



January – June 2011
(Notes to the financial statements)



28th July 2011

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

V. Notes to the financial statements of the Viscofan Group in the period from January to June 2011.

1. Basis of preparation

The consolidated financial statements were prepared based on the accounting records of Viscofan, S.A. and the companies included in the Group.

The consolidated accounts for the first half of 2011, were prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), in order to give a true and fair view of the consolidated net assets and financial position of Viscofan, S.A. and its subsidiaries as at 30 June 2011, as well as the consolidated results of its operations, consolidated cash flows and changes in consolidated equity for the period then ended.

The accounting criteria were applied consistently with the fiscal year ended December 31, 2010.

Standards and interpretations issued by the corresponding bodies but still not effective have not been applied.

Preparation basis for the individual accounts of Viscofan S.A.

The individual accounts for first half of 2011 were prepared in accordance with the new Chart of Accounts approved by RD 1514/2007, in order to give a true and fair view of the consolidated net assets and financial situation of Viscofan, S.A. and its subsidiaries at 30 June 2011, as well as the results of its operations, cash flows and changes in equity for the period then ended.

2. Seasonality or cyclicity of interim period transactions

The business of the various Viscofan Group companies engaged in the Casings activity valued overall and for a six-month period, is not subject to significant seasonality or cyclicity and therefore operating profits have had a consistent performance during such time frame.

The business of companies that form part of the IAN food Group, engaged in vegetable-based foodstuffs, are affected by cyclical factors relating to production seasons, mainly tomatoes and asparagus, with the second half-year's main effects seen mostly in the value of inventories and so in the gross sales margin, as well as the working capital situation (due to the volume of inventories built up). In addition, the Christmas season in the second half of the year is traditionally linked to specific commercial activities focused on increasing sales.

3. Type and amount of unusual items due to their nature, amount or incidence

3.1 Inventory write-downs

There were no significant inventory write-downs during the first half of the year.

3.2 Writedowns to property, plant and equipment, intangible assets and other non-current assets

There were no significant write-downs to property, plant and equipment, intangible assets or other non-current assets in the current period (January – June 2011)

3.3 Provisions (or changes to provisions) for restructuring costs

There were not provisions or changes to provisions for restructuring cost linked with restructuring costs

3.4 Acquisition, disposals or other uses of property, plant and equipment

In current period, Viscofan Group keeps improving in its developing technologies and the acquisition of new machines that, incorporates best technology available and replacing obsolete assets. As a consequence of this kind of operations, Viscofan Group has registered losses for €53 thousand, coming from the sale of obsolete machines in the casing and vegetable business

3.5 Litigation payments or settlements

In June 2011, Koteks Viscofan d.o.o., headquartered in Novi Sad (Serbia) and wholly-owned by Viscofan S.A., reached an out-of-court settlement with Vojvodjanska Banka a.d. with respect to a lawsuit concerning a loan dating back to 1984 and accordingly granted before the company was acquired by Viscofan S.A. in 2005.

The agreement reached stipulated a total payment (principal and interest) by Koteks to Vojvodjanska Banka a.d. of €3.2 million, thereby definitively extinguishing the financial liability with this entity and giving rise to a gain of €3,327 thousand on the derecognition of financial instruments.

3.6 Prior-period error corrections

There were no corrections recorded for prior-period errors.

3.7 Default or other loan agreement non-compliance not yet cured on the balance sheet date.

The Viscofan Group has fully paid off all financial liabilities due before that date; therefore, as at 30 June 2011 no past due amounts were included under financial liabilities. In addition, none of the companies in the Viscofan Group had failed to comply with any financial obligations as of that date.

3.8 Capital increases by Group companies

The Company's shareholders agreed in General Meeting in April 2011 to decrease the share capital of Viscofan S.A. by €13,515,067.78 by reducing the unit par value of the Company's shares from €0.30 to €0.01, in order to partially return capital to shareholders, triggering an attendant amendment to article 5 of the bylaws. The difference of €0.29 per share was returned to the shareholders on 16 June, all legal requirements related to the capital reduction having been fulfilled. The new share capital of €466,036.82 was duly entered in the Companies Register. Accordingly, the share capital of Viscofan, S.A. at 30 June 2011 amounts to €466,036.82, represented by 46,603,682 fully subscribed and paid shares with a unit par value of €0.01.

In addition, the shareholders agreed at the same General Meeting to increase the Company's share capital by €32,156,540.58 through an increase in the unit par value of its shares of €0.69, from €0.01 to €0.70. The capital increase does not entail any contributions by shareholders, as it is to be charged against the Company's reserves, as carried on the 31 December 2010 balance sheet, approved earlier at the same General Meeting. Following completion of the capital reduction outlined above, the capital increase is currently in progress.

During the six-month period ended 30 June 2011, the Company's Board of Directors agreed to inject €8,000 of equity into Koteks Viscofan d.o.o. (a wholly-owned Viscofan S.A. subsidiary headquartered in Novi Sad, Serbia) in order to cancel the financial liability with Vojvodanska banka a.d. following the settlement reached with this entity in June 2011 and to endow Koteks Viscofan d.o.o. with a more solid capital structure vis-à-vis capacity addition funding at the Group's manufacturing facility in Serbia.

4. Type and amount of changes in prior-period item estimates

There were no changes in prior-period item estimates with a material effect on the accounting period from January to June 2011.

5. Changes in the scope of consolidation

There were no changes in the scope of consolidation on the accounting period from January to June 2011.

6. Issues, buybacks and redemptions of the company's debt or equity securities

The companies in the Viscofan Group have not issued, bought back or redeemed any debt securities.

Viscofan S.A. has a direct treasury share management policy. It has not signed any market-making agreement with any financial institution and is not in the process of formalising any agreement of this kind.

At 30 June 2011, Viscofan did not hold any treasury shares.

7. Dividends paid

In December 2010, the Company paid a gross interim dividend against 2010 profits of €0.30 per share, for a total outlay of €13,981 thousand. Then, in May 2011, it paid a gross final dividend of €0.204 per share for an outlay of €9,507 thousand.

Other shareholder remuneration:

In June 2011, executing the resolution reached at the General Meeting held in April 2011, the unit par value of the Company's shares was reduced by €0.29 and €13,515 thousand was accordingly returned to shareholders.

Lastly, the Company paid €0.006 per share as a bonus for attending the April 2011 General Meeting.

8. Net revenues and segment income

This information has been set out in the present half-yearly financial report in part IV, Selected Financial Information, section 15.

9. Changes in the company's composition

9.1 Long-term investments

9.1.1. Acquisitions and disposals of non-current financial assets

In the period under review, the Company made no material acquisitions or disposals of non-current financial assets.

9.1.2. Investments in property, plant and equipment and intangible assets.

During the period January-June 2011, investments in property, plant and equipment, and intangible assets totalled €31,193 thousand. Of this amount, the main investment projects pertain to:

- Investments in expanding collagen production capacity in Spain and Germany.
- Investments in increasing the energy efficiency of the Mexican and US manufacturing facilities.

- Investments to move non-edible collagen production from the Weinheim factory in Germany to the Novi Sad factory in Serbia.
- Investments in improving the production technology and capacity of the Casings manufacturing plants.
- Investments in production improvements for the companies belonging to the Industrias Alimentarias de Navarra Group.
- Investments in IT system adaptation and integration.
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10. Contingent assets and liabilities

Viscofan and its Group companies are parties in various litigation cases or proceedings currently being heard in jurisdictional, administrative or arbitration bodies in the various countries where the Viscofan Group is present.

It is reasonable to consider that these litigation cases shall have no material effect on the financial and economic situation or solvency of the Viscofan Group even in the event of an unfavourable outcome to any of them.

11. Related-party transactions

The aggregated information on transactions with related parties has been set out in the present half-yearly financial report in part IV, Selected Financial Information, sections 17 (Remuneration received by Directors and senior officers) and 18 (Related-party transactions).

12. Events after the interim balance sheet date

No significant events have taken place since the end of the interim reporting period to 30 June 2011.

The Company is currently taking the steps legally required to increase the share capital of Viscofan S.A. by €32,156,540.58 by means of an increase in the unit par value of its shares of €0.69, from €0.01 to €0.70 per share, as resolved at the Company's April 2011 General Meeting.

Once the capital increase is complete, the share capital of Viscofan S.A. will amount to €32,622,577.40, represented by 46,603,682 shares with a unit par value of €0.70.