

ANNUAL REPORT



2005



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<i>- Financial Statements and Directors' Report of Viscofan, S.A.</i>	



Key Figures

“The 2005 results are a major improvement on the previous year, evidencing that our business strategy is on the right track”

Jaime Echevarría
Chairman

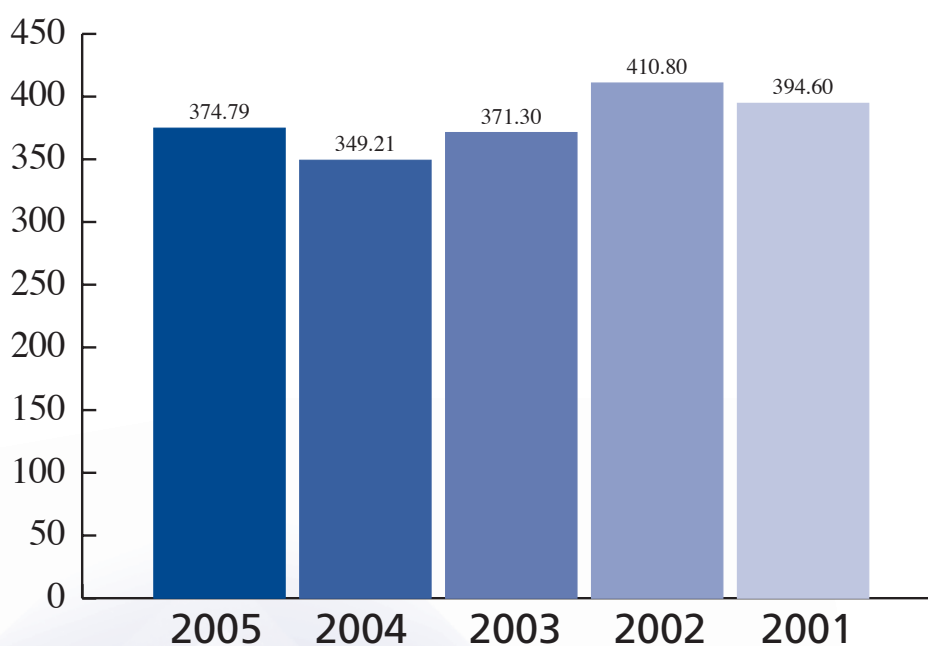
Key figures	2005	2004	VAR
Million euro			
Revenues	374.69	349.21	7.29%
EBITDA	57.41	45.75	25.48%
EBIT	26.71	16.71	59.79%
EBT	24.37	12.48	95.20%
Net attributable profit	19.70	13.80	42.72%
Shareholders' equity	251.77	234.9	7.2%
Net debt	78.08	76.9	1.5%
Capital expenditure	32.33	34.1	-5.2%
EBITDA margin (%)	15.32	13.10	16.9%
EBIT margin (%)	7.13	4.79	48.9%
Net debt/Equity (%)	31.02	32.74	-5.3%
ROE (%)	7.82	5.87	33.2%
Year-end closing price (€)	9.28	7.45	24.6%
Capitalisation	445.07	360.18	23.6%
Net attributable earnings per share (€)	0.41	0.29	43.47%
Dividend per share (€) (*)	0.188	0.180	4.44%
Average number of employees	3,346	2,921	14.5%

(*) Including refund of issue premium.

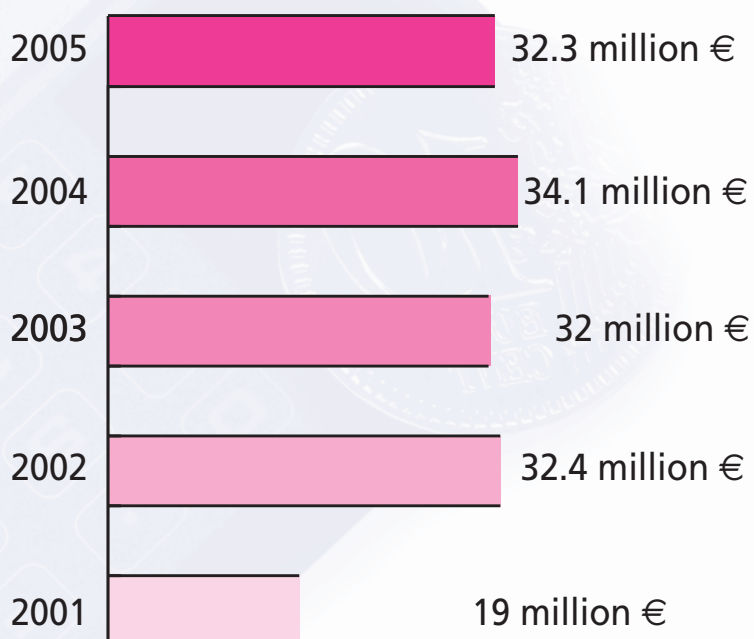
“Viscofan has expanded both its divisions while being alert to any opportunities that arose”

Jaime Echevarría
Chairman

Revenues (Million euro)



Capital expenditure



“Net profit increased by 42.7% on a 7.3% increase in revenues.”

Dear shareholder

Both of Viscofan's divisions—artificial casings and vegetables—expanded in 2005, and revenues increased by 7.3% overall.

Earnings before taxes increased by 95.2% with respect to 2004, but after-tax earnings, in like-for-like terms, rose by 42.7% due to differing treatment under IFRS of the tax credits recognised in 2004.

Margins also improved due both to higher production volumes and to the fact that there were no restructuring costs, in contrast with 2004. The EBITDA margin improved to 15.3%, from 13.1% in 2004.

As a result of these good figures, the Board declared an interim dividend of 7.8 cent per share in January and proposes to the Shareholders' Meeting that this be the only dividend out of 2004 earnings and that 11 cent per share should be distributed as a partial refund of the share premium.

When analysing Viscofan's 2005 results, please note that it was the first year in which we applied International Financial Reporting Standards (IFRS). The 2004 figures were restated under IFRS for comparison purposes.

A difficult start

Performance early in 2005 was poorer than expected. However, rising demand and measures taken to offset the impact of the poor first quarter enabled the Group to recover gradually in the second quarter and end the year with a clear improvement in overall results.

In connection with the reorganisation of manufacturing, the Group continued with the project to relocate plastic casing production from Germany to the Czech Republic and Brazil; this process will be completed in 2006.

The vegetables division continued to expand, and we spent heavily on advertising to promote the new line of refrigerated products under the Carretilla brand. New formats and contents will be launched progressively in 2006, and this division's core products continue to perform well, with margins and growth rates that are good in comparison with peers.

Seizing opportunities

The year 2005 was a very active one on the acquisition front. Viscofan was alert to opportunities, particularly in its core business, and its balance sheet and organisation were ready to seize them.

“The financial markets rewarded our growth and solidity”

As a result, in 2005 we made three acquisitions that enhance the Group's value:

In April, Viscofan reached an agreement with the majority shareholders of Tripasin to buy that company's artificial casing business and machinery, which have been transferred to the Koteksprodukt plant in Serbia.

In July, Viscofan made a tender offer for 100% of Koteksprodukt, a Serbian company that manufactures large-calibre collagen casing.

In December, but effective 2006, Viscofan acquired the North American business of Teepak, including 112 million dollars in annual sales, plus plants in the USA and Mexico and its fibrous casing technology.

As a result of these acquisitions, we are superbly placed in the artificial casing business, less exposed to exchange rate fluctuations, with a more comprehensive portfolio (we are the only manufacturer that produces all classes of artificial casing), a more cost-effective production base, and a size that is almost double that of our nearest rival in the artificial casing business.

The short-term objective will be to stabilise, rationalise and improve the newly-acquired production assets so as to bring them up to the Group's pre-existing efficiency and productivity standards. The management structure will need to be adapted to this new situation. That will lay the foundation for improving profitability and strengthening our business.

Rewarded by the markets

This earnings performance, coupled with concentration in our core business, was rewarded by the financial markets, and our share outperformed the market average.

We continue with our policy of making the group known among financial investors in Spain and internationally, and we visit the major financial centres where there may be interest in our shares so as to enhance liquidity in trading.

Performance to date in 2006 gives room for modest optimism as to an improvement in the group's profitability. We are in a position to take full advantage, in the near future, of the synergies from the recent acquisitions.

I would like to conclude by expressing my gratitude to the people of Viscofan for their dedication and hard work, and to you, the shareholders, for your support and trust, which inspire us to continue working to improve performance day after day.

Yours,

Jaime Echevarría Abona
Chairman

History of Viscofan

Thirty years creating value

Since its foundation in 1975, Viscofan has expanded rapidly and is now the world leader in the production and distribution of artificial casings for meat products, and Spain's leading producer of canned vegetables.



1975 Viscofan was founded. The company initially produced cellulose casing. A production plant was installed in Cáseda (Navarra).



1986 Viscofan was listed on the Madrid Stock Exchange.

1988 Acquisition of IAN (Industrias Alimentarias de Navarra), which produces and markets canned vegetables.



1990 Acquisition of Naturin GmbH & Co. KG, a German manufacturer of collagen and plastic casings. Construction of the asparagus plant in Peru.



1993 Installation of a shirring plant in Brazil. The Colfan (collagen) project commenced in Spain.



1995 Viscofan expanded in Brazil by acquiring the Tricifel plant. Acquisition of Gamex a.s. in the Czech Republic, where a finishing plant for Naturin products was established.



1998 A new Viscofan USA plant was set up in Alabama to help supply the American market.



1999 The cellulose casing plant in Brazil was expanded.



2000 Expansion of the Colfan-F. plant. Expansion of the Cáseda plant.



2001 A commercial office was opened in Thailand.

2002 A new distribution company was established in Poland: Viscofan Poland Sp Zoo.



2003 Construction of the Viscofan plant in Mexico commenced.



2004 IAN invested in a new line of precooked foods. Expansion in Brazil. Viscofan Centroamérica Comercial SA. was established in Costa Rica.



2005 Acquisition of the Tripasin AB business in Sweden, Serbian company Koteksprodukt AD, and the assets of Teepak North America (effective in 2006).

Milestones in 2005

April

Acquisition of the Swedish firm Tripasin's artificial casing business and production assets.



July

Investment of 9.4 million euro to buy 100% of Koteksprodukt AD (Serbia). The purchase price was 3.9 million euro, and it was followed by a 5.5 million euro capital increase to improve equipment and expand production capacity.



December

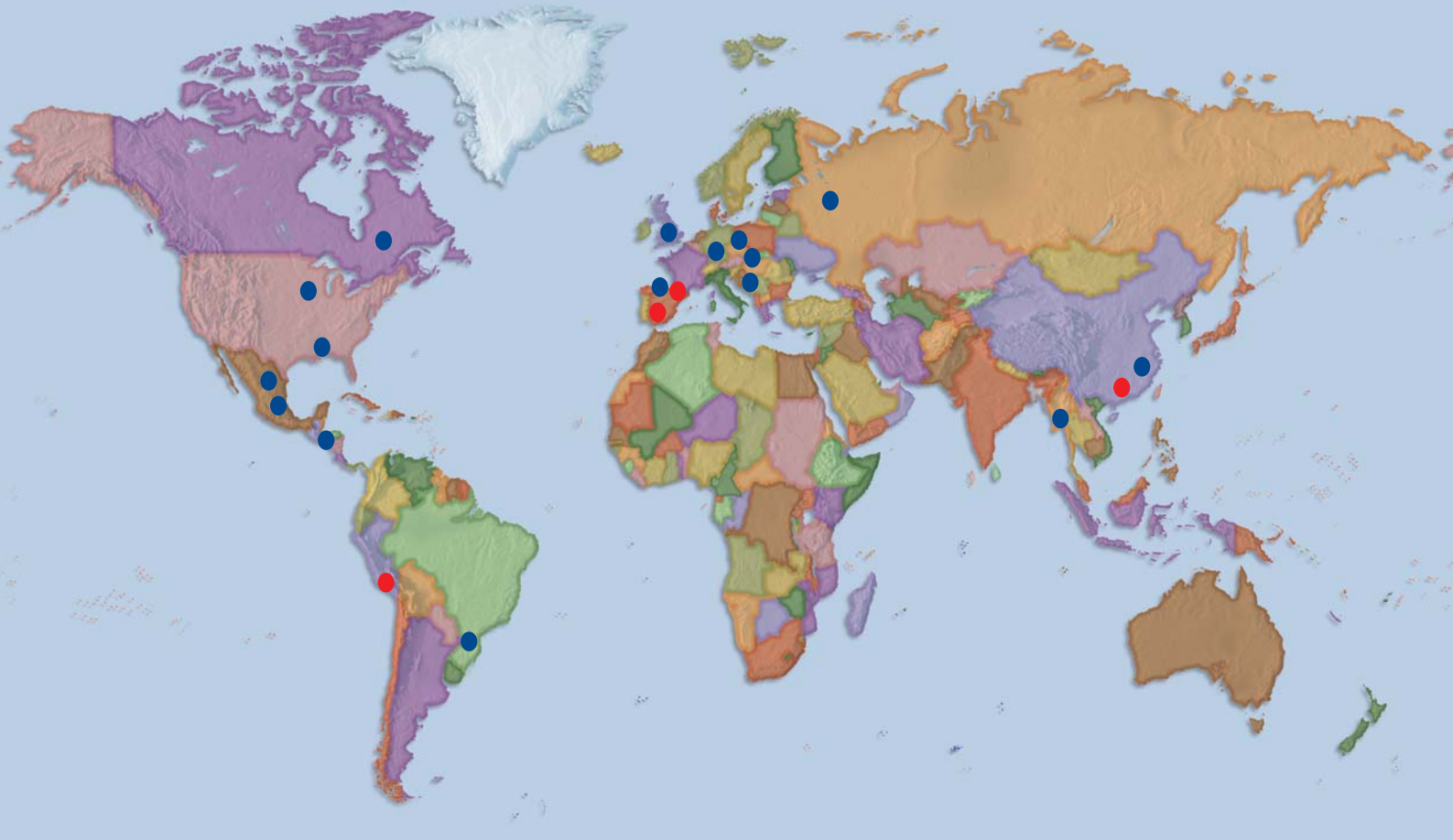
Acquisition, effective in 2006, of the assets of Teepak North America for 3.9 million dollars plus 73 million dollars in assumed debt. Teepak is one of the world's leading producers of fibrous and cellulose casing, with plants in the USA and Mexico and annual sales of 112 million dollars. This acquisition makes Viscofan the world's largest producer of all the commercially-available types of artificial casings.





Global presence:

Viscofan worldwide



- Casing plants
- Canning plants

Viscofan is the world's leading producer of artificial casings for the meat industry. We are the only company that produces all types of artificial casings, we are one of the most cost-effective, and we are almost twice the size of our nearest rival.

Our vegetable division—Industrias Alimentarias de Navarra—leads the Spanish market and is one of the world's largest producers of canned white asparagus.

We have production plants in Spain, Germany, the Czech Republic, Serbia, the United States, Brazil, Mexico and China, and we export to over 100 countries around the world.



We are beginning to reap the first fruits of our new strategy

The Viscofan group had an excellent year in 2005. Results in 2005 were substantially better than in 2004 (comparing both under IFRS), and this is particularly notable because of the sizeable investments in 2005, when we acquired three companies—in Sweden, Serbia and the USA (effective 2006)—and continued the process of relocating production that commenced in 2004.

Group revenues totalled 374.69 million euro, 7.3% more than in 2004. Revenues increased by 7.42% in the casing business, and by 6.81% in the vegetable business.

EBITDA totalled 57.41 million euro, 25.48% more than in 2004. EBITDA increased by 27.6% in the casing business, and by 2.6% in vegetables.

As a result of the transition to IFRS, earnings before taxes amounted to 24.37 million euro, 95.2% more than in 2004. Net attributable profit after taxes amounted to 19.7 million euro, a 42.72% increase over 2004.

These results are the first fruits of the new strategy implemented by the company in the last two years in its two lines of business:

- Casings: Play a leading role in industry concentration. Relocate production—transferring production facilities to markets with higher potential and lower production costs—and expand into new markets outside the euro area.
- Vegetables: Launch new higher value-added products.

The costs of transitioning to the new business model are high, but Viscofan overcame this obstacle in 2005 as its solid financial structure enabled it to make the necessary investments in acquisitions and in restructuring production while increasing net debt by just 1.2 million euro to 78.1 million euro at year-end.

We acquired three businesses, in Sweden, Serbia and NAFTA (North American Free Trade Area).

EBITDA increased by 25.48%.



Artificial Casings

Viscofan is firmly established as the leading player in this industry.

In 2005, the casing division consolidated its position of absolute world leadership. Three companies were acquired (in Sweden, Serbia and the USA, the latter effective in 2006) and we commenced the transfer of Tripasin's production facilities to Serbia. As a result, we greatly strengthened our position throughout America and the Asia-Pacific region while consolidating our position in Eastern Europe, a market with huge potential.

Viscofan's main activity is the manufacture and distribution of artificial casings for food products in general and for meat products in particular.

The casing division attained 299.6 million euro in revenues in 2005, 7.4% more than in 2004, and EBITDA amounted to 23.74 million euro, 97.2% more than the previous year.

All casing types

Viscofan casings are used to efficiently shape a range of food emulsions. In some cases, the casing serves as a mould and is removed after cooking, i.e. it does not reach the consumer. In other cases, the casing is the final wrapping, the package which is presented to the consumer.

Viscofan is the only manufacturer in the world that produces all the types of artificial casings that are commercially available.

Cellulose casing: used to make skinless sausages. The raw material for this casing is a special type of cellulose.

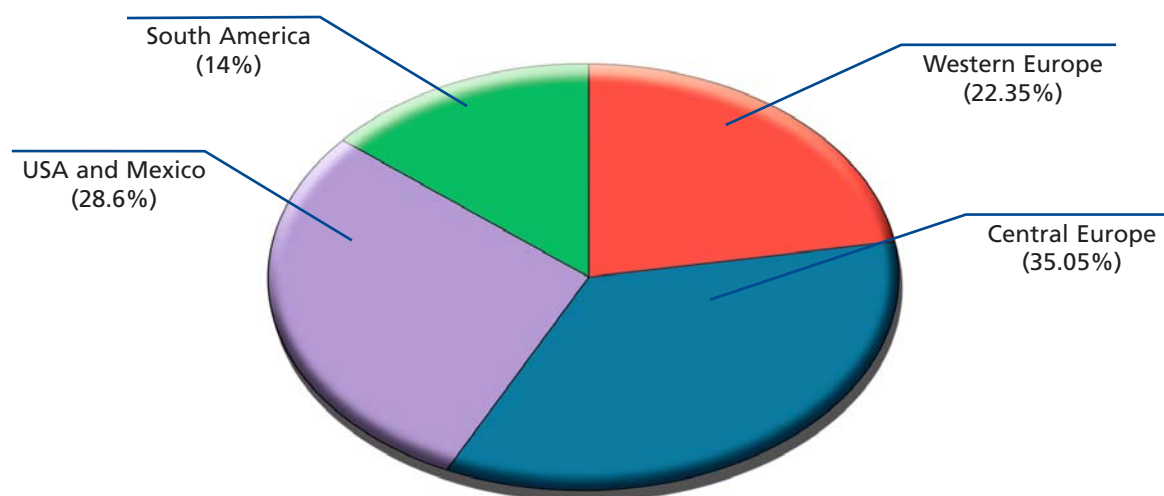
Collagen casing: collagen casings are used for small calibre cold cuts and fresh sausages, as well as for large calibre products such as salami. The raw material is obtained from the inner layer of cow hides.

Plastic casing: manufactured from polyamide, plastic casing is used to wrap such products as bologna and cooked ham, depending on the type of product and the desired shelf life.

Fibrous casing: this is a cellulose casing used for sausage products where uniform calibre is essential; the casing is reinforced with manila hemp.

The Viscofan Group has production plants in:

- Spain (Cáseda, Urdiain and Villafranca) NAVARRA (Casas del Monte) CACERES
- Germany (Weinheim)
- Czech Republic (Ceske Budejovice)
- USA (Montgomery)
- Mexico (San Luis Potosí)
- Brazil (Sao Paulo and Itu)
- Serbia (Novi Sad)
- China (Yong Xi)



Geographical breakdown of sales



Artificial Casings



In addition to those facilities, we acquired Teepak North America's USA and Mexico plants effective 2006.

The companies in Western Europe account for 22.33% of sales, Central Europe for 35%, USA and Mexico for 28.6%, and South America for 14%.

Viscofan leading the process of industry consolidation

In April 2005, Viscofan reached an agreement to buy Tripasin's artificial casings business. Under the agreement, Tripasin ceased production of artificial casings and Viscofan commenced supplying the Swedish market; Tripasin's production facilities were transferred to the plant in Serbia, which was acquired in July. Tripasin's sales in 2004 totalled 84 million Swedish krona (approximately 9 million euro).

In July 2005, Viscofan presented a tender offer for 100% of Serbian company Koteksprodukt AD, a manufacturer of collagen casing, basically large calibre, which exports most of its production, mainly to Eastern Europe. The investment totalled 9.4 million euro: 3.9 million euro for the acquisition and a 5.5 million euro capital increase to improve equipment and processes

and increase production capacity.

In December 2005, but effective 2006, Viscofan signed the acquisition of Teepak, one of leading producers of fibrous and cellulose casings in the US, for 3.9 million dollars plus 73 million dollars in assumed debt.

These acquisitions are a consequence of Viscofan's strategy: to strengthen its financial position in order to be able to consider opportunities for consolidation arising in its core business and to bid for those that are of interest. These acquisitions strengthened the group by providing a low-cost production base in Serbia and a strong presence in the dollar zone.



Teepak: a major qualitative move

The acquisition of Teepak's industrial assets in the USA and Mexico is a major qualitative step in the development of our casing business. Teepak gives Viscofan access to America and the Pacific Rim, a market estimated to be worth 112 million dollars, and greatly improves the fit between the location of production and target markets, thereby saving on transport and tariffs. Additionally, having a production base in the dollar zone significantly reduces Viscofan's vulnerability to future exchange rate fluctuations. The Teepak acquisition also gives the group access to fibrous casing technology, making Viscofan not only the world leader in artificial casings but also the only manufacturer producing the full range of artificial casings.



Vegetables

IAN increased earnings and expanded into innovative, value-added products

The vegetables division attained 75.05 million euro in revenues in 2005, 6.8% more than in 2004, and EBITDA amounted to 630,000 euro, 41.5% more than the previous year.

Viscofan operates in the vegetable division basically through subsidiary Grupo Alimentario IAN, a company specialised in producing and marketing preserved vegetables and precooked meals.

IAN leads the sector in Spain. It produces for foodservice, retailer own brands, and industrial sales, under its Carretilla, IAN, Alesves, Morenita and Comaro brands.

The Group has three plants that specialise in specific product lines: tomatoes and vegetables, olives, asparagus, and precooked fresh vegetable dishes. Each plant is locat-



ed strategically where it can obtain the best raw materials in the necessary quantities.

- Comaro (Cáceres) olives.
- Carretilla (asparagus) plants in China.
- Tomatoes in Villafranca (Navarra).
- Refrigerated meals in Villafranca.

International focus

As a result of expanding abroad, Grupo Alimentario IAN now obtains one-third of revenues from exports to over 50 countries. IAN sells its own brands and retailer brands on the five continents. Its main export destinations are France, the USA, Canada, Australia, Russia and Japan.

The food industry is experiencing a major transformation as a result of changing consumer habits and new lifestyles. Responding to changes in society, the Viscofan Group has developed specific products and formats to meet new consumer needs. We are constantly innovating in search of new products and solutions. IAN is a specialist in this sector, and it has a dedicated development and sales team to provide personalised solutions, product quality, security, traceability, etc.

The vegetables division continues to launch new value-added products, including a new line of refrigerated prepared meals aimed at an urban, higher-income demographic that seeks healthy food which does not require much cooking time.





Our People

Over three thousand professionals in 15 countries sharing a common goal

Viscofan's success and its future potential hinge on its 3,346 employees, who are located at 11 production plants, distribution companies and sales offices in 15 countries in Europe and the Americas.

Our professionals' relationship with the Group is underpinned by a conviction that we are building a shared project and by the enthusiasm born of being an ever-stronger international leader. Viscofan is committed to providing its workers with the best possible working conditions and offering a structure which fosters optimal knowledge management in all areas.

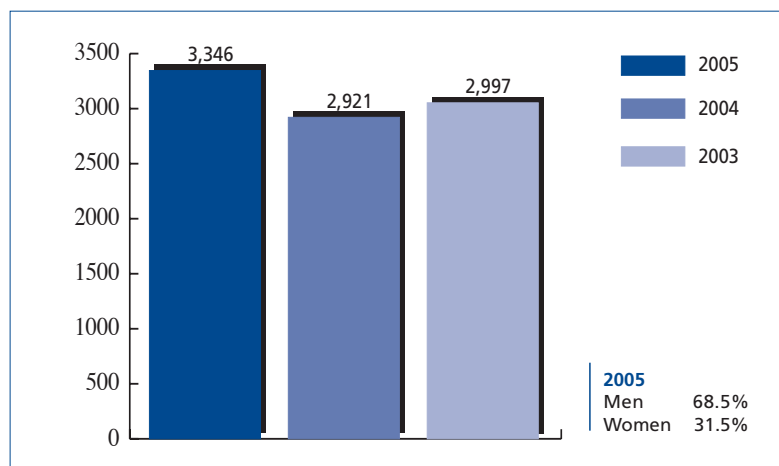
Legality and safety

Viscofan's relationship with its professionals is based on a commitment to strict compliance with local labour legislation, respect for workers' rights in accordance with international standards, and a rejection of all types of discrimination for reasons of sex, nationality, ideology or beliefs. Each of the Group's companies and locations has the appropriate procedures to ensure that this is achieved.

We are particularly concerned with workplace safety and preventing risk, and all premises have the necessary channels, persons and mechanisms to this end.

Viscofan also devotes special attention to employee health through specific programmes adapted to each country's particular circumstances.

Work force

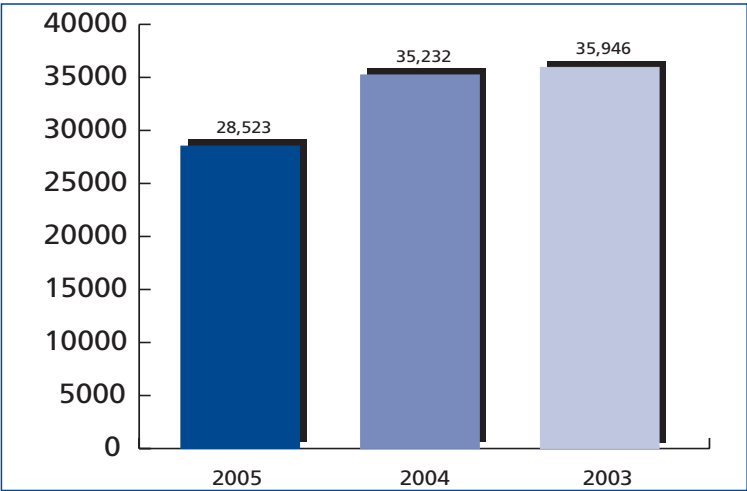


Training

Training is a very important factor at Viscofan due to our conviction that improving our employee’s skills is a sure path to shared success. Training is provided on an on-going basis in line with the company’s needs and employees’ interests. Acquisitions logically increase the training burden as the acquired companies’ employees are inducted into the Group.

A total of 28,523 hours of training were given in 2005, compared with over 35,000 in the two previous years (when the number of inductions was higher).

Training hours





Commitment to quality and respect for the environment

As a company, Viscofan seeks to maximise the return on investment and create shareholder value. But we are convinced that attaining our business and financial goals depends on our ability to relate appropriately to our stakeholders—customers, employees and suppliers—and to develop in a way that is harmonious with the environment.

Viscofan is fully aware of its corporate responsibility to society. Our industry is engaged in meeting citizens' most basic need: food; hence, our main goal is to provide products of the highest quality that meet customers' and consumers' needs.

- Our relationship with customers is based on the principle of providing maximum product quality, adapted to consumers' needs, at a competitive price. Customer satisfaction is the constant goal of all companies in the group.
- Relations with shareholders are based on the principles of transparency and value-creation.
- Relations with suppliers are guided by the principles of equal opportunity and transparency in bidding.
- In relation to the environment, our actions are guided by a commitment to sustainable development. We apply strict policies in connection with waste management and we minimise the indirect impacts of our activities.

Quality as an overarching concept

Viscofan views quality as more than just producing products that meet market demands. At Viscofan, we believe quality is an overarching concept that extends to the product's characteristics as well as serving customers and meeting their needs. We constantly evaluate our production processes and the selection of raw materials in order to maintain the strictest international standards. Hygiene management systems are fully integrated into our production processes, and employees are trained in best practices for the food industry.

Viscofan also devotes considerable resources to research, development and innovation (RDI) in search of improvements in processes and products. We have a specific RDI department comprising 59 professionals.

Our plants have the pertinent veterinary and health certificates and, where appropriate, are certified to ISO 9001:2000, BRC (British Retail Consortium) and HACCP (Hazard Analysis and Critical Control Point).



Customer satisfaction

Viscofan seeks long-term customer satisfaction. We value industrial competitiveness as much as product quality. Our technicians seek creative new packaging ideas and designs that may assist our customers in enhancing their product presentation.

We regularly measure customer satisfaction in line with five key variables: product quality; delivery quality; technical assistance; complaints handling; and price competitiveness. The weighted outcome is an overall customer satisfaction index, which was slightly over our strategic target in 2005. Of the five factors that are evaluated, we were above-target in three (product quality, technical assistance and complaints handling) and we maintain the goal of improving price competitiveness and delivery quality, having implemented the necessary corrective measures; we expect to attain our targets in 2006.

The environment

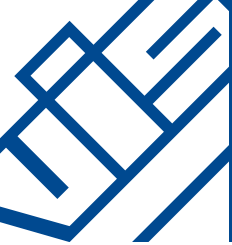
Viscofan is aware that its industrial activities have direct and indirect effects on the environment and on energy sources. Consequently, under the goal of sustainable development, we focus on actions that minimise undesired effects, enable waste to be managed and recycled, and minimise energy use.

We have a cogeneration plant at Cáseda that enhances energy efficiency and reduces our overall primary energy consumption.

All our plants have the necessary discharge treatment systems and the Cáseda plant is in the process of obtaining an integrated environmental authorisation.

Our plants are fitted with gas filters and scrubbers where necessary.

Under the Kyoto Protocol, we have the necessary emission permits to carry out the activities at all our plants.



Applying best practices in governance

The Viscofan Group's corporate governance system is based on three pillars:

- The rules that regulate shareholders' participation in the company, particularly at the Shareholders' Meeting, which are set out in the Articles of Association and the Shareholders' Meeting Regulation.
- The regulations on the composition and functions of the Board of Directors and its committees, set out in the Articles of Association and the Board of Directors Regulation.
- Rules governing conduct with regard to the securities markets, set out in the Internal Code of Conduct.

Board of Directors

The Board's function is to oversee the activities of Viscofan and the companies in its group. The Board also has exclusive powers over such matters as setting the company's overall strategy, appointment and remuneration of senior executives, management oversight, risk control, and the policy of information to shareholders and the markets.

The Board is kept fully informed of the main developments at Viscofan and its group of companies through reports from the General Manager and other senior executives who attend Board meetings regularly. The Board of Directors met 11 times in 2005.

As provided in the Articles of Association, the Board can comprise at least 3 and at most 9 directors. The Board of Directors Regulation establishes that there must be a reasonable number of independent directors, and that there must be a majority of non-executive directors. There are no limitations in the Articles as to the appointment or re-appointment of directors.

Board Committees

The Board is assisted by three committees:

Executive Committee

This committee comprises three directors and has been granted all the Board's decision-making powers apart from those which may not be delegated and the sale, swap and encumbrance of real estate and industrial facilities. The Executive Committee, which held five meetings in 2005, is obliged to keep the Board informed punctually of the matters it discusses and the decisions it makes.

Audit Committee

This committee consists of three directors. Its functions are to inform the Shareholders' Meeting on matters within its brief and to advise on the appointment

of, and relations with, the external auditors, supervise the internal audit unit and oversee the company's financial reporting and risk control systems. The Audit Committee held two meetings in 2005.

Appointments and Remuneration Committee

This committee, which has three members, is entrusted with determining and supervising the appointment and remuneration of the Board and the company's senior executives. The Appointments and Remuneration committee held one meeting in 2005.

Composition of the Board of Directors

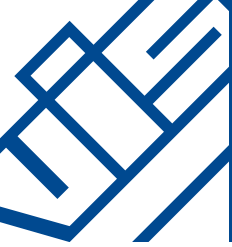
The Board currently comprises seven members, one of whom (the Chairman) is an executive director, two of whom are non-executive proprietary directors, and four are independent directors. The secretary of the Board of Directors is not a director.

Name	Office	Status
Jaime Echevarría Abona (EC; ARC)	Chairman	Executive
José María Cuevas Salvador (EC; ARC)	Vice-Chairman	Independent
Néstor Basterra Larroudé (EC)	Director	Non-executive proprietary
Íñigo Solaun Garteiz-Goxeascoa	Director	Non-executive proprietary
Ágatha Echevarría Canales (AC)	Director	Independent
Gregorio Marañón Bertrán de Lis (AC)	Director	Independent
José Cruz Pérez Lazaparán (AC; ARC)	Director	Independent
Juan Ignacio Villegas Díaz	Secretary, not a director	Executive

EC: Executive Committee **AC:** Audit and Compliance Committee; **ARC:** Appointments and Remuneration Committee

Board Remuneration

The Articles of Association of Viscofan, S.A. establish that the Board's remuneration is 1.5% of net pre-tax earnings, which will be distributed among its members as the Board decides. The Executive Committee's remuneration is 1.5% of net pre-tax earnings, which will be distributed among its members as the Committee decides. In both cases, the remuneration was distributed evenly among the members of the Board and the Committee. The Chairman of the Board received no remuneration for his position as an executive.



Related-party transactions and conflicts of interest

The Board Regulation establishes that directors are bound to be loyal to the Company and they are obliged to inform the Board of any conflict of interest with the company or its group companies as soon as they become aware of it; they are also obliged to resign immediately if the conflict of interest persists or their presence on the Board jeopardises Viscofan's interests. Directors are also obliged to inform the Board of any family, economic or other relationships that might give rise to a conflict of interest. The Board of Directors is not aware of any conflict of interest arising in 2005 or of the existence of related-party transactions between the company or companies in its group with directors, other than as part of the ordinary course of business and in arm's-length conditions.

Risk control

Appropriate risk control is an essential component of modern business management. Viscofan has fully identified the general risks inherent to its business activity and has covered them by means of insurance policies and financial instruments whose cost is affordable; specific risks arising from the group's activity as a supplier to the meat industry and a producer of preserved and processed foodstuffs are covered by the existence of strict quality plans that conform to ISO 9001. Liability for appropriate control of general and specific risks lies with the Board of Directors.

Shareholders' Meeting

The Shareholders' Meeting is quorate at first call if at least 25% of capital is in attendance (in person or by proxy). At second call, the meeting is quorate regardless of the percentage of capital in attendance. Certain decisions, such as bond issuance, an increase or reduction of capital, and amendments to the Articles of Association, require a super majority of two-thirds of the capital in attendance, subject to there being at least 50% (at first call) or 25% (at second call) in attendance. There are no limitations in the Articles with regard to voting rights, except that shareholders must possess at least 450 shares in order to be able to attend the Shareholders' Meeting. The last Shareholders' Meeting, held on 27 June 2005, was attended by 84.78% of capital, 7.56% directly and 77.22% by proxy.

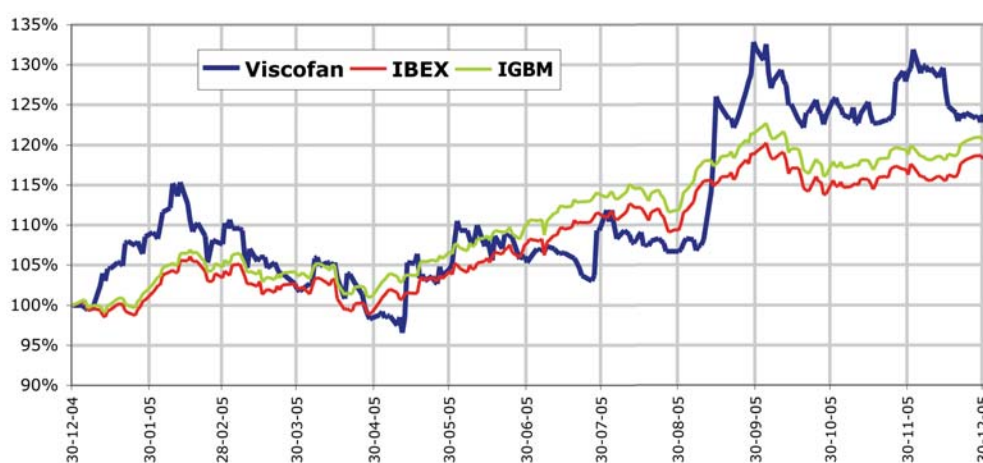


Share Performance

Viscofan's share appreciated by 23.57% in 2005.

Viscofan's market capitalisation at 2005 year-end was 445 million euro, 23.57% more than at the end of 2004. Trading in Viscofan shares totalled 309 million euro, averaging over 1.2 million euro per day. A total of 36.8 million shares changed hands, 59.5% more than in 2004.

Viscofan's market capitalisation at 2005 year-end was 445 million euro, 23.57% more than at the end of 2004.



Viscofan outperformed the Spanish stock market; with 24.56% appreciation, it performed better than the Spanish market's two benchmark indexes: the IBEX 35 (comprising the 35 largest and most liquid stocks), which gained 18.31%, and the IGBM (the Madrid Stock Exchange General Index), which appreciated by 20.55%. The share price peaked at 9.97 euro in September, after reaching a low of 7.20 euro in May. The average share price was 8.38 euro.

Figures for the year

Viscofan trading and share price	2003	2004	2005
Trading volume (million shares)	28.4	23.0	36.8
Trading volume (million euro)	190.2	177.1	308.9
Average daily trading (thousand euro)	760.8	705.8	1,202.3
Average daily trading (thousand share)	113.8	91.9	146.7
Average price (euro)	6.66	7.65	8.38
High (euro)	7.35	8.29	9.97
Low (euro)	5.8	7.03	7.2

Year-end figures	2001	2002	2003	2004	2005
Price (euro)	4.88	6.47	7.05	7.45	9.28
Capitalisation (million euro)	238.3	315.9	344.2	360.1	445.0
IGBM	824.4	633.9	807.9	959.0	1156
IBEX Medium Cap	-	-	-	10,084.4	13,826.7
IBEX Small Cap	-	-	-	7,016.5	9,997.9
Viscofan change in year	7.3%	32.6%	8.9%	5.6%	24.5%
IGBM change in year	-6.4%	-23.1%	27.4%	18.7%	20.5%
IBEX Medium Cap change in year	-	-	-	-	37.1%
IBEX Small Cap change in year	-	-	-	-	42.4%

Share return

The Board declared an interim dividend of 7.8 cent per share in January and proposes to the Shareholders' Meeting that this be the only dividend out of 2004 earnings and that 11 cent per share should be distributed as a partial refund of the share premium, payable in June.

If this proposal is approved, Viscofan shareholders will have received a total of 19.3 cent per share out of 2005 income (including the meeting attendance fee); combined with the share's appreciation in 2005, that represents a total return of 27.14%.

Viscofan will distribute a total of 9.2 million euro to shareholders.

Share Performance

Share return	2001	2002	2003	2004	2005
Dividend per share	0.102	0.078	0.078	0.078	0.078
Shareholders' Meeting fee				0.010	0.005
Refund of issue premium		0.102	0.102	0.102	0.110
Total euro per share	0.102	0.180	0.180	0.190	0.193
Total amount (million euro)	4.9	8.7	8.7	9.1	9.2

Capital stock and ownership structure

Capital stock at 31 December 2005 amounted to 14,387,941.80 euro represented by 47,959,806 shares of 30 cent par value each.

In August 2005, the company reduced capital by 116,031.90 euro due to amortising 386,773 own shares, equivalent to 0.8% of capital.

There were no changes in the ownership structure in 2005. According to information provided to the company, there were two significant shareholders at 31 December 2005: Bestinver Gestión SGIC (7.983%) and QMC Development Capital Fund PLC (5.964%).

Investor relations

Viscofan's maintains ongoing transparent relations with shareholders and investors. All the necessary information (quarterly results, regulatory disclosures, etc.) is available on its web site (www.viscofan.com) and from the Group's Investor Relations Department.

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts and Directors' Report

Prepared in conformity with European Union-endorsed
International Financial Reporting Standards

31 December 2005

(With Auditors' Report Thereon)

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

Auditors' Report on the Consolidated Annual Accounts

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

To the shareholders of
Viscofan, S.A.

1. We have audited the consolidated annual accounts of Viscofan, S.A. (the Company) and subsidiaries (hereinafter Viscofan Group or the Group), which comprise the consolidated balance sheet at 31 December 2005, the consolidated statements of income, cash flows and changes in equity for the year then ended and the notes thereto, the preparation of which is the responsibility of the Parent Company's board of directors. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on our audit which was conducted in accordance with generally accepted auditing standards in Spain, which require examining, on a test basis, evidence supporting the amounts in the consolidated annual accounts and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed. We have not examined the annual accounts of certain Viscofan Group companies identified in Appendix 1 to note 2 to the consolidated annual accounts for 2005, whose assets and net profit amount to Euros 145,706 and Euros 3,376 thousand respectively. The aforementioned annual accounts have been examined by other auditors identified in the aforementioned Appendix. Consequently, our opinion on the consolidated annual accounts of Viscofan, S.A. and subsidiaries is based, insofar as it relates to the companies mentioned in Appendix 1, solely on the reports of the abovementioned other auditors.

2. The accompanying consolidated annual accounts for 2005 are the Viscofan Group's first annual accounts prepared in accordance with European Union-endorsed International Financial Reporting Standards (hereinafter EU-IFRS) which require that comparative figures be included for the previous year. Therefore, and in accordance with prevailing Spanish legislation, the consolidated balance sheet at 31 December 2005, the consolidated statements of income, cash flow and changes in equity for the year then ended and the notes thereto include comparative figures for 2004 which result from the application of EU-IFRS in force at 31 December 2005. Consequently, the figures for 2004 differ from those reported in the approved 2004 consolidated annual accounts prepared in accordance with accounting principles prevailing that year. The differences generated as a result of applying EU-IFRS to consolidated equity at 1 January and 31 December 2004 and to the consolidated results of the Viscofan Group for 2004 are detailed in note 3.5. We express our opinion solely on the consolidated annual accounts for 2005. On 29 March 2005 we issued our unqualified audit opinion on the consolidated annual accounts for 2004, which were prepared in accordance with accounting principles prevailing that year.

3. In our opinion, based on our examination and the reports of the auditors mentioned in Appendix 1, these consolidated annual accounts for 2005 present fairly, in all material respects, the consolidated equity and consolidated financial position of Viscofan, S.A. and subsidiaries at 31 December 2005 and the consolidated results of its operations and the changes in consolidated equity and consolidated cash flows for the year then ended, and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with EU-IFRS which have been applied on a basis consistent with that used in the preparation of the figures and information for the preceding year which, as stated in the paragraph above, have been included in the 2005 consolidated annual accounts, exclusively for comparison purposes.
4. The accompanying consolidated directors' report for 2005 contains such explanations as the directors of the Parent Company consider relevant to the situation of the Viscofan Group, the evolution of its business and other matters, but is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2005. Our work as auditors is limited to the verification of the consolidated directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Viscofan, S.A. and subsidiaries.

KPMG AUDITORES, S.L.

Signed:

Juan José Llorente
31 March 2006

**VISCOFAN, S.A. AND
SUBSIDIARIES**

Consolidated Annual Accounts and Directors' Report

Prepared under International Financial Reporting Standards Endorsed by the European Union

at 31 December 2005 and 2004

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

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated balance sheets
at 31 December 2005 and 2004

(In thousands of Euros)

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

<u>Assets</u>	<u>Note</u>	<u>2005</u>	<u>2004</u>
Property, plant and equipment	7	240,521	220,066
Goodwill	6	2,301	-
Other intangible assets	8	7,936	3,209
Investments accounted for using the equity method	9	-	2,301
Non-current financial assets	10	1,533	5,454
Deferred tax assets	11	11,900	14,513
Total non-current assets		<u>264,191</u>	<u>245,543</u>
Inventories	12	112,959	105,157
Trade and other receivables	13	83,218	77,829
Other financial assets	10	41,787	42
Cash and cash equivalents	14	13,906	10,380
Total current assets		<u>251,870</u>	<u>193,408</u>
Total assets		<u>516,061</u>	<u>438,951</u>
<u>Equity and Liabilities</u>	<u>Note</u>	<u>2005</u>	<u>2004</u>
Share capital	15	14,388	14,504
Share premium	15	54,654	59,546
Other reserves	15	3,283	3,284
Retained earnings	15	184,460	171,342
Treasury shares	15	(706)	(250)
Translation differences	15	(4,310)	(13,522)
Total equity	15	<u>251,769</u>	<u>234,904</u>
Deferred income	16	3,321	3,205
Borrowings and finance leases	17	80,301	40,667
Other financial liabilities	17	4,675	4,329
Deferred tax liabilities	11	22,035	21,523
Provisions	18	31,654	28,564
Total non-current liabilities		<u>141,986</u>	<u>98,288</u>
Borrowings and finance leases	17	53,472	46,653
Other financial liabilities	17	3,529	2,966
Trade and other payables	19	37,443	30,347
Provisions	18	9,218	10,479
Other current liabilities	19	18,644	15,314
Total current liabilities		<u>122,306</u>	<u>105,759</u>
Total equity and liabilities		<u>516,061</u>	<u>438,951</u>

The accompanying consolidated notes form an integral part of the consolidated annual accounts.

VISCOFAN, S.A. AND SUBSIDIARIES
 Consolidated income statements
 for the years ended
 31 December 2005 and 2004

(In thousands of Euros)

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

	Nota	2005	2004
Sales and services rendered	22	374,692	349,218
Other income	23	5,794	2,998
Change in inventories of finished goods and work in progress		4,899	(4,376)
Raw and other materials consumed	12	(131,132)	(112,201)
Personnel expenses	25	(104,703)	(104,225)
Amortisation and depreciation	7 and 8	(30,703)	(29,036)
Other expenses	24	(92,142)	(85,665)
Financial income	26	5,289	4,540
Financial expense	26	(7,623)	(8,768)
		<u>24,371</u>	<u>12,485</u>
Profit before income tax			
Income tax	11	(4,676)	1,315
		<u>19,695</u>	<u>13,800</u>
Profit for the year			
Basic earnings per share (Euros)	27	<u>0.4096</u>	<u>0.2855</u>
Diluted earnings per share (Euros)		<u>-</u>	<u>-</u>

The accompanying consolidated notes form an integral part of the consolidated annual accounts.

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated cash flow statements
for the years ended
31 December 2005 and 2004

(In thousands of Euros)

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

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Profit for the year before tax	24,371	12,485
<i>Adjustments:</i>		
Amortisation and depreciation	30,703	29,036
Provisions	3,756	9,698
Payment of provisions	(3,354)	(3,370)
Loss on disposal of property, plant and equipment	3	1,626
Net translation differences	(2,647)	958
	<u>52,832</u>	<u>50,433</u>
Changes in working capital, excluding effect of acquisitions and translation differences		
Inventories	(2,406)	(4,842)
Trade and other receivables	3,139	1,468
Trade and other payables	8,634	1,637
	<u>62,199</u>	<u>48,696</u>
Cash generated from operations		
Income tax paid	(5,660)	(2,755)
	<u>56,539</u>	<u>45,941</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(36,599)	(36,574)
Changes in consolidated group	(7,533)	-
Acquisition of financial assets	(37,798)	4,784
Proceeds from sale of fixed assets	824	1,649
Translation differences	(11,303)	737
	<u>(92,409)</u>	<u>(29,404)</u>
Net cash from investing activities		
Cash flows from financing activities		
Borrowings	39,600	(1,409)
Long-term debt of newly consolidated companies	4,941	-
Acquisition of treasury shares	(3,411)	(692)
Other	25	(147)
Dividends paid	(8,655)	(8,705)
Translation differences	5,422	(1,102)
	<u>37,922</u>	<u>(12,055)</u>
Net cash from financing activities		
Net increase (decrease) in cash and cash equivalents	2,052	4,482
Cash and cash equivalents	<u>10,380</u>	<u>5,970</u>
Cash and cash equivalents at 31 December	<u>13,906</u>	<u>10,380</u>

VISCOFAN, S.A. AND SUBSIDIARIES
Consolidated statements of changes in equity
for the years ended
31 December 2005 and 2004

(In thousands of Euros)

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

	Capital	Share premium	Other reserves	Retained earnings	Treasury shares	Translation differences	Total
Balance at 31 December 2003	14,650	64,478	11,730	161,755	-	(12,234)	240,379
Adjusted for changes in accounting criteria	-	-	(8,442)	2,616	(2,616)	933	(7,509)
Balance at 1 January 2004	14,650	64,478	3,288	164,371	(2,616)	(11,301)	232,870
Reductions in capital	(146)	-	-	146	-	-	-
Net acquisition of treasury shares	-	-	-	-	(656)	-	(656)
Amortisation of treasury shares	-	-	-	(3,022)	3,022	-	-
Translation differences	-	-	-	-	-	422	422
Tax effect of treasury shares provision deriving from translation differences (note 11)	-	-	-	-	-	(2,643)	(2,643)
Dividends	-	(4,932)	-	-	-	-	(4,932)
Application of revaluation reserve	-	-	(4)	-	-	-	(4)
Other movements	-	-	-	(180)	-	-	(180)
Distribution of profit / (application of loss) for the year							
Dividends	-	-	-	(3,773)	-	-	(3,773)
Profit for the year	-	-	-	13,800	-	-	13,800
Balance at 31 December 2004	<u>14,504</u>	<u>59,546</u>	<u>3,284</u>	<u>171,342</u>	<u>(250)</u>	<u>(13,522)</u>	<u>234,904</u>
Reduction in capital	(116)	-	-	-	-	-	(116)
Dividends	-	(4,892)	-	-	-	-	(4,892)
Application of revaluation reserve	-	-	(1)	-	-	-	(1)
Distribution of profit for the year							
Dividends	-	-	-	(3,762)	-	-	(3,762)
Net acquisition of treasury shares	-	-	-	-	(3,380)	-	(3,380)
Redemption of treasury shares	-	-	-	(2,924)	2,924	-	-
Other movements	-	-	-	109	-	-	109
Translation differences	-	-	-	-	-	13,652	13,652
Tax effect of treasury shares provision deriving from translation differences (note 11)	-	-	-	-	-	(4,440)	(4,440)
Profit for the year	-	-	-	19,695	-	-	19,695
Balance at 31 December 2005	<u>14,388</u>	<u>54,654</u>	<u>3,283</u>	<u>184,460</u>	<u>(706)</u>	<u>(4,310)</u>	<u>251,769</u>

The accompanying consolidated notes form an integral part of the consolidated annual accounts.

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts at 31 December 2005 and 2004

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

(1) Nature and Principal Activities

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

Its statutory and principal activity consists of the manufacture of cellulose or artificial casings, mainly for use in the meat industry, as well as the generation of electricity by any technical means, both for own consumption and for sale to third parties. Its industrial installations are located in Cáseda and Urdiáin (Navarra). The head and registered offices of the Company are located in Pamplona.

Viscofan, S.A. is the parent of a group of companies (the Viscofan Group or the Group) which carry out their activities mainly in the food and plastic and collagen casing sectors, as explained in more detail in Appendix 1, which forms an integral part of note 2.

Viscofan, S.A.'s shares are quoted on the Madrid stock exchange.

(2) Viscofan Group

Details of the subsidiaries and associates comprising the Viscofan Group at 31 December 2005 and 2004, as well as certain additional information, are shown in Appendix 1, which forms an integral part of this note.

Changes in the Viscofan Group in 2005 were as follows:

- Acquisition of the Serbian company Koteksprodukt AD
- Sale of the associate Tripasin, AB

The only change in consolidation in 2004 was the incorporation of Viscofan Centro América Comercial, S.A.

(3) Basis of Preparation

The accompanying consolidated annual accounts have been prepared on the basis of the accounting records of Viscofan, S.A. and the companies forming the Group. The consolidated annual accounts for 2005 have been prepared under EU-endorsed International Financial Reporting Standards (EU-IFRS) to present fairly the consolidated equity and consolidated financial position of Viscofan, S.A. and subsidiaries at 31 December 2005, as well as the consolidated results from its operations, its consolidated cash flows and changes in consolidated equity for the year then ended. The 2005 consolidated annual accounts are the first to be prepared by the Group under EU-IFRS and consequently, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. The explanations and impact of conversion to EU-IFRS on consolidated equity and the consolidated financial position at 1 January 2004 and 31 December 2004 and the Group's consolidated results for the year ended 31 December 2004 are detailed in note 3.5.

The directors of the Parent Company consider that the consolidated annual accounts for 2005 will be approved by the shareholders without significant changes.

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(3.1) Bases of preparation of the consolidated annual accounts

These consolidated annual accounts have been prepared on the historical cost basis except for derivative financial instruments, which have been recorded at fair value at 31 December 2005 and 2004.

(3.2) Comparison of information

The consolidated annual accounts comprise the consolidated balance sheet and consolidated statements of income, cash flow and changes in equity and the consolidated notes thereto for 2005 and include comparative data for 2004, which was obtained through consistent application of EU-IFRS, except for the criteria outlined in the following paragraphs. The 2004 figures differ from those contained in the consolidated annual accounts approved by the shareholders at their annual general meeting on 27 June 2005 as these figures were prepared in accordance with generally accepted accounting principles prevailing that year, the Spanish General Chart of Accounts and Royal Decree 1815/1991 governing the preparation of consolidated annual accounts (hereinafter, Spanish GAAP). The impact of applying EU-IFRS on consolidated equity at 1 January 2004 and 31 December 2004 and to the profit for the year then ended is detailed in note 32.

The accounting policies of the Viscofan Group set out in note 4 have been applied consistently to the years ended 31 December 2005 and 2004 and in preparation of the transitional balance sheet at 1 January 2004.

(3.3) Relevant accounting estimates and judgements

The preparation of financial statements in conformity with EU-IFRS requires Group management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The Group's consolidated annual accounts for 2005 include management estimates on the value of assets, liabilities, income, expenses and commitments recognised, which were subsequently ratified by the board of directors. Aspects, which involved a greater degree of judgement or complexity in preparation of these consolidated annual accounts, are detailed below.

(a) Relevant accounting estimates and assumptions

-Goodwill: see note 4.5

-Pension plans: see note 4.17

-Provisions: see note 4.18

-Useful lives of property, plant and equipment and intangible assets: see notes 4.4 and 4.5

(b) Changes in accounting estimates

Although estimates were based on the best information available at 31 December 2005, future events may require these estimates to be modified in subsequent years. The effects on the preliminary financial statements of any adjustment which may arise in subsequent years would be recognised prospectively.

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(3.4) Business combinations

The Group has applied the exemption permitted by IFRS 1 regarding business combinations. Consequently, business combinations which occurred prior to 1 January 2004 (the date of transition to EU-IFRS) have been recognised using the purchase method. Companies acquired prior to this date have been recognised in accordance with Spanish GAAP, after considering the adjustments made in note 3.5: Transition to IFRS.

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

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

This criterion is not applicable to non-current assets or disposal groups classified as held for sale, which are stated at fair value, less selling costs.

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

(a) Provisionally determined amounts

If a business combination can only be determined provisionally, adjustments to the provisional values of net assets are recognised within the twelve-month period subsequent to the acquisition date as if its fair value had been known at this date. Subsequent to this period, adjustments to an acquiree's identifiable assets and liabilities, except for contingent liabilities and deferred tax assets, are recognised as correction of an error.

Potential tax benefits from tax losses and other deferred tax assets, which are not recognised at the date of acquisition, are subsequently recognised as recoverable income tax and a reduction in goodwill taken to the income statement. The goodwill adjustment is equivalent to the amount that would have been recognised at the date of acquisition, where it is probable that tax benefits will materialise in future years.

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(3.5) Transition to IFRS

2005 is the first year in which the Group has prepared its consolidated financial statements based on IFRS. The last annual accounts prepared in conformity with Spanish GAAP were for the year ended 31 December 2004. Consequently, the date of transition to IFRS is 1 January 2004.

In preparation of these first consolidated annual accounts based on IFRS, the Group has applied all mandatory exemptions and certain optional exemptions from retrospective application of IFRS, as permitted by IFRS 1.

(a) Exemptions to retrospective application

The Group has opted to apply the following exemptions to retrospective application of IFRS:

(i) Business combinations

The Group has opted to apply the exemption foreseen in IFRS 1 regarding business combinations. Consequently, business combinations, which occurred prior to the date of transition to IFRS, have not been restated.

(ii) Fair value as deemed cost

The Group has opted to consider deemed cost at the date of transition to IFRS to be the value assigned to property, plant and equipment on revaluation in prior years as permitted by pertinent Spanish legislation.

The Group has opted to measure certain items of property, plant and equipment at fair value at 1 January 2004.

(iii) Employee benefits

The Group has opted to recognise all accumulated actuarial gains and losses at 1 January 2004.

(iv) Compound financial instruments

The Group has not issued any compound financial instruments and, therefore, this exemption is not applicable.

(v) Insurance contracts

The Group does not issue insurance contracts and, therefore, this exemption is not applicable.

(b) Exceptions to retrospective application followed by the Group

The Group has applied the following mandatory exceptions to retrospective application of IFRS:

(i) Estimates

Estimates made under IFRS at 1 January 2004 are coherent with estimates made at the same date under Spanish GAAP, unless there is evidence that these estimates are inaccurate.

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(c) Reconciliation of IFRS with Spanish GAAP

International Financial Reporting Standard 1 (IFRS 1) requires that the first consolidated annual accounts prepared under IFRS include a reconciliation of the opening and closing balances for the period immediately prior to transition with balances at the same date prepared under Spanish GAAP. IFRS 1 also requires that the profit or loss for the year under IFRS be reconciled with that under Spanish GAAP for the same period.

A reconciliation of consolidated equity at 1 January 2004, the date of transition to IFRS, and at 31 December 2004 and the corresponding consolidated income statement for 2004 are included in appendices 6 and 7. Differences resulting from application of the new measurement criteria and accounting standards are considered as adjustments whereas differences resulting from changes in the presentation format of the financial statements are considered as classifications.

The most significant differences in net equity at 1 January 2004 and 31 December 2004 and in the income statement for 2004 as a result of applying IFRS are listed below. These amounts are shown net of their tax effect:

- **Business combinations:** The Group has applied IFRS 3 to all business combinations which occurred subsequent to 1 January 2004 (date of transition to IFRS). Under IFRS since 1 January 2004 goodwill is not amortised but tested annually for impairment.

Consequently, goodwill generated in 2005 as a result of the business combination described in note 6.2 has not been amortised.

- **Treasury shares:** Under IFRS treasury shares are presented as a deduction from equity. Consequently, income or expense resulting from the purchase, sale, issue or cancellation of treasury shares is not recognised in the income statement.

As a result, current assets and equity have been reduced by Euros 2,616 thousand and Euros 250 thousand at 1 January 2004 and 31 December 2004, respectively.

- **Establishment costs:** under IFRS establishment costs are recognised in the year in which they are incurred.

As a result, non-current assets and equity have been reduced by Euros 328 thousand at 1 January 2004.

- **Research and development costs:** under IFRS research and development costs are recognised in the year in which they are incurred.

This has resulted in a Euros 414 thousand reduction in non-current assets and equity in 2004.

- **Provision for pensions:** until 1 January 2004 the German subsidiary Naturin GMBH & Co recorded pension liabilities based on actuarial assumptions in accordance with German legislation.

As a result of the remeasurement of pension liabilities based on actuarial assumptions acceptable under IFRS, at 1 January 2004 non-current liabilities and equity have been increased and reduced, by Euros 3,650 thousand, respectively.

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

- Deductions pending application: under IFRS a deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which it can be utilised.

Under IFRS these deductions are recognised as conversion adjustments with effect from 1 January 2004. Under Spanish GAAP these deductions were capitalised during 2004.

Consequently, at 1 January 2004 non-current assets and equity have been increased by Euros 8,808 thousand while profits for the year have been reduced by the same amount.

- Conversion differences: under IFRS income tax on the profit for the year comprises current and deferred tax. Income tax is recognised on the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. The Parent company has applied a tax deduction to the provision for investments in foreign subsidiaries. The majority of this provision covers the devaluation of the currency of the country in which the subsidiary is located. Losses incurred on the functional currency devaluation of subsidiaries are recognised under conversion differences in the consolidated financial statements. As the tax effect of this depreciation (or its reversal) is recognised in the statement of profit and loss under Spanish GAAP, this amount has been reclassified under conversion differences in 2004.

Consequently, at 1 January 2004 consolidation reserves and conversion differences have been reduced and increased by Euros 6,151 thousand, respectively.

At 31 December 2004 profit for the year and conversion differences have also been increased and reduced by Euros 1,267 thousand, respectively.

- Differences between taxable accounting income and taxable income of property, plant and equipment in subsidiaries: A part of the acquisition costs incurred through the purchase of several Group subsidiaries was assigned to certain fixed assets. Under IFRS deferred taxes are calculated using a balance sheet approach. Accordingly, deferred tax liabilities have been calculated in respect of this allocation. Accordingly, at 1 January 2004 equity and deferred tax liabilities have been reduced and increased by Euros 8,900 thousand, respectively.

This deferred tax liability reverts in line with depreciation of the related assets. This has resulted in a Euros 220 thousand increase in the 2004 profit under IFRS.

- Loans with subsidised interest rates: The Group has certain loans with subsidised interest-rates, obtained mainly to finance research and development activities. Under IFRS subsidised interest is considered as a grant and taken to the income statement as the research costs are incurred, whereas the actual financial cost of these loans is recognised using the interest method.

Consequently, at 1 January 2004 equity and non-current liabilities have been increased and reduced by Euros 627 thousand, respectively.

At 31 December 2004 profit for the year has been reduced by Euros 50 thousand.

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

A breakdown of the cumulative effect of the adjustments to equity at 1 January 2004 and 31 December 2004 as well as the 2004 profit is as follows:

	Thousands of Euros		
	Equity at 01.01.04	Profit/(loss) for 2004	Equity at 31.12.04
Opening balance under Spanish GAAP	240,379	21,943	249,795
Treasury shares	(2,616)	-	(250)
Establishment costs	(328)	269	(59)
R + D costs	(414)	84	(330)
Tax credits	8,808	(8,808)	-
Provisions	(3,068)	(500)	(3,568)
Subsidised loans	627	(50)	577
Financial instruments	486	(77)	409
Exchange gains and losses	(207)	47	(160)
Deferred tax liabilities	(13,389)	220	(13,169)
Conversion differences	933	1,267	595
Others	1,659	(595)	1,064
Balance under IFRS	232,870	13,800	234,904

(4) Significant Accounting Principles

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

A summary of the most significant principles is as follows:

(4.1) Going concern and accruals basis

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

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

(4.2) Method of consolidation

All consolidated companies are subsidiaries.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the Parent company owns, directly or indirectly, more than half of the voting rights. Control also exists when the parent owns half or less of the voting rights of an entity where there is power over more than half of the voting rights by virtue of an agreement with other investors or statutory dispositions or where it has power to cast the majority of votes at meetings of the board of directors and appoint or dismiss the majority of the members of the board. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

The annual accounts or financial statements of subsidiaries are included in the consolidated annual accounts from the date that control commences until the date that control ceases. A breakdown of the nature of relations between the Parent company and subsidiaries is included in the accompanying Appendix 1.

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As of 1 January 2004, the date of transition to IFRS, a subsidiary's assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. Any excess of cost of acquisition over the fair value of the part of identifiable net assets acquired is considered as goodwill. If the cost of acquisition is less than the fair value of identifiable net assets acquired after the cost of the combination and fair value of the net assets acquired has been duly analysed, the difference is recognised directly in the consolidated income statement during the period of acquisition.

As can be seen in Appendix 1 to these consolidated notes, the Parent holds 100% of the share capital of all of its subsidiaries. Consequently, there are no minority interests.

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

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

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

Associates are those entities in which the Company has significant direct or indirect influence, but not control over the financial and operating policies. Investments in associates are accounted for using the equity method. The Group's only associate was sold in 2005 (see note 9).

(4.3) Effects of changes in foreign exchange rates

(a) Foreign currency transactions

The consolidated annual accounts are presented in thousands of Euros, which is the functional and presentation currency of the Parent company.

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Euros at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are translated to Euros using the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euros at foreign exchange rates ruling at the dates the fair value was determined.

Gains or losses arising on settlement of transactions in foreign currency and on the translation to Euros of monetary assets and liabilities expressed in foreign currency are recognised in the income statement. However, cash flow hedges and hedges covering net investment in businesses abroad are recognised in equity.

(b) Translation of foreign operations

The translation to Euros of foreign operations, excluding foreign operations in hyperinflationary economies, is based on the following criteria:

- The assets and liabilities of foreign operations are translated to Euros at foreign exchange rates ruling at the balance sheet date.
- The revenues and expenses of foreign operations, including comparative balances, are translated at the exchange rates ruling at each transaction date; and
- Foreign exchange differences arising from application of the above criteria are

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recognised under translation differences in equity.

Differences on translation of deferred tax assets and liabilities denominated in foreign currencies and deferred income taxes are included in the consolidated income statement.

Exchange differences arising from the translation of the net investment in foreign operations recorded in equity are released into the consolidated income statement upon disposal.

(4.4) Property, plant and equipment(a) Initial recognition

Property, plant and equipment is stated at cost or deemed cost, less accumulated depreciation and any impairment losses.

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

(b) Depreciation

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

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

	Estimated useful life (years)
	<hr/>
Buildings	30 to 50
Plant and equipment	8 to 15
Fixtures and fittings	8 to 15
Other	4 to 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 recognised 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 capitalised. Ordinary maintenance costs are expensed as they are incurred.

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

(d) Impairment

The directors have not identified any indication of impairment as the recoverable amount of property, plant and equipment exceeds its carrying amount.

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(4.5) Intangible assets(a) Goodwill

Goodwill generated on a transaction in 2005 is initially recognised as the difference between the cost of acquisition and the fair value of the net identifiable assets acquired (see note 6).

Initial recognition of goodwill is provisional and may be adjusted within a maximum period of one year from the date of acquisition of the business from which it originated.

Goodwill is not amortised but is subject to annual impairment testing or more frequently where events or circumstances indicate that an asset may be impaired.

(b) Self-constructed assets

Expenditure on research activities is recognised 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 recognised in the consolidated income statement. Expenditure on development that was recognised initially as an expense is not recognised subsequently as part of the cost of an intangible asset.

(c) Intangible assets acquired through business combinations

As part of the cost of acquisition of the business mentioned in note 6.2 the Group has identified intangible assets relating to the brand and customer portfolio acquired (see note 8) initially measured at fair value at the date of acquisition. The directors consider that the customer portfolio has a defined useful life.

(d) Other intangible assets

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

Software maintenance costs are expensed as incurred.

(e) Emission rights

Emission rights are stated at cost, less accumulated amortisation and impairment losses. Rights acquired free of charge or at a price substantially lower than fair market value, are measured at fair value. The difference between fair value and, where appropriate, the amount paid, is recognised under capital grants. Recognition of capital grants is determined for the issues made in proportion to the total forecast issues for the full period to which they have been assigned.

Under the terms of Law 1 of 9 March 2005 governing greenhouse gas emission rights, emission rights deriving from a certified reduction in emissions or from a unit created to reduce emissions through clean development mechanisms or a pooling of rights, are measured at cost of production using the same criteria as for inventories.

Emission rights are not amortised.

Emission rights held for sale are recognised using the same criteria as for financial assets at fair value through profit and loss.

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(f) Useful lives and amortisation rates

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

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

	Estimated useful life (years)
	<hr/>
Concessions, patents and licences	10
Software	5
Trademark and customer portfolio	5

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

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

(4.6) Impairment of non-financial assets subject to depreciation or amortisation

The Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount.

Irrespective of whether any indication of impairment exists, the Group tests for the possible impairment of goodwill at least annually, this being the only intangible asset with an indefinite useful life.

The recoverable amount of assets is the greater of their fair value less selling costs 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.

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(4.7) Leases(a) Finance leases:

Finance leases are those in which the significant risks and rewards of ownership of the contract asset are transferred to the Group.

At the commencement of the lease term, the Group recognises finance leases as assets and liabilities at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Initial direct costs are added to the carrying amount of the leased asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent payments are expensed in the years when they are incurred. Lease payments obligations, net of the finance charge, are recorded under financial liabilities.

The main accounting principles applied to assets under finance lease contracts are the same as those described in note 4.4. Nevertheless, if on commencement of the lease term there is no reasonable certainty that the Group will obtain ownership of the assets on termination of the lease period, these are amortised on a straight line basis over the shorter of useful life or the lease term.

(b) Operating leases

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

(4.8) Financial assets

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

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet only when the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Nonetheless, the entity discloses this right to offset.

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

(a) Loans

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

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

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(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity. During the year, the Group has not sold or reclassified any investments in this category.

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

(c) Offsetting principles

A financial asset and a financial liability can only be offset when the Group has a legally enforceable right to set off the recognised amounts or intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(d) Impairment and default of financial assets

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

(e) Derecognition of financial assets

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

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

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

(4.9) Derivatives and hedge accounting

The Group uses derivative financial instruments to hedge exposure to foreign exchange and interest rate risks arising from its activities. In accordance with its treasury policy, the Group does not acquire or hold derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised directly in profit or loss under financial income or expense. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

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The Group does not use hedge accounting for derivative financial instruments and therefore changes in the fair value of these assets are recognised directly in the income statement.

(4.10) Parent company treasury shares

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

The subsequent redemption of treasury shares result in a decrease in share capital for the par value of these shares and positive or negative differences between the acquisition price and the par value of the shares are debited or credited to retained earnings.

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

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

(4.11) Inventories

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

Inventories are measured at the lower of cost and net realisable value. Cost comprises all costs of acquisition, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

- Raw materials, other materials consumed and goods for resale are stated 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 labour, other manufacturing overheads and depreciation of fixed assets at factories.

The Group uses the same cost formula for all inventories of the same nature and similar use within the Group.

The estimated value of returned products, net of impairment, are recognised as inventories on consignment at the date of the sale.

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

The cost of inventories is subject to adjustments against profit or loss in cases where cost exceeds net realisable value. Net realisable value is considered as the following:

- Raw materials and other supplies: replacement cost. However, materials are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.
- Goods for resale and finished products: estimated sale price, less selling costs.
- Work in progress: estimated sale price for corresponding finished products, less the estimated costs for completion of their production and selling costs.

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

(4.12) Trade and other receivables

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

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

(4.13) Cash and cash equivalents

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

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

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

(4.14) Impairment of non-financial assets subject to depreciation or amortisation

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

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(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 estimated future cash flows deriving from use of the assets, expectations of possible variations in the amount or timing of those future cash flows, the time value of money, the price for bearing the uncertainty inherent in the asset and other factors that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

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

(b) Reversals of impairment

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

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

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.

(4.15) Government grants

Government grants are recognised 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 recognised at fair value in the consolidated balance sheet. Income from capital grants is recognised as other income in the income statement in line with the depreciation of the corresponding assets financed by the grants.

The accounting treatment of grants for emission rights is described in note 4.5 (e).

(b) Operating subsidies

Operating subsidies are recognised as other income in the consolidated income statement.

Operating subsidies received as compensation for expenses or losses already incurred, or for the purpose of providing immediate financial support unrelated with future expenses, are recognised 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 recognised 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.

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(d) Other subsidies

Tax deductions granted by public entities are recognised as a reduction in the income tax expense in accordance with the same general criteria as for government grants.

(4.16) Interest-bearing borrowings

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

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

(4.17) Employee benefits(a) Pension commitments

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

(i) Defined benefit plans

Defined benefit plans include those financed by insurance premium payments for which a legal and implicit obligation exists to settle obligations 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 recognised in the consolidated balance sheet reflect the present value of defined benefit plans at year end.

Defined benefit plan costs are recognised under employee benefits in the consolidated income statement and comprise current service costs, interest costs and any related payments plus the effect of any reduction or liquidation of the plan and, where applicable, the actuarial gains and losses and past services costs.

A description of each of the Group's defined benefit pension plans is included in note 18.

Liabilities for retirement benefit and other obligations correspond to a Group company in Germany.

Defined benefit assets and liabilities are recognised as current and non-current in accordance with the period of realisation or maturity of the corresponding benefits.

(ii) Defined contribution plans

The Parent company has commitments with its employees for early retirement and length-of-service bonuses. To cover these obligations the Parent company has externalised these commitments through insurance policies and premiums paid are recorded under personnel expenses.

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(b) Termination benefits

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

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

(c) Short-term employee benefits

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

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

The financial effect of provisions are recognised under finance costs in the consolidated income statement.

Provisions do not include a tax effect.

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

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

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(b) Onerous contracts

A provision for onerous contracts is recognised 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

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

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

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

(4.19) Trade and other payables

Trade and other payables are stated at cost, that is at the fair value of the consideration received.

(4.20) Revenue recognition

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

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(a) Goods sold

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

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

(b) Services rendered

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

(4.21) 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, corresponding to the current year and to any adjustment to tax payable or recoverable in respect of prior years.

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 recognised 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 recognised, in the same or a different year, directly in equity, or from a business combination.

(a) Taxable temporary differences

Taxable temporary differences are recognised 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.
- 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.

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(b) Deductible temporary differences

Deductible timing differences are recognised provided that:

- it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, 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 utilised.

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 realised 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 utilised.

Deferred tax assets which do not comply with the abovementioned conditions are not recognised in the consolidated balance sheet. At year end the Group reassesses unrecognised deferred tax assets.

(d) Classification and offsetting

The Group only offsets current tax assets and liabilities if it has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise 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 permits the entity to settle on a net basis, or to realise 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 recognised on the consolidated balance sheet under non-current assets or liabilities, irrespective of the date of realisation or settlement.

(4.22) Segment Reporting

A business segment is a distinguishable component of the Group that is engaged either in providing products or services which is subject to risks and rewards that are different from those of other segments.

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A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

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

The Group classifies assets and liabilities in the consolidated balance sheet as current or non-current based on the following criteria:

- Assets are classified as current when they are expected to be realised, sold or traded in the Group's ordinary course of business within 12 months of the balance sheet date and when held essentially for trading. Cash and cash equivalents are also classified as current, except where they may not be exchanged or used to settle a liability, at least within the 12 months following the balance sheet date.
- Liabilities are classified as current when expected to be settled in the Group's ordinary course of business within 12 months of the balance sheet date and when essentially held for trading, or where the Group does not have an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date.
- Current liabilities such as trade creditors, personnel expenses and other operating costs are classified as current, even if maturing more than 12 months from the balance sheet date.
- Financial liabilities which must be settled within the 12 months following the balance sheet date are classified as current, even if the original maturity exceeded 12 months and a refinancing or restructuring agreement for long-term payments exists which has been finalised subsequent to the close and before the consolidated annual accounts have been prepared.

(4.24) 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 recognised under other operating costs in the year in which they are incurred.

Assets used by the Group to minimise 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 recognised in the consolidated balance sheet based on the criteria for recognition, measurement and disclosure detailed in note 4.4.

(5) Segment Reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments is based on the Group's management and internal reporting structure, while geographical segments are considered to be secondary.

At 31 December 2005 the Group comprises the following business segments:

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

The Group also produces and sells electrical energy through a cogeneration plant located at its Parent company installations. These activities do not comprise segments which are deemed reportable.

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

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The casings segment is managed on a worldwide basis, although the Group mainly operates in three geographical areas, comprising Europe, North America and South America.

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

Details of financial information by business and geographical segments for 2005 and 2004 are included in Appendix 2, which forms an integral part of these notes.

(6) Business Combinations

(6.1) Acquisition of Koteksprodukt AD

The public share offer through which the Company acquired the majority of voting rights in Koteksprodukt AD ended on 19 July 2005. The Company subsequently acquired 100% of the share capital in this company. Koteksprodukt AD is domiciled in Serbia and its principal activity is the manufacture and commercialisation of artificial casings. The Group incurred consolidated losses of Euros 480 thousand on this business combination from its date of acquisition to year end.

If the acquisition had taken place on 1 January 2005, ordinary income of the Group and consolidated losses for the year ended 31 December 2005 would have amounted to Euros 4,227 thousand and Euros 3,951 thousand, respectively.

The cost of acquisition of this investment amounted to Euros 3,889 thousand, which was settled in cash. Net assets acquired amount to Euros 975 thousand, according to this company's accounting records.

No relevant intangible assets have been identified. The only identified balance sheet item for which fair value differs from the carrying amount reflects property, plant and equipment valued by an independent appraiser.

Consequently, the Group has recognised property, plant and equipment at fair value, taking into account its tax effect.

(6.2) Acquisition of Tripasin AB

On 30 September 2005 the Group sold 40% of its investment in Tripasin AB for one Euro while at the same time acquiring the machinery and all intangible assets of this company. Effectively, the business was acquired for Euros 4,500 thousand, with Tripasin AB subsequently ceasing its activities.

Intangible assets initially identified and measured at fair value comprise the trademark and customer portfolio, amounting to Euros 2,672 thousand (see note 8). The excess paid over the carrying amount of the machinery and customer portfolio, increased by the effect of the sale of the share capital of Tripasin AB has been recognised as goodwill of Euros 2,301 thousand.

The assets acquired were valued provisionally at the date on which control of the business commenced. This valuation will be reviewed and determined definitively within one year of the date of acquisition, at which point the Group will periodically test for impairment of goodwill.

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(7) Property, Plant and Equipment

Details of property, plant and equipment and movement in 2005 and 2004 are included in Appendix 3, which forms an integral part of these notes to these consolidated annual accounts.

The Group leases the following buildings under finance lease agreements, details are as follows:

	Thousands of Euros	
	Present value of minimum payments	Depreciation
At 1 January 2004	1,374	(214)
Depreciation	-	(46)
At 31 December 2004	1,374	(260)
Depreciation	-	(46)
At 31 December 2005	1,374	(306)

These buildings comprise a warehouse for which a finance lease contract was signed on 8 March 1999. The duration of this contract is 360 months and the purchase option on this building amounts to Euros 360 thousand.

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

	Thousands of Euros			
	2005		2004	
	Minimum payment (note 17)	Interest	Minimum payment (note 17)	Interest
Until one year	66	31	62	33
Between one and five years	906	155	973	186
Total	972	186	1,035	219

Details of fully depreciated property, plant and equipment in use at 31 December 2005 and 2004 are as follows:

	Thousands of Euros	
	2005	2004
Buildings	3,379	6,375
Plant and machinery	145,956	101,439
Other installations, equipment and furniture	19,843	15,427
Other property, plant and equipment	13,253	7,749
	182,431	130,990

The Group's buildings, plant and equipment were partly financed by government grants of Euros 876 thousand and Euros 2,373 thousand in 2005 and 2004, respectively (see note 16).

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

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(8) Other Intangible Assets

Details of other intangible assets and movement in 2005 and 2004 are included in Appendix 4, which forms an integral part of these notes to these consolidated annual accounts.

Emission rights reflect rights allocated free-of-charge by the National Allocation Plan. The carrying amount of emission rights coincides with their fair value.

Details of emission rights allocated during the National Allocation Plan period and their annual distribution are as follows:

	Tonnes		Thousands of Euros	
	Free of charge	Remunerated	Free of charge	Remunerated
2005	53,140	-	1,188	-
2006	53,140	-	1,188	-
2007	53,140	-	1,188	-
Total	<u>159,420</u>	<u>-</u>	<u>3,564</u>	<u>-</u>

Details of the cost of fully amortised intangible assets in use at 31 December 2005 and 2004 are as follows:

	Thousands of Euros	
	2005	2004
Software	1,816	1,885
Concessions, patents and licences	<u>36</u>	<u>36</u>
	<u>1,852</u>	<u>1,921</u>

The trademark and customer portfolio reflect the deemed cost of the acquisition of Tripasin AB (see note 6.2)

(9) Investments Accounted For Using the Equity Method

Movements in investments accounted for by the equity method in 2005 and 2004 are as follows:

	Thousands of Euros	
	2005	2004
Balance at 1 January	2,301	2,331
Disposals (note 6)	(2,301)	
Share of losses		(45)
Conversion differences		<u>15</u>
Balance at 31 December	<u>-</u>	<u>2,301</u>

Investments accounted for using the equity method comprise the associate Tripasin A.B, which was sold during 2005 (see note 6.2).

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(10) Other Current and Non-Current Financial Assets

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

	Thousands of Euros	
	2005	2004
Loans receivable	336	5,351
Provisions for impairment losses	(21)	(75)
Other financial assets	1,218	178
Total non-current assets	1,533	5,454
Other financial assets	41,787	42
Total current	41,787	42

At 31 December 2004, loans receivable include Euros 5,000 thousand reflecting a loan receivable from the sale of a business line by a Group company, which matures in 2006. In 2005 the Group collected this balance from a bank through a factoring operation without recourse.

Details of current and non-current financial assets held in foreign currencies are shown in note 20.

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

	Thousands of Euros	
	2005	2004
Balance at 1 January	(75)	-
Cancellation of financial assets	75	
Others	(21)	(75)
Balance at 31 December	(21)	(75)

Other current financial assets mainly comprise two deposits made by two Group companies, which were used in the acquisition of Teepak Norteamérica on 3 January 2006 (see note 30).

(11) Income tax

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

	Thousands of Euros					
	Assets		Liabilities		Net	
	2005	2004	2005	2004	2005	2004
Non-current assets	-	118	21,738	21,523	(21,738)	(21,405)
Current assets	1,313	1,863	297	-	1,016	1,863
Loss carryforwards	6,707	7,670	-	-	6,707	7,670
Pending deduction rights	673	3,800	-	-	673	3,800
Non-current liabilities	2,363	861	-	-	2,363	861
Current liabilities	844	201	-	-	844	201
	11,900	14,513	22,035	21,523	(10,135)	(7,010)

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Details of non-current deferred tax assets for the years ended 31 December 2005 and 2004 are as follows:

	Thousands of Euros	
	2005	2004
Capital gains on fixed assets	7,640	7,617
Differences in useful lives	10,062	9,979
Others	4,036	3,927
	<u>21,738</u>	<u>21,523</u>

Details of changes in deferred tax assets and liabilities, by type, which have been recognised as a deferred tax expense (income) in the consolidated income statement are as follows:

	Thousands of Euros	
	2005	2004
Non-current assets	(240)	(1,849)
Current assets	1,127	1,264
Loss carryforwards and deductions pending	4,236	1,671
Non-current liabilities	(1,504)	(1,268)
Current liabilities	(612)	(824)
	<u>3,007</u>	<u>(1,006)</u>

Details of deferred tax assets and liabilities to be realised or reversed in a period exceeding 12 months are as follows:

	Thousands of Euros	
	2005	2004
Non-current assets	2,363	979
Loss carryforwards	6,707	7,670
Rights for deductions and credits	673	3,800
Total assets	9,743	12,449
Deferred tax liabilities	(21,738)	(21,523)
Net	<u>(11,995)</u>	<u>(9,074)</u>

In 2005 and 2004 no deferred tax liabilities were charged directly to equity.

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Details of the income tax expense/(income) are as follows:

	Thousands of Euros	
	2005	2004
Current tax expense		
Current year	5,984	2,423
Reversal of tax effect of provisions for conversion differences	(4,440)	(2,643)
Prior years' adjustments	11	43
Other items	298	(132)
Tax deductions applied not recognised in prior years	(184)	-
	1,669	(309)
Deferred taxes		
Origin and reversal of temporary differences	3,007	(1,006)
	<u>4,676</u>	<u>(1,315)</u>

A reconciliation of the tax expense (income) and the accounting profit is as follows:

	Thousands of Euros	
	2005	2004
Profit before tax	<u>24,371</u>	<u>12,485</u>
Tax at 35% of the Group companies in Spain	5,982	4,830
Tax rates of other companies	4,914	2,626
Deductions	(4,912)	(5,033)
Tax credits	(4,236)	(1,671)
Permanent differences	2,928	(2,067)
	<u>4,676</u>	<u>(1,315)</u>

A reconciliation of current tax liabilities with current income tax is as follows:

	Thousands of Euros	
	2005	2004
Current taxes	5,984	2,423
Payments on account	(4,124)	(887)
	<u>1,860</u>	<u>1,536</u>
	(note 19)	(note 19)

During 2003 a Group company availed of tax relief after undertaking to reinvest Euros 15,000 thousand in property, plant and equipment and intangible assets, which reduced taxable income by Euros 10,118 thousand. This obligation is required to materialise prior to 21 July 2006. At 31 December 2005 the Company reinvested Euros 13,427 thousand in fixed assets. The directors consider that the required investment will be made prior to 21 July 2006.

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In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the tax authorities or before the inspection period of four years has elapsed. At 31 December 2005 the Parent company and subsidiaries in Spain have open to inspection by the tax authorities all applicable taxes since 1 January 2002 (1 January 2001 for income tax). The situation of foreign companies depends on the legislation prevailing in each country.

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

(12) Inventories

Details of inventories at 31 December 2005 and 2004 are as follows:

	Thousands of Euros	
	2005	2004
Goods for resale	23,696	23,402
Raw materials and other supplies	40,250	35,552
Semi-finished products	14,106	13,312
Finished products	34,907	32,865
Advances to suppliers	-	26
	112,959	105,157

Raw materials and other supplies consumed in 2005 and 2004 amounted to Euros 131,132 thousand and Euros 112,201 thousand, respectively.

At 31 December 2005 and 2004 there are no inventories with a reimbursement period greater than 12 months from the consolidated balance sheet date.

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

(13) Trade and other receivables

Details at 31 December 2005 and 2004 are as follows:

	Thousands of Euros	
	2005	2004
Trade receivables	74,338	63,159
Advances to suppliers	1,138	752
Other receivables	3,809	8,372
Advances to employees	80	123
Public entities	5,368	7,714
Provisions for bad debts	(1,515)	(2,291)
	83,218	77,829

At 31 December 2004 other receivables include a Euros 5,000 thousand loan receivable from the sale of a business line by a Group company.

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(14) Cash and cash equivalents

Cash and cash equivalents at 31 December 2005 and 2004 comprise cash balances with Group companies and banks. The Group does not have bank overdrafts at these dates and all balances are freely distributable.

(15) Equity(15.1) Share capital

Movements in shares in circulation during 2005 and 2004 were as follows:

	Shares		Thousands of Euros	
	2005	2004	2005	2004
At 1 January	48,346,579	48,834,928	14,504	14,650
Share capital reductions	(386,773)	(488,349)	(116)	(146)
At 31 December	<u>47,959,806</u>	<u>48,346,579</u>	<u>14,388</u>	<u>14,504</u>

Share capital was reduced in 2005 and 2004 to redeem own treasury shares.

At 31 December 2005 the share capital of the Parent Company is represented by 47,959,806 bearer shares of Euros 0.30 par value each, subscribed and fully paid. All shares have the same voting and profit sharing rights, except own shares.

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

At 31 December 2005, QMC Development Capital Fund, Plc held 5.9640% of share capital in the Parent company. The investment fund manager Bestinver Gestión SGIIC held 8.6287% of share capital in the Company, through the different funds which it manages.

(15.2) Share premium

This reserve is freely distributable.

(15.3) Other reserves

Details and movement in other reserves are included in Appendix 5, which forms an integral part of these consolidated annual accounts.

(a) Legal reserve

Companies registered in Spain are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital, in accordance with Article 214 of the Spanish Companies' Act. This reserve may only be used to offset losses if no other reserves are available. At 31 December 2005 and 2004 the Parent Company had appropriated to this reserve the minimum amount required by law.

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(b) Revaluation reserve Navarre Regional Law 23/1996

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

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

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

(c) Merger reserves

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

(15.4) Retaining earnings

Details and movement are included in Appendix 5, which forms an integral part of these consolidated annual accounts.

(a) Voluntary reserves

These reserves are freely distributable.

(b) Treasury shares reserve

Movement in treasury shares in 2005 and 2004 was as follows:

	2005		2004	
	Number of shares	Thousands of Euros	Number of shares	Thousands of Euros
Balance at 1 January	58,065	250	435,491	2,616
Acquisitions	409,041	3,411	116,826	692
Disposals	(4,231)	(31)	(5,903)	(36)
Redemptions	(386,773)	(2,924)	(488,349)	(3,022)
Balance at 31 December	76,102	706	58,065	250

At 31 December 2005 the Parent Company holds 76,102 treasury shares for which a reserve has been made equal to the carrying amount of these shares. This reserve is not distributable unless the shares are disposed of or redeemed by the Company.

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(15.5) Conversion differences

Details of and movement in conversion differences generated by subsidiaries are as follows:

	Thousands of Euros
Balance 31 December 2003	11,301
Conversion differences on financial statements of foreign businesses	1,401
Tax effect of conversion differences on provisions for investments	(2,643)
Other conversion differences	3,463
Balance 31 December 2004	13,522
Conversion differences on financial statements of foreign businesses	(16,723)
Tax effect of conversion differences on provisions for investments	(4,440)
Other conversion differences	3,331
Balance at 31 December 2005	(4,310)

(15.6) Distribution of Dividends

As approved by the shareholders at their annual general meeting held on 27 June 2005, Parent company profits for the year ended 31 December 2004 were distributed as follows:

	Thousands of Euros
Interim dividends	3,762
Voluntary reserves	4,689
Distributable profits	8,451

At the aforementioned annual general meeting, the shareholders agreed to distribute dividends of Euros 4,892 thousand with a charge to the share premium. Total dividends for 2005 amount to Euros 8,655 thousand, equivalent to Euros 0.18 per share.

Details of the distribution of 2005 dividends proposed by the directors of the Parent company, pending approval at the shareholders' general meeting, are as follows:

	Thousands of Euros
Other reserves	30,577
Dividends	3,732
Distributable profits	34,309

Proposed distribution of dividends is equivalent to Euros 0.078 per share.

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At 31 December 2005 and 2004 details of non-distributable reserves are as follows:

	Thousands of Euros	
	2005	2004
Legal reserve	2,935	2,935
Revaluation reserves	8,990	8,991
Redenomination of share capital differences (thousands of Euros)	25	25
Other consolidation reserves	40,385	35,036
	<u>52,335</u>	<u>46,987</u>

(16) Deferred Income

Movement in deferred income during 2005 and 2004 was as follows:

	Thousands of Euros						
	01.01.04	Additions	Taken to income	31.12.04	Additions	Taken to income	31.12.05
Capital grants	1,482	2,373	(950)	2,905	876	(499)	3,282
Grants for emission rights of greenhouse gases	-	-	-	-	1,188	(1,149)	39
Other deferred income	600	-	(300)	300	-	(300)	-
	<u>2,082</u>	<u>2,373</u>	<u>(1,250)</u>	<u>3,205</u>	<u>2,064</u>	<u>(1,948)</u>	<u>3,321</u>

Details of capital grants in 2005 and 2004 are as follows:

<u>Granting entity</u>	Thousands of Euros		<u>Objective</u>
	2005	2004	
Regional Government of Navarre	48	71	Software
Regional Government of Navarre	294	-	Buildings
Regional Government of Navarre	10	13	Plant
Regional Government of Navarre	975	713	Equipment/Machinery
FEOGA	1,721	1,817	Buildings
FEOGA	234	291	Equipment/Machinery
	<u>3,282</u>	<u>2,905</u>	

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(17) Current and Non-Current Financial Liabilities

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

	Thousands of Euros	
	2005	2004
Non-current		
Borrowings	79,395	39,694
Finance lease liabilities (note 7)	906	973
Other financial liabilities	4,675	4,329
Total non-current	84,976	44,996
Current		
Borrowings	53,406	46,591
Finance lease liabilities (note 7)	66	62
Other financial liabilities	3,388	2,847
Financial liabilities at fair value through profit or loss	141	119
Total current	57,001	49,619

Details of the carrying amount of financial liabilities in foreign currency, their classification by maturity and effective interest rates are shown in note 20.

Loans and other credit facilities accrue interest at variable market rates.

Euros 28,611 thousand of the Euros 133,773 thousand total current and non-current borrowings corresponds to the fair value hedges mentioned in 20.

At 31 December 2005 the Group has a limit on its credit facilities and discount lines of Euros 83,397 thousand (Euros 88,294 thousand in 2004) included under current and non-current borrowings, of which Euros 36,218 thousand has been drawn down at 31 December 2005 (Euros 51,737 thousand in 2004).

At 31 December 2005 and 2004 the Parent company has extended guarantees of Euros 65,836 thousand and Euros 15,215 thousand in respect of the Group's loans and balances payable to third parties, respectively.

At 31 December 2005 the Group has extended bank guarantees of approximately Euros 5,093,000 (Euros 5,841,000 at 31 December 2004) mainly in respect of loans extended by the Spanish Centre for the Development of Industrial Technology, the Regional Government of Navarre and the Spanish Ministry of Science and Technology.

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The Parent company contracts financial derivatives mainly to eliminate or significantly reduce interest rate risks. At 31 December 2005 and 2004 the Company has contracted mainly interest rate swap agreements, which were in force at the following dates:

	<u>I.R.S. (Interest Rate Swap)</u>	
Notional amount (thousands of Euros)	5.000	23.611
Date of contract	03.02.03	02.05.03
Start date	03.02.03	06.05.03
Expiry	03.02.06	30.06.08
Interest rate paid by the Company	2.95%	3.00%
Interest rate collected by the Company	Euribor at 3 months	Euribor at 3 months

The Group also contracts exchange rate insurance to hedge against exchange rate fluctuations.

Details of prevailing exchange rate insurance, by currency, at 31 December 2005 and 2004 are as follows:

<u>Currency</u>	<u>Total</u>	
	<u>2005</u>	<u>2004</u>
US Dollar	24,500,000	24,875,000
Norwegian Crone	514,000	-
Canadian Dollar	1,438,000	2,630,000
Japanese Yen	77,848,000	39,456,000
Polish Zloty	2,363,000	1,530,000
Pound Sterling	-	46,000

Details of the fair value measurement of derivative financial instruments contracted by the Group at 31 December 2005 and 2004 are as follows:

	<u>Thousands of Euros</u>		
	<u>2005</u>	<u>2004</u>	<u>Variation expense /</u>
	<u>Asset / (liability)</u>	<u>Asset / (liability)</u>	<u>(income)</u>
Exchange rate insurance	(127)	353	480
IRS (Interest Rate Swap)	(14)	(119)	(105)
	<u>(141)</u>	<u>234</u>	<u>375</u>

The Group has decided not to use hedge accounting on these contracts even though they hedge the exposure of risk to interest and exchange rate fluctuations. Consequently, these are recognised as if they were speculative.

The fair value of derivative financial instruments is based on the market value of similar instruments at the balance sheet date.

Other current and non-current financial liabilities mainly comprise loans with subsidised interest rates extended by such entities as the Regional Government of Navarre, the Centre for Development of Industrial Technology and the Spanish Ministry of Science and Technology. The Group recognises implicit interest on these loans in accordance with market rates.

Total current and non-current finance costs payable in respect of prior financial liabilities amount to Euros 163 thousand (Euros 154 thousand in 2004).

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(18) Current and Non-Current Provisions

Details at 31 December 2005 and 2004 are as follows:

	Thousands of Euros	
	31.12.05	31.12.04
Non-current		
Pensions	22,058	20,309
Taxes	67	217
Others	9,529	8,038
Total non-current	<u>31,654</u>	<u>28,564</u>
Current		
Restructuring	3,051	5,967
Guarantees	1,950	1,580
Occupational risks	943	915
Emission rights	1,149	-
Others	2,125	2,017
Total current	<u>9,218</u>	<u>10,479</u>

(18.1) Provisions for pensions

Details of and movement in provisions for defined benefit pensions are as follows:

	Thousands of Euros
At 1 January 2004	19,709
Provisions recognised in the income statement	1,812
Payments	<u>(1,212)</u>
At 31 December 2004	20,309
Provisions recognised in the income statement	2,967
Payments	<u>(1,218)</u>
At 31 December 2005	<u>22,058</u>

Provisions for pensions relate exclusively to a Group company registered in Germany, which makes contributions to a pension scheme in respect of retirement and widow pensions.

Pension liabilities comprise defined benefit obligations. The main actuarial assumptions employed to calculate these liabilities are as follows:

	%	
	2005	2004
Annual discount rate	4.2%	5%
Forecast increase in salaries	<u>2.5%</u>	<u>2.5%</u>
	<u>6.7%</u>	<u>7.5%</u>

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Notes to the Consolidated Annual Accounts

1998 Richttafeln mortality tables from Dr. Klaus Heubeck have been used to determine defined benefit obligations for 2004 and 2005, considering a rise in the normal retirement age from 60 to 65 and a 1.75% increase in retirement pension.

The total expense recognised in the consolidated income statement, by item, is as follows:

	Thousands of Euros	
	2005	2004
Current service costs	221	212
Interest costs	971	1,038
Actuarial losses	1,775	562
	<u>2,967</u>	<u>1,812</u>

The expense has been recognised under the following items in the income statement:

	Thousands of Euros	
	2005	2004
Personnel expenses (note 25)	1,996	774
Financial expenses	971	1,038
	<u>2,967</u>	<u>1,812</u>

The Parent company also has contracted different defined contribution plans for early retirement and length-of-service bonuses.

To meet these obligations the Parent company externalised pension commitments through life insurance policies through a single premium which was recognised under personnel expenses in 2002.

(18.2) Other Non-Current Provisions

Details of other non-current provisions at 31 December 2005 and 2004 are as follows:

	Thousands of Euros				31.12.05
	31.12.04	Conversion differences	Allowances	Applications	
Provisions for retirement and length-of-service bonuses	6,413	-	764	(53)	7,124
Provisions for litigation	1,625	253	639	(112)	2,405
	<u>8,038</u>	<u>253</u>	<u>1,403</u>	<u>(165)</u>	<u>9,529</u>

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Notes to the Consolidated Annual Accounts

	Thousands of Euros				31.12.04
	01.01.04	Conversion differences	Allowances	Applications	
Provisions for retirement and length-of-service bonuses	5,596	-	907	(90)	6,413
Provisions for litigation	1,643	(94)	557	(481)	1,625
	<u>7,239</u>	<u>(94)</u>	<u>1,464</u>	<u>(571)</u>	<u>8,038</u>

Provisions for retirement and length-of-service bonuses reflect three defined contributions calculated by the German subsidiary of the Group in accordance with the actuarial assumptions defined in note 4.17 in respect of early retirement, retirement and length-of-service bonuses.

The provision for litigation mainly covers claims brought against the Brazilian subsidiary by the Brazilian tax authorities and certain company employees. These claims are expected to be resolved after 2006. According to the directors' opinion and corresponding legal assessment, the result of this litigation is not expected to differ significantly from the amounts provided for at 31 December 2005.

(18.3) Restructuring provision

A company-restructuring plan was undertaken for one of the Group companies during the year ended 31 December 2004 due to the slump in the market in which it operated. Representatives of the affected employees were duly informed of this plan. The total estimated recognised costs in 2004 were based on a breakdown of the employees affected by the plan. In 2005 the corresponding social plan was agreed between management and employee representatives. Consequently, approximately Euros 1,100 thousand of the provision has been applied and approximately Euros 1,816 thousand has been cancelled (see note 23). The existing provision at 31 December 2005 will be applied during 2006 in accordance with the industrial plan established for this subsidiary.

(18.4) Guarantees

The provision for guarantees mainly corresponds to products sold by the German subsidiary in the years ended 31 December 2005 and 2004. This provision has been estimated based on historical information of the Group.

(18.5) Safety in the workplace provision

The safety in the workplace provision covers claims brought against the Group by certain employees in respect of occupational accidents. Rulings are expected to be issued in 2006. The directors and legal advisors of the Company do not expect the outcome of this litigation to differ significantly from the amounts provided for at 31 December 2005.

(18.6) Emission rights provision

Gas emission expenses amounted to Euros 1,149 thousand in 2005.

The criterion for estimating these expenses consists of a market price valuation of the Company's emission rights in 2005.

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Notes to the Consolidated Annual Accounts

(19) Trade payables, Other Payables and Other Current Liabilities

Details of trade and other payables are as follows:

	Thousands of Euros	
	2005	2004
Trade payables	37,443	30,347
Other current liabilities		
Salaries payable	5,303	4,306
Public entities	5,950	4,338
Other payables	7,391	6,670
	<u>18,644</u>	<u>15,314</u>

Public entities include Euros 1,860 thousand in respect of income tax payable (Euros 1,536 thousand in 2004).

Other payables mainly comprise fixed asset suppliers.

(20) Risk Management(20.1) Financial risks

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

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

(a) Market risks

- Exchange rate risks

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

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

The risk management policy of the Group is to cover the net balance between collections and payments in currencies other than the functional currency through short-term currency contracts (of approximately 2 months).

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Notes to the Consolidated Annual Accounts

Details of the Group's exposure to exchange rate risks at 31 December 2005 and 2004 are shown below: The tables reflect the carrying amount of financial instruments or classes of financial instruments of the Group which are denominated in foreign currency.

	US Dollar	Canadian Dollar	Pound Sterling	Czech Crone	Polish Zloty	Others	Total
At 31 December 2005							
Assets							
Other financial assets	1,317	-	-	-	-	17	1,334
Total non-current assets	1,317	-	-	-	-	17	1,334
Trade and other receivables	25,966	1,995	2,105	2,816	837	702	34,421
Other financial assets	41,775	-	-	-	-	-	41,775
Cash and cash equivalents	7,679	1,111	196	1,575	-	2,719	13,280
Total current assets	75,420	3,106	2,301	4,391	837	3,421	89,476
Total assets	76,737	3,106	2,301	4,391	837	3,438	90,810
Liabilities							
Borrowings	45,359	2,186	-	-	-	-	47,545
Other financial liabilities	169	-	-	-	-	-	169
Total non-current liabilities	45,528	2,186	-	-	-	-	47,714
Borrowings	4,891	1,530	-	7,100	172	-	13,693
Trade and other payables	9,245	1,355	253	2,701	61	987	14,602
Total current liabilities	14,136	2,885	253	9,801	233	987	28,295
Total liabilities	59,664	5,071	253	9,801	233	987	76,009

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	<u>US Dollar</u>	<u>Canadian Dollar</u>	<u>Pound Sterling</u>	<u>Czech Crone</u>	<u>Polish Zloty</u>	<u>Others</u>	<u>Total</u>
At 31 December 2004							
Assets							
Other financial assets	172	-	-	-	-	-	172
Total non-current assets	172	-	-	-	-	-	172
Trade and other receivables	27,092	1,475	2,392	1,729	957	7,769	41,414
Cash and cash equivalents	7,813	1,176	202	598	-	-	9,789
Total current assets	34,905	2,651	2,594	2,327	957	7,769	51,203
Total assets	35,077	2,651	2,594	2,327	957	7,769	51,375
Liabilities							
Borrowings	6,791	1,827	-	492	-	-	9,110
Other financial liabilities	119	-	-	-	-	-	119
Total non-current liabilities	6,910	1,827	-	492	-	-	9,229
Borrowings	3,220	1,218	-	5,852	245	-	10,535
Trade and other payables	7,576	965	383	1,951	66	3	10,944
Total current liabilities	10,796	2,183	383	7,803	311	3	21,479
Total liabilities	17,706	4,010	383	8,295	311	3	30,708

(b) Price risks

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

(c) Credit risk

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

(d) Liquidity risk

The Group has a prudent policy to cover its liquidity risks which is focussed on having sufficient cash and marketable securities as well as the ability to draw down sufficient financing through its existing credit 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.

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

As the Group does not have highly remunerated assets, income and cash flows of operating activities are not significantly affected by variations in market interest rates.

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Notes to the Consolidated Annual Accounts

Interest rate risks arise from other long-term and short-term resources. Other resources issued at variable interest rates expose the Group to cash flow interest rate risks. At the 2005 and 2004 closes the Group had no significant other resources held at fixed interest rates.

The Group manages interest rate risks in cash flows through variable to fixed interest rate swaps. These interest rate swaps convert variable interest rates on external resources to fixed interest rates. Generally the Group obtains other long-term resources with variable interest rates and swaps these for fixed interest rates. These are generally at lower rates than those which would have been obtained had the resource been obtained directly with fixed interest rates. Interest rate swaps allow the Group to exchange the difference between fixed interest and variable interest with other parties periodically (generally quarterly). These swaps are calculated based on the contracted notional principal.

Details of the Group's exposure to interest rate risks at 31 December 2005 and 2004 are shown below: The tables below reflect the carrying amount of financial instruments or classes of financial instruments of the Group, classified by maturity.

	Thousands of Euros						Total
	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years	
At 31 December 2005							
Assets							
Trade and other receivables	83,218	-	-	-	-	-	83,218
Other financial assets	41,787	-	-	-	-	1,533	43,320
Total assets	125,005	-	-	-	-	1,533	126,538
Liabilities							
Borrowings	53,472	24,055	13,955	10,608	9,974	21,709	133,773
Trade and other payables	37,443	-	-	-	-	-	37,443
Other financial liabilities	3,529	1,286	975	919	754	741	8,204
Total liabilities	94,444	25,341	14,930	11,527	10,728	22,450	179,420
At 31 December 2004							
Assets							
Trade and other receivables	77,829	-	-	-	-	-	77,829
Other financial assets	42	5,000	-	-	-	454	5,496
Total assets	77,871	5,000	-	-	-	454	83,325
Liabilities							
Borrowings	46,653	13,877	16,092	4,975	406	5,317	87,320
Trade and other payables	30,347	-	-	-	-	-	30,347
Other financial liabilities	2,966	1,119	1,188	819	696	507	7,295
Total liabilities	79,966	14,996	17,280	5,794	1,102	5,824	124,962

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

The table below shows interest accrued on monetary financial instruments, by currency, at 31 December 2005 and 2004:

	Thousands of Euros							Total
	Euros	US Dollar	Canadian Dollar	Pound Sterling	Czech Crone	Polish Zloty	Others	
At 31 December 2005								
Finance costs	4,009	415	69	-	232	7	122	4,854
Financial income	854	151	9	6	43	-	15	1,078
At 31 December 2004								
Finance costs	4,230	172	9	-	252	13	-	4,676
Financial income	778	6	9	8	12	-	-	813

(21) Environmental Information

Details of costs and accumulated depreciation of property, plant and equipment in respect of the Group's environmental activities at 31 December 2005 and 2004 are as follows:

	Thousands of Euros			
	2005		2004	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Vapour boiler	1,091	(214)	1,091	(106)
Water-cooler circuit	697	(143)	697	(55)
Waste management plant	1,713	(618)	1,445	(469)
Gas washers	2,233	(1,265)	2,044	(1,047)
Others	4,150	(1,397)	4,397	(1,008)
	<u>9,884</u>	<u>(3,637)</u>	<u>9,674</u>	<u>(2,685)</u>

During 2005 the Parent company incurred expenses for protection and improvement of the environment amounting to approximately Euros 1,070 thousand.

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

(22) Ordinary Income

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

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Notes to the Consolidated Annual Accounts

(23) Other Income

Details of other income are as follows:

	Thousands of Euros	
	2005	2004
Government grants	866	725
Excess of provision for fixed assets - not applied (see note 7)	72	-
Excess of provision for restructuring - not applied (see note 18)	1,816	-
Gains on sale of fixed assets	215	118
Other Income	<u>2,825</u>	<u>2,155</u>
	<u>5,794</u>	<u>2,998</u>

(24) Other Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2005	2004
Research and development costs	500	555
Repairs and maintenance	17,891	18,927
Independent professional services	15,738	9,305
Selling costs	19,858	24,603
Supplies	15,483	12,561
Losses on sale of fixed assets	364	1,244
Other expenses	<u>22,308</u>	<u>18,470</u>
	<u>92,142</u>	<u>85,665</u>

(25) Personnel Expenses

Details of personnel expenses during 2005 and 2004 are as follows:

	Thousands of Euros	
	2005	2004
Wages and salaries	80,403	76,899
Indemnity payments	476	6,190
Contributions to defined contribution plans (note 18.2)	764	907
Contributions to defined benefit plans (note 18.1)	1,996	774
Company social security contributions	19,383	18,432
Other welfare benefits and taxes	<u>1,681</u>	<u>1,023</u>
	<u>104,703</u>	<u>104,225</u>

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Notes to the Consolidated Annual Accounts

The average headcount of the Group during 2005 and 2004, distributed by category, is as follows:

	<u>2005</u>	<u>2004</u>
Management	69	62
Technicians and department heads	527	447
Administrative staff	233	223
Specialised personnel	939	752
Labourers	<u>1,578</u>	<u>1,437</u>
	<u>3,346</u>	<u>2,921</u>

(26) Financial Income and Expense

Details of financial income and expense are as follows:

	<u>Thousands of Euros</u>	
	<u>2005</u>	<u>2004</u>
Financial income		
Other financial income	1,078	813
Exchange gains	<u>4,211</u>	<u>3,727</u>
Total financial income	<u>5,289</u>	<u>4,540</u>
Financial expenses		
Net losses on adjustment to fair value of derivative financial instruments (note 17)	375	273
Other financial expenses	4,854	4,676
Exchange losses	<u>2,394</u>	<u>3,819</u>
Total financial expenses	<u>7,623</u>	<u>8,768</u>

(27) Earnings per Share(27.1) Basic

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

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

	<u>Thousands of Euros</u>	
	<u>2005</u>	<u>2004</u>
Profit attributable to ordinary shareholders of the Parent	19,695	13,800
Weighted average number of ordinary shares in circulation	48,086,110	48,343,976
Basic earning per share (in Euros)	0.4096	0.2855

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Notes to the Consolidated Annual Accounts

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

	2005	2004
Weighted average number of ordinary shares in circulation	48,153,193	48,590,754
Effect of treasury shares	(67,083)	(246,778)
Average number of ordinary shares in circulation at 31 December	48,086,110	48,343,976

(27.2) Diluted

Diluted earnings per share are calculated by dividing profit attributable to shareholders 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, this calculation is unnecessary.

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

The board of directors of the Company only accrue remuneration established in articles 27 and 30 of the Company's bylaws, equivalent to 1.5% of profit before income tax for the board directors, which amounted to Euros 600,699 for 2005, and another 1.5% of profit before income tax for the executive board, which amounted to Euros 600,699 for that year. As established in the aforementioned articles, the board of directors and executive committee decide on the distribution of remuneration equally among the members.

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

During 2005 the members of the board of directors have not carried out operations with the Company or the Group other than ordinary operations under market conditions.

Remunerations received by key management personnel were as follows:

	Thousands of Euros	
	2005	2004
Short-term remuneration to employees, management	2,666	2,388

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Notes to the Consolidated Annual Accounts

The directors of the Viscofan, S.A. hold no additional shares or management positions in companies with identical, similar or complementary activities to the Company other than those detailed below.

Name	Company	Position
Mr. Jaime Echeverría Abona	Naturin GmbH & Co	Chairman to the Board of Directors
	Naturin Limited	Chairman to the Board of Directors
	Gamex, C.B.s.r.o.	Chairman to the Board of Directors
	Viscofan CZ, s.r.o.	Chairman to the Board of Directors
	Viscofan USA Inc	Chairman to the Board of Directors
	Viscofan Poland Sp. Z.o.o.	Chairman to the Board of Directors
	Viscofan Centroamérica Comercial, S.A.	Chairman to the Board of Directors
	Viscofan de México S. de R.L. de C.V.	Chairman to the Board of Directors
	Koteksprodukt, A.D.	Chairman to the Board of Directors
	Mr. Nestor Basterra Larroudé	Naturin GmbH & Co
Viscofan USA Inc		Director

During 2005 the members of the board of directors have not carried out operations with the Company or Group companies other than ordinary operations under market conditions.

(29) Audit Fees

The auditors of the consolidated annual accounts 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 2005 and 2004 as follows:

	Thousands of Euros	
	2005	2004
Main auditor		
Audit services	90,995	85,639
Other services	28,360	820
	<u>119,355</u>	<u>86,459</u>

Audit services detailed in the above table include the total fees for services rendered in 2005 and 2004, irrespective of the date of invoice.

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

	Thousands of Euros	
	2005	2004
Audit services	145,225	113,213
Other services	39,080	35,164
	<u>184,305</u>	<u>148,377</u>

Other auditors have also invoiced the Group Euros 35,481 thousand in respect of audit services (Euros 34,800 thousand in 2004).

VISCOFAN, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(30) Subsequent Events

- a) On 27 January 2006, as agreed by the directors at their meeting held on 3 January 2006, a gross interim dividend on account of Euros 0.078 per share was distributed for all shares comprising the share capital of the Parent Company.

The mandatory cash flow statement prepared by the directors of the Parent Company for the distribution of the dividend on account of 2005 profits, which includes own shares, is as follows:

	<u>Thousands of Euros</u>
Net profit of the Parent Company for the year ended 31 December 2005	34,309
Less, mandatory appropriations to the legal and statutory reserves	<u>-</u>
Maximum distributable profits	<u>34,309</u>
Dividend on account agreed by directors of the Parent Company	<u>3,732</u>
Forecast cash and cash equivalents	
Cash and cash equivalents at 3 January 2006	743
Projected collections for one year	132,226
Projected payments for one year, including dividend on account	<u>(132,877)</u>
Projected cash and cash equivalents at 3 January 2007	<u>92</u>

- b) On 3 January 2006 the Group, through its subsidiaries Viscofan de México S.R.L.C.V. and Viscofan USA, Inc, acquired the business of Teepak Norteamérica, which includes companies in the USA and Mexico.

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Details of Viscofan Group
31 December 2005

Group companies	Percentage interest		Activity	Registered offices
	Direct	Indirect		
Industrias Alimentarias de Navarra, S.A.	100.00%	-	Manufacture and marketing of tinned vegetables	Villafranca (Navarre)
Naturin GmbH & Co (i)	100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Naturin Inc Delaware	100.00%	-	Financial activity	Dover (USA)
Naturin Verwaltungs GmbH (i)	100.00%	-	Financial activity	Weinheim (Germany)
Viscofan do Brasil, soc. com. e ind. Ltda.	100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Viscofan Poland Sp.z.o.o	100.00%	-	Commercial activity	Krakow (Poland)
Koteksprodukt AD	100.00%	-	Manufacture and marketing of artificial casings	Novisad (Serbia)
Gamex, C.B. s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofán USA Inc.	100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Naturin LTD (iii)	100.00%	-	Commercial activity	Seven Oaks (United Kingdom)
Viscofan CZ, s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
IAN Perú, S.A.	-	100.00%	Asparagus production	Cañete (Peru)
Naturin Canadá Vertriebs GmbH (i) and (ii)	-	100.00%	Commercial activity	Weinheim (Germany)
Stephan & Hoffmann AG (i)	-	100.00%	Holding company	Weinheim (Germany)
Viscofan de México S.R.L. de C.V.	99.99%	0.01%	Manufacture and marketing of artificial casings	San Luis de Potosí (Mexico)
Viscofan Centroamérica Comercial, S.A.	100.00%	-	Commercial activity	Lagunilla Heredia (Costa Rica)

- (i) Companies audited by Ernst&Young
(ii) Company audited by BDO Dunwoody LLP
(iii) Company audited by Perrys Chartered Accountants

VISCOFAN, S.A. AND SUBSIDIARIES
Details of Viscofan Group
31 December 2005

Group companies	Percentage interest		Activity	Registered offices
	Direct	Indirect		
Industrias Alimentarias de Navarra, S.A.	99.90%	0.10%	Manufacture and marketing of tinned vegetables	Villafranca (Navarre)
Naturin GmbH & Co(**)	(i) 100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Naturin Inc Delaware	100.00%	-	Financial activity	Dover (USA)
Naturin Verwaltungs GmbH	(i) 100.00%	-	Financial activity	Weinheim (Germany)
Viscofan do Brasil, soc. com. e ind. Ltda.	100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Viscofan Poland Sp.z.o.o	100.00%	-	Commercial activity	Krakow (Poland)
Comaro, S.A. (*)	-	-	Seasoning, preservation and marketing of olives	Casas del Monte (Cáceres)
GameX, C.B., s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofán USA Inc.	100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Naturin LTD	(iii) 100.00%	-	Commercial activity	Seven Oaks (United Kingdom)
Viscofan CZ, s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
IAN Perú, S.A.	-	100.00%	Asparagus production	Cañete (Peru)
Naturin Canadá Vertriebs GmbH	(i) and (ii) -	100.00%	Commercial activity	Weinheim (Germany)
Stephan & Hoffmann AG	(i) -	100.00%	Holding company	Weinheim (Germany)
Viscofan de México S.R.L. de C.V.	99.99%	0.01%	Manufacture and marketing of artificial casings	San Luis de Potosí (Mexico)
Viscofan Centroamérica Comercial, S.A.	100.00%	-	Commercial activity	Lagunilla Heredia (Costa Rica)
<u>Associated companies</u>				
Tripasin A.B.	40.00%	-	Manufacture and marketing of artificial casings	Malmö (Sweden)

(*) Merger by absorption by Industrias Alimentarias de Navarra, S.A. with economic effect 1 January 2004. (**) This German subsidiary makes use of the exemption from disclosure obligations in accordance with 264(b) commercial code.

- (i) Companies audited by Ernst&Young
- (ii) Company audited by BDO Dunwoody LLP
- (iii) Company audited by Perrys Chartered Accountants

This appendix forms an integral part of note 2 to the consolidated annual accounts, in conjunction with which it should be read.

VISCOFAN, S.A. AND SUBSIDIARIES
Segment reporting
31 December 2005 and 2004

(In thousands of Euros)

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

<u>Business segments</u>	<u>Casings</u>		<u>Tinned food</u>		<u>Eliminations</u>		<u>Consolidated</u>	
	2005	2004	2005	2004	2005	2004	2005	2004
<u>Income and expenses</u>								
Sales and services rendered	299,670	278,965	75,049	70,263	(27)	(10)	374,692	349,218
Materials consumed	(85,843)	(73,619)	(45,289)	(38,582)	-	-	(131,132)	(112,201)
Other operating income and expenses	(188,711)	(190,383)	(28,277)	(30,097)	133	176	(216,855)	(220,304)
	<u>25,116</u>	<u>14,963</u>	<u>1,483</u>	<u>1,584</u>	<u>106</u>	<u>166</u>	<u>26,705</u>	<u>16,713</u>
Financial profit (loss)	(1,478)	(3,087)	(856)	(1,141)	-	-	(2,334)	(4,228)
Income tax income (expense)	(4,576)	1,683	(100)	(368)	-	-	(4,676)	1,315
Profit (loss) for the year	<u>19,062</u>	<u>13,559</u>	<u>527</u>	<u>75</u>	<u>106</u>	<u>166</u>	<u>19,695</u>	<u>13,800</u>
<u>Assets and liabilities</u>								
Segment assets	436,490	351,091	79,592	85,725	(21)	(166)	516,061	436,650
Investments accounted for using the equity method	-	2,301	-	-	-	-	-	2,301
Total assets	<u>436,490</u>	<u>353,392</u>	<u>79,592</u>	<u>85,725</u>	<u>(21)</u>	<u>(166)</u>	<u>516,061</u>	<u>438,951</u>
<u>Cash flows</u>								
Cash flows from operating activities	50,989	41,392	5,550	4,549	-	-	56,539	45,941
Cash flows from investing activities	(93,453)	(27,861)	1,044	(1,543)	-	-	(92,409)	(29,404)
Cash flows from financing activities	44,771	(8,678)	(6,849)	(3,377)	-	-	37,922	(12,055)

VISCOFAN, S.A. AND SUBSIDIARIES
Segment reporting
31 December 2005 and 2004

(In thousands of Euros)

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

<u>Geographical segments</u>	Europe		North America		South America		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
Ordinary income from external clients	<u>246,769</u>	<u>271,748</u>	<u>85,641</u>	<u>56,435</u>	<u>42,282</u>	<u>21,035</u>	<u>374,692</u>	<u>349,218</u>
Segment assets	<u>356,218</u>	<u>339,759</u>	<u>100,111</u>	<u>55,619</u>	<u>59,732</u>	<u>43,573</u>	<u>516,061</u>	<u>438,951</u>
<u>Cash flows</u>								
Cash flows from operating activities	<u>40,175</u>	<u>28,921</u>	<u>(577)</u>	<u>9,651</u>	<u>16,941</u>	<u>7,369</u>	<u>56,539</u>	<u>45,941</u>
Cash flows from investing activities	<u>(34,122)</u>	<u>(16,658)</u>	<u>(45,760)</u>	<u>(2,544)</u>	<u>(12,527)</u>	<u>(10,202)</u>	<u>(92,409)</u>	<u>(29,404)</u>
Cash flows from financing activities	<u>(2,165)</u>	<u>(14,160)</u>	<u>42,748</u>	<u>(991)</u>	<u>(2,661)</u>	<u>3,096</u>	<u>37,922</u>	<u>(12,055)</u>

VISCOFAN, S.A. AND SUBSIDIARIES
Details and movement in property, plant and equipment

31 December 2005 and 2004

(In thousands of Euros)

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

	01.01.04	Translation differences	Additions	Disposals	Transfers	31.12.04	Translation differences	Changes in consolidated group	Additions	Disposals	Transfers	31.12.05
Revalued cost												
Land and buildings	132,726	362	4,433	(326)	2,824	140,019	4,500	8,823	4,251	(574)	1,496	158,515
Plant and machinery	310,168	(67)	8,500	(9,205)	10,610	320,006	8,733	12,169	10,250	(3,049)	8,978	357,087
Other installations, equipment and furniture	59,586	333	2,082	(2,128)	6,202	66,075	3,545	206	2,789	(1,084)	1,950	73,481
Other	20,127	788	733	(344)	(984)	20,320	1,126	948	668	(643)	(15)	22,404
Advances and assets under construction	7,094	84	18,369	(6)	(18,655)	6,886	290	-	14,293	-	(12,409)	9,060
	<u>529,701</u>	<u>1,500</u>	<u>34,117</u>	<u>(12,009)</u>	<u>(3)</u>	<u>553,306</u>	<u>18,194</u>	<u>22,146</u>	<u>32,251</u>	<u>(5,350)</u>	<u>-</u>	<u>620,547</u>
Restated accumulated depreciation												
Buildings	(48,669)	(78)	(3,565)	-	(87)	(52,399)	(890)	(1,564)	(3,980)	141	-	(58,692)
Plant and machinery	(214,309)	(312)	(18,565)	7,395	85	(225,706)	(4,038)	(12,032)	(19,175)	2,662	4	(258,285)
Other installations, equipment and furniture	(35,317)	(7)	(4,450)	1,796	14	(37,964)	(1,311)	(185)	(4,960)	797	(28)	(43,651)
Other	(16,299)	394	(1,135)	271	(33)	(16,802)	(954)	(835)	(1,105)	583	12	(19,101)
	<u>(314,594)</u>	<u>(3)</u>	<u>(27,715)</u>	<u>9,462</u>	<u>(21)</u>	<u>(332,871)</u>	<u>(7,193)</u>	<u>(14,616)</u>	<u>(29,220)</u>	<u>4,183</u>	<u>(12)</u>	<u>(379,729)</u>
Provisions	(445)	-	-	76	-	(369)	-	-	-	72	-	(297)
	<u>214,662</u>	<u>1,497</u>	<u>6,402</u>	<u>(2,471)</u>	<u>(24)</u>	<u>220,066</u>	<u>11,001</u>	<u>7,530</u>	<u>3,031</u>	<u>(1,095)</u>	<u>(12)</u>	<u>240,521</u>

This appendix forms an integral part of note 7 to the consolidated annual accounts, in conjunction with which it should be read.

VISCOFAN, S.A. AND SUBSIDIARIES
Details and movement in other intangible assets

31 December 2005 and 2004

(In thousands of Euros)

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

	<u>01.01.04</u>	<u>Translation differences</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>31.12.04</u>	<u>Translation differences</u>	<u>Changes in consolidated group</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>31.12.05</u>
Cost												
Brand and client portfolio	-	-	-	-	-	-	-	-	2,672	-	-	2,672
Software	8,445	50	488	(4)	4	8,983	133	4	447	(78)	-	9,489
Concessions, patents and licences	165	-	-	-	-	165	-	-	1,801	-	-	1,966
Issue rights	-	-	-	-	-	-	-	-	1,188	-	-	1,188
	<u>8,610</u>	<u>50</u>	<u>488</u>	<u>(4)</u>	<u>4</u>	<u>9,148</u>	<u>133</u>	<u>4</u>	<u>6,108</u>	<u>(78)</u>	<u>-</u>	<u>15,315</u>
Accumulated amortisation												
Brand and client portfolio	-	-	-	-	-	-	-	-	(178)	-	-	(178)
Software	(4,529)	(28)	(1,308)	10	20	(5,835)	(46)	(1)	(1,084)	78	12	(6,876)
Concessions, patents and licences	(91)	-	(13)	-	-	(104)	-	-	(221)	-	-	(325)
	<u>(4,620)</u>	<u>(28)</u>	<u>(1,321)</u>	<u>10</u>	<u>20</u>	<u>(5,939)</u>	<u>(46)</u>	<u>(1)</u>	<u>(1,483)</u>	<u>78</u>	<u>12</u>	<u>(7,379)</u>
	<u>3,990</u>	<u>22</u>	<u>(833)</u>	<u>6</u>	<u>24</u>	<u>3,209</u>	<u>87</u>	<u>3</u>	<u>4,625</u>	<u>-</u>	<u>12</u>	<u>7,936</u>

This appendix forms an integral part of note 8 to the consolidated annual accounts, in conjunction with which it should be read.

VISCOFAN, S.A. AND SUBSIDIARIES

Details of movement in other reserves and retained earnings
for the years ended
31 December 2005 and 2004

(In thousands of Euros)

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

	Other reserves				Total	Retained earnings					Total
	Reserve for conversion to IFRS	Reserves for treasury shares	Revaluation reserves	Merger reserves		Legal reserve	Special reserve	Voluntary reserves	Other consolidation reserves	Profit / (loss) for the year	
Balance at 31 December 2003	-	2,616	8,995	119	11,730	2,935	25	96,874	31,188	30,733	161,755
Adjusted for changes in accounting criteria	(5,826)	(2,616)	-	-	(8,442)	-	-	2,616	-	-	2,616
Balance at 1 January 2004	(5,826)	-	8,995	119	3,288	2,935	25	99,490	31,188	30,733	164,371
Distribution of profit / (application of loss) for the year											
Reserves	-	-	-	-	-	-	-	17,286	9,674	(26,960)	-
Dividends	-	-	-	-	-	-	-	-	-	(3,773)	(3,773)
Redemption of treasury shares	-	-	-	-	-	-	-	(3,022)	-	-	(3,022)
Reduction in capital	-	-	-	-	-	-	-	146	-	-	146
Application of revaluation reserve	-	-	(4)	-	(4)	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	(180)	-	-	(180)
Profit for the year	-	-	-	-	-	-	-	-	-	13,800	13,800
Balance at 31 December 2004	(5,826)	-	8,991	119	3,284	2,935	25	113,720	40,862	13,800	171,342
Distribution of profit / (application of loss) for the year											
Reserves	-	-	-	-	-	-	-	4,698	5,339	(10,037)	-
Dividends	-	-	-	-	-	-	-	-	-	(3,763)	(3,763)
Redemption of treasury shares	-	-	-	-	-	-	-	(2,924)	-	-	(2,924)
Application of revaluation reserve	-	-	(1)	-	(1)	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	100	10	-	110
Profit for the year	-	-	-	-	-	-	-	-	-	19,695	19,695
Balance at 31 December 2005	(5,826)	-	8,990	119	3,283	2,935	25	115,594	46,211	19,695	184,460

This appendix forms an integral part of note 15 to the consolidated annual accounts, in conjunction with which it should be read.

VISCOFAN, S.A. AND SUBSIDIARIES
Reconciliation of consolidated balance sheet
at 1 January and 31 December 2004

(In thousands of Euros)

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

	1 January 2004			31 December 2004		
	Spanish GAAP	Effect of transition to IFRS	IFRS	Spanish GAAP	Effect of transition to IFRS	IFRS
Non-current assets	232,498	14,306	246,804	242,303	3,240	245,543
Current assets	188,100	(2,563)	185,537	193,109	299	193,408
Total assets	420,598	11,743	432,341	435,412	3,539	438,951
Net equity						
Capital	14,650	-	14,650	14,504	-	14,504
Share premium	64,478	-	64,478	59,546	-	59,546
Other reserves	9,114	-	9,114	9,110	-	9,110
Retained earnings	133,638	30,733	164,371	157,542	-	157,542
Translation reserve	-	(5,826)	(5,826)	-	(5,826)	(5,826)
Treasury shares	-	(2,616)	(2,616)	-	(250)	(250)
Translation differences	(12,234)	933	(11,301)	(12,850)	(672)	(13,522)
Profit for the year	30,733	(30,733)	-	21,943	(8,143)	13,800
Total net equity	240,379	(7,509)	232,870	249,795	(14,891)	234,904
Non-current liabilities	79,175	19,760	98,935	79,872	18,416	98,288
Current liabilities	101,044	(508)	100,536	105,745	14	105,759
Total liabilities	180,219	19,252	199,471	185,617	18,430	204,047
Total equity and liabilities	420,598	11,743	432,341	435,412	3,539	438,951

This appendix forms an integral part of note 3.5 to the consolidated annual accounts for 2005, in conjunction with which it should be read.

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Directors' Report

2005

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

Business Performance and Situation of the Viscofan Group

Viscofan Group sales totalled Euros 374.69 million in 2005, up 7.3% on the prior year. Euros 299.6 million of sales correspond to casings, which reflects an increase of 7.4%, whereas Euros 75.1 million comprise sales from the preserves business line, which rose 6.81%.

A more stable currency and a gradual increase in demand throughout the year helped the Group overcome the difficulties faced in the first few months of the year to close 2005 with increased sales and profits compared to the previous years, using uniform recognition criteria.

Sales were up in terms of both volume and margin. EBITDA went from 13.1% in 2004 to 15.3% in 2005, totalling Euros 57.4 million.

International Financial Reporting Standards (IFRS) were applied for the first time this year. The corresponding adaptation to the 2004 data to make it comparable under the new accounting principles include extraordinary income and expense as part of the EBITDA calculation.

The considerable increase in energy costs in 2005 has impacted negatively on profits directly and through the purchase of products with high-energy costs. The incidence of this factor was greater in the second half of 2005.

Financial income was up Euros 1.89 million, mainly as a result of positive foreign exchange differences in 2005. Net financial expense rose only 1% despite the acquisitions made.

Pre-tax profits of Euros 24.4 million were up 95.2% on 2004.

Profits after tax totalled Euros 19.7 million, an increase of 42.7% on the previous year.

Net debt also rose slightly by Euros 1.2 million and totalled Euros 78.1 million at year end, which represents financial leverage of 31%. The balance sheet at year end shows borrowings earmarked for the Teepak NA acquisition, which took place at the beginning of 2006.

2005 began with modest demand for casings, which resulted in a drop in first quarter results compared to the prior year. Gradually, the measures put in place to alleviate this effect and improved market conditions saw a considerable upturn in the subsequent quarters, resulting in 2005 accumulated profits up on those for 2004, using comparable recognition criteria.

The preserves business line had higher advertising costs due to the launch of its refrigerated vegetable based dish line as part of the Carretilla brand. This brand's invoicing grew 7.83% compared to 2004.

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Directors' Report

Significant Events

The most important events of the year for the Viscofan Group reflect the purchase of entities and businesses for its base artificial casing activity.

In the second quarter of 2005 the Group acquired the business of the Swedish company Tripasin. This purchase included the company's production equipment, which was subsequently transferred to Serbia, and its customer portfolio and patents. Tripasin ceased production and commercial activity in the final quarter of 2005.

The second quarter of 2005 also saw the launch of a public share offer for 100% of the share capital in the Serbian company Koteksprodukt A.D., subject to the purchase of at least two-thirds of the share capital, for which the Group paid Euros 3.9 million. Viscofan acquired 100% of the share capital and subsequently increased this company's share capital by an additional Euros 5.5 million for equipment, increased capacity and improved production processes.

Finally, at year end an agreement was entered into for the purchase of Teepak Norteamérica's business in 2006. This business includes sales of US Dollars 112 million and plants in the USA and Mexico.

US Dollars 3.9 million was paid for the share capital, with the Group assuming debt of US Dollars 73 million.

As the effective date of the Teepak transaction was the beginning of 2006, it was not recognised in the balance sheet for this year, except for reference to the financing earmarked for the purchase, which was paid on 2 January 2006.

These purchases form part of the strategic plan, announced previously by Viscofan, to improve the Group's financial situation and to take advantage of attractive consolidation opportunities in its base business line.

The Group is in a stronger position at year end as a result of:

- a low cost production base in Serbia, from which growth will stem.
- factories in the US Dollar zone which make Viscofan less vulnerable to future exchange rate fluctuations and allow it to benefit from regionalisation of production and markets and its inherent savings.
- new fibrous casing technology and markets which will result in the Group becoming not only the leading producer of artificial casings but also the only company which produces a complete range of artificial casings types.

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Directors' Report

Outlook for the Viscofan Group Companies

a) Casings

Rationalisation and productive efficiency in its newly purchased units are the Group's main objectives for 2006.

This rationalisation process will require even more dedication by the Group, and particularly from its employees. We hope to bear the fruit of these efforts in the second half of the year.

From a market perspective, a gradual improvement of the competitive environment is forecast.

Investments made in the new centres to allow them to reach the same levels of efficiency and productivity as existing centres.

b) Vegetable preserves

We expect improved net sales based on growth of the Carretilla brand, particularly for the new range of refrigerated products.

This brand has launched new products to meet current trends: easy ready meals using healthy products.

4.- Research and Development Activities

Research and development activities for the Group's two business lines have continued in 2005.

New products and business line formats have been launched in the vegetable preserves activity. These include refrigerated vegetable dishes, which are seen as an important business line for the future.

Research has also been undertaken into improving the environmental protection of our factories.

The main activity in the casings line is centred on product growth in geographical segments and markets in which the Company is not situated or where growth potential is greatest.

The product development activity will allow us to pass savings on to our customers and increase productivity. This will result in the acceptance of higher prices and consequently greater added value for Viscofan.

5.- Acquisition of Own Shares

At their annual general meeting the shareholders agreed to acquire own shares in 2005, which took place in 2006

The shareholders agreed to redeem 386,773 treasury shares at their general meeting held on 27 June, which represents 0.8% of share capital of the Parent company: Viscofan, S.A.

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Directors' Report

6.-Risk Management Policy

Due to the globalisation of its sales, the Group carries out a number of transactions in currencies other than Euros. General group policy is to hedge against commercial transaction risks by contracting exchange rate insurance to cover the collection period of the Group's product sales. Long-term insurance is not contracted. Group manufacturing companies, which deal with commercial entities or with customer exclusively in the functional currency of the area in which they operate, are most at risk from foreign exchange rate fluctuations.

Acquisitions made during the year will regularise supplies reducing the percentage of sales made in currencies other than that of the producer's.

The Company does not hedge exchange rates on investments in subsidiaries which operate in foreign currencies or their distributable profits.

The Group has shown that it is capable of competing in competitive price markets and therefore does not consider this to be a factor of risk, albeit a determining factor in sales profitability.

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

The Parent company has contracted several interest rate swap operations to mitigate the risks of exposure to interest rate fluctuations.

7.- Operations with the board of directors or persons acting on their behalf, carried out during 2005, with the quoted company or a Group company when operations are different to the Company's ordinary activity or are not carried out in normal market.

In 2005 the directors have not participated in any operations other than the ordinary activity of the Company or Group companies or carried out in abnormal market conditions.

8.- Interests held by the directors in the share capital of companies with statutory activities identical, similar or complementary to those of the Company, positions held, duties and activities performed in those companies.

The board of directors do not hold shares or perform functions in companies with an identical, similar or complementary statutory objective to that of the Company.

9.- Subsequent Events

On 27 January 2006, as agreed by the directors of the Parent company at their meeting held on 3 January 2006, a gross interim dividend on account of Euros 0.078 per share was distributed for all shares comprising the share capital of the Parent company.

On 3 January 2006 the Group acquired the business of Teepak Norteamérica through its subsidiaries in the USA and Mexico which includes an important market worth US Dollars 112 million. The fibrous technology acquired and the possibility of regionalising these markets should result in a reduction of costs. The vulnerability of the Dollar against the Euro has also fallen, which is mentioned in point 2 above.

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts and Directors' Report

31 December 2005 and 2004

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

PREPARATION OF THE ANNUAL ACCOUNTS AND DIRECTORS' REPORT

On 30 March 2006 the members of the board of directors of Viscofan, S.A. and Subsidiaries (hereinafter the Group) prepared the consolidated annual accounts for the Group, which comprise the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement, the statement of changes in consolidated equity and the consolidated notes, issued on official stamped paper numbered 0H8628250 to 0H8628292, inclusive, and 0H8628295 to 0H8628328, as well as the consolidated directors' report for the year ended 31 December 2005, issued on official stamped paper numbered 0H8628330 to 0H8628334, inclusive.

Mr. Jaime Echevarría Abona

Mr. José María Cuevas Salvador

Mr. Nestor Basterra Larroudé

Mr. Iñigo de Solaun Garteiz-Goxeascoa

Ms. Agatha Echevarría Canales

Mr. José Cruz Pérez Lapazarán

Mr. Gregorio Marañón Bertrán de Lis

VISCOFAN, S.A.

Annual Accounts and Directors' Report

31 December 2005

(With Auditors' Report Thereon)

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

Auditors' Report on the Annual Accounts

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

To the Shareholders of
Viscofan, S.A.

We have audited the annual accounts of Viscofan, S.A. (hereinafter the Company), which comprise the balance sheet at 31 December 2005, the related statement of profit and loss for the year then ended and the notes thereto, the preparation of which is the responsibility of the Company's board of directors. Our responsibility is to express an opinion on the annual accounts taken as a whole, based on our examination which was conducted in accordance with generally accepted auditing standards in Spain, which require examining, on a test basis, evidence supporting the amounts in the annual accounts and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed.

In accordance with prevailing Spanish legislation, these annual accounts also include, for each individual caption in the balance sheet, the statement of profit and loss and disclosure of source and application of funds, comparative figures for the previous year. We express our opinion solely on the annual accounts for 2005. On 29 March 2005 we issued our unqualified audit report on the 2004 accounts.

In our opinion, the annual accounts for 2005 present fairly, in all material respects, the shareholders' equity and financial position of Viscofan, S.A. at 31 December 2005 and the results of its operations and source and application of funds for the year then ended, and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with generally accepted accounting principles in Spain applied on a basis consistent with that of the preceding year.

The accompanying directors' report for 2005, contains such explanations as the directors consider relevant to the situation of the Company, the evolution of its business and other matters, but is not an integral part of the annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the annual accounts for 2005. Our work as auditors is limited to the verification of the directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the Company's accounting records.

Signed: KPMG AUDITORES, S.L.

Juan José Lorente
31 March 2006

VISCOFAN, S.A.

Annual Accounts and Directors' Report

31 December 2005

(Translation from the original in Spanish)

VISCOFAN, S.A.
Balance Sheets
at 31 December 2005 and 2004
(Expressed in thousands of Euros)
(Translation from the original in Spanish)

The accompanying notes form an integral part of the annual accounts for 2005.

Assets	2005	2004	Shareholders' Equity and Liabilities	2005	2004
Fixed assets					
Intangible assets (note 5)	2,7	1,832	Shareholders' equity (note 10)		
Tangible assets (note 6)	45,9	50,176	Share capital	14,388	14,504
Investments (note 7)	202,1	164,190	Share premium	54,654	59,546
	250,8	216,198	Reserves	127,332	125,791
			Profit for the year	34,309	8,451
Deferred expenses	3	-		230,683	208,292
Current assets			Deferred income (note 11)	168	189
Stocks (note 8)	14,2	13,218	Long-term creditors		
Debtors (note 9)	30,4	33,496	Loans (note 12)	13,165	17,157
Short-term investments	12	12	Other creditors (note 13)	4,881	4,503
Own shares (note 10 (e))	367	250		18,046	21,660
Cash in hand and at banks	507	71	Current liabilities		
Prepayments	137	105	Loans (note 12)	25,966	15,067
	45,7	47,152	Group companies (note 14)	6,051	7,557
			Trade creditors (note 15)	7,744	7,166
			Other creditors (note 16)	6,734	3,374
			Trade provisions	25	45
				46,520	33,209
			Provisions for charges and liabilities (note 4 (o))	1,150	-
	296,5	263,350		296,567	263,350

VISCOFAN, S.A.
Statements of Profit and Loss
for the years ended 31 December 2005 and 2004
(Expressed in thousands of Euros) (Translation from the original in Spanish)

Expenses	2005	2004	Income	2005	2004
Operating expenses			Operating income		
Decrease in stocks of finished products and work in progress	-	1,783	Net sales (note 18)	109,549	115,857
Materials consumed (note 8)	51,310	52,319	Increase in stocks of finished products and work in progress		
Personnel expenses (note 19)	26,421	25,140		341	-
Amortisation and depreciation (notes 5 and 6)	10,245	11,448	Other operating income	535	412
Changes in trade provisions (notes 8 and 9)	(51)	(732)			
Other operating expenses					
External Services	18,783	18,560			
Local taxes	722	571			
Other management expenses, current (note 4(o))	1,150	-			
	<u>108,580</u>	<u>109,089</u>		<u>110,425</u>	<u>116,269</u>
Operating profit	<u>1,845</u>	<u>7,179</u>			
Financial expenses			Financial income		
Interest and similar expenses (note 20)	1,086	1,171	Dividends (note 14)	4,419	6,703
Changes in provisions for investments	7	-	Other interest and similar income	449	435
Exchange losses	1,283	1,601	Exchange gains	1,138	1,355
	<u>2,376</u>	<u>2,772</u>		<u>6,006</u>	<u>8,493</u>
Net financial income	<u>3,630</u>	<u>5,721</u>			
Profit on ordinary activities	<u>5,475</u>	<u>12,900</u>			
Extraordinary losses and expenses			Extraordinary profit and income		
Changes in provisions for tangible and intangible assets and own shares (notes 5,6 and 7)	(32,872)	8,481	Profit on sale of fixed assets	2	34
Losses on fixed assets and own shares (note 7)	767	20	Extraordinary income (note 11)	1,251	148
Extraordinary expenses	53	63	Capital grants taken to income (note 11)	65	66
	<u>(32,052)</u>	<u>8,564</u>		<u>1,318</u>	<u>248</u>
Net extraordinary income	<u>33,370</u>	<u>-</u>	Net extraordinary expense	<u>-</u>	<u>8,317</u>
Profit before income tax	38,845	4,584			
Income tax (note 17)	4,536	(3,868)			
Profit for the year	<u>34,309</u>	<u>8,451</u>			

The accompanying notes form an integral part of the annual accounts for 2005.

1. Nature and Principal Activities

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

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

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

The Company is the parent of a group of companies which operate mainly in the food and plastic and collagen casing sectors.

2. Basis of Presentation

The accompanying annual accounts have been prepared by the directors of the Company to present fairly the shareholders' equity, financial position, results of operations and changes in financial position for 2005, and to present the proposed distribution of profit for the year.

These annual accounts have been prepared on the basis of the auxiliary accounting records of the Company and in accordance with the criteria established in the Spanish General Chart of Accounts.

The Company will submit its annual accounts for 2005 to shareholders at a general meeting within the period defined by prevailing legislation. The directors consider that the annual accounts will be approved without significant changes.

As required by Spanish accounting principles, the balance sheet, statement of profit and loss and disclosure of source and application of funds for 2005 include comparative figures for 2004, which formed a part of the annual accounts approved by the shareholders at their annual general meeting held on 27 June 2005. As permitted by such principles, the Company has opted to omit comparative data for 2005 from the notes to the accounts for 2004.

The directors have prepared the consolidated annual accounts for 2005 separately. These are the first accounts to be prepared under the International Financial Reporting Standards adopted by the European Union (IFRS-EU).

3. Distribution of Profit

The Board of directors will propose to the shareholders at their annual general meeting that the profit for the year ended 31 December 2005 be distributed as follows:

	Thousands of Euros
Interim dividend (note 24)	3,732
Voluntary reserves	30,577
	<u>34,309</u>

4 Significant Accounting Principles

These annual accounts have been prepared in accordance with accounting principles established in the Spanish General Chart of Accounts, the most significant of which are as follows:

(a) Intangible assets

Intangible assets are stated as follows:

- Research and development projects are recorded at cost or at the established price in the case of projects presented to official entities responsible for the promotion of R&D activities. Amortisation is provided using the sum of digits method on conclusion of projects over a maximum of five years from the date costs are recorded. Costs are capitalised when technical success has been achieved and are otherwise expensed.
- Software is stated at cost and amortised on a straight line basis over the five-year period of expected use. Software maintenance costs are expensed when incurred.

- The rights to use and the option to purchase tangible assets contracted through lease financing are recorded at the cash value of the asset at the time of acquisition. These rights are amortised on a straight line basis over the useful lives of the leased assets. The total lease instalments and the amount of the purchase option are recorded as a liability. The initial difference between the total debt and the cash value of the asset, equivalent to the financial cost of the operation, is recorded under deferred expenses and expensed over the term of the contract using the interest method. When the purchase option is exercised, the cost and accumulated depreciation of these goods is transferred to the corresponding tangible asset category.
- The Company follows the policy of registering CO² emission rights as intangible assets that cannot be amortised. Freely received rights under the National Assignment Plan are stated at the market price prevailing at the time they were received with deferred income booked for the same amount.

During 2005 the Company received free emission rights equivalent to 53,140 tonnes under the National Assignment Plan 2005-2007 approved by Royal Decree 1866/2004. This plan also stipulates that the same emission rights be assigned in 2006 and 2007 as in 2005. During 2005 the Company used emission rights amounting to 51,408 tonnes (see notes 4(i) and 4(o)).

(b) Tangible assets

Tangible assets are stated at cost, revalued in 1996, as permitted by legislation prevailing at that time, net of the corresponding depreciation.

Depreciation is provided on a straight line basis over the estimated useful lives of the related assets as follows:

Buildings	30
Plant and machinery	10
Other installations, equipment and furniture	10
Other tangible assets	5-15

Repairs and maintenance costs which do not improve the related assets or extend their useful lives are expensed when incurred.

(c) Investments

Interest in group and associated companies are stated at cost, which includes costs of acquisition.

Provision is made for decline in value of investments under the following circumstances:

- For quoted shares, when market value is below cost. Market value is determined as the lower of the average quotation of the last quarter and the closing quotation.
- For remaining investments, where circumstances so dictate. In the case of share capital holdings, where cost exceeds the underlying net book value, adjusted to take into account any latent unrecorded goodwill at year end.

Dividends received from group companies and other long-term investments are booked as income when their distribution is approved by the corresponding board of directors or annual general meetings of shareholders.

(d) Stocks

Stocks are stated at the lower of cost and market value. The cost of stocks is determined as follows:

- Raw materials and other supplies and goods for resale are stated at weighted average cost, including costs incurred in transporting goods to factories or warehouses.
- Finished and semi-finished goods: Finished and semi-finished products are stated at weighted average cost of raw and other materials, and includes the applicable portion of direct and indirect labour, other manufacturing overheads and depreciation of fixed assets at factories.

Provision is made for stocks where cost exceeds market value or when circumstances indicate doubtful recovery of such costs.

(e) Debtors

In accordance with common business practice in Spain, a part of the Company's sales are collected by means of accepted or unaccepted notes. Notes receivable are generally discounted at banks with full recourse and are included in the accompanying balance sheet under trade debtors with an equivalent credit balance in short-term loans.

Discounting costs are expensed when incurred and are not deferred over the discount period, as the effect of such deferral would be immaterial to operating results.

Provision is made to cover possible losses arising on the settlement of balances receivable. The Company makes provision for doubtful accounts in respect of overdue balances and when circumstances indicate doubtful collection.

(f) Foreign currency transactions

Foreign currency transactions are accounted for in Euros at the rates of exchange prevailing at the transaction date. Exchange gains or losses arising on settlement of balances are taken to profit or loss when they arise.

Balances receivable and payable in foreign currency at year end are expressed in Euros at the rates of exchange prevailing at 31 December. Unrealised foreign exchange losses are charged to expenses, while unrealised exchange gains are deferred. Balances subject to exchange rate insurance are stated at the insured rates of exchange.

(g) Current/long-term

Assets and liabilities are classified as current if maturing within twelve months and long-term if maturing more than twelve months from the balance sheet date.

(h) Compensation for termination of employment

Except in the case of justifiable cause, companies are liable to pay indemnities to employees whose services are discontinued. Indemnity payments, if they arise, are expensed when the decision to terminate employment is taken.

(i) Deferred income

Capital grants are initially recorded as deferred income in the accompanying balance sheet. Income from capital grants is recognised in the statement of profit and loss on a straight line basis over the useful lives of the fixed assets for which the grants have been received.

CO² emission rights received free of charge under the National Assignment Plan (see note 4(a)) are recorded as intangible assets and deferred income when received at the prevailing market price and taken to extraordinary income when the related CO² emissions occur.

(j) Income tax

Income taxes are calculated based on the profit reported for accounting purposes, adjusted for permanent differences with fiscal criteria and taking into consideration any applicable credits and deductions. The effects of timing differences, where applicable, are included in deferred tax assets or liabilities.

Following prudent criteria, tax credits in respect of loss carryforwards and deductions and credits pending application due to insufficient taxable profits are recognised as deferred tax assets when they comply with prevailing accounting requirements and to the extent of forecast reversals within the carryforward period.

(k) Income and expense

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

Nevertheless, in accordance with prudent criteria, the Company only records realised gains at year end, while expected liabilities and estimated losses are recognised as soon as they become known.

(l) Pension commitments

The Company has commitments with employees in respect of early retirement and seniority bonuses. The Company has externalised these commitments through insurance policies, the cost of which are booked under personnel expenses.

(m) Environmental issues

Long term assets used by the Company to minimise the environmental impact of its activity and protect and improve the environment are recorded as tangible assets at their cost of acquisition or production, as appropriate. Depreciation is provided on a straight line basis over the estimated useful lives of the assets as detailed in note 4 (b).

Expenses incurred on activities to protect the environment from effects of Company operations are considered environmental expenses, as are those derived from environmental commitments. These amounts are charged as other operating expenses.

Provision is made for environmental expenses which at year end are considered likely or certain to be incurred although the exact amount or the date they will materialise is undetermined. Consequently, these provisions are best estimates made on the basis of the information available at the closing date.

(n) Financial instruments

Company policy is to contract hedging operations to mitigate the risk of exchange rate fluctuations on certain financing operations.

Interests receivable and payable is calculated applying the interest method in line with the interest payable on hedged items, and the resulting net amount is charged to financial expenses.

(ñ) Own shares

Own shares are stated at average cost of acquisition, which is the lower of the total balance paid on purchase and market value. As these shares are acquired without prior approval by the shareholders at their annual general meeting to reduce share capital, it is understood that they could be subsequently disposed of or, alternatively used to reduce share capital. Consequently, their market value is considered to be the lower of the average quotation of the last quarter of the year, the closing quotation. Provision is made for the difference between the cost of acquisition and the lower of the closing quotation or the average quotation for the last quarter of the year with a charge to profit and loss and for the difference between the quotation and underlying net book value with a charge to reserves.

(o) Provisions for emission rights

Since 2005 the companies included in the National Assignment Plan whose activities produce CO² emissions must provide CO² emission rights equivalent to emissions produced during the year in the opening months of the following year (see notes 4(a) and 4 (i)).

The obligation to provide CO² emission rights for emissions produced during the year are recognised as short-term provisions under provisions for charges and liabilities in the balance sheet and under other operating expenses in the statement of profit and loss. The value of this obligation is equivalent to the relevant CO² emission rights booked under intangible assets in the balance sheet (see note 4 (a)).

5. Intangible Assets

Details and movement in 2005 are as follows:

	Thousands of Euros				31.12.05
	31.12.04	Additions	Disposals	Transfers	
Cost					
Research and development costs	14,738	-	-	-	14,738
Software	4,729	215	-	28	4,972
Concessions, patents and licences	36	-	-	-	36
Rights over leased assets	26	63	-	(26)	63
Greenhouse gas emission rights	-	1,188	-	-	1,188
Software in progress	28	61	-	(28)	61
	19,557	1,527	-	(26)	21,058
Accumulated amortisation					
Research and development costs	(14,462)	(276)	-	-	(14,738)
Software	(2,938)	(585)	-	-	(3,523)
Concessions, patents and licences	(36)	-	-	-	(36)
Rights over leased assets	(13)	(5)	-	16	(2)
	(17,449)	(866)	-	16	(18,299)
Provisions	(276)	-	276	-	-
	1,832	661	276	(10)	2,759

(note 6)

At 31 December 2005 intangible assets include fully amortised items with a cost of Euros 16,582,000.

Greenhouse gas emission rights include free of charge rights allocated by the National Assignment Plan (see notes 4(a), 4(i) and 4(o)).

6. Tangible Assets

Details of the revalued cost of tangible assets and restated accumulated depreciation at 31 December 2005 and movement for the year are as follows:

	Thousands of Euros				31.12.05
	31.12.04	Additions	Disposals	Transfers	
Revalued cost					
Land and buildings	19,685	31	-	-	19,716
Plant and machinery	127,015	2,648	-	1,557	131,220
Other installations, equipment and furniture	24,495	1,148	-	614	26,257
Other tangible assets	7,952	139	(37)	26	8,080
Advances and tangible assets under construction	2,240	1,111	-	(2,171)	1,180
	181,387	5,077	(37)	26	186,453
Restated accumulated depreciation					
Buildings	(7,103)	(746)	-	-	(7,849)
Plant and machinery	(100,712)	(6,842)	-	-	(107,554)
Other installations, equipment and furniture	(15,778)	(1,520)	-	-	(17,298)
Other tangible assets	(7,251)	(271)	32	(16)	(7,506)
	(130,844)	(9,379)	32	(16)	(140,207)
Provisions	(367)	-	72	-	(295)
	50,176	(4,302)	67	10	45,951

(note 5)

As permitted by relevant legislation, in 1996 the Company revalued its tangible fixed assets for a total of Euros 9,282,000 (see note 10 (d)) as permitted by Navarra Regional Law 23/1996. At 31 December 2005 the net book value of the revalued assets is Euros 1,083,000 and the related depreciation charge for the year Euros 200,000.

Details of tangible assets used in environmental activities are included in note 26.

Details of fully depreciated tangible assets in service at 31 December 2005 are as follows:

	Thousand s of Euros
Plant and machinery	73,355
Other installations, equipment and furniture	11,052
Other tangible assets	6,445
	90,852

At 31 December 2005 plant and machinery include assets used for carrying out research and development projects (see note 5), as follows:

	Thousands of Euros
Cost	8,667
Accumulated depreciation	(7,587)
	<u>1,080</u>

Details of assets acquired from group companies at 31 December 2005, are as follows:

	Thousands of Euros
Cost	2,106
Accumulated depreciation	(1,626)
	<u>480</u>

7. Investments

Details and movement in 2005 are as follows:

	Thousands of Euros			
	31.12.04	Additions	Disposals	31.12.05
Interests in group companies	226,506	9,323	-	235,829
Interests in associated companies	767	-	(767)	-
Short-term securities portfolio	42	-	-	42
Public entities, long term	3,127	-	(3,127)	-
Guarantee deposits	5	4	(5)	4
	<u>230,447</u>	<u>9,327</u>	<u>(3,899)</u>	<u>235,875</u>
Provisions	<u>(66,257)</u>	<u>(838)</u>	<u>33,362</u>	<u>(33,733)</u>
	<u>164,190</u>	<u>8,489</u>	<u>29,463</u>	<u>202,142</u>

Details of direct and indirect interests held in Group and Associated companies, and other information, are included in Appendix I. The directors have opted to omit certain information regarding Group companies as they consider that inclusion of this information could damage its interests and would not provide relevant information for the understanding of these annual accounts.

During 2005 the Company presented a public takeover bid for 100% of the share capital of the Serbian firm Koteksprodukt AD which is located in Novi Sad (Serbia). This offer was accepted for 137,517 shares, representing 94.58% of total share capital. The Company subsequently acquired the remaining shares and now holds 100% of the Koteksprodukt AD share capital. The cost of acquiring 100% of these shares amounted to Euros 3,889,000 and a Euros 5,422,000 capital increase was subsequently performed which has been fully inscribed and paid up by the Company.

The Company also acquired shares amounting to Euros 12,000 in Industrias Alimentarias de Navarra, S.A. and now owns 100% of total share capital.

Disposals of interests in associates relate to the sale of the Company's interest in Tripasin, incurring a loss of approximately Euros 767,000.

Disposals of public entities, long term reflect the use of deductions that were capitalised in prior years (see note 17).

Disposals in provisions mainly correspond to those provisions deriving from positive exchange rate differences and results obtained by subsidiaries during 2005.

Details of foreign currency investments at 31 December 2005 are as follows:

	Thousands of Euros
US Dollars	101,170
Czech Crowns	18,001
Serbian Dinar	9,311
Pounds Sterling	1,841
Polish Zloty	447
	<u>130,770</u>

None of the Group or Associated companies are listed on the stock exchange.

8. Stocks

Details at 31 December 2005 are as follows:

	Thousand s of Euros
Goods for resale	640
Raw materials and other supplies	6,653
Finished products	3,323
Semi-finished products	3,998
Advances	594
	<hr/> 15,208
Provisions	(941)
	<hr/> <hr/> 14,267

At 31 December 2005 goods for resale include purchases for subsequent sale to Group companies amounting to approximately Euros 538,000.

Changes in the provision for obsolescence during 2005 are as follows:

	Thousand s of Euros
Balance at 1 January 2004	943
Allowance for the year	133
Recoveries for the year	(135)
	<hr/> 941
Balance at 31 December 2005	<hr/> <hr/> 941

The total cost of materials consumed in 2005 was as follows:

	Thousands of Euros
Raw materials and other supplies and goods for resale	
Net purchases	51,425
Change in stocks	(115)
	<hr/> 51,310
	<hr/> <hr/> 51,310

Details of purchases made from group companies are shown in note 14.

9. Debtors

Details at 31 December 2005 are as follows:

	Thousand s of Euros
	<u> </u>
Trade debtors	18,347
Group companies	11,105
Sundry debtors	163
Personnel	55
Public entities	919
	<u> </u>
	30,589
Provisions for bad debts	<u>(167)</u>
	<u> </u>
	<u>30,422</u>

Details of balances receivable in foreign currencies are as follows:

	Thousands of Euros
	<u> </u>
Trade debtors	8,108
Group companies	6,217
	<u> </u>
	<u>14,325</u>

Debtor balances with Public entities include the following:

	Thousands of Euros
	<u> </u>
Navarra Regional Government, VAT	184
Tax authorities for rights over deductions applicable in the short term (note 17)	735
	<u> </u>
	<u>919</u>

Changes in the provision for bad debts during 2005 are as follows:

	Thousands of Euros
Balance at 1 January 2005	230
Allowance for the year	39
Recovery of balances	(88)
Balances written-off	(14)
Balance at 31.12.05	<u>167</u>

10. Shareholders' Equity

Details of shareholders' equity and movement for the year ended 31 December 2005 are shown in Appendix II, which forms an integral part of this note.

(a) Share capital

At their Annual General Meeting held on 27 June 2005 the shareholders agreed to reduce the Company's share capital by Euros 116,032 in order to redeem 386,773 own shares.

Consequently, at 31 December 2005 the share capital is represented by 47,959,806 bearer shares of Euros 0.30 par value each, subscribed and fully paid. All shares have the same voting and profit sharing rights, except own shares.

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

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

At 31 December 2005 the Company was aware of the following shareholders who each hold an interest of above 5%:

Name	% interest
QMC Development Capital Fund	5.9640%
Bestinuer Gestión SG IIC	8.6287%

At their general meeting held on 22 June 2000 the Company's shareholders authorised the board of directors to increase share capital within 5 years to a maximum of 50% of the share capital at that date, as permitted by article 151 3.b. of the Spanish Companies Act.

(b) Share premium

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

(c) Legal reserve

Companies are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital. This reserve may only be used to offset losses if no other reserves are available. At 31 December 2005 the balance of this reserve exceeds the minimum amount required by law.

(d) Revaluation reserve Navarra Regional Law 23/1996

As permitted by legislation prevailing at that time, at 31 December 1996 the Company revalued its tangible fixed assets by Euros 9,282,000 (see note 6). The resulting revaluation reserve, which comprises the revaluation of fixed assets, net of a 3% tax charge, amounts to Euros 9,003,000.

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

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

(e) Own shares reserve

At 31 December 2005 the Company holds 76,102 own shares, for which a reserve has been made equal to the book value of these shares. This reserve is not distributable unless the shares are disposed of or redeemed by the Company.

Details of movement in own shares during 2005 is as follows:

	Number of shares	Thousands of Euros
Balance at 31.12.04	58,065	250
Acquisitions	409,041	3,419
Disposals	(4,231)	(31)
Redemption	(386,773)	(2,924)
Provisions made	-	(347)
	<hr/>	<hr/>
Balance at 31.12.05	76,102	367

(f) Merger reserve

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

(g) Voluntary reserves

These reserves are freely distributable to shareholders at 31 December 2005.

11. Deferred Income

Details and movement within deferred income at 31 December 2005 are as follows:

	Thousands of Euros			
	31.12.04	Additions	Transfer to profit	
Capital grants	189	6	(65)	130
Grants for greenhouse gas emission rights	-	1,188	(1,150)	38
	<hr/>	<hr/>	<hr/>	<hr/>
	189	1,194	(1,215)	168

Details of capital grants are as follows:

	<u>Thousands of Euros</u>
Original grants	
Received in prior years	2,223
During the year	<u>6</u>
	<u>2,229</u>
Income recognised	
At the beginning of the year	(2,034)
During the year	<u>(65)</u>
	<u>(2,099)</u>
	<u><u>130</u></u>

Grants for rights over emission of greenhouse gases comprise amounts pending use by the Company (see notes 4 (a), 4 (i) and 4 (o)).

12 Short and Long-Term Loans

Details at 31 December 2005 are as follows:

	<u>Thousands of Euros</u>	
	<u>Long- term</u>	<u>Short- term</u>
Credit facilities	1,126	17,502
Loans	12,039	8,392
Interest on loans	<u>-</u>	<u>72</u>
	<u>13,165</u>	<u>25,966</u>

Long-term maturities of loans at 31 December 2005 are as follows:

<u>Maturity</u>	<u>Thousands of Euros</u>
2007	7,419
2008	4,146
2009	800
2010	800
	<u>13,165</u>

Loans and credit facilities bear interest at variable market rates.

The Company has credit and discount facilities with a total limit of Euros 33,833,000.

The Company utilises financial derivative products mainly to eliminate or significantly reduce the risk of interest rate fluctuations which are, therefore, considered to be hedging operations. At 31 December 2005 the Company has contracted the following interest rate swap agreements:

	<u>I.R.S. (Interest rate Swap)</u>	
Notional amount (thousands of Euros)	5.000	23.611
Date of contract	03.02.03	02.05.03
Starting date	03.02.03	06.05.03
Maturity date	03.02.06	30.06.08
Interest rate paid by the Company	2.95%	3.00%
Interest rate received by the Company	Euribor 3 months	Euribor 3 months

13. Other Long-Term Creditors

Details at 31 December 2005 are as follows:

	<u>Thousands of Euros</u>
Loans received	5,945
Short-term maturities (note 16)	<u>(1,064)</u>
	<u>4,881</u>

Loans received mainly comprise those obtained by the Company from the CDTI (Centre for the Development of Industrial Technology), the Government of Navarra and the Ministry of Science and Technology to finance research and development projects. The majority of these loans are interest-free and are guaranteed by financial entities (see note 23).

Long-term maturities are as follows:

	<u>Thousands of Euros</u>
2007	1,141
2008	955
2009	903
2010	734
Thereafter	<u>1,148</u>
	<u><u>4,881</u></u>

14 Balances and Transactions with Group Companies

Balances due to group companies at 31 December 2005 are expressed in Euros and the following currencies:

	<u>Currency</u>	<u>Thousands of Euros</u>
Euros	-	5,845
US Dollars	242,878	<u>206</u>
		<u><u>6,051</u></u>

Transactions carried out with group companies during the year ended 31 December 2005 are as follows:

	<u>Thousands of Euros</u>
Income	
Sales and services rendered	55,354
Dividends	4,419
Other operating expenses	222
Expenses	
Materials consumed	23,906
Other operating expenses	481
Financial expenses	21

15 Trade Creditors

Trade creditors at 31 December 2005 comprise balances in respect of purchases or services rendered.

This balance includes approximately Euros 860,000 in US Dollars.

16 Other Creditors

Details at 31 December 2005 are as follows:

	Thousand s of Euros
Public entities	1,970
Other debts	3,768
Salaries payable	996
	<u>6,734</u>

Details of balances due to public entities at 31 December 2005 are as follows:

	Thousand s of Euros
Tax authorities, income tax (note 17)	1,283
Social security	687
	<u>1,970</u>

Details of other debts are as follows:

	Thousands of Euros
Purchases of fixed assets	1,373
Current portion of loans received (note 13)	1,064
Other creditors	1,331
	<u>3,768</u>

17. Taxation

The Company presents annual income tax returns. The standard rate of tax is 35%, which may be reduced by certain credits.

Due to the treatment permitted by fiscal legislation of certain transactions, the accounting profit differs from the profit for fiscal purposes. A reconciliation of accounting profit for the year with the taxable income that the Company expects to declare after approval of the annual accounts is as follows:

	Thousands of Euros
Accounting income, before tax	38,845
Permanent differences	
Dividends from subsidiaries	604
Provisions in subsidiaries	(18,137)
Other items	198
Tax exempt dividends	(4,419)
Taxable accounting income	<u>17,091</u>
Tax at 35%	5,982
Deductions	
Investment, research and development and job creation	(4,722)
	<u>1,260</u>
Chamber of commerce dues	<u>23</u>
Income tax payable (note 16)	<u><u>1,283</u></u>

Tax exempt dividends reflect those received from the subsidiaries Gamex CB, S.r.o. and Viscofan do Brasil which are tax exempt.

The income tax expense for the year is calculated as follows:

	Thousand s of Euros
Taxable accounting income at 35%	5,982
Deductions pending application	
Generated during the year	(1,151)
Generated in prior years	(438)
Other items	143
	<hr/>
Income tax expense	<u>4,536</u>

At 31 December 2004 the Company had capitalised tax credits for deductions pending application amounting to Euros 3,868,000, of which Euros 3,127,000 recognised under investments (see note 7) were used during 2005. During the same year deductions of Euros 1,589,000 were capitalised under the standard and special tax deduction regimes of the Regional Government of Navarra, Euros 854,000 of which have been applied.

At 31 December 2005 the Company has recorded tax credits for deductions pending application, as they directly affect the future tax charge and because the directors consider that recoverability is reasonably guaranteed.

Details of deductions applicable in the short and long term for investment, job creation and research and development, which are booked under public entities, are as follows:

Year of origin	Maturity	Thousands of Euros
2002	2012	180
2003	2013	472
2004	2014	83
		<hr/>
		735
		<hr/> <hr/>
		(note 9)

The above amount relates entirely to credits pending application under the standard tax regime in Spain.

The Company is obliged to maintain fixed assets for which credits have been taken for a period of five years.

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the tax authorities or before the inspection period of four years has elapsed. At 31 December 2005 the Company has open to inspection by the tax authorities all applicable taxes since 1 January 2002 (1 January 2001 for income tax). The directors do not expect that significant additional liabilities would arise in the event of inspection.

18 Net Sales

The directors of the Company consider that the disclosure of a breakdown of net turnover by geographical market may be of detriment to the Company. Accordingly, as permitted by prevailing legislation, the directors have opted to omit such information.

Sales to group companies during the year ended 31 December 2005 are shown in note 14.

19 Personnel Expenses

Details are as follows:

	Thousand s of Euros
Wages and salaries	20,751
Social charges	5,670
	<u>26,421</u>

The average number of employees, distributed by category, is as follows:

Management	7
Technicians and department heads	94
Administrative staff	35
Specialised personnel	92
Other employees	340
	<u>568</u>

Employee remuneration is not linked to the performance of Company shares on the stock exchange.

20. Interest and Similar Expenses

Details are as follows:

	Thousands of Euros
Interest on long-term debt	455
Interest on short-term debt	556
Other financial expenses	75
	<u>1,086</u>

21. Transactions in Foreign Currency

Details for the year ended 31 December 2005 are as follows:

	Thousands of Euros
<u>Income</u>	
Sales	56,885
Other operating expenses	171
Financial income	3,879
<u>Expenses</u>	
Purchases of raw materials and other supplies	7,395
Other operating expenses	1,867
Personnel expenses	193

22 Information Relating to the Directors

As foreseen in articles 27 and 30 of its bylaws, the board of directors of the Company receive remuneration equivalent to 1.5% of profit before tax, which amounted to Euros 600,699. In accordance with the same articles, the executive committee receive 1.5% of profit before tax amounting to Euros 600,699. In accordance with the aforementioned articles, the board of directors and the executive committee decide on the distribution of this remuneration among the members of these bodies. In both cases it was unanimously agreed that remuneration would be distributed equally among the members.

The Company has not given any advances or loans to the members of the board of directors, and has no pension or life insurance commitments with the directors. The Group has extended no guarantees to any of the directors and remuneration is not linked to the value of shares.

During 2005 the members of the board of directors have not carried out operations with the Company or Group companies other than ordinary operations under market conditions.

The directors of the Company hold no shares or management positions in companies with identical, similar or complementary activities to the Company.

Name	Company	Position
Mr. Jaime Echeverría Abona	Naturin GMBH & Co	Chairman, Board of directors
	Naturin Limites	Chairman, Board of directors
	Gamex, a.s.	Chairman, Board of directors
	Viscofan CZ	Chairman, Board of Directors
	Viscofan USA Inc	Chairman, Board of directors
	Viscofan Poland Sp. Z.o.o.	Chairman, Board of directors
	Viscofan Centroamérica Comercial	Chairman, Board of directors
	Viscofan de México S. de R.L. de C.U.	Chairman, Board of directors
	A.D. Koteksprodukt	Chairman, Board of directors
	Mr. Nestor Basterra Larroudé	Naturin GMBH & Co
Viscofan USA Inc		Director

23 Guarantees, Commitments and Contingent Liabilities

- a) At 31 December 2005 the Company had extended guarantees of approximately Euros 62,960,000 to Group companies. It has also extended bank guarantees of Euros 3,630,000, mainly for loans received from the CDTI, the Government of Navarra and the Ministry of Science and Technology (see note 13).
- b) The Company has contracted exchange rate insurance of US Dollars 13,625,000, Norwegian Crowns 514,000, Canadian Dollars 1,438,000, Japanese Yen 77,848,000 and Polish Zlotys 2,363,000 for collections to be made in respect of sales in 2005.

24 Subsequent Events

- a) On 27 January 2006, as agreed by the directors of the Company at their meeting held on 3 January 2006, a gross dividend on account of Euros 0.078 per share was distributed for all shares comprising the share capital of the Company.

The legally required cash flow statement prepared by the directors of the Company for the distribution of the dividend on account of 2005 profits, which considers own shares, is as follows:

	Thousands of Euros
Net profit of the Company for the year ended 31 December 2005	34,309
Less, mandatory appropriations to the legal and statutory reserves	-
Maximum distributable profits	<u>34,309</u>
Dividend on account agreed by directors of the Company (note 3)	<u>3,732</u>
Forecast cash and cash equivalents	
Cash and cash equivalents at 3 January 2006	743
Projected collections for one year	132,226
Projected payments for one year, including dividend on account	<u>(132,877)</u>
Projected cash balances at 3 January 2007	<u><u>92</u></u>

- b) On 3 January 2006 through subsidiaries Viscofan de México S.R.L. de C.V. and Viscofan USA, Inc. the Company acquired the business of Teepak Norteamérica which includes companies in the United States and Mexico.

25 Source and Application of Funds

The statements of source and application of funds for the years ended 31 December 2005 and 2004 are shown in Appendix III, which form an integral part of this note.

26 Environmental Issues

The Company has certain tangible assets involved in environmental projects, the cost and accumulated depreciation of which total Euros 9,187,000 and 3,494,000 respectively.

During 2005 the Company has incurred expenses for environmental protection and improvements amounting to approximately Euros 1,070,000.

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

27 Other Information

KPMG Auditores, S.L., the auditors of the annual accounts of the Company and other related companies as defined in the fourteenth additional disposition of legislation governing the reform of the financial system have agreed with the Company fees for professional services for the year ended 31 December 2005 amounting to Euros 55,365.

These amounts include the total fees for 2005, irrespective of when they were invoiced.

VISCOFAN, S.A.
Details of Direct Shareholdings in Group and Associated companies

31 December 2005
(Translation from the original in Spanish)

<u>Group companies</u>	Percentage interest	Cost	Shareholders' equity		Activity	Registered offices
		Thousands of Euros	Currency	Amounts in thousands		
Industrias Alimentarias de Navarra, S.A.	100.00%	15,602	EUR	34,732	Manufacture and marketing of tinned vegetables	Villafranca (Navarra)
Naturin GmbH & Co	100.00%	89,436	EUR	59,725	Manufacture and marketing of artificial casings	Weinheim (Germany)
Naturin Inc Delaware	100.00%	7,219	USD	1,013	Financial activity	Dover (USA)
Naturin Verwaltung, GmbH	100.00%	21	EUR	25	Financial activity	Weinheim (Germany)
Viscofan do Brasil	100.00%	53,138	USD	57,230	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Viscofan Poland Sp.z.o.o.	100.00%	447	PLN	1,338	Commercial activity	Krakaw (Poland)
Gamex CB Sro	100.00%	7,498	CZK	316,963	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofán USA Inc.	100.00%	34,729	USD	35,563	Manufacture and marketing of artificial casings	Montgomery (USA)
Naturin LTD	100.00%	1,841	GBP	2,049	Commercial activity	Seven Oaks (UK)
Viscofan CZ, S.r.o.	100.00%	10,503	CZK	384,402	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan de México S.R.L.C.V.	99.99%	5,918	USD	7,145	Manufacture and marketing of artificial casings	San Luis de Potosí (Mexico)
Viscofan Centramérica Comercial, S.A.	100.00%	166	USD	185	Commercial activity	Lagunilla Heredia (Costa Rica)
Koteksprodukt AD	100.00%	9,311	CSD	506,572	Manufacture and marketing of artificial casings	Novi Sad (Serbia)
		<u>235,829</u>				

VISCOFAN, S.A.
Details of Indirect Shareholding in Group Companies

31 December 2005
(Translation from the original in Spanish)

	Percentage interest	Activity	Registered offices
IAN Perú S.A.	100.00%	Asparagus production	Cañete (Peru)
Naturin Vertriebs GmbH	100.00%	Commercial activity	Weinheim (Germany)
Naturin Canadá Vertriebs GmbH	100.00%	Commercial activity	Weinheim (Germany)
Stephan & Hoffmann AG	100.00%	Holding company	Weinheim (Germany)
Viscofan de México S.R.L.C.V.	0.01%	Manufacture and marketing of artificial casings	San Luís de Potosí (Mexico)

This Appendix forms an integral part of note 7 to the annual accounts for 2005, in conjunction with which it should be read.

VISCOFAN, S.A.
Details of Direct Shareholdings in Group and Associated companies

31 December 2005
(Translation from the original in Spanish)

<u>Group companies</u>	Percentage interest	Cost	Shareholders' equity		Activity	Registered offices
		Thousands of Euros	Currency	Amounts in thousands		
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		<u>235,829</u>				

VISCOFAN, S.A.
Details of Indirect Shareholding in Group Companies

31 December 2005
(Translation from the original in Spanish)

	Percentage interest	Activity	Registered offices
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This Appendix forms an integral part of note 7 to the annual accounts for 2005, in conjunction with which it should be read.

VISCOFAN, S.A.

Detail and Movement in Shareholders' Equity
31 December 2005(Expressed in thousands of Euros)
(Translation from the original in Spanish)

	Reserves								Profit for the year	Total
	Share capital	Share premium	Legal reserve	Own shares reserve	Special reserve	Merger reserve	Voluntary reserves	1996 revaluation reserve		
Balances at 31.12.04	14,504	59,546	2,935	250	25	119	113,471	8,991	8,451	208,292
Distribution of 2004 profit										
Voluntary reserves	-	-	-	-	-	-	4,689	-	(4,689)	-
Interim dividends and distribution of share premium	-	(4,892)	-	-	-	-	-	-	(3,762)	(8,654)
Share capital reduction	(116)	-	-	(2,924)	-	-	116	-	-	(2,924)
Release of revaluation reserve	-	-	-	-	-	-	-	(1)	-	(1)
Transfer to own share reserve										
Creation	-	-	-	3,599	-	-	(3,599)	-	-	-
Write-back	-	-	-	(211)	-	-	211	-	-	-
Provision for own shares	-	-	-	(347)	-	-	8	-	-	(339)
Profit for 2005	-	-	-	-	-	-	-	-	34,309	34,309
Balances at 31 December 2005	14,388	54,654	2,935	367	25	119	114,896	8,990	34,309	230,683

This Appendix forms an integral part of note 10 to the annual accounts for 2005, in conjunction with which it should be read.

VISCOFAN, S.A.

Detail and Movement in Shareholders' Equity
31 December 2005(Expressed in thousands of Euros)
(Translation from the original in Spanish)

	Reserves								Profit for the year	Total
	Share capital	Share premium	Legal reserve	Own shares reserve	Special reserve	Merger reserve	Voluntary reserves	1996 revaluation reserve		
Balances at 31.12.04	14,504	59,546	2,935	250	25	119	113,471	8,991	8,451	208,292
Distribution of 2004 profit										
Voluntary reserves	-	-	-	-	-	-	4,689	-	(4,689)	-
Interim dividends and distribution of share premium	-	(4,892)	-	-	-	-	-	-	(3,762)	(8,654)
Share capital reduction	(116)	-	-	(2,924)	-	-	116	-	-	(2,924)
Release of revaluation reserve	-	-	-	-	-	-	-	(1)	-	(1)
Transfer to own share reserve										
Creation	-	-	-	3,599	-	-	(3,599)	-	-	-
Write-back	-	-	-	(211)	-	-	211	-	-	-
Provision for own shares	-	-	-	(347)	-	-	8	-	-	(339)
Profit for 2005	-	-	-	-	-	-	-	-	34,309	34,309
Balances at 31 December 2005	14,388	54,654	2,935	367	25	119	114,896	8,990	34,309	230,683

This Appendix forms an integral part of note 10 to the annual accounts for 2005, in conjunction with which it should be read.

VISCOFAN, S.A.
Source and Application of Funds
for the years ended 31 December 2005 and 2004
(Expressed in thousands of Euros)
(Translation from the original in Spanish)

Applications	2005	2004	Sources	2005	2004
Acquisitions of fixed assets			Funds generated from operations		
Intangible assets	1,527	354	Profit for the year	34,309	8,451
Tangible assets	5,077	5,419	Amortisation and depreciation	10,245	11,448
Investments	9,327	7,695	Net profit on disposal of fixed assets	(2)	(34)
Deferred expenses	3	-	Changes in provisions for intangible assets	(276)	(275)
Write-down of revaluation reserve on disposal of fixed assets			Changes in provisions for tangible assets	(72)	(77)
	1	4	Changes in provisions for investments	(32,524)	8,833
Share capital reduction	2,924	3,022	Capital grants taken to income	(1,215)	(66)
Dividends	8,654	8,705		10,465	28,280
Provision for own shares	339	179	Long-term debt	4,401	917
Cancellation or transfer to short term of long-term debt	8,015	12,591	Net capital grants received	6	(7)
			Grants for emission rights	1,188	-
			Disposal of fixed assets		
			Tangible assets	7	67
			Investments	3,899	13
				19,966	29,270
			Total sources		
				15,901	8,699
			Decrease in working capital		
				35,867	37,969
Total applications	35,867	37,969		35,867	37,969

Movement in working capital

	2005		2004	
	Increases	Decreases	Increases	Decreases
Stocks	1,049	-	-	3,053
Debtors	-	3,074	749	-
Current liabilities	-	13,311	-	3,396
Short-term investments	-	-	-	12
Own shares held in the short-term	117	-	-	2,366
Cash in hand and at banks	436	-	-	653
Prepayments	32	-	32	-
Provisions for liabilities and charges	-	1,150	-	-
	1,634	17,535	781	9,480
Movement in working capital	15,901	-	8,699	-
	17,535	17,535	9,480	9,480

This Appendix forms an integral part of note 25 to the annual accounts for 2005, in conjunction with which it should be read.

1.- Business performance and situation of the Company

Company sales totalled Euros 109.55 million in 2005, down Euros 6.3 million on 2004.

This fall in net sales was partly due to the transfer of activity to Mexico and Brazil as a result of investments made during the previous year.

Sales rose steadily throughout the year after a sluggish start in the first quarter.

Although the sales environment has remained very competitive both for cellulose and collagen casing, these markets have shown signs of improvement towards the end of the year.

The increase in energy costs, particularly in the second half of the year, was noteworthy and has affected margins considerably.

Financial expenses fell in 2005 despite the investments made in the acquisition of Koteksprodukt and its subsequent share capital increase. These operations resulted in the Euros 9.4 million subscription of shares by the Company.

Financial income was down on 2004 due to lower dividends received from subsidiaries in 2005.

Profits on ordinary activities amounted to Euros 5.48 million, compared to Euros 12.9 million in 2004.

Nevertheless, profits before tax totalled Euros 38.85 million, which was a significant increase on the Euros 4.6 million posted in 2004. This was due to growth of our subsidiaries and the appreciation of the Euro against other currencies in which some of these subsidiaries operate. This resulted in the application of Euros 32.5 million of financial provisions after partial reversal of provisions made in prior years.

Income tax amounted to Euros 4.6 million compared to Euros 3.9 million in 2004 as a result of this aforementioned provision application and ordinary profits generated in the year.

Profit after tax was up from Euros 8.5 million in 2004 to Euros 34.3 million in 2005.

Also noteworthy was the increase in investments in the balance sheet from Euros 164.2 million to Euros 202.1 million due to both investments made and application of the aforementioned provisions. There was an increase in shareholders' equity as a result of profits for the year and the increase in current liabilities which was partly due to the reclassification of long-term bank loans to short-term and the investment made in Koteksprodukt.

2.- Significant Events

Significant events in 2005 were as follows:

- 1.- The Acquisition of the Tripasin business in which the Company held a minority interest. The client portfolio, industrial property and machinery were transferred to the Company as a result of this acquisition with production being ceased in the final quarter of 2005.

The machinery acquired was transferred to the Koteksprodukt plant in Serbia.

- 2.- A successful Public Offer to acquire shares of Koteksprodukt A.D. in Serbia and a subsequent share capital increase: This will allow us to increase collagen production levels in a low labour cost environment.

3.- Outlook for the Company

With these recent acquisitions 2006 is a year of great expectation in which Group consolidation is fundamental. The efforts of Company personnel will also be an important factor to maximise performance in the factories and entities acquired in 2005. Improvement and stability will be the key objectives for the coming year.

The task of assigning production schedules and adapting each Group centre to its respective markets on a regional level will also be important.

No further investments to increase production capacity are expected except for those made to improve efficiency and performance or environmental production.

4.- Research and Development Activities

Research and development activities are focussed on a drive for greater efficiency and the creation of new products in the meat-processing sector in which the Company operates.

In this field the Company has been very active in procuring institutional support both from the Regional Government of Navarra and the Spanish Ministry of Industry (CDTI).

Patents are applied for where relevant.

5.- Acquisition of Own Shares

At their annual general meeting the shareholders agreed to acquire own shares in 2005 and 2006.

At the annual general meeting held on 27 June the shareholders agreed to redeem 386,773 own shares, reflecting 0.8% of share capital.

6.- Risk Management Policy

The Company makes a significant percentage of its sales in foreign currency. Company policy is to only contact exchange rate insurance for the collection period of sales made and not to take out long-term insurance.

Company results reflect the movements in the provision for investments. The Company does not hedge the exchange rates on these investments.

The Company has shown that it is capable of competing in competitive price markets and therefore does not consider this to be a factor of risk, albeit a determining factor in sales profitability.

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

The Company has contracted several interest rate swap operations to mitigate the risks of exposure to interest rate fluctuations.

7.- Operations with the board of directors or persons acting on their behalf, carried out during 2005, with the quoted company or a Group company when operations are different to the Company's ordinary activity or are not carried out in normal market

In 2005 the directors have not participated in any operations other than the ordinary activity of the Company or Group companies or carried out in abnormal market conditions.

8.- Interests held by the directors in the share capital of companies with statutory activities identical, similar or complementary to those of the Company, positions held, duties and activities performed in those companies.

The board of directors do not hold shares or perform functions in companies with an identical, similar or complementary statutory objective to that of the Company.

9.- Subsequent Events

On 27 January 2006, as agreed by the directors of the Company at their meeting held on 3 January 2006, a gross interim dividend on account of Euros 0.078 per share was distributed for all shares comprising the share capital of the Company.

On 3 January 2006 the Company acquired the business of Teepak Norteamérica through its subsidiaries in the USA and Mexico which includes an important market worth US Dollars 112 million. The fibrous technology acquired and the possibility of regionalising these markets should result in a reduction of costs. The vulnerability of the evolution of the dollar against the Euro will also be reduced through this acquisition.

Pamplona, 30 March 2006



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