1,317)**	**995**
Deffered income tax from continued operations	**30,244**	**31,883**

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

	Thousands of euros	
	2016	**2015**
Profit before tax for the year	**155,255**	**151,507**
28% tax rate (25% in 2015)	43,471	37,877
Effect of application of tax rates in each country	(5,169)	(921)
Deductions generated	(6,399)	(4,820)
Adjustment to income tax from prior years	(12)	297
Impacto cambio tipo impositivo en España (*)	(28)	248
Impact of permanent differences	(1,619)	(798)
Tax on income expense	**30,244**	**31,883**

Corporation tax Law 23/2015, of December 28, amended the general tax rate from the current 25% to 28% in 2016 and subsequent years.

The parent adjusted the deferred tax assets and liabilities from prior years based on the prevailing rate at the estimated reversal date.

During 2016, the Chinese subsidiary Viscofan Technology (Suzhou) Co. Ltd.'s rating was again deemed as "High Tech," and therefore its tax rate dropped from 25% to 15%.

Viscofan CZ, s.r.o. obtained investment incentives from the Czech Republic's Ministry of Industry and Commerce which will materialize in deductions in upcoming years. The maximum amount of the deduction is 3.65 million Czech crowns corresponding to investments of up to 16.23 million Czech crowns over the next 9 years. The deduction to be applied each year may not cause the effective corporation tax expense to be less than that from the two preceding years. In 2016 the Company applied 0.73 million euros of tax credits (2015: 1.17 million euros). At December 31, incentives pending application in upcoming years amounted to 1.75 million euros.

Koteks Viscofan, d.o.o. may avail itself of a tax incentive which would reduce the corporate income tax quota 74.1% in tax returns presented until 2021 thanks to investments and the creation of jobs in the Serbian Republic.

Viscofan Uruguay S.A. has tax bonuses of up to 90% as a result of investments made.

Income tax payable from continued operations was calculated as follows:

	Thousands of euros	
	2016	**2015**
Current tax	31,573	30,591
Withholdings and payments on account	(28,498)	(26,753)
Total at December 31,	**3,075**	**3,838**

This amount is broken down in the consolidated statement of financial position as follows:

	Thousands of euros	
	2016	**2015**
Tax assets receivable	3,449	4,233
Tax liabilities payable	(6,524)	(8,071)
Total at December 31,	**(3,075)**	**(3,838)**

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected by the tax authorities or the inspection period of four years has elapsed. At December 31, the parent and subsidiaries in Spain are open to inspection of 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.

20. Operating income and operating expenses

20.1. Sales and rendered services:

The breakdown is as follow:

	Thousands of euros	
	2016	**2015**
Casings sales and services	691,208	694,738
Energie sales and services	39,625	46,032
Total sales and rendered services	**730,833**	**740,770**

20.2. Other income

The breakdown of this heading is as follows:

	Thousands of euros	
	2016	**2015**
Work performed by the Group on non-current assets	571	285
Capital Grants	2,622	1,312
Emission rights	612	1,323
Other income	9,976	4,631
Total other income	**13,781**	**7,551**

"Other income" includes, among others, 5.2 million euros corresponding to the recovery of costs covered by insurance companies detailed in Note 10.

The conditions or contingencies associated to grants received (Note 14).

20.3. Personnel expenses

The breakdown of "Personnel expenses" in 2016 and 2015 is as follows:

	Thousands of euros	
	2016	**2015**
Wages and salaries	127,787	124,216
Indemnity payments	981	300
Current service cost of defined benefits and other benefits. (Notes 14.1 and 14.2)	321	(2,617)
Company social security contributions	24,980	21,841
Other welfare benefits and taxes	14,507	14,805
Total personnel expenses	**168,576**	**158,545**

Group employees in continued operations during 2016 and 2015, by professional category and gender, were as follows:

	Total headcount at the end of year			Average number of employees
	Men	**Women**	**Total**	
Executives	62	10	72	71
Technecians and middle management	723	227	950	923
Administrative personnel	145	225	370	328
Specialized personnel	494	137	631	618
Unskilled workers	1,795	723	2,518	2,423
Year 2016	**3,219**	**1,322**	**4,541**	**4,363**

	Total headcount at the end of year			Average number of employees
	Men	**Women**	**Total**	
Executives	60	10	70	71
Technecians and middle management	707	221	928	858
Administrative personnel	113	190	303	299
Specialized personnel	515	139	654	556
Unskilled workers	1,673	714	2,387	2,449
Year 2015	**3,068**	**1,274**	**4,342**	**4,233**

Five parent employees have a recognized degree of disability equal to or higher than the legally-stipulated 33%, this information is given in accordance to Royal Decree 602/2016 of December 2. The breakdown by professional category are 3 technecians, 1 administrative and one tecnecian / middle management. Due to circumstances existing in its production process, Viscofan S.A. requested the legally-established declaration of exception for the disabled, and their social inclusion in exchange for signing up for special benefits with special employment centers, corresponding to 9 additional employees.

20.4. Other operating expenses

The breakdown of "Other operating expenses" is as follows:

	Thousands of euros	
	2016	**2015**
Research and development costs	2,183	1,658
Repair and maintenance	28,563	27,083
Environment	3,598	3,544
Power supplies	47,816	52,030
Plant expenses (surveillance, cleasing and others)	20,507	17,806
Leasing expenses	4,663	3,974
Insurance premium	3,943	4,085
Other taxes	4,643	5,177
Administrative and selling costs	46,857	46,229
Other expenses	10,639	10,776
Other operating expenses	**173,412**	**172,362**

R&D expenses are not susceptible to capitalization, and were recognized as expenses during the year they were incurred.

The increase in plant expenses is due to work performed at the Weinehim (Germany) plant as a result of the fire in November, 2016 (Notes 7 and 20.2).

“Other expenses” includes those corresponding to the acquisition of the Vector Group companies, amounting to 1,544 thousand euros.

20.5. Financial income and expense

The breakdown of "Financial income and expenses" is as follows:

	Thousands of euros	
	2016	**2015**
Financial income	**431**	**694**
Bank borrowings and other financial liabilities	(1,230)	(2,904)
Net finance cost of pension plans	(589)	(469)
Financial expense	**(1,819)**	**(3,373)**
Losses on non-trade receivables	**(721)**	**-**
Exchange gains	17,967	28,046
Exchange losses	(14,969)	(34,654)
Exchange gains (losses)	**2,998**	**(6,608)**
Financial incomer (expenses) total	**889**	**(9,287)**

21. Earnings per share

21.1. 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.

The breakdown of the calculation of basic earnings per share is as follows:

	Thousands of euros	
	2016	**2015**
Weighted average number of ordinary shares in circulation	46,603,682	46,603,682
Profit from continued operations attributable to ordinary equity holders of the parent	125,084	119,611
Basic earnings per share (in euros) from continued operations	**2.6840**	**2.5666**
Profit from discontinued operations attributable to ordinary equity holders of the parent	-	411
Basic earnings per share (in euros) from discontinued operations	**-**	**0.0088**
Profit attributable to ordinary equity holders of the parent	125,084	120,022
Basic earnings per share (in euros)	**2.6840**	**2.5754**

21.2. Diluted

The weighted average number of ordinary shares in circulation coincides with the number of shares comprising the parent's share capital.

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.

22. Environmental information

The cost of items related to the Group's environmental projects acquired during 2016 was 34,837 thousand euros (2015: 30,927 thousand euros), with an accumulated amortization of 21,848 thousand euros (2015: 19,143 thousand euros).

In accordance with the 2013-2020 National Emission Allowance Assignment Plan, and after applying the inter-sectoral adjustment factors outlined in Appendix II to EU Decision 2013/448/EU to non-electricity generators, and the annual 1.74% annual reduction in electricity generators, in accordance with Articles 8 and 9 bis of EC Directive 2003/87/EC, the Group was assigned emission allowances equivalent to 356.915 tones.

The emission rights consumed by the Company during 2016 and 2015 amounted to 240,356 and 237,070 tons, respectively.

In 2016, the Group incurred in environmental protection and improvement costs amounting to 3,598 thousand euros. In 2015 this amount totaled 3,544 thousand euros.

The Group arranged civil liability insurance coverage for damages to third parties caused by accidental and unintentional contamination; the insurance coverage refers to any possible risk involved and to date no significant claims in environmental matters have been filed.

The parent's directors do not deem it necessary to make any provisions to cover environmental contingencies and expenses.

23. Risk management

Risk management is controlled by the Group, in keeping with policies approved by the Board of Directors. The risk control system is described in section E. Risk management and control systems of the Annual Corporate Governance Report from the parent company, listing those that might affect the achievement of objectives, their materiality in 2016, and response and supervision plans. We will now focus on the financial risks described below.

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 program 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.

23.1. Exchange rate risk

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.

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 following table shows the sensitivity of a possible exchange rate variation on net results for the year arising from certain currencies in the countries in which the Group carries out its activities, while maintaining the other variables constant:

Thousands of euros

	US dollar		Czech Crown		Brazilian Real		Chinese Yuan Renmimbi	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015
+ 5%	3,331	3,708	(878)	(965)	808	820	1,761	1,398
- 5%	(3,013)	(3,355)	795	873	(730)	(742)	(1,592)	(1,265)

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		Chinese Yuan Renmimbi	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015
+ 5%	6,453	6,695	2,117	2,198	5,455	4,097	5,033	5,100
- 5%	(5,838)	(6,058)	(1,915)	(1,988)	(4,935)	(3,706)	(4,553)	(4,615)

23.2. Credit risk

The Viscofan Group's main financial assets are cash balances, trade and other receivables, and investments, which represent the Group's maximum exposure to credit risk.

The Group's credit risk relates mainly to trade receivables. Amounts reflected on the consolidated balance sheet, net insolvency provisions, estimated based on experiences gleaned from prior years, age, and valuation in the current economic environment. This would be the maximum amount of exposure to this type of risk.

There is no significant concentration of credit risk within the Group; its exposure is spread among a large number of counterparties and customers. No clients or associated group companies represented sales and amounts receivable higher than 10% of total risk.

The Group has a credit policy, with exposure risk managed as part of its normal course of business. Credit evaluation of clients is performed in all cases where amounts exceed a set limit. It is habitual practice of Group companies to partially cover nonpayment risk through contracting loan guarantee and sureties covering approximately 90% of each client's debt. For countries at risk, coverage is reduced to 80%. In Countries without insurance coverage, guarantees such as advances and deposits on account are mandatory.

Credit risk arising from liquid funds and derivative financial instruments is limited due to the fact that counterparties are banking institutions with high credit ratings assigned by international agencies.

The Directors consider that during 2016, there were no significant assets which might be impaired as concerns their net realizable value.

23.3. 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 analyses 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, 2016 and 2015:

	Thousands of euros	
	2016	**2015**
Current asstes	453,537	415,731
Current liabilities	(118,919)	(116,183)
Emission rights provision (Note 15.6)	1,754	1,731
Working capital	**336,372**	**301,279**
Current liabilities net emission rights provision	117,165	114,452
%working capital/current liabilities without emission rights provision	**287.09%**	**263.24%**
Cash and cash equivalents	45,054	44,453
Available borrowing facilities (Note 17)	116,244	126,924
Cash and available on credit and discount lines	**161,298**	**171,377**
%cash and cash equivalents+available on credit and discount lines/Current liabilities without emission rights	**137.67%**	**149.74%**

The amounts available on credit and discount lines do not include confirming lines or multi-risk policies which are described in Note 17.

A significant number of bank loans are hedged by financial derivatives to mitigate the volatility of interest rates paid by the Group.

Certain of the Group's non-current loans must meet a series of ratios calculated based on its consolidated financial statements. Lack of compliance represents an increase in finance costs and, depending on the case, represents the early termination of a contract. During 2016 and 2015, neither Viscofan S.A. nor any of its material subsidiaries were in breach of their financial commitments or any kinds of obligation that could trigger their early redemption.

In 2016 and 2015 there were no defaults or other noncompliance of the principal, interest, or repayments of debts with credit entities. No defaults are foreseen for 2016.

23.4. Interest rate risks in cash flows and fair value

The Group does not own significant remunerated assets.

The Company's exposure to interest rate risk is mainly due to the loans and credit facilities received from financial entities at variable interest rates. Note 18 provides a breakdown of the hedging contracts entered into for partial mitigation of the risk represented by 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, 2016 and 2015 the structure of financial liabilities once hedges through the derivatives arranged have been taken into account is as follows:

	Thousands of euros	
	2016	**2015**
Bank borrowings	53,844	41,207
Other financiasl debt (*)	16,543	14,434
Financial debt total (*)	**70,387**	**55,641**
Fixed interest rate (**)	49,127	21,408
Variable interest rate	21,260	34,233

(*) Excludes hedge derivatives and asset suppliers
(**) Includes the notional amount for interest rate hedges and subsidized loans

In 2016 and 2015, the floating interest rates on loans are 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 15.1).

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 plans commitments				Financial debt			
	USA		Germany		Euribor		Libor	
	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015	12.31.2016	12.31.2015
+ 1%	(19)	(101)	(166)	(164)	(277)	(613)	(34)	(28)
- 1%	18	93	160	150	278	615	25	28

23.5. Fuel price risk (gas and other oil derivatives)

The Viscofan Group is exposed to variations in Brent prices, which is the main indicator affecting the price of gas and other fuels used in processing its casings.

The Group policy is to set the prices for main fuels through the arrangement of year-long contracts with suppliers, or by using hedging policies (Note 18.1). It thus attempts to mitigate the impact of Brent variations on the consolidated income statement.

The following table reflects the sensitivity to a possible Brent price fluctuation on 10% of operating results.

	Thousands of euros	
	12.31.2016	12.31.2015
+ 10%	(1,689)	(2,002)
- 10%	1,690	2,002

24. Transactions and balances with related partied

Transactions with directors and senior management are disclosed in Note 25. The directors did not carry out any transactions with the Company or other group companies that were unrelated to the companies' normal course of business or were not carried out in normal market conditions

Financial debt includes a 3.75 million euro loan (2015: 5 million euros) granted in 2013 by a financial entity linked to Corporación Financiera Alba, S.A., which owns 11.02% of the Company's shares at year-end 2016 (2015: 6.86%). Payments made, including financial expenses, totaled 1,328 thousand euros (2015: 140 thousand euros). During the year, no additional services were provided by companies related to the shareholder (2015: 845 thousand euros). All transactions take place in normal market conditions.

25. Information on the Board of Directors of the Parent and Key Group Personnel

Directors compensation is outlined in Article 27 ter of the bylaws and remuneration policies approved by the shareholders during their general meeting.

The breakdown for Boardemuneration in 2016 and 2015 is as follows:

	Thousands of euros						
Ejercicio 2016	Salaries	Fixed remuneration	Allowances	Variable short-term remuneration	Variable long-term remuneration	Remuneration: seniority and commission	Total
Mr. José Domingo de Ampuero y Osma	354	350	-	104	-	-	808
Mr. José Antonio Canales García	342	-	-	205	-	-	547
Mr. Nestor Basterra Larroudé	-	330	33	-	-	100	463
Ms. Agatha Echevarría Canales	-	255	33	-	-	100	388
Mr. Alejandro Legarda Zaragüeta	-	80	33	-	-	35	148
Mr. Ignacio Marco-Gardoqui Ibáñez	-	80	33	-	-	63	176
Mr. José María Aldecoa Sagastasoloa	-	80	33	-	-	30	143
Mr. Jaime Real de Asúa y Arteche	-	80	33	-	-	27	140
Mr. Juan March de la Lastra	-	80	30	-	-	20	130
Mr. Santiago Domecq Bohórquez	-	51	21	-	-	20	92
Ms. Laura González Molero	-	29	12	-	-	-	41
Total 2016	**696**	**1,415**	**261**	**309**	**-**	**395**	**3,076**

Remuneration paid to Ms. Laura González Molero correspond till the month of April, when she stepped down as member of the parent's Board of Directors, in accordance with the decision made during the General Shareholders' Meeting held on April 21, 2016.

During the same meeting, Mr. Santiago Domecq Bohórquez was appointed Propriety Director in representation of Angustias y Sol, S.L.

	Thousands of euros							
Ejercicio 2015	Salaries	Fixed remuneration	Allowances	Variable short-term remuneration	Variable long-term remuneration	Remuneration: seniority and commission	Consejos otras Compañías del Grupo	Total
Mr. José Domingo de Ampuero y Osma	348	350	-	157	139	-	-	994
Mr. José Antonio Canales García	308	-	-	312	139	-	-	759
Mr. Nestor Basterra Larroudé	-	330	33	-	-	100	8	471
Ms. Agatha Echevarría Canales	-	255	33	-	-	100	-	388
Mr. Alejandro Legarda Zaragüeta	-	80	33	-	-	45	-	158
Mr. Ignacio Marco-Gardoqui Ibáñez	-	80	30	-	-	60	-	170
Mr. José María Aldecoa Sagastasoloa	-	80	33	-	-	30	-	143
Ms. Laura González Molero	-	80	24	-	-	8	-	112
Mr. Jaime Real de Asúa y Arteche	-	80	33	-	-	20	-	133
Mr. Juan March de la Lastra	-	51	21	-	-	12	-	84
Total 2015	**656**	**1,386**	**240**	**469**	**278**	**375**	**8**	**3,412**

During the General Shareholders Meeting held on May 7, 2015 Juan March de la Lastra was designated Propriety Director of Corporación Financiera Alba, S. A.

The two Executive directors, José Domingo de Ampuero y Osma and José Antonio Canales García earned a variable compensation totaling 309 thousand euros (2015: 747 thousand euros). This was calculated based on EBIDTA, net profit, sales, and share price values which were determined in accordance with the annual plan as well as personal performance.

At December 31, 2016 and 2015, no advances or loans had been granted to the Viscofan Group, nor did the Group have any pension commitments or other non-current savings plans. Likewise, no type of guarantee was granted on behalf of any present or former members of the Board of Directors, related individuals or entities. In addition, no remuneration was based on shares or share options.

During the year, amounts were paid for insurance premiums covering the civil liability of its directors for damage caused by acts or omissions in their position amounting to 51 thousand euros.

In 2016 and 2015 the members of the Board of Directors and related individuals or entities did not perform any transactions with the Company or with Group companies other than in the ordinary course of business or on terms other than on an arms' length basis.

Viscofan's directors have communicated that insofar as article 229 of the Capital Companies Law is concerned they do not have any conflicts of interest with the Company.

In 2016, all the Group companies had no legal person administrators in any companies

The Viscofan Group has contracts with its two executive directors which include golden parachute clauses. The cancellation of these contracts in certain objective terms not attributable to these board members will entitle them to an indemnification. The average total indemnity payable is two the annual salary, and includes a non-competition condition.

In 2016, remuneration received by key management personnel totaled 2,595 thousand euros, and does not include any additional payment for pluri-annual complements. During 2015, remuneration amounted to 3,064 thousand euros, including a triannual payment of 699 thousand euros. This amount does not include the abovementioned payments made to José Antonio Canales García and José Domingo de Ampuero y Osma, which is reflected further on.

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The breakdown of parties holding executive positions during 2016 follows:

Name	Position	Company
Mr. Gabriel Larrea	Chief Commercial Officer	Viscofan Group
Mr. César Arraiza	Chief Financial Officer	Viscofan Group
Mr. José Ignacio Recalde	R&D and Quality Chief Officer (till October) Chief Officer for New Businesses and Diversification (from November on)	Viscofan Group
Mr. José Angel Arrarás	R&D and Quality Chief Officer (from November on)	Viscofan Group
Mr. Andrés Díaz	Chief Operations Officer	Viscofan Group
Mr. Oscar Ponz	Chief Officer for Plastics Business	Viscofan Group
Mr. Ricardo Royo	Chief European Business Officer	Viscofan Group
Mr. Miloslav Kamis	General Manager	Gamex CB s.r.o, Viscofan CZ, s.r.o.
Mr. Iñigo Martinez	General Manager	Koteks Viscofan d.o.o.
Mr. Bertram Trauth	General Manager	Naturin Viscofan GmbH
Mr. Luis Bertoli	General Manager	Viscofan do Brasil, soc. com. e ind. Ltda.
Mr. Eduardo Aguiñaga	General Manager	Viscofan de México S.R.L. De C.V,
Mr. Juan Negri	General Manager	Viscofan Technology (Suzhou) Co. Ltd.
Mr. Angel Maestro	General Manager	Viscofan Uruguay, S.A.
Mr. Domingo González	General Manager	Viscofan USA Inc.

As of November 2016, Mr. José Ignacio Recalde will be the Diversification and New Business Director, while Mr. José Angel Arrarás will be the new Quality, Research, and Development Director.

Also during November 2016, Mr. Oscar Ponz will be the new Plastic Casings Director.

26. 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 2016 and 2015 as follows:

	Thousands of euros		
	In the parent's Company	In other companies	Total
Audit services	107	609	716
Other related audit services	23	-	23
Other services	178	26	204
Total at December 31, 2016	**307**	**635**	**942**

	Thousands of euros		
	In the parent's Company	In other companies	Total
Audit services	105	594	698
Other related audit services	23	0	23
Other services	18	18	36
Total at December 31, 2015	**145**	**612**	**757**

Audit services detailed in the above table include the total fees for services rendered in 2016 and 2015, irrespective of the date of invoice.

27. EVENTS AFTER THE BALANCE SHEET DATE

In its meeting on February 28, 2017 the Board of Directors agreed to propose remuneration for shareholders totaling 1.45 euros per share. This included 0.57 euros per share interim dividend paid on December 22, 2016, and a complementary 0.87 euros per share dividend that will be paid on June 8, 2017, plus the attendance per diem amounting to 0.01 euros per share.

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

Management Report

Description of the Viscofan Group

The Viscofan Group is a global leader in casings for the meat sector. The Group was founded in 1975 in Caseda (Spain) and is devoted to meeting the world's food industry needs through the ad-hoc production and sale of casings which add value to our stakeholders.

The Group is present in 15 countries with sales offices and production plants, and distributes its products across 100 countries worldwide.

Viscofan S.A. and subsidiaries form the Viscofan Group Viscofan S.A. is the direct or indirect owner of the majority of the voting rights in the subsidiaries comprising its consolidation scope. The breakdown of companies comprising the Viscofan Group may be found in Section 2 of the consolidated financial statements.

Corporate Social Responsibility and Governance

Viscofan is clear on the fact that Corporate Responsibility is the basis for relating with its stakeholders: shareholders, the market (from suppliers to customers), employees, and the Company. This commitment stems from the Company's mission to "meet the world's food industry needs through the ad-hoc production and sale of casings which add value to our stakeholders."

Its corporate responsibility policies endeavor to maximize the creation of sustainable value, and is shared with its interest groups, and identifies, prevents, and corrects any possible effects.

This commitment is reflected in Viscofan's role as a partner in the United Nations Global Compact network, which was renewed for 2017.

To this end, Viscofan considers that good corporate governance is a key factor for generating value, improving economic efficiency, and bolstering its investors' trust thanks to the appropriate segregation of functions, duties, and responsibilities among all the Company's governing and administrative bodies.

Good corporate governance is crucial to the Viscofan Group, and is understood as the ethics code of tall the administrative and managing bodies of its listed companies, whose end purpose is to coordinate the Company's current structure and align it with its business goals.

Viscofan closely follows updates in matters related to good corporate governance in Spain and worldwide, and carries out an intense dialogue and communicates any aspects contributing to awareness about the Company, its performance, and plans for the future as regards Corporate Governance.

Viscofan's diverse internal bodies ensure that everything functions in line with good governance recommendations.

General Shareholders' Meeting

The Company's maximum overseeing body is the forum in which its shareholders make majority decisions. Viscofan has established a principle of "one share, one vote," which favors equality for all shareholders.

The General Shareholders Meeting is noteworthy due to its strong participation, which is especially significant when contemplating the Company's free-float. During the 2016 general shareholders meeting, it owned 80.08% of share capital vs. 73.06% the previous year.

Board of Directors

This is the body in charge of representing and administering the Company. Its chief function is the general supervision of Viscofan S.A., and where applicable, its companies comprising the Group.

At year-end 2016, the Viscofan Board of Directors was comprised of 10 members, 2 executive directors (President and CEO), 2 external directors (both non-executive Vice Presidents), 4 independent board members, and 2 proprietary directors. A secretary who is not a member of the Board assists the Board of Directors.

To ensure its optimal functioning, the Board has three committees:

i) Delegated Committee

The Viscofan Group's technological and geographic diversification within the dynamic and competitive casings market makes close supervision necessary to ensure that all the measures adopted by the Board of Directors are implemented locally. This increased degree of supervision also makes it possible to gain a closer understanding of production, operations, finance, and sales in the different regions in which the Group operates, to provide the Board complete information in advance of Group administration debates. The Delegated Committee provides copy of the minutes to the Board for improved coordination.

The Viscofan Board of Directors' Delegated Committee is comprised of three members, of which just one is executive; the remainder are external. Mr. José Domingo de Ampuero y Osma (CEO), Mr. Néstor Basterra Larroudé, and Ms. Ágatha Echevarría Canales are members of this Committee (non-executive directors).

The Delegated Committee's labor involves greater dedication arising from a more direct supervisory contact with Management at its different manufacturing locations and the market environment. During 2016, the Delegated Committee met 12 times.

Its areas of responsibility have increased in matters handled by the Board: it has overseen the implementation of strategies in the different Group subsidiaries approved by the Board, and based on the criteria of maximum transparency, has shared any proposals affecting it so that the Board may adopt any agreements it considers appropriate. The minutes of its meetings are also shared with the members of the Board of Directors.

The Delegated Committee carried out strategic analyses to study potential organic/non-organic growth areas, as well as a number of different investment options. During 2016, the Board purchased 100% of the Vector company's US and European share capital, and made the necessary investments to install plastics and fibrous productive capacity in Caseda (Spain), as well as the increase in the collagen capacity in Pando (Uruguay), thanks to support from studies carried out by the Delegated Committee. Its studies have delved into the different products or families (collagen, fibrous, and plastics), the development of products, and energy optimization.

Studies were conducted on the monthly progress in production, sales, and consolidated results of the Group in each of its subsidiaries.

ii) Audit Committee

The Audit Committee is composed of three independent directors: Mr. Ignacio Marco-Gardoqui Ibáñez (Committee President), Mr. Alejandro Legarda Zaragüeta, and Mr. José María Aldecoa Sagastosoloa (members), as well as one proprietary director: Mr. Santiago Domecq Bohórquez (member).

The Audit Committee's tasks include supervising the preparation and integrity of the financial information of the Company and its subsidiaries, including the SCIIF review, independence of the external auditor, ensuring sufficient internal cooperation with the auditor, supervising the periodic financial disclosure provided by the Board to the markets and its supervisory bodies, supervising the internal audit process, reviewing the internal control and risk-management systems, verifying that Management contemplates its recommendations, proposes external auditors, oversees independence, reviews the audit plan, results of its execution, supervising compliance with internal codes of conduct and good governance guidelines, and where possible, respond to initiatives, suggestions, or complaints from shareholders Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

The Audit Committee met ten times during 2016, three of which with the EY external auditors. It has performed its regulatory tasks as well as those set forth in the Company Bylaws and Board of Directors Regulations. It informed the General Shareholders Meeting on Committee activities, proposing the audit firm to the Board, which was approved during the meeting held on April 21, 2016.

During the year, the audit firms were assessed to select the auditor for the Viscofan S.A. and consolidated Group's financial statements for 2017, 2018, and 2019 Among the candidates, the Audit Committee proposed PwC to the Board of Directors.

It supervised, analyzed, and commented on the activities performed by internal audit, process for preparing financial information, interim financial statements, provisional treasury statement for the distribution of dividends, as well as the internal financial information control system.

Throughout its relationship with its external auditor, and as one of its obligations, it ensured that the financial statements are presented without reservations or qualifications, and with total independence.

Finally, all its activities have been reported to the Board of Directors, with all minutes from its meeting shared with its members, including information related to risk maps and tax matters.

iii) Appointments and Remuneration Committee

The Appointments and Remuneration Committee is comprised by two independent directors: Mr. Jaime Real de Asúa y Arteche (Committee president) and Mr. Ignacio Marco-Gardoqui Ibáñez (member), as well as a proprietary director, Mr. Juan March de la Lastra (member).

The Committee proposes the appointment of independent directors, reports on other board members and appointments/removals of senior directors, informs the Board on questions related to diversity, and proposes remuneration policies for Board members and management, as well as remuneration policies covering shares and options, where applicable, and long-term policies for remunerating board members and top executives. The Appointments and Remuneration Committee met a total of seven times during 2016.

Viscofan Group performance in the casings market during 2016

During the year, the casings market performance was under its average historic growth rhythm. Sales volumes dropped in the market overall due to the harsh decrease in Latin America, led by Brazil, as well as the weakened North American market; these aspects stood out in contrast against the hearty Asian market.

The above market context suffered a highly volatile currency environment, especially in emerging economies; this exerted an indirect effect on consumers' purchasing power for imported products, as well as production-related costs in companies in our sector.

In such a demanding environment, the Viscofan Group bolstered its position of leadership in the sector while continuing to develop the activities included in its MORE TO BE 2020 strategic plan, focused on leading in all the main casings market in terms of service, cost, and technology.

These initiatives include the acquisition of the Vector firms in the US and Europe, startup of a new plastics plant in San Luis Potosí (Mexico) and Nanopack plastics technology in Cáseda (Spain). At year-end 2016, the Viscofan Group was positioned as one of the top five producers of plastic casings worldwide.

In Cáseda (Spain), progress continues in the construction of the new plant; the production of fibrous casings should begin during the second half of 2017.

We are committed to greater development in the Latin American region, and with this in mind have commenced a new collagen casing extrusion facility at the Pando (Uruguay) plant at the end of 2016, thereby consolidating our position as the only local collagen producer in Latin America.

This investment activity was accompanied by a new historic net result record of 125.0 million euros, which is 4.1% higher than the year before.

The solid balance sheet, with net bank borrowings totaling 8.8 million euros at year end, and results obtained are making it possible to continue increasing shareholder remuneration: the proposed amount of 1.45 euros/share is 7.4% higher than the 1.35 euros the prior year.

This has been a demanding year, although this did not hinder the Viscofan Group from growing in results, shareholder remuneration, and investments, which all help solidify our leading market position.

From this angle, we can confidently face 2017, during which we expect to keep seeing growth in our key financial indicators while also moving forward with our projects defined for the MORE TO BE 2020 strategic period.

Changes in the scope of consolidation

In October of 2016, the Viscofan Group signed a purchase-sale agreement with a group of private investors for the cash purchase of 100% of the shares in Vector USA Inc. and Vector Europe NV, encompassing their subsidiaries in Europe (Vector Packaging Europe NV. and Vector UK Ltd.).

The subsidiaries were included in the Viscofan Group consolidation scope as of November 1, 2016,

The Viscofan interest in the fair value of the identifiable assets, liabilities and contingent liabilities exceed the cost of the business combination. The difference was recognized under results for the year once the acquisition cost and the valuation of the net assets acquired were reevaluated, generating a positive result of 4.5 million euros.

The most relevant factors contributing to the combination cost leading to the recognition of the excess net assets acquired vs. the acquisition cost were independent expert appraisals of PP&E and intangible assets of the acquired group of companies.

Consolidated Group results achieved during the period from January-December 2016

Viscofan Group 2016 income statement ('000 €)

	Twelve months			
	Jan-Dec' 16	Jan-Dec' 15	Change	Like-for-like (1)
Revenue	730,833	740,770	-1.3%	0.0%
Recurring EBITDA (2)	201,134	210,840	-4.6%	-0.8%
Recurring EBITDA Margin (2)	*27.5%*	*28.5%*	-1.0 p.p.	-0.2 p.p.
Non-recurring result (2)	2,931	3,003	-2.4%	
EBITDA	204,065	213,843	-4.6%	
EBITDA Margin	*27.9%*	*28.9%*	-1.0 p.p.	
EBIT	154,366	160,794	-4.0%	
Net profit	125,011	120,035	4.1%	

(1) Like-for-like: In comparative terms, organic growth excludes the impact of exchange rate variations, their effect on the consolidation scope, and non-recurring business results.
(2) Recurrent: Adjusted to 2016 results associated to the purchase of Vector companies in US and Europe, and during 2015 due to the outsourced pension plans in the USA.

Revenue

The year was characterized by a casings market performance lower than its historic growth rate, due to the decrease in the Latin American and American markets.

However, during the second half of the year, the conditions in Latin America (chiefly Brazil) improved, translating into higher sales for the Viscofan Group in the area.

The acquisition of the US and European Vector companies represented additional sales totaling 5.4 million euros generated during November and December of 2016.

Accumulated net turnover amounted to 730.8 million euros, a 1.3% drop vs. the same period last year; this was chiefly the result of weak commercial currencies which eroded income for the year in over 2 percentage points, followed by a decrease in cogeneration income caused by the downturn in energy prices, especially during the second half of the year. The higher sales figure for casings in North America, Europe, and Asia offset the decline in Latin American sales.

By nature of income, casings sales contributed 691.2 million euros (-0.5% vs. 2015), while income from cogeneration energy sales contributed 39.6 million euros (-13.9% vs. 2015).

In organic terms[1], accumulated 2016 income remained stable with regard to 2015.

[1] Organic: In comparative terms, organic growth excludes the impact of exchange rate variations, their effect on the consolidation scope, and non-recurring business results.

The geographic breakdown of accumulated data during [2] December of 2016 is:

- Income in Europe and Asia reached 411.1 million euros, 0.2% under 2015 due to the negative impact of the impairment of commercial currencies vs. the euro, mainly CNY/€ (5.8%) and GBP/€ (12.8%), as well as the double digit drop in cogeneration energy sales in Spain. In organic terms, income in the region grew 0.7% thanks to an increase in casing volumes.

- Income in the US was around 217.3 million euros, representing a 0.7% growth vs. 2015, and 2.5% in organic terms.

- Latin America reported income totaling 102.4 million euros, with is a drop of 9.4% vs. 2015 due to weak volumes in Brazil and the depreciation of its currency vs. the euro (4.6%). In organic terms, accumulated income during December 2016 in Latin America dropped 7.0% vs. the preceding year.

Operating expenses

This year was characterized by an environment of moderate decline in the costs of the main productive inputs for both raw materials and energy costs, which linked with the Viscofan Group's improved operations has made it possible to control operating expense with regard to the previous year. However, the volatility of currencies, increase in expenses due to the fire in a spare parts warehouse in Germany in November of 2016, and expenses incurred during the acquisition of Vector represented higher operating costs during the last quarter of the year.

Despite increased operating expenses related to the fire in Germany, the Viscofan Group's risk management system includes insurance policies designed to cover any costs incurred, as well as other contingencies.

Consumption costs

Accumulated consumption costs[3] totaled 202.9 million euros, or 0.3% less than during 2015. In this manner[4] the gross margin over accumulated income was 72.2% vs. 72.5% in 2015.

Personnel expenses

Average headcount at year 2016 totalling 4.363 employees, a 3.1% increase regarding average headcount in 2015. Some reasons for this include boosting the staff to rollout the plastics production in Mexico and Spain, the new fibrous plant in Spain, and the inclusion of the Vector personnel.

Personnel expenses grew 6.3% during the year with regard to 2015 to 168.6 million euros.

In recurrent terms, that is to say excluding accounting savings from outsourcing the US pension plans in 2015, accumulated personnel expenses grew 4,4% vs. 2015.

[2] Income by origin of sale-

[3] Consumption costs = Consumables +/- Changes in inventory of finished goods and work in progress.

[4] Gross margin = (Revenue - Consumption costs) / Revenue

Other operating expenses

"Other operating expenses" during the year were 173.4 million euros, growing 0.6% vs. 2015, while energy supply costs dropped 8.1% vs. the same period last year. This increase in operating expenses is mainly the result of higher plant costs arising from the startup of the new collagen casings production plan in Uruguay, cleaning works in Germany, and management costs arising from the acquisition of the European and US Vector companies (1.5 million euros).

Profit from the business combination

Subsequent to the successful acquisition of the Vector companies in the US and Europe, according to accounting standards on business combinations, independent experts must assign a purchase price to the net fair value of the acquired assets and liabilities.

The Viscofan interest in the fair value of the identifiable assets, liabilities and contingent liabilities exceed the cost of the business combination. This difference was recognized under results for the year after the acquisition cost and valuation of net assets acquired were reevaluated, generating a positive 4.5 million euros on the Viscofan Group consolidated financial statements, due to the higher independent expert appraisals of all the tangible and intangible assets of the companies acquired.

Operating profit

Accumulated EBITDA[5] amounted to 204.1 million euros, a drop of 4.6% with regard to 2015.

In organic terms, accumulated EBIDTA was approximately 0.8% under 2015 levels, within the context of volume losses in Latin America and decreased cogeneration income, which were partially offset by growth in other reporting areas, as well as cost-containment measures.

In this manner, the Viscofan Group attained an EBITDA margin of 27.9% during 2016 (-1.0% vs 2015).

Accumulated amortization expense during the year was 49.7 million euros (-6.3% vs 2015).

The Viscofan Group obtained an accumulated EBIT of 154.4 million euros, 40% lower than during 2015.

Non-recurring impacts

A comparison of the information on non-recurring business impacts during 2016 and 2015 follows, which contributed 2.9 million and 3.0 million euros, respectively in operating profits.

Positive results amounting to 4.5 million euros were recognized for negative goodwill arising from lower the cost of the business combination with regard to the corresponding value of the identifiable assets acquired, less the liabilities assumed in the acquisition of Vector USA and Europe.

Expenses associated to the acquisition of the Vector US and Europe companies amounted to 1.5 million euros in operating income and 1.1 million euros in net results.

During 2015, a non-recurring impact of 3.0 million euros were recorded, and 1.9 million euros in net results arising from the outsourcing of the *Hourly Employees* and *Salaried Employees* pension plans in the US.

Financial position

The lower average indebtedness throughout the year made it possible to squeeze finance costs a total of 1.8 million euros during the year (2015: 3.4 million euros). During 2016, the Group also recognized positive differences during the year of 3.0 million euros, vs. losses arising from negative exchange

[5] EBITDA = Operating profit (EBIT) + depreciation of PP&E items.

differences amounting to -6.6 million euros in 2015, due to currency fluctuations on the balance sheet expressed in foreign currencies. Overall, during the accumulated year, the Group's net positive financial profit was 0.9 million euros vs losses of 9.3 million euros during 2015.

Net impairment result and taxes

Accumulated pre-tax profits during December 2016 totaled 155.3 million euros, with corporation tax amounting to 30.2 million euros, equivalent to an effective tax rate of 19.5% (2015: 21.0%).

The difference between the theoretical tax rate (28%) and the effective tax rate (19.5%) basically corresponds to the difference between the different tax rates for non-resident subsidiaries in Navarre (tax address for Viscofan S.A.) that pay taxes in each of the countries they operate in, applying the prevailing corporate income tax rate (or equivalent tax) for the period and the consideration of tax deductions for investments in some Group companies.

The Viscofan Group recognized a new historic maximum in net results during the year in both reported and organic terms. Net results were 125.0 million euros vs. the 120.0 million euros during 2015, representing a 4.1% growth vs. the previous period.

Investment

To gain the competitive edge, the Viscofan Group is rolling out its MORE TO BE 2016-2020 strategic plan, which contemplates a multitude of initiatives across all the available casings technologies within the Group, with special focus on improving Viscofan's positioning in the plastics and fibrous sector.

Throughout 2016, the Cáseda plastics plant was built, which began production during the third quarter of the year. New production capacity was satisfactorily installed at the Uruguay collagen plant, operative during the third quarter of the year and focused on improving our service in Latin America.

The most significant investment carried out during the year is in relation to the work performed to build the new Cáseda (Spain) plant, permitting the installation of the machinery to produce fibrous skin casings during the second half of 2017.

Investments made during the year totaled 86.7 million euros (2015: 57.3 million euros), broken down as follows:

- 51% of the investment was devoted to investments in capacity and machinery.
- 22% of the investment was devoted to improving processes.
- 8% of the investment was made on energy equipment and the optimization of the installations in terms of security, hygiene, and related to protecting the environment.
- The remaining 19% was spent on ordinary investments.

Equity and dividends

The Group's equity at year-end 2016 totaled 708.1 million euros, which is 11.8% higher than during 2015, thanks to the recognition of the net positive results amounting to 125.0 million euros (+4.1% vs. 2015), from which 26. 6 million euros are deducted as dividends on account during 2016 (+9.6% vs. 2015).

During its general shareholders meeting, the Viscofan Group Board of Directors agreed to propose a distribution of dividends including a complementary dividend of 0.87 euro per share, totaling 40.5 million euros for payment on June 8, 2017.

In this manner, the total shareholder remuneration amounted to 1.45 per share, comprised of:

- an interim dividend of 0.57 euros per share paid on December 22, 2016.
- a proposed complementary dividend of 0.87per share to be approved by the shareholders,
- and an attendance bonus at the General Meetingof 0.01 euros per share.

This proposal is 7.4% higher than the total remuneration of 1.35 euros per share approved during 2015, and represents the distribution of 67.6 million euros, which is equivalent to 54% of the Viscofan Group's net profit.

Financial liabilities

The Viscofan Group had a solid balance sheet at year-end 2016. Growth projects reflected in increased investments and the strategic acquisition of companies accompany a solid generation of cash flow from transactions making it possible to finance projects while also maintaining growing shareholder remuneration through the payment of cash dividends.

The Viscofan Group closed the year with net bank borrowings[6] of 8.8 million euros vs. a net cash position of 3.2 million euros during 2015. Net bank borrowings during the year increased during the second quarter due to the distribution of interim dividends, and the acquisition of the Vector companies in Europe and the US.

The Viscofan Group's financial situation is sufficiently robust to meet its payment commitments in the upcoming year.

Financial commitments

Based on the expected growth, the Group has investments planned to consolidate its leading spot in the casings business and continue improving services provided and current industrial equipment/operations. The forecast includes commitments including: the construction of the new fibrous casings plant in Cáseda (Spain), updating technologies, optimizing processes, and increasing production capacity. Thus, at year-end 2016, investment commitments totaled 7.5 million euros (at year end 2015: 12.4 million euros).

At December 31, 2016, the Group had construction and other items contracted under finance leases the minimum payments and current value of which amounted to 0.4 million euros (At Decemeber 2015: 0.6 million euros).

The Group also leased other different properties and items of property, plant, and equipment. Future minimum lease payments at December 31, 2016 represented 6.4 million euros (At December 31, 2015: 5.4 million euros).

[6]Net Bank borrowings = Non-current bank borrowings + Current bank borrowings - Cash and cash equivalents

Expected performance of the Group

The casings market is global, so in general terms growth perspectives remain intact for the medium and long term, fundamentally based on a growing population, globalizing eating habits supported by FAO studies projecting a growing consumption of meat worldwide, and increasing automation and productivity of meat processors.

These sollid pillars exist in an environment of macroeconomic and geopolitical uncertainty which reflects the volatility and dispersion of growth projections for the global economy, which might affect the performance if certain markets in the short term, as was the case in 2016.

Strategy and perspectives

The Viscofan Group is immersed in its new MORE TO BE 2016-2020 strategic plan, with the clear objective of following along in the same strategic direction as preceding plans, while incorporating MORE (Market, Optimization, Return; and Excellence) initiatives within the Viscofan Group culture, framing its initiatives around a goal which is threefold: Lead in service, technology, and costs.

Results obtained by the Viscofan Group during the year are not entirely satisfactory, but represent a notable advance in our leadership position, with a higher quota of income and returns which are higher than those of the main sector companies; the Vector acquisition helped solidify our positioning in the plastic casings segment.

To accompany the expected growth of the casings market, and continue improving its value and competitive positioning in its three key strategic lines, 2017 will be a year with intense investing and operational activity for the Viscofan Group. The following projects stand out, among others: Termination of the construction and startup of the new plant permitting installation of the fibrous machinery in Cáseda (Spain), integration of the Vector operations, assist clients in developing products on the other end of the spectrum from processed animal gut, and increased capacity in the China collagen casings plant to optimize service in the country.

Within this expected environment, if the currencies situation remains stable during 2017 the Viscofan Group expects income and EBIDTA growths and net results.

Environmental issues

Viscofan considers that business management should adopt criteria focused on the compatibility of production and economic activity with criteria contributing to sustainable growth.

The Company and its employees are committed to developing its business activity, based on sustainable principles and criteria which are at the same time economically viable, while also respecting prevailing environmental legislation and voluntarily-acquired commitments, so as to optimize available resources, promote the implementation of cutting-edge technologies, while also minimizing the environmental impact of its activity.

This commitment represent a challenge, considering that the Viscofan Group has production facilities located in 10 countries on different continents, with commercial offices in 15 countries: this involves many different cultures and regulatory frameworks. To ensure optimal coordination, and to improve the Group's efforts regarding environmental, health, and safety matters, Viscofan Group has EHS corporate policies which guides improvement plans, as well as to support environmental, safety, and hygiene measures which are a priority for the Viscofan Group.

The Viscofan Group's basic tenets are two-fold, covering and guiding all of its environmental projects:

- The sustainable use of resources.
- Contribute to avoiding climate change.

Key activities during 2016:

In 2016, a detailed review of the initiatives, goals, and water use controls in the different Group plants will be carried out.

As part of the Viscofan Group's commitment to sustainable use of its resources, during 2016 the Viscofan S.A. plant in Caseda (Spain) passed the certification audit of ISO 14.001 regulation quite satisfactorily, without non-conformities. This benchmark has paved the way for other Group companies expecting to obtain this certification during 2017.

Based on ISO 14.001 certification, Viscofan sets environmental objectives and goals, procedures designed to achieve them, responsibilities, personnel training activities, documentation, and control system. They also reduce the impact on the environment while generating internal profits thanks to improved use of resources.

The growing commitment to sustainability is revealed in its financial scope, with numerous environmental, safety, and health-related projects. Investments and expenses during 2016 and 2015 related to the environment are detailed in Note 22 of the notes of the consolidated financial statements.

Employees

A key differentiating aspect of the Viscofan Group's leadership is its know-how and commitment to all its employees. It employed a total of 4,541 individuals at year end, which is a team comprised of a competitive, multicultural, growing, trained, qualified professionals, and despite their cultural differences, share solid common values and ethical principles.

During the year, the Group continued to increase the size of its average headcount, mainly due to the inclusion of the European and US Vector companies, expansion into new plastics and fibrous implementation, and hiring of backup staff to beef up service to improve its global leadership position: the total number grew 3.1% vs. the prior year to 4,363.

The Viscofan Group employees are characterized by their international flavor, distributed across all 15 countries in which it is present. During 2016, 16% of the average headcount was based in Spain, 48% in the rest of Europe and Asia, 23% in North America, and the remaining 13% in Latin America.

168.6 million euros were devoted to personnel costs during 2016, which is 6.3% higher than 2015, representing 23.1% of income for the year.

The Group also considers the development of people as crucial. Its Human Resources departments in its different subsidiaries create and foster many different initiatives making it possible to manage knowledge while take advantage of its employees' talents for meeting objectives. Training is a primordial goal within the Group for its personnel, which is continuous, thereby boosting personal and professional development.

The Viscofan Group is committed to defending human rights, and is adhered to international commitments such as the United Nations Global Compact network or the International Human Rights Letter. This code of conduct states that the Viscofan Group employees must contribute to respecting and protecting human rights, especially child exploitation, and must avoid any conduct detected on the job which is contrary to their tenets.

Workplace health and safety

Corporate policies on workplace safety are designed by the EHS (Environment, Health, and Safety) Department, in close collaboration with the corporate Human Resources Departments. The Viscofan Group considers that accidents may be prevented, and makes huge efforts to standardize its procedures while also communicating its policies throughout the companies using courses and informational materials.

It carefully protects its assets to safeguard its employees as well as the sustainability of the business. In 2016, a goal was set to reduce lost working hours due to workplace accidents. This year's accident ratio shrank 20.8% vs. 2015.

Equality and work-life balance policies

The Group is currently executing its 2016-2019 II Equality Plan, stressing the company's strong points while also proposing improvements and establishing equality and work-life balance objectives. The Company Gender Equality CGE) procedures are focused on studying four large areas: leadership, policies and strategies, people, process management, and the relationship with the environment; all have specific action plans defined until 2019.

Some of the identified improvements in equality include hiring more women for technical positions, more indefinite contracts for women, and increased access to work-life balance initiatives for men.

The Appointments and Remuneration Committee created an Equality Committee which analyzes the Group's situation in this regard.

During 2016, there were 29.1% women on staff (2015: 29.3%).

Research and development activities

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

The Group's efforts are focused on both the product (development of new products, enhancement of available products to increase market share in the principal meat casing families, etc.) and the process (innovation and improvement of production processes for their industrial optimization, introduction of technological improvements and development of advanced engineering solutions to maximize productive output, etc.).

Furthermore, Viscofan's research activity has likewise been aimed at diversification in areas where its present knowledge will enable it to obtain future profits. Research efforts continue while the Group collaborates with centers specialized in the use of collagen derivatives as a matrix for growing cells "in vitro" for both research and tissue regeneration purposes and their possible use in the biomedical field.

Viscofan BioEngineering, the Viscofan Group biomedical unit based in Weinheim (Germany) has made strides with its Cardiomesh project, and to support it, the Spanish Ministry for the Economy and Competitiveness granted 1.3 million euros in financing.

Cardiomesh has been in the works for 8 years, with very promising results during testing on animals. The purpose is to develop a treatment for patients with heart failure through tissue regeneration. Its technical name is VB-C01, and it is a therapeutic cell generator consisting in a collagen membrane produced by Viscofan, upon which allogeneic stem cells from fatty tissue has been implanted. It is currently in the key Phase 1 of clinical trials to test its safety in humans.

Viscofan stock market performance

In 2016, financial markets were still affected by different monetary policies carried out by central banks, the US rise in rates by the Federal Reserve, and the expected rebound of inflation, most notably for oil products; these issues affected long-term interest rates. The ECB continued its expansive monetary policies in Europe.

The unexpected Brexit victory caused nearly all stock markets to drop.

The above variables during the year were reflected in growth deceleration. However, during the final phase of the year, stock markets recovered lost territory due to the slight improvement in worldwide economic forecasts, or US government plans to invest in new infrastructures, with a special impulse provided by the US stock exchange, which beat historic records. Apart from certain economic and geopolitical risks, the above has penalized the markets during the year, and have not disappeared.

Stock exchanges reflected this behavior: the US S&P500 index closed out the year with an appreciation of 9.5%, while the European Euro Stoxx 600 dropped -1.2%, the IBEX 35 -2.0%, the German DAX rose 6.9%, and the French CAC 4.9%.

Viscofan shares ended the year at 46.85 euros/share, an annual drop of 15.8% and 13.3% including dividend payments. Viscofan’s market capitalization amounted to 2,183 million euros at 2016 year end.

During the year, overall over 54.7 million shares of Viscofan were traded, which is 117% of the total amount of shares in circulation, with a trading volume of 2,707 million euros, which is equivalent to a daily average of 10.5 million euros.

Acquisition of treasury shares

At December 31, 2016, the Company had no treasury shares.

Average supplier payment period

In 2015, Law 31/2014 of December 3 entered into effect, which modifies Capital Companies Law with regards to corporate governance. It establishes that companies unable to present condensed income statements must mention their average payment periods to suppliers; these calculations must be based on criteria approved by the Ministry of Finance and Public Administrations, in accordance with guidelines established in the third section of the Second Final Provision of Organic Law 2/2012, dated April 27, on budget stability and sustainability.

In compliance with this information requirement, the payment period for the Viscofan Group during 2016 was 34 days (2015: 36 days), which is lower than the maximum established by payment arrears regulations.

The average payment period calculations were performed as indicated in the Resolution of January 29, 2016 was published, passed by the Institute of Spanish Accounting and Auditors of Accounts ("Instituto de Contabilidad y Auditoría de Cuentas" - ICAC, in Spanish), is applicable to the information concerning late payment to suppliers in commercial transactions.

Note 16.3 of the notes to the consolidated financial statements reflects information on the average payment period to suppliers during the year.

Description of risks and uncertainties

The main risks and uncertainties faced by the Viscofan Group and its management, control, and monitoring systems are outlined in Section E) of the parent's Annual Report on Corporate Governance.

Events after the balance sheet date

In their meeting held on February 28, 2017, the Board of Directors agreed to propose a final dividend payment amounting to 0.87 euros per share on June 8, 2017. Thus, total remuneration for shareholders amounts to 1.45 euros per share, including the interim dividend of 0.57 euros per share paid on December 22, 2016, the abovementioned complementary dividend of 0.87 euros per share, and the per diem payment for attendance at the General Shareholders' Meeting of 0.01 euros per share. This proposal increases total remuneration by 7.4% as compared to the total of 1.35 euros approved for the previous year.

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT: The Secretary of the Board of Directors, Mr. Juan María Zuza Lanz hereby certifies that the Board of Directors, at its meeting on February 28, 2017, approved the consolidated financial statements and the consolidated management report for the year ended December 31, 2016, and duly signs all the pages thereof for identification purposes. The consolidated financial statements comprise the attached documents preceding this certificate.

Mr. José Domingo de Ampuero y Osma
Chairman

Mr. Nestor Basterra Larroudé
First Deputy Chairman

Ms. Agatha Echevarría Canales
Second Deputy Chairman

Mr. José Antonio Canales García
Member

Mr. Alejandro Legarda Zaragüeta
Member

Mr. Ignacio Marco-Gardoqui Ibáñez
Member

Mr. José María Aldecoa Sagastasoloa
Member

Mr. Jaime Real de Asúa Arteche
Member

Mr. Juan March de la Lastra
Member

Mr. Santiago Domecq Bohórquez
Member

Secretary to the Board
Mr. Juan María Zuza Lanz