Viscofan
The casing company

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

VISCOFAN, S.A. AND SUBSIDIARIES

Consolidated Financial Statements and Consolidated Management report for the year ended

31 December 2019

Consolidated income statement
(Thousands of euros)

	Note	2019	2018
Sales and services rendered	5.1	849,697	786,049
Changes in inventories of finished goods and work in progress		(9,041)	25,097
Consumption of raw materials and other consumables		(262,623)	(252,646)
Other income	5.2	6,948	23,436
Personnel expenses	5.3	(201,278)	(189,135)
Other operating expenses	5.4	(190,023)	(189,208)
Intangible assets amortization	9	(4,087)	(3,801)
Property, plant and equipment depreciation	10	(62,071)	(58,637)
Right-of-use assets amortization	11	(4,516)	-
Impairment and gains (losses) on disposal of non-current assets		(92)	(320)
Impairment of goodwill	9	(3,520)	-
Negative differences from business combinations	8	10,889	5,486
Operating profit		**130,283**	**146,321**
Finance income	5.5	597	309
Finance costs	5.5	(1,966)	(2,134)
Fair value adjustment to financial investment	5.5	15	4
Exchange differences	5.5	1,135	2,799
Profit before tax		**130,064**	**147,299**
Income tax expense	22	(24,487)	(23,588)
Net result for the year from continued operations		**105,577**	**123,711**
Profit for the year		**105,577**	**123,711**
Result attributable to equity holders of the parent		105,577	123,833
Result attributable to non-controling interests		-	(122)
Earnings per share, basic and diluted, from profit for the year attributable to equity holders of the parent (in euros)	6	2.2725	2.6578
Earnings per share, basic and diluted, from continuing operations attributable to equity holders of the parent (in euros)	6	2.2725	2.6578

Consolidated statements of other comprehensive income
(Thousands of euros)

	Note	2019	2018
Result attributable to equity holders of the parent		105,577	123,833
Exchange differences on translation of foreign operations	16.5	1,763	(8,104)
Net movement on cash flow hedges		2,865	(2,979)
Income tax effect		(823)	826
Net other compehensive income to be reclasified to profit or loss in subsequent periods		3,805	(10,257)
Re-measurement gains (losses) on defined plans	18.1	(2,391)	646
Income tax effect		573	(169)
Net other compehensive income not to be reclasified to profit or loss in subsequent periods		(1,818)	477
Other comprehensive income for the year, net of tax		1,987	(9,780)
Total comprehensive income for the year, net of tax attibutable to equity holders of the parent		107,564	114,053

Consolidated statements of financial position
(Thousands of euros)

Assets	Note	2019	2018
Intangible assets	9	19,635	22,915
Property, plant and equipment	10	494,994	479,479
Right-of-use assets	11.1	19,332	-
Other non-current financial assets	14	2,376	2,615
Non-curent derivatives	21	96	13
Deferred tax assets	22	28,432	22,533
Total non-current assets		564,865	527,555
Inventories	12	277,390	284,341
Trade and other receivables	13	186,279	175,443
Income tax receivable	22	1,522	6,178
Current financial assets	14	815	8,433
Current derivatives	21	2,768	742
Cash and cash equivalents	15	51,370	31,050
Total current assets		520,144	506,187
Total assets		1,085,009	1,033,742

Consolidated statements of financial position
(Thousands of euros)

Equity and liabilities	Note	2019	2018
Share capital	16.1	32,550	32,623
Share premium and Other reserves	16.2	738,173	701,389
Own shares	16.3	(6,487)	(5,289)
Profit for the year		105,577	123,833
Interim dividend	16.6	(30,127)	(35,818)
Hedge transaction reserves	16.4	1,662	(380)
Translation differences	16.5	(56,982)	(58,745)
Equity attributable to equity holders of the parent		**784,366**	**757,613**
Non-controlling interests		**-**	**13**
Total equity		**784,366**	**757,626**
Grants	17	1,551	2,135
Provisions	18	33,602	21,964
Non-current financial liabilities	20	71,909	56,449
Non-current liabilities on Right-of-use assets	11.2	14,392	28
Non-curent derivatives	21	-	495
Deferred tax liabilities	22	23,669	21,351
Total non-current liabilities		**145,123**	**102,422**
Current financial liabilities	20	50,428	78,412
Current liabilities on Right-of-use assets	11.2	4,903	35
Current derivatives	21	125	1,047
Trade and other payables	19	85,947	82,471
Income tax payable	22	5,158	5,984
Provisions	18	8,959	5,745
Total current liabilities		**155,520**	**173,694**
Total equity and liabilities		**1,085,009**	**1,033,742**

Consolidated statement of cash flows
(Thousands of euros)

	Note	2019	2018
Profit for the year before tax		**130,064**	**147,299**
Amortization of intangible assets	9	4,087	3,801
Depreciation of property, plant and equipment	10	62,071	58,637
Depreciation of Right-of-use assets	11	4,516	-
Changes in provisions		5,999	2,831
Impairment of goodwill	9	3,520	-
Negative differences from business combinations	8	(10,889)	(5,486)
Finance income	5.5	(597)	(309)
Finance costs	5.5	1,966	2,130
Foreign currency differences (net)	5.5	(1,135)	(2,799)
Other adjustments		(499)	(313)
Adjustments to reconcile profits before tax with net cash flows		**69,039**	**58,492**
Inventories		15,023	(35,239)
Trade and other receivables		(6,919)	(9,354)
Trade and other payables		(1,969)	(3,587)
Changes in working capital		**6,135**	**(48,180)**
Income tax paid	22	(26,742)	(31,717)
Contributions and other payments related to pension plans	18	(565)	(629)
Cash flow from operating activities		**177,931**	**125,265**
Acquisition of subsidiaries, net of cash acquired	8	(1,544)	(7,128)
Payments for acquisition of property, plant, equipment and intangible assets	16.1	(62,755)	(71,949)
Disposal of property, plant, equipment and intangible assets		766	583
Interest received		891	723
Cash flows from investing activities		**(62,642)**	**(77,771)**
Proceeds from borrowings	16.1	49,366	47,778
Repayment of borrowings	16.1	(66,355)	(8,907)
Own share acquisition	16.3	(6,487)	(5,289)
Dividends paid to shareholders of the parent		(74,302)	(78,694)
Interest paid	16.1	(1,909)	(2,182)
Payments of Right-of-use assets	16.1	(4,552)	-
Other financial liabilities (net)	16.1	8,914	2,760
Cash flows from financing activities		**(95,325)**	**(44,534)**
Impact of changes in exchange rates on cash and cash equivalents		356	(53)
Net increase (decrease) in cash and cash equivalents		**20,320**	**2,907**
Cash and cash equivalents at January 1,	15	31,050	28,143
Cash and cash equivalents at December 31,	15	**51,370**	**31,050**

Consolidated statement of changes in equity
(Thousands of euros)

	Balance at January 1, 2019	Total recognized income and expense	Increase / (decrease)	Distributed dividends	Owns shares acquisition	Transactions with non-controlling interests	Share-based payements cost	Transfers between equity accounts	*Balance at December 31, 2019*
Share capital (Note 16.1)	**32,623**	-	(73)	-	-	-	-	-	***32,550***
Share premium and other Reserves (Note 16.2)	**701,389**	(1,818)	(5,216)	-	(5)	(279)	262	43,840	***738,173***
Own shares (Note 16.3)	**(5,289)**	-	5,289	-	(6,487)	-	-	-	***(6,487)***
Profit for the year attributable to equity holders of the parent	**123,833**	105,577	-	(79,993)	-	-	-	(43,840)	***105,577***
Interim dividend (Note 16.6)	**(35,818)**	-	-	5,691	-	-	-	-	***(30,127)***
Hedge transaction reserves (Note 16.4)	**(380)**	2,042	-	-	-	-	-	-	***1,662***
Conversion differences (Nota 16.5)	**(58,745)**	1,763	-	-	-	-	-	-	***(56,982)***
Total Equity attributed to the parent	757,613	**107,564**	**-**	**(74,302)**	**(6,492)**	**(279)**	**262**	**-**	***784,366***
Non-controlling interests	13	-	-	-	-	(13)	-	-	*-*
Total Net equity	757,626	**107,564**	**-**	**(74,302)**	**(6,492)**	**(292)**	**262**	**-**	***784,366***

	Balance at January 1, 2018	Total recognized income and expense	Increase / (decrease)	Distributed dividends	Owns shares acquisition	Transactions with non-controlling interests	Share-based payements cost	Transfers between equity accounts	*Balance at December 31, 2018*
Share capital (Note 16.1)	**32,623**	-	-	-	-	-	-	-	***32,623***
Share premium and other Reserves (Note 16.2)	**650,585**	476	-	-	(3)	-	-	50,331	***701,389***
Own shares (Note 16.3)	**-**	-	-	-	(5,289)	-	-	-	***(5,289)***
Profit for the year attributable to equity holders of the parent	**122,101**	123,833	-	(71,770)	-	-	-	(50,331)	***123,833***
Interim dividend (Note 16.6)	**(28,894)**	-	-	(6,924)	-	-	-	-	***(35,818)***
Hedge transaction reserves (Note 16.4)	**1,772**	(2,152)	-	-	-	-	-	-	***(380)***
Conversion differences (Nota 16.5)	**(50,641)**	(8,104)	-	-	-	-	-	-	***(58,745)***
Total Equity attributed to the parent	727,546	**114,053**	**-**	**(78,694)**	**(5,292)**	**-**	**-**	**-**	***757,613***
Non-controlling interests	135	(122)	-	-	-	-	-	-	*13*
Total Net equity	727,681	**113,931**	**-**	**(78,694)**	**(5,292)**	**-**	**-**	**-**	***757,626***

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1. Description and Principal Activities

Viscofan, S.A. (hereinafter the Company or the parent) was incorporated in Spain 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 artificial casings, mainly for use in the meat industry; manufacture and distribution of collagen-based products for food and bioengineering use; as well as, to a lesser extent, the generation of electricity for sale to third parties through cogeneration systems. Its industrial installations are located in Cáseda and Urdiain (Navarre). The head office and registered office are located in Polígono Industrial Berroa, Calle Berroa nr. 15, 4ª planta, 31192 - Tajonar (Navarre).

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

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

The Group's 2018 consolidated financial statements were approved at the General Shareholders' Meeting held on 12 April 2019.

The parent's directors expect these 2019 consolidated financial statements, which were draw up on 27 February 2020, to be approved by the shareholders in general meeting without modification.

2. Viscofan Group

With effect on 1 January 2019, Gamex C.B. s.r.o. was taken over by Viscofan CZ, s.r.o. in the Czech Republic.

In July 2019, Viscofan (Thailand) Co. Ltd. was formed in Thailand.

In August 2019, Transform Pack Inc. in Canada was wound up after the transfer en bloc of its assets, liabilities, rights and obligations to Viscofan Canada Inc.

In December 2019, Viscofan Group acquired 100% of shares of Nitta Casings Inc. in the United States and Nitta Casings (Canada) Inc. in Canada. After the acquisition, the companies were renamed Viscofan Collagen USA Inc and Viscofan Collagen Canada Inc, respectively.

As of 31 December 2019, the Group holds 100% of the shares in Nanopack Technology and Packaging S.L.U.

Supralon International AG under liquidation, which was inactive during 2019, is still in the process of liquidation pending the resolution of a claim against a supplier.

In February 2018, 100% of the shares of Transform Pack Inc. were purchased.

In November 2018, 100% of the shares of Globus Group Australia and New Zealand were purchased.

Vector UK Ltd was wound up in April 2018.

Details of the subsidiaries and associates comprising the Viscofan Group at 31 December 2019 and 2018, including certain additional information, are shown below:

2.1. Details of subsidiaries and associates comprising the Viscofan Group at 31 December 2019

Group companies	Percentage of interest		Activity	Registered offices
	Direct	Indirect		
Jupiter PTY Ltd	100.00%	-	Services rendered	Bankstown (Australia)
Koteks Viscofan, d.o.o.	100.00%	-	Manufacture and marketing of artificial casings	Novi Sad (Serbia)
Nanopack, Technology and Packaging S.L.	100.00%	-	Manufacture of interleaver film	Tajonar, Navarra (Spain)
Naturin Viscofan GmbH	100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Supralon Verpackungs AG	-	100.00%	Lease of an industrial machinery (to the Group)/Other services	Chur (Switzerland)
Supralon Produktions und Vertriebs GmbH	-	100.00%	Manufacture and marketing of artificial casings	Alfhausen (Germany)
Supralon France SARL	-	100.00%	Marketing of artificial casings	Courcouronnes (France)
Supralon International AG under liquidation	-	100.00%	Marketing of artificial casings	Schaan (Liechtenstein)
Vector Europe NV.	100.00%	-	Marketing of artificial casings	Hasselt (Belgium)
Vector Packaging Europe NV.	-	100.00%	Manufacture and marketing of artificial casings	Hasselt (Belgium)
Vector USA Inc.	-	100.00%	Manufacture and marketing of artificial casings	Oak Brook, Illinois (USA)
Viscofan Canadá Inc.	-	100.00%	Marketing of artificial casings	Quebec (Canada)
Viscofan Centroamérica Comercial, S.A.	99.50%	0.50%	Marketing of artificial casings	San José (Costa Rica)
Viscofan Collagen Canada Inc	-	100.00%	Manufacture and marketing of artificial casings	Markham (Canada)
Viscofan Collagen USA Inc	-	100.00%	Manufacture and marketing of artificial casings	Bridgewater New Jersey (USA)
Viscofan CZ, s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan Globus Australia PTY Ltd	100.00%	-	Marketing of artificial casings	Bankstown (Australia)
Viscofan Globus New Zealand Ltd	100.00%	-	Marketing of artificial casings	Lower Hutt (New Zealand)
Viscofan de México S.R.L. de C.V.	99.99%	0.01%	Manufacture and marketing of artificial casings	San Luis Potosí (Mexico)
Viscofan de México Servicios, S.R.L. de C.V.	99.99%	0.01%	Services rendered	San Luis Potosí (Mexico)
Viscofan do Brasil, soc. com. e ind. Ltda.	100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Viscofan (Thailand) Co. Ltd.	100.00%	-	Marketing of artificial casings	Bangkok (Thailand)
Viscofan Technology (Suzhou) Co. Ltd.	100.00%	-	Manufacture and marketing of artificial casings	Suzhou (China)
Viscofan UK Ltd.	100.00%	-	Marketing of artificial casings	Seven Oaks (United Kingdom)
Viscofan Uruguay, S.A.	100.00%	-	Manufacture and marketing of artificial casings	Montevideo (Uruguay)
Viscofan USA Inc.	100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Zacapu Power S.R.L. de C.V.	-	100.00%	Cogeneration plant	Zacapu, Michoacán (Mexico)

2.2. Details of subsidiaries and associates comprising the Viscofan Group at 31 December 2018

Group companies	Percentage of interest		Activity	Registered offices
	Direct	Indirect		
Gamex, C.B. s.r.o.	100.00%	-	Lease of an industrial warehouse (to the Group)/Other services	Ceske Budejovice (Czech Republic)
Jupiter PTY Ltd	100.00%	-	Services rendered	Bankstown (Australia)
Koteks Viscofan, d.o.o.	100.00%	-	Manufacture and marketing of artificial casings	Novi Sad (Serbia)
Nanopack, Technology and Packaging S.L.U.	90.57%	-	Manufacture of interleaver film	Tajonar, Navarra (Spain)
Naturin Viscofan GmbH	100.00%	-	Manufacture and marketing of artificial casings	Weinheim (Germany)
Supralon Verpackungs AG	-	100.00%	Lease of an industrial machinery (to the Group)/Other services	Chur (Switzerland)
Supralon Produktions und Vertriebs GmbH	-	100.00%	Manufacture and marketing of artificial casings	Alfhausen (Germany)
Supralon France SARL	-	100.00%	Marketing of artificial casings	Courcouronnes (France)
Supralon International AG	-	100.00%	Marketing of artificial casings	Schaan (Liechtenstein)
Transform Pack Inc	-	100.00%	Manufacture and marketing of artificial casings	New Brunswick (Canada)
Vector Europe NV.	100.00%	-	Marketing of artificial casings	Hasselt (Belgium)
Vector Packaging Europe NV.	-	100.00%	Manufacture and marketing of artificial casings	Hasselt (Belgium)
Vector USA Inc.	-	100.00%	Manufacture and marketing of artificial casings	Oak Brook, Illinois (USA)
Viscofan Canadá Inc.	-	100.00%	Marketing of artificial casings	Quebec (Canada)
Viscofan Centroamérica Comercial, S.A.	99.50%	0.50%	Marketing of artificial casings	San José (Costa Rica)
Viscofan CZ, s.r.o.	100.00%	-	Manufacture and marketing of artificial casings	Ceske Budejovice (Czech Republic)
Viscofan Globus Australia PTY Ltd	100.00%	-	Marketing of artificial casings	Bankstown (Australia)
Viscofan Globus New Zealand Ltd	100.00%	-	Marketing of artificial casings	Lower Hutt (New Zealand)
Viscofan de México S.R.L. de C.V.	99.99%	0.01%	Manufacture and marketing of artificial casings	San Luis Potosí (Mexico)
Viscofan de México Servicios, S.R.L. de C.V.	99.99%	0.01%	Services rendered	San Luis Potosí (Mexico)
Viscofan do Brasil, soc. com. e ind. Ltda.	100.00%	-	Manufacture and marketing of artificial casings	Sao Paulo (Brazil)
Viscofan Technology (Suzhou) Co. Ltd.	100.00%	-	Manufacture and marketing of artificial casings	Suzhou (China)
Viscofan UK Ltd.	100.00%	-	Marketing of artificial casings	Seven Oaks (United Kingdom)
Viscofan Uruguay, S.A.	100.00%	-	Manufacture and marketing of artificial casings	Montevideo (Uruguay)
Viscofan USA Inc.	100.00%	-	Manufacture and marketing of artificial casings	Montgomery, Alabama (USA)
Zacapu Power S.R.L. de C.V.	-	100.00%	Cogeneration plant	Zacapu, Michoacán (Mexico)

3. Basis of preparation

The consolidated financial statements have been prepared based on the accounting records of Viscofan, S.A. and the companies comprising the Group. The consolidated financial statements for 2019 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 2019 and 2018, as well as the consolidated results from its operations, its consolidated cash flows and consolidated recognised income and expenses for the year then ended. The Group adopted EU-IFRS on 1 January 2004, and also applied IFRS 1 "First-time Adoption of International Financial Reporting Standards at that date".

3.1. New and amended standards and interpretations

The accounting policies used during the preparation of these consolidated financial statements are the same as those applied for the consolidated financial statements for the year ended 31 December 2018. with the exception of the application of standards that came into force on 1 January 2019 and are applicable to the Group.

The Group has applied the following standards and amendments for the first time for its annual financial year beginning on 1 January 2019:

IFRS 16 – Leases.

This standard sets out the principles applicable to the recognition, measurement, presentation and disclosure of leases. The aim is to ensure that relevant information is provided by lessees and lessors in a manner that accurately reflects these transactions. The information provides users of financial statements with a basis for assessing the effect of leases on an entity's financial position, financial performance and cash flows. When applying this standard, entities must take into account the terms of contracts and all relevant facts and circumstances. Entities must apply the standard consistently to contracts having similar features and circumstances.

Under the new standard, most leases are recorded on the balance sheet as a right-of-use asset and as a liability for the amounts payable. The only exceptions are short-term, low-value leases (see Notes 4.15 and 11).

3.2. Published standards which are not applicable

The Group has adopted the standards, interpretations and amendments issued by the IASB, which are mandatory in the European Union at the date of preparation of these consolidated financial statements.

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

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

- Capital grants can be recognised reducing the cost of the assets for which financing was granted or as deferred income (which was the Group's choice). They are recognised in the income statement under "Other income."

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

3.4. Comparison of information

For comparison purposes, the consolidated financial statements present, for each item in the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated statement of changes in equity and the notes to the consolidated financial statements, in addition to the consolidated figures for 2019, the figures for the previous year, except where an accounting standard specifically states that this is not necessary.

3.5. Relevant accounting estimates, assumptions and judgments

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

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

(a) Taxes

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

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

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

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

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

Further details on taxes are disclosed in Note 22.

(b) Pension benefits

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

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

Details on the hypotheses used and a sensitivity analysis are provided in Note 18.1.

(c) Provisions for litigation and contingent assets and liabilities

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

The breakdown of provisions for litigations is shown in Note 18.3, while the main contingent assets and liabilities that may give rise to the future recognition of assets and liabilities are described in Note 18.7.

(d) Fair value of share-based remuneration

Fair value at grant date is determined by a third party using an adjusted form of the Black-Scholes model that includes a Monte Carlo simulation model embracing the exercise price, the option period, the effect of dilution (where material), the share price at grant date and the expected volatility of the underlying share price, the expected dividend yield, the risk-free interest rate for the option period and the correlations and volatilities of the reference group companies.

(e) Other accounting estimates and hypotheses

- Assessment of possible impairment losses on certain assets: (Notes 4.14 and 9).
- Useful life of property, plant, and equipment and intangible assets: (Notes 4.13 and 4.14)
- Measurement of derivative financial instruments: (Note 4.24)

4. Significant accounting principles

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

A summary of the most significant principles is as follows:

4.1. Changes in accounting policies

The Group adopted IFRS 16 Leases with effect from 1 January 2019.

For contracts under which the Group acts as a lessee, an asset is recognised representing its right to use the underlying asset and a lease liability is recognised representing its obligation to make payments over the term of the lease.

The duration of the various leases is determined as the non-cancellable period of each lease considering options to extend when there is a reasonable assurance of exercising such options.

The right to use an asset is initially measured at cost and subsequently measured at cost less accumulated depreciation or amortisation and impairment losses.

Right-of-use assets are amortised on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If the Group obtains ownership of the underlying asset at the end of the lease term, depreciation or amortisation is based on the useful life of the asset.

Lease liabilities are measured at the present value of future lease payments. The Group has analysed the impact with the incremental rate of its own indebtedness: the result is an immaterial amount.

As a practical solution, the Group has chosen, for certain classes of underlying assets, not to separate the non-lease components from the lease components, but instead to account for each lease component and any related non-lease components within the contract as a single lease component.

For the purposes of the transition, the Group has decided

- To apply the modified retrospective method from 1 January 2019; hence no comparative figures from previous years have been restated.

- To measure the initial right of use at an amount equal to the lease liability at 1 January 2019; except for those contracts that were previously classified as finance leases under IAS 17, which were measured at their carrying amount at the date of adoption of IFRS 16.

- No reassessment is made as to whether a contract is or contains a lease on the date of initial application.

- Following assessment, the Group has concluded that no onerous leases exist.

The most significant impact for the Group of the application of the new standard was the recognition of new assets under "Right-of-use assets" and of lease liabilities, both long and short term, in the Consolidated Statement of Financial Position.

As regards accounting for previous finance leases, they remain unchanged in comparison with IAS 17; however, the Group has reclassified the carrying amount to the new heading "Right-of-use assets" at 1 January 2019.

In relation to the cash flow statement, cash payments for the principal portion of the lease liability are classified as financing activities.

The change in accounting policy affected the following balance sheet items at 1 January 2019:

- Property, plant, and equipment: 91 thousand euros decrease
- Right-of-use assets: 19,630 thousand euros increase
- Financial debt: 63 thousand euros decrease
- Lease liabilities: 19,508 thousand euros increase

Lease liabilities recognised at the date of initial application are calculated as follows:

	Thousands of €
Operating lease commitments disclosed as at 31 December 2018	7,613
Finance lease liabilities recognised as at 31 December 2018	63
Contracts reassessed as lease contracts	11,832
Lease liability recognised as at 1 January 2019	**19,508**

4.2. Going concern basis

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

4.3. Method of consolidation

All the subsidiaries were consolidated using the full consolidation method.

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

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

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

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

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

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

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

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

4.4. Effects of changes in foreign exchange rates

(a) Foreign currency transactions

The consolidated financial statements are presented in thousands of euros, which is the functional and presentation currency of the parent.

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

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

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

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

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

(b) Translation of foreign operations

Translation differences are recognised in the Group's equity. Translation of foreign operations, excluding foreign operations in hyperinflationary economies, is based on the following criteria:

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

- Income and expenses relating to foreign operations, including comparative balances, are translated at the exchange rates prevailing at each transaction date; and

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

The Group does not carry out any business activities in hyperinflationary countries.

Translation differences arising as a result of the sale of foreign businesses recognised in equity are recognised as a single line item in the consolidated income statement when there is a loss of control of such businesses.

4.5. Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated statement of financial position as current or non-current based on the following criteria: For these purposes, current assets or liabilities are those that meet 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. The Group classifies the remainder of its assets as non-current.

- Liabilities are classified as current when expected to be settled in the Group's ordinary course of business within 12 months of the balance sheet date and when essentially held for trading, or where the Group does not have an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date. The Group classifies the remainder of its liabilities as non-current.

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

4.6. Calculation of fair value

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

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

- In the absence of a principal market, in the most advantageous market for the asset or liability.

- The principal or the most advantageous market must be accessible to by the Group.

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

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

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

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

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

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

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

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

The fair values for the remaining financial assets and liabilities are disclosed in Notes 14 and 20, respectively.

4.7. Financial instruments- Initial recognition and subsequent measurement

(a) Classification

Since 1 January 2018, the Group has classified its financial assets in the following valuation categories:

- those valued subsequently at fair value (whether through profit or loss or through other comprehensive income), and
- those valued at amortised cost.

The classification depends on the business model at the entity to manage financial assets and the contractual terms of cash flows.

For assets valued at fair value, gains or losses are recognised through profit or loss or through other comprehensive income). For investments in equity instruments that are not held for sale, this will depend on whether the group made an irrevocable choice at the time of the initial recognition to account for the investment in equity at fair value through other comprehensive income.

The Group only reclassifies investments in debt when the business model is changed to manage these assets.

(b) Recognition and derecognition

Conventional purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to buying or selling the asset. Financial assets are derecognised when the rights to cash flows relating to the financial assets expire and the Group has substantially transferred all risks and rewards inherent to ownership.

(c) Measurement

Upon initial recognition, the Group measures a financial asset at its fair value, plus, for financial assets that are not measured at fair value through profit or loss, the costs of the transaction directly attributable to the acquisition of the financial asset. The costs of the financial asset transaction recognised at fair value through profit or loss are recognised as expenses on the income statement.

Financial assets with implicit derivatives are considered as a whole when establishing whether their cash flows are exclusively for the payment of the principal and interest.

Debt instruments

The subsequent measurement of debt instruments depends on the Group's business model to manage the asset and the cash flow characteristics of the asset. There are three measurement categories under which the Group classifies its debt instruments:

- Amortised cost: Assets held for the collection of contractual cash flows, when these flows only represent the payments of principal and interest, are valued at amortised cost. Interests income on these financial assets are included in financial income in accordance with the effective interest rate method. Any gains or losses arising when they are derecognised are directly recognised in profit or loss for the year and appear under other gains/(losses) along with gains and losses on exchange differences. Impairment losses appear as a separate item in the profit and loss statement.

- Fair value through other comprehensive income: Assets held for the collection of contractual cash flows and the sale of financial assets, when the cash flows of assets only represent the payments of principal and interest, are valued at fair value through profit or loss Changes in the carrying amount are taken to other comprehensive income, with the exception of the recognition of impairment losses or gains, interest income and gains or losses from exchange differences, which are recognised in the statement of profit or loss. When the financial asset is derecognised, the accumulated gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income on these financial assets are included in financial income in accordance with the effective interest rate method. Gains and losses on exchange differences are presented in other gains and losses and impairment losses are presented as a separate item on the statement of profit or loss.

- Fair value through other profit or loss: Assets that do not meet the criteria for being measured at amortised cost or at fair value through other comprehensive income are recognised at fair value through profit or loss. Gains or losses on a debt investment recognised subsequently at fair value through profit or loss are recognised through profit or loss and presented net on the statement of profit or loss under other gains/(losses) in the year in which they occur.

Equity instruments

The Group subsequently measures all equity investments at fair value. When the Group's management has decided to present gains or losses at the fair value of equity investments through other comprehensive income, there is no subsequent reclassification of gains and losses at fair value through profit or loss following the derecognition of the investment in accounts. Dividends from these investments are recognised in profit or loss for the year as other income when the company's right to receive payments is established.

(d) Impairment

Since 1 January 2018, the Group measures against a prospective base of expected credit losses associated with its assets at amortised cost and fair value through other comprehensive income. The methodology applied for impairments depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group takes the simplified approach permitted under IFRS 9, which requires that expected losses during their useful life are recognised from the initial recognition of the receivables. See Note 13 for further details.

4.8. 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).

(a) Calculation of recoverable amount

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

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

(b) Reversal of impairment

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or 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.

4.9. Revenue recognition

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

Before recognising revenue, the Group:

- identifies the customer contracts
- identifies the separate performance obligation
- establishes the transaction price of the contract
- allocates the transaction price between the separate performance obligations, and
- recognises the revenue when each performance obligation is satisfied

4.10. Significant judgements

(a) Sale of artificial casings

The Group manufactures and sells artificial casings for cold meats. Sales are recognised when control of the products is transferred, i.e., when the products are delivered to the customer, this party has full discretion over the product and no obligations have been unfulfilled that may affect the customer's acceptance of the products. The delivery takes place based on agreements with customers (Incoterm) and it is at this time when risks of obsolescence and loss are transferred to the customer, and the Group has proof that all acceptance criteria have been met.

The products are often sold subject to volume discounts over a 12 month period. Income from these sales is recognised based on the price specified in the contract, net of estimated volume discounts. Accumulated experience is used to estimate and provide discounts, using the expected value method and ordinary income are only recognised insofar as it is highly likely that there is no significant reversal. No element of financing is considered to exist, as sales are completed with a credit term of 45-90 days, which is consistent with market practice.

An account receivable is recognised when the assets are delivered, as this is the time at which the consideration is unconditional, as only the passing of time is required for the payment to mature.

Management does not believe there is any significant judgement in terms of these sales.

(b) Sale of energy

Energy sales are recognised as energy is produced and made available to the customer. At this time, it is understood that there are no unfulfilled obligations. These sales are made at regulated tariffs in each location. No element of financing is considered to exist, as sales are completed with a credit term of 60 days.

Management does not believe there is any significant judgement in terms of these sales.

4.11. Earnings per share

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

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

In the Viscofan Group's consolidated financial statements for the years ended 31 December 2019 and 2018, basic earnings per share coincide with diluted earnings per share. For 2019 share-based plans, contingently issuable shares are not included in the calculation of diluted earnings per share unless the conditions are satisfied.

4.12. Business combinations and goodwill

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises:

- the fair values of the assets transferred
- liabilities incurred with former owners of the acquired business
- equity investments issued by the group
- the fair value of any asset or liability resulting from a contingent consideration arrangement, and
- the fair value of any previous equity interest in the subsidiary.

Identifiable assets acquired and contingent liabilities and liabilities assumed in a business combination, with limited exceptions, are initially measured at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-to-acquisition basis at fair value or by the proportionate share of the non-controlling interest in the acquiree's net identifiable assets.

Acquisition-related costs are recognised as an expense when incurred.

The excess of:

- the consideration transferred
- the amount of any non-controlling interest in the acquiree; and
- the fair value at the acquisition date of any previous equity interest in the acquired entity

the fair value of the identifiable net assets acquired is recognised as goodwill. If those amounts are less than the fair value of the acquired subsidiary's identifiable net assets, the difference is recognised directly in profit or loss as a purchase on very advantageous terms.

When the settlement of any part of the cash consideration is deferred, future amounts payable are discounted to their present value at the exchange date. The discount rate used is the entity's incremental borrowing interest rate, the rate at which a similar loan could be obtained from an independent lender under comparable terms and conditions.

The contingent consideration is classified as equity or financial liability. The amounts classified as a financial liability are subsequently restated to fair value with changes in fair value recognised in profit or loss.

If the business combination is carried out in stages, the carrying amount at the acquisition date of the acquiree's equity interest in the previously-held acquiree is measured again at its fair value at the acquisition date, recognising any resulting gain or loss in profit or loss.

4.13. Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 4.12. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised, but tested annually for impairment, or more frequently if events or changes in circumstances indicate that it may be impaired, and is recognised at cost less any accumulated impairment losses. A gain or loss on the sale of an entity includes the carrying amount of goodwill related to the entity sold.

For the purposes of impairment testing, goodwill is allocated to the cash-generating units. The allocation is made among cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose (Note 9).

(b) Development costs

Development costs incurred on a project are recognised as intangible assets if the project is technically and commercially viable, sufficient technical and financial resources are available to complete it, the costs incurred can be reliably determined and profit is probable.

The Group has not capitalised any development costs. Capitalised development costs are amortised on a straight-line basis over the estimated useful life of each project, never exceeding 5 years.

When there are reasonable doubts as to the technical success or economic and commercial profitability of capitalised projects, the amounts recognised in assets are charged directly to the profit and loss account for the year.

(c) 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. The Group has not capitalised any development expenses.

(d) Other tangible assets

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

Software maintenance costs are expensed as incurred.

(e) 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. At 31 December 2019 and 2018, the Group had no intangible assets with indefinite useful lives, except for Goodwill discussed in Note 9.

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:

	Estimate useful life (years)
Development costs	5
Industrial property and Rights of use	5-10
Concession land rights in China	50
Software	5

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

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

4.14. Property, plant, and equipment

(a) Initial recognition

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

The cost of assets which have long installation periods includes finance costs accrued prior to their being put to use. Such costs meet the capitalisation requirements described above.

The Group opted to use the previous GAAP re measurement of property, plant, and equipment, as the cost recognised at 1 January 2004, as permitted by IFRS 1 First Time Adoption of IFRS.

(b) amortisation and depreciation

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

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

	Estimate useful life (years)
Buildings	30
Plant and equipment	10
Other installations, tools and furniture	5 - 10
Property, plant, and equipment	3 - 15

The Group reassesses residual values, useful lives, and depreciation methods at the end of each financial year. Changes to 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.

4.15. Leases

Until 31 December 2018, property, plant and equipment leases under which the Group, as the lessee, has substantially all the risks and rewards incidental to ownership were classified as finance leases. Finance leases were capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding lease payment obligations, net of financial charges, were included in other current and non-current accounts payable. Each lease payment was divided between the liability and the finance charge. The finance charge was charged to profit and loss over the term of the lease, thus producing a constant periodic rate of interest on the outstanding balance of the liability for each year. Property, plant and equipment acquired under finance leases was depreciated over the shorter of the useful life of the asset or the lease term if there was no reasonable certainty that the Group would obtain ownership at the end of the lease term.

Leases under which a significant part of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) were charged to profit and loss on a straight-line basis over the term of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and the corresponding liability on the date on which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including fixed payments in substance), less any lease incentive to collect

- variable lease payments that depend on an index or rate, initially measured according to the index or rate at the start date
- amounts expected to be paid by the Group as residual value guarantees
- the exercise price of a call option if the Group is reasonably certain that it will exercise that option, and
- penalty payments on termination of the lease, if the term of the lease reflects the Group's exercise of that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are discounted using the interest rate implied in the lease.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to index or rate-based lease payments take effect, the lease liability is reassessed and adjusted against the right-to-use asset.

Lease payments are apportioned between principal and finance cost. The finance cost is charged to income over the lease period so as to produce a constant periodic interest rate on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost, comprising:

- the amount of the initial measurement of the lease liability
- any rental payments made on or before the start date, less any rental incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally amortised on a straight-line basis over the shorter of the asset's useful life or the lease term.

4.16. Inventories

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

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

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

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

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

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

- Finished and semi-finished products: at weighted average cost of raw and other materials and includes direct and indirect labour, plus other manufacturing overheads.

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

- Raw materials and other consumables: the Group only makes adjustments if the finished products in which the raw materials are incorporated are expected to be sold at a price equivalent to their production cost or lower;

- Goods for resale and finished products: estimated sale price, less selling costs.

- Work in progress: estimated sale price for corresponding finished products, less the estimated costs for completion of their production and selling costs.

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

4.17. Emission rights

The Viscofan Group records emission rights when it owns them under the "Inventories" heading.

Rights assigned free of charge to each plant under each national emission rights assignment plan are initially measured at market value on the date granted and are recognised as a credit to "Grants" (Note 4.21) in the consolidated statement of financial position. Rights acquired from third parties are recognised at their acquisition cost.

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

These emission rights are eliminated from the statement of financial position when they are sold, delivered, or have expired. Should the rights be delivered, they are derecognised from the provision made when the carbon emissions take place, applying the FIFO method (first in, first out).

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

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

- When they are immediately available for sale in their present condition, subject to the normal terms of sale; and
- When it is highly probable that they will be sold.

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

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

Related liabilities are classified as “Liabilities held for sale and discontinued activities.”

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

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

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

4.19. Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits with credit institutions. Other short-term, highly-liquid investments are also included under this heading, provided that they were readily convertible into specified amounts of cash and had an original maturity of close to or not exceeding three months.

4.20. Dividend

The interim dividends approved by the Board of Directors in 2019 and 2018 are included as a reduction of the Viscofan Group's equity.

4.21. 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 same manner, with a debit to deferred income. They are transferred to “Other income” in the consolidated income statement in line with the depreciation of the related asset.

Non-repayable grants related to emission rights are initially recognised at market value on the date granted under "Grants," and are recognised in the consolidated income statement as they are used. They are recognised in "Other income" on the consolidated income statement.

(b) Operating subsidies

Operating subsidies are recognised as “Other income” in the consolidated income statement.

Grants received as compensation for expenses or losses already incurred, or for the purpose of providing immediate financial support not related to future expenses, are recognised as a credit to "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.

4.22. Employee benefits

(a) Liabilities for retirement benefits and other commitments

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

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

Defined benefit plan costs are recognised under "Employee benefits expense" in the consolidated income statement and comprise current service costs plus the effect of any reduction or liquidation of the plan.

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

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

A description of each of the Group’s defined benefit pension plans is included in Note 18.1.

(b) Termination benefits

The Group recognizes termination benefits unrelated to restructuring processes when it is demonstrably committed to terminating the employment of current employees before the normal retirement date. The Group is demonstrably committed to terminating the employment of current employees when a detailed formal plan has been prepared and those affected have valid expectations that the process will be carried out, and there is no possibility of withdrawing or changing the decisions made. Indemnities payable in over 12 months are discounted at interest rates based on market rates of quality bonds and debentures.

(c) Short-term employee benefits

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

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

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

(d) Share-based payment

Certain classes of employees are provided with share-based remuneration benefits through the Long Term Employee Incentive Plan, an employee share ownership plan. Note 24.3 provides information on these plans.

The fair value of shares granted under the long-term employee incentive plan that are settled through the delivery of shares is recognised as employee benefit expense against equity. The total amount to be recognised as an expense is determined by reference to the fair value at the grant date of the shares granted:

- including market performance conditions (for example, the entity's share price)

- excluding the impact of non-market related service or performance targets for the vesting of the shares (e.g. accident rate, waste reduction targets)

The total expense is recognised during the vesting period, which is the period during which all the specified terms for vesting have to be satisfied. At the end of each year, the entity reviews its estimates of the number of shares it expects to become vested, based on non-market service targets for vesting. The impact, if any, of the review of the original estimates is recognised in profit or loss, with a corresponding adjustment to equity.

If the long-term employee incentive plan is settled in cash, it is recognised as employee benefit expense against a liability. The total amount to be recognised as an expense is determined by reference to fair value at each close.

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

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

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 income. The provision is reversed against the consolidated income statement where the corresponding expense was recorded.

(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 expenses

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

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

4.24. Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date the derivative contract is signed and subsequently restated to fair value at each balance sheet date. The accounting for subsequent changes in fair value depends on whether the derivative has been designated as a hedging instrument and, if so, on the nature of the item being hedged. The group designates certain derivatives as:

- fair value hedges of recognised assets or liabilities or a firm commitment (fair value hedges)

- hedges of a specific risk associated with cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or

- hedges of a net investment in a foreign operation (net investment hedges).

At the start of the hedging relationship, the Group documents the economic relationship between hedging instruments and the hedged items, including whether it is expected that changes in the cash flows of hedging instruments offset changes in the cash flows of the hedged items. The Group documents its risk management target and strategy to undertake its hedging transactions.

The fair values of derivative financial instruments designated in hedging relationships are broken down in Note 21. Changes to hedging reserves included in shareholders' equity are shown in Note 16. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

The effective portion of changes in the fair value of derivatives designated and classified as cash flow hedges is recognised under cash flow hedge reserves in equity. The gain or loss relating to the ineffective portion is immediately recognised in the income statement for the year within other gains/(losses).

When option contracts are used to cover expected transactions, the Group only designates the intrinsic value of the option contract as the hedging instrument.

The gains or losses corresponding to the effective portion of changes in the intrinsic value of option contracts are recognised under cash flow hedge reserves in equity. Changes in the time value of option contracts related to the hedged item ("aligned time value") are recognised through other comprehensive income under hedge cost reserves in equity.

When forward contracts are used to cover expected transactions, the Group generally only designates the change in fair value of the forward contract relating to the cash component as the hedging instrument. The gains or losses relating to the effective portion of changes in the cash component of forward contracts are recognised under cash flow hedge reserves in equity. Changes in the forward element of the contract related to the hedged item ("aligned forward element") are recognised through other comprehensive income under hedge cost reserves in equity. In some cases, the gains or losses corresponding to the effective portion of changes in the fair value of the entire forward contract are recognised under cash flow hedge reserves in equity.

Accumulated amounts in equity are reclassified in the years when the hedged item affects profit or loss for the year, as follows:

- When the hedged item subsequently results in the recognition of a non-financial asset (such as inventories), both deferred hedge gains and losses and the deferred time value or deferred forward points, as applicable, are included in the initial cost of the asset. Deferred amounts are ultimately recognised in profit for the year, as the hedged item affects profit or loss for the year (for example, via the cost of sales).

- Gains or losses corresponding to the effective portion of interest rate swaps covering floating rate loans are recognised in profit or loss under finance cost at the time as the interest cost on hedged loans.

4.25. Income tax

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

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

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

Current and deferred tax is 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, or

- Associated with investments in subsidiaries over which the Group is able to control the timing of the reversal of the temporary difference and it is probable that the timing difference will reverse in the foreseeable future.

(b) Deductible temporary differences

Deductible temporary differences are 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 aforementioned conditions are not recognised in the consolidated statement of financial position. 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 offset the recognised amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

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

(e) investment tax credits

The group has investment tax credits in certain subsidiaries. These tax credits are recorded by reducing the corporate income tax expense for the year in which they are applied.

4.26. Environmental issues

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 minimize the environmental impact of its activity and protect and improve the environment, including the reduction or elimination of future pollution caused by the Group's operations, are recognised in the consolidated balance sheet based on the criteria for recognition, measurement, and disclosure detailed in Note 26.

4.27. Related party transactions

Transactions with related parties are accounted for in accordance with the measurement criteria detailed throughout this Note 4. The only transactions with related parties are detailed in Note 25 on "Information relating to directors of the parent and key management personnel of the Group".

5. Revenue and operating expenses

5.1. Sales and rendered services:

The sales and services provided in the consolidated income statement include the delivery of goods to customers, services rendered in the course of the Group's ordinary activities and the sale of energy, net of sales-related taxes.

The detail of this heading for 2019 and 2018 is as follows:

	Thousands of euros					
	Casings sales and services		Energy sales		Total sales and rendered services	
	2019	2018	2019	2018	2019	2018
Spain	68,432	70,294	37,537	37,729	105,969	108,023
Other European and Asian countries	374,168	339,560	-	-	374,168	339,560
North America	235,510	216,863	7,625	6,957	243,135	223,820
South America	126,425	114,646	-	-	126,425	114,646
Total	**804,535**	**741,363**	**45,162**	**44,686**	**849,697**	**786,049**

Revenue from external customers come from the sale of artificial casings generally made to manufacturers of cold meats, as well as, to a lesser extent, the generation of electricity for sale to third parties through co-generation systems.

In terms of the sale of artificial casings, the Group considers that there is only one type of customer contract: sales correspond to a single performance obligation (sale of casings) and are made at a moment in time.

In terms of the sales of electricity produced, they are recognised as the energy generated by co-generation systems is produced and delivered, applying the tariffs in force.

As there are no other types of customer contract, the Group has disaggregated sales by geographic location.

5.2. Other income

The breakdown of "Other Operating Income" for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Work performed by the Group on non-current assets	958	1,796
Capital Grants (Note 17)	590	637
Other operating income	5,400	21,003
Other Grants	1,793	1,357
Other income	3,607	19,646
Total other income	6,948	23,436

During 2018, other income includes the amount of €15.4 million corresponding to compensation for patent infringement (€8.5 million) and the amount received resulting from the agreement reached with Crown Food España S.A.U. to end the litigation between the two companies (€6.9 million).

There is no breach of the conditions or contingencies associated with the grants received.

5.3. Personnel expenses

The breakdown of "Personnel expenses" in 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Wages and salaries	155,801	144,786
Indemnity payments	2,280	1,123
Current service cost of defined benefits (Notes 18.1)	417	335
Company social security contributions	29,209	28,231
Other welfare benefits and taxes	13,571	14,660
Total personnel expenses	**201,278**	**189,135**

Group employees during 2019 and 2018, by professional category and gender, were as follows:

	Total headcount at the end of year					
	Men	Women	*Total 2019 (*)*	Men	Women	*Total 2018 (**)*
Executives	98	14	*112*	98	17	*115*
Technicians and supervisors	833	319	*1,152*	804	288	*1,092*
Administratives	56	182	*238*	49	163	*212*
Specialized personnel	641	213	*854*	647	218	*865*
Labourers	1,704	653	*2,357*	1,676	649	*2,325*
Total	3,332	1,381	*4,713*	3,274	1,335	*4,609*

	Average number of employees					
	Men	Women	*Total 2019 (*)*	Men	Women	*Total 2018 (**)*
Executives	99	18	*117*	92	17	*109*
Technicians and supervisors	824	299	*1,123*	832	263	*1,095*
Administratives	53	178	*231*	19	212	*231*
Specialized personnel	637	209	*846*	647	176	*823*
Labourers	1,688	623	*2,311*	1,703	680	*2,383*
Total	3,301	1,327	*4,628*	3,293	1,348	*4,641*

(*) The scope does not include the staff of Viscofan Collagen USA Inc. and Viscofan Collagen Canada Inc. acquired in December 2019. The staff of these two companies at the end of 2019, for illustrative purposes, came to 204 people (156 men and 48 women).

(**) The scope does not include the staff of the companies located in Australia and New Zealand acquired in November 2018. The staff of these companies at the end of 2018, for illustrative purposes, came to 98 people (76 men and 22 women).

Four parent employees have a recognized degree of disability equal to or higher than 33%, this information is given in accordance to Royal Decree 602/2016 of December 2. The breakdown by professional category is 3 labourers and 1 administrative employee. The same as in 2018.

Due to the circumstances of the production process, since 3 May 2017, Viscofan S.A. has recognised, through Resolution 1187 of the Directorate of the Navarre Employment Service, the recognition of exceptionality that justifies adopting alternative measures to comply with the reserve quota in favour of disabled workers and authorises, as an alternative measure, the conclusion of civil or commercial contracts with Special Employment Centres, for a period of three years.

Likewise, with regard to promoting employability among diverse people, Viscofan has 78 differently abled people among its workers - 70 men and 8 women - and has signed contracts with special employment centres - in Spain and other countries - to carry out certain tasks that contribute to our production activity.

5.4. Other operating expenses

The detail of "Other operating expenses" for 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
Research and development costs	2,564	2,517
Repair and maintenance	29,859	27,518
Environment	5,020	4,684
Power supplies	55,622	54,011
Plant expenses (surveillance, cleasing and others)	23,490	23,595
Leasing expenses	3,295	6,714
Insurance premium	4,644	4,519
Other taxes	5,993	5,368
Administrative and selling costs	50,799	51,157
Other expenses	8,737	9,125
Other operating expenses	**190,023**	**189,208**

"Other Expenses" includes the expenses relating to the acquisition of Viscofan Collagen USA Inc and Viscofan Collagen Canada Inc, amounting to 1,497 thousand euros. In 2018, the expenses relating to the acquisition of Transform Pack Inc. and Globus Group Australia and New Zealand amounting to 1,419 thousand euros were included.

"Lease" expenses include fees as well as short-term rentals not affected by IFRS 16 Leases.

5.5. Financial income and expense

The breakdown of financial income and expenses for 2019 and 2018, according to the origin of the items making it up, is as follows:

	Thousands of euros	
	2019	2018
Financial income	597	309
Bank borrowings and other financial liabilities	(1,512)	(1,705)
Net finance cost of pension plans and other L.T. benefits	(454)	(429)
Financial expense	(1,966)	(2,134)
Fair value adjustment to financial investment	15	4
Exchange gains	13,716	18,588
Exchange losses	(12,581)	(15,789)
Exchange gains (losses)	1,135	2,799
Financial income (expenses) total	(219)	978

6. Earnings per share

6.1. Basic

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

	Thousands of euros	
	2019	2018
Weighted average number of ordinary shares in circulation	46,458,230	46,592,686
Profit attributable to ordinary equity holders of the parent	105,577	123,833
Basic earnings per share (in euros)	2.2725	2.6578

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

	2019	2018
Average number of ordinary shares in circulation	46,500,000	46,603,682
Own shares effect	-41,770	-10,996
Weighted average number of ordinary shares in circulation at December 31,	**46,458,230**	**46,592,686**

6.2. Diluted

Diluted earnings per share are calculated by dividing profit attributable to equity holders of the parent by the weighted average number of ordinary shares in circulation considering the diluting effects of potential ordinary shares. For 2019 share-based plans, contingently issuable shares are not included in the calculation of diluted earnings per share unless the conditions are satisfied.

At 31 December 2019, basic earnings per share were the same as diluted earnings per share since the conditions under the plan went unmet.

7. Segment reporting

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

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

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

c) for which discrete financial information is available.

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

The Group also carries out production-related activities, and sells electricity through its co-generation plants in Spain, Mexico, and Germany. These co-generation activities have three aims: to decrease the cost of energy while remaining self-sufficient, and at the same time reducing CO_2 emissions. Although the plants located in Spain and Mexico sell part of the energy produced to third parties, these activities are not organised as business segments, nor are they contemplated as business units to be reported on per se.

The main figures for 2019 and 2018 are as follows::

Year 2019	Spain	Other European and Asian countries	North America	South America	Eliminations and other	*Consolidated*
	Thousands of euros					
Revenue from external customer	105,970	374,167	243,135	126,425	-	*849,697*
Revenue from inter-segment	83,850	234,996	81,005	27,650	(427,501)	*-*
Total revenue	189,820	609,163	324,140	154,075	(427,501)	*849,697*
Depreciation and amortization	(18,692)	(31,227)	(12,826)	(7,929)	-	*(70,674)*
Finance income	23	401	117	56	-	*597*
Finance costs	(883)	(740)	(337)	(6)	-	*(1,966)*
Exchange differences	778	(299)	(793)	1,449	-	*1,135*
Segment profit before tax	(2,225)	78,536	14,773	39,689	(709)	*130,064*
Total assets	237,499	477,133	285,503	157,678	(72,804)	*1,085,009*
Total liabilities	128,418	139,170	107,269	20,870	(95,084)	*300,643*
Acquisition of assets	28,097	19,689	7,482	6,786	-	*62,054*

Year 2018	Spain	Other European and Asian countries	North America	South America	Eliminations and other	*Consolidated*
	Thousands of euros					
Revenue from external customer	108,023	339,560	223,820	114,646	-	*786,049*
Revenue from inter-segment	83,809	237,426	80,365	31,428	(433,028)	*-*
Total revenue	191,832	576,986	304,185	146,074	(433,028)	*786,049*
Depreciation and amortization	(17,147)	(27,138)	(10,880)	(7,273)	-	*(62,438)*
Finance income	35	63	140	71	-	*309*
Finance costs	(765)	(612)	(284)	(473)	-	*(2,134)*
Exchange differences	(570)	1,179	107	2,083	-	*2,799*
Segment profit before tax	30,363	75,501	7,560	34,301	(426)	*147,299*
Total assets	229,410	474,997	253,295	162,815	(86,775)	*1,033,742*
Total liabilities	133,758	131,364	88,284	23,746	(101,036)	*276,116*
Acquisition of assets	27,636	27,192	9,729	7,036	-	*71,593*

Goodwill of 2,671 thousand euros relates to the Rest of Europe and Asia segment in the amount of 1,780 thousand euros and to North America in the amount of 891 thousand euros.

8. Business combinations

8.1. Acquisitions in 2019

In December 2019, Viscofan Group acquired 100% of shares of Nitta Casings Inc. in the United States and Nitta Casings (Canada) Inc. in Canada. After the acquisition, the companies were renamed Viscofan Collagen USA Inc and Viscofan Collagen Canada Inc, respectively.

The fair value of the consideration at the acquisition date amounted to 3.8 million euros, of which 2.5 million euros was paid in cash, and a price premium was agreed for the remainder in order to achieve certain targets set out in the contract.

This acquisition implies completing the productive portfolio of the Viscofan Group in North America with collagen casings at the United States and Canada sites. This deal is part of the Group's strategy and commitment to the development of the global market for casings using all technologies.

Amounts recognised at the date the assets, liabilities, and contingent liabilities were recognised at their fair value were as follows:

	Thousands of euros
Property, plant and equipment (Note 10)	20,480
Right-of-use assets	675
Inventories	6,149
Receivables	2,764
Cash and cash equivalents	1,005
Total assets	**31,073**
Provisions	(9,224)
Non-current financial liabilities	(550)
Current financial liabilities	(173)
Payables	(4,115)
Deferred tax liabilities	(2,275)
Total liabilities	**(16,337)**
Total identifiable net assets	**14,736**
Negative differences from business combinations	(10,889)
Purchase consideration transferred	**3,847**

From acquisition to year-end, the acquired business did not generate any profit in the consolidated income statement.

Ordinary revenue in 2018 (April 2018 - March 2019) from the acquired business amounted to 36,142 thousand euros, for a total recurrent net loss of 480 thousand euros.

The profit arising from the transaction totalled 10,889 thousand euros, and is recognised on the consolidated income statement under “Negative difference on business combinations.”

The key factors driving the negative difference on the business combination are insufficient cash generation at the acquired companies due to operational deterioration of the business in recent years. New sources of short-term financing had to be found to continue their activity and meet their payment obligations.

Net assets recognised in the financial statements at 31 December 2019 were definitively measured at fair value for property, plant and equipment and intangible assets. The Group used an independent expert to carry out the main valuations.

8.2. Acquisitions in 2018

a) Transform Pack Inc.

In February 2018, 100% of the shares of Transform Pack Inc. were purchased.

The fair value of the consideration at the acquisition date amounted to 2,232 thousand euros, 1,793 thousand euros of which were paid for in cash in 2018, leaving 439 thousand euros as a deferred amount that could be reduced by achieving certain sales goals included in the contract.

The incorporation of Transform Pack, its innovative spirit, combined with the know-how of Viscofan, our productive portfolio and our commercial network, opens up new opportunities that expand the range of solutions available on the market and that will make the development of this type of product available in many countries worldwide.

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

	Thousands of euros
Intangible assets (Note 9)	1,361
Property, plant and equipment (Note 10)	148
Deferred tax assets	243
Inventories	56
Receivables	55
Cash and cash equivalents	32
Total assets	**1,895**
Payables	(187)
Deferred tax liabilities	(340)
Total liabilities	**(527)**
Total identifiable net assets	**1,368**
Goodwill	864
Purchase consideration transferred	**2,232**

The goodwill generated and measured at cost amounted to 864 thousand euros, being the excess of the aggregate of the consideration transferred over the fair value of assets acquired and liabilities assumed.

The acquired business generated consolidated losses for the period for the Group amounting to 480 thousand euros during the period ranging from the acquisition date and year end, and ordinary income totalling 99 thousand euros, which were incorporated in the consolidated income statement.

Ordinary income generated during the entire year from the acquired business totalled 280 thousand euros, with net ordinary total losses of 1,069 thousand euros.

b) Globus Group Australia and New Zealand

In November 2018, 100% of the shares of Globus Group in Australia and New Zealand were purchased.

The fair value of the consideration at the acquisition date amounted to 6,296 thousand euros, 5,536 thousand euros of which were paid for in cash in 2018, leaving 760 thousand euros as a deferred amount that could be reduced by achieving certain sales goals included in the contract.

The inclusion of Globus means that we will continue to expand our commercial and productive presence on a new continent, including the knowledge of this market and providing our customers with a better service and new solutions.

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

	Thousands of euros
Intangible assets (Note 9)	632
Property, plant and equipment (Note 10)	4,569
Inventories	13,703
Receivables	7,606
Cash and cash equivalents	168
Total assets	**26,678**
Current financial liabilities	(2,408)
Payables	(11,491)
Deferred tax liabilities	(997)
Total liabilities	**(14,896)**
Total identifiable net assets	**11,782**
Negative differences from business combinations	(5,486)
Purchase consideration transferred	**6,296**

The acquired business generated consolidated losses for the period for the Group amounting to 217 thousand euros during the period ranging from the acquisition date and year end, and ordinary income totalling 2,391 thousand euros, which were incorporated in the consolidated income statement.

Revenue generated during the 2018 tax year (July 2017 - June 2018) from the acquired business totalled 34,396 thousand euros, with a total net ordinary profit of 91 thousand euros.

The profit arising from the transaction totalled 5,486 thousand euros, and is recognised on the consolidated income statement under "Negative difference on business combinations."

The key factors driving the negative difference on business combinations was the company's need for a strategic lift and the impact of the depreciation of the Australian dollar on last year's income statement.

Net assets recognised on the financial statements a 31 December 2018 were definitively measured at fair value for both tangible and intangible assets. The Group used an independent expert to carry out the main valuations.

9. Intangible assets

The breakdown and movements in intangible assets during 2019 and 2018 are as follows:

	Thousands of euros							
	Customer portfolio	Software	Concessions, patents, licenses and use rights	Development	Goodwill (Note 8)	Prepayments	Amortization	*Total*
Balance at January 1, 2018	**621**	**35,321**	**20,421**	**-**	**4,906**	**177**	**(42,153)**	***19,293***
Translation differences	-	117	358	-	163	(5)	(489)	*144*
Acquisition of a subsidiary (Note 8.2)	-	-	1,993	-	864	-	-	*2,857*
Additions	-	2,463	9	1,541	-	423	(3,801)	*635*
Disposals	-	(18)	(11)	-	-	(14)	29	*(14)*
Transfers	-	342	(244)	244	-	(342)	-	-
Balance at December 31, 2018	**621**	**38,225**	**22,526**	**1,785**	**5,933**	**239**	**(46,414)**	***22,915***
Translation differences	-	170	273	-	258	(1)	(324)	*376*
Acquisition of a subsidiary (Note 8.1)	-	-	-	-	-	-	-	-
Additions	-	3,004	56	670	-	221	(4,087)	*(136)*
Disposals	-	(798)	-	-	(3,520)	-	798	*(3,520)*
Transfers	-	309	-	-	-	(309)	-	-
Balance at December 31, 2019	**621**	**40,910**	**22,855**	**2,455**	**2,671**	**150**	**(50,027)**	***19,635***

The balances of this heading at 31 December 2019 and 2018 are the following:

	Thousands of euros					
	31.12.2019			31.12.2018		
	Cost	Amortization	*Total*	Cost	Amortization	*Total*
Client portfolio	621	(169)	*452*	621	(124)	*497*
Software	40,910	(31,941)	*8,969*	38,225	(29,735)	*8,490*
Concessions, patents, licenses and use rights	22,855	(17,350)	*5,505*	22,526	(16,555)	*5,971*
Development	2,455	(567)	*1,888*	1,785	-	*1,785*
Goodwill (Note 8)	2,671	-	*2,671*	5,933	-	*5,933*
Prepayments	150	-	*150*	239	-	*239*
TOTAL	69,662	(50,027)	*19,635*	69,329	(46,414)	*22,915*

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

Details of the cost of fully amortised intangible assets in use at 31 December 2019 and 2018 are as follows:

	Thousands of euros	
	2019	2018
Software	24,537	22,704
Concessions, patents, licenses and use rights	12,989	12,544
Fully anortizated intangible assets	**37,526**	**35,248**

Impairment test

Below, we provide details of the calculation used in the impairment test for the different goodwill recognised at 31 December 2019.

a) Nanopack Technology & Packaging, S,L,

The goodwill at Nanopack Technology & Packaging, S.L. recognised in the Group's consolidated balance sheet at 31 December 2018 was impaired in 2019. No asset class other than goodwill was impaired. The cash-generating unit corresponds to the legal entity or subgroup itself that is responsible for producing and marketing plastic film and new products based on the technology acquired and its expected development.

The company acquired in 2015 focuses on R+D+i in plastics technology. They had achieved promising advances and need investment and commercial support for the introduction of new products in the market.

Plans for rapid growth in the first years of activity were scaled back due to a delay in product development and slower than expected adoption by potential customers.

5-year projections were done, in which Management established forecasted business figures broken down by CGU managers (by year, country, customer, average product sales prices) based on historic data (internal/external sources), market, competition scenarios, information on new products and those in development, and actions to be implemented aimed at geographical expansion, and available macroeconomic forecasts.

The main assumption affecting cash flows arise from the projections made based on hypotheses on increases in average volumes and use of the installed capacity, as well as increases in sales prices and moderate costs.

The residual growth rate stands at 1.5%, in line with estimated long-term growth. The pre-tax discount rate is 9.4%.

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

Based on a sensitivity analysis;

- Variations of 10% in the discount rate do not imply a need to recognise significant additional impairment.

- Sensitivity to reasonably possible changes in revenue does not entail the need to recognise additional significant impairment.

The consolidated carrying amount totalled 5,756 thousand euros (goodwill totalling 3,520 thousand euros, with PP&E and other intangible items amounting to 2,236 thousand euros).

Therefore, as a result of this analysis, the Directors consider at 31 December 2019 the need to make a valuation adjustment of 3,520 thousand euros.

b) CGU Supralon Group

Goodwill for the sum of 1,780 thousand euros, recognised on the Group's consolidated balance sheet corresponds to the Supralon Group, whose CGU corresponds to the legal company or subgroup, dedicated to the production and distribution of casings for the meat industry.

The company, acquired in 2017, has productive presence in Germany and commercial distribution in the main European markets.

The assumptions include an increasing volume of sales during the first year's activity. 5-year projections were done, in which Management established forecasted business figures broken down by CGU managers (by year, country, customer, average product sales prices) based on historic data (internal/external sources), market, competition scenarios, information on new products and those in development, and actions to be implemented aimed at geographical expansion, and available macroeconomic forecasts.

The residual growth rate stands at 1.5%, in line with estimated long-term growth. The pre-tax discount rate is 9.4%.

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

Based on a sensitivity analysis;

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

- Sensitivity to reasonably possible changes in turnover does not entail the need to record any impairment losses.

The consolidated carrying amount totalled 7,411 thousand euros (goodwill totalling 1.780 thousand, with PP&E and other intangible items amounting to 5,631 thousand euros).

Therefore, taking the above into consideration, the Directors consider that at 31 December 2019 there were no indications that any impairment losses should be recognised.

c) Transfer of ingredients

In February 2018, the Group acquired 100% of Transform Pack Inc., whose cash-generating unit generated goodwill in the consolidated financial statements of 864 thousand euros.

To improve performance, in 2019 Transform Pack Inc. transferred all its assets, liabilities, rights and obligations to Viscofan Canada Inc. and, as a result, the CGU remains within the Group and is now called "Transfer of ingredients".

Goodwill recognised in the Group's consolidated balance sheet at 31 December 2019 amounted to 891 thousand euros, of which 27 thousand euros related to translation differences.

The transfer of ingredients CGU (in Canada) is a pioneer in the industry, having developed innovative products with value-added technology, such as casings capable of transferring ingredients: spices, flavours, aromas and colours to cold meats and other meat products in natura. The products thus obtained significantly facilitate certain production processes of our customers and improve consumer experience.

The assumptions include an increasing volume of sales during the first year's activity. 5-year projections were done, in which Management established forecasted business figures broken down by CGU managers (by year, country, customer, average product sales prices) based on historic data (internal/external sources), market, competition scenarios, information on new products and those in development, and actions to be implemented aimed at geographical expansion, and available macroeconomic forecasts.

The residual growth rate stands at 1.5%, in line with estimated long-term growth. The pre-tax discount rate is 9.4%.

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

Based on a sensitivity analysis;

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

- Sensitivity to reasonably possible changes in turnover does not entail the need to record any impairment losses.

The consolidated carrying amount totalled 3,628 thousand euros (goodwill totalling 891 thousand euros, with PP&E and other intangible items amounting to 2,737 thousand euros).

Therefore, taking the above into consideration, the Directors consider that at 31 December 2019, there were no indications that any impairment losses should be recorded.

10. Property, plant, and equipment

The breakdown and movements in property, plant, and equipment during 2019 and 2018 are as follows:

	Thousands of euros							
	Land and buildings	Plant and machinery	Other install., equip. and furniture	Other property, plant and equipment	Advances and assets under construct.	Amorti-zation	Impairment	*Total*
Balance at January 1, 2018	**250,848**	**749,815**	**87,471**	**30,896**	**49,939**	**(699,016)**	**(154)**	***469,799***
Translation differences	(1,658)	(2,361)	(397)	236	27	1,400	-	*(2,753)*
Acquisition of a subsidiary (Note 8.2)	-	3,912	60	745	-	-	-	*4,717*
Additions	3,530	21,523	5,401	3,049	33,654	(58,637)	(371)	*8,149*
Disposals	(194)	(2,630)	(1,268)	(756)	(127)	4,537	5	*(433)*
Transfers	4,713	43,659	11,815	537	(59,933)	(791)	-	-
Balance at December 31, 2018	**257,239**	**813,918**	**103,082**	**34,707**	**23,560**	**(752,507)**	**(520)**	***479,479***
Translation differences	(291)	2,020	(610)	292	72	(1,642)	(4)	*(163)*
Acquisition of a subsidiary (Note 8.1)	8,422	11,656	16	42	344	-	-	*20,480*
Additions	1,351	30,327	5,451	3,247	17,727	(62,071)	(192)	*(4,160)*
Disposals	(4)	(7,146)	(503)	(1,392)	(184)	8,651	-	*(578)*
Transfers	1,919	21,128	2,085	1,901	(26,811)	(222)	-	-
Lease assetes reclasification	-	(33)	-	(36)	-	5	-	*(64)*
Balance at December 31, 2019	**268,636**	**871,870**	**109,521**	**38,761**	**14,708**	**(807,786)**	**(716)**	***494,994***

The balances of this heading at 31 December 2019 and 2018 are the following:

	Thousands of euros					
	31.12.2019			31.12.2018		
	Cost	Amortization and impairment	*Total*	Cost	Amortization and impairment	*Total*
Land and buildings	268,636	(118,645)	*149,991*	257,239	(111,537)	*145,702*
Plant and machinery	871,870	(589,148)	*282,722*	813,918	(547,380)	*266,538*
Other installations, equipment and furniture	109,521	(74,850)	*34,671*	103,082	(69,872)	*33,210*
Other property, plant and equipment	38,761	(25,859)	*12,902*	34,707	(24,238)	*10,469*
Advances and assets under construction	14,708	-	*14,708*	23,560	-	*23,560*
TOTAL	**1,303,496**	**(808,502)**	***494,994***	**1,232,506**	**(753,027)**	***479,479***

In 2019, investments in property, plant and equipment in the Group totalled 58,103 thousand euros. The main projects were the installation of new production modules of the new cellulose technology in Cáseda, Spain, installation of new collagen capacity, process improvements and other investments dedicated to improving the sustainability of our production process aimed at reducing environmental impact, waste treatment plants, and improvements in facility safety.

In 2018, investments in property, plant and equipment in the Group totalled 67,157 thousand euros. The main projects have been the completion of the Cáseda plant (Spain), the installation of new technology to manufacture viscose-based casings and the installation and commissioning of a new edible collagen capacity in Serbia.

Details of fully depreciated property, plant, and equipment in use at 31 December 2019 and 2018 are as follows:

	Thousands of euros	
	2019	2018
Buildings	40,339	37,728
Plant and machinery	384,484	348,653
Other installations, equipment and furniture	57,414	54,524
Other property, plant and equi	17,663	16,927
Fully depreciated property, plant and equipment	**499,900**	**457,832**

Some of the Group's buildings, plant and machinery were financed in part by grants amounting to 274 thousand euros in 2018 (see Note 17).

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

As a result of the annual investment plan, at 2019 year-end there were commitments to acquire non-current assets amounting to 1,598 thousand euros, relating mainly to recurring maintenance investments.

At 2018 year-end, non-current asset purchase commitments amounted to 4,850 thousand euros, relating mainly to innovation and improvement in technological processes.

Impairment test

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

11. Leases

This note provides information on the leases under which the Group is a lessee.

The Group did not have to make any adjustments to the accounting for assets held as a lessor under operating leases as a result of the adoption of IFRS 16.

11.1. Right-of-use assets

The balance sheet shows the following amounts related to leases:

	Thousands of euros					
	Buildings	Plant and machinery	Other install., equip. and furniture	Other property, plant and equipment	Amorti-zation	*Total*
Balance at January 1, 2019	17,719	140	144	1,627	-	*19,630*
Translation differences	45	-	-	13	(10)	*48*
Acquisition of a subsidiary (Note 8.1)	512	163	-	-	-	*675*
Additions	932	158	94	2,326	(4,516)	*(1,006)*
Disposals	-	-	-	(20)	5	*(15)*
Balance at December 31, 2019	19,208	461	238	3,946	(4,521)	*19,332*

The balances at 31 December 2019 were:

	Thousands of euros		
	31.12.2019		
	Cost	Amortization and impairment	*Total*
Buildings	19,208	(3,192)	*16,016*
Plant and machinery	461	(83)	*378*
Other installations, equipment and furniture	238	(101)	*137*
Other property, plant and equipment	3,946	(1,145)	*2,801*
TOTAL	**23,853**	**(4,521)**	***19,332***

In 2018, the Group only recognised lease assets and liabilities that were classified as "finance leases" under IAS 17 Leases. Assets were presented under property, plant and equipment and liabilities as part of the Group's borrowings.

Additions to right-of-use assets in 2019 amounted to 3,510 thousand euros.

11.2. Lease liabilities

The balance sheet shows the following amounts related to leases:

	Thousands of euros
Up to 3 months	505
3 months to 1 year	4,398
Current	**4,903**
1 to 5 years	10,968
More than 5 years	3,424
Non current	**14,392**
Total at December 31, 2019	**19,295**

The Group leases are mainly warehouses, offices and vehicles. Leases are usually for fixed periods, but may have options for extension.

Some property leases contain payment terms generally linked to inflation. There are no other variable payments.

Extension and termination options are included in a number of warehouse and office leases throughout the Group. The lease term incorporates options for extension or termination, with a maximum term generally of 10 years unless the extension term is shorter. No other assets have been identified within leased items whose useful life exceeds the term of the lease.

12. Inventories

Details of inventories at 31 December 2019 and 2018 are as follows:

	Thousands of euros	
	2019	**2018**
Raw materials and other supplies	71,311	74,199
Semi-finished products	60,673	61,342
Finished products	134,377	134,666
Goods for resale	4,330	9,808
Greenhouse gas emission rights	4,972	2,610
Prepayments to suppliers	1,727	1,716
Total Inventories	**277,390**	**284,341**

The valuation adjustments in 2019, corresponding to impairment and obsolescence, entailed an expense of 4,269 thousand euros (an expense of 1,696 thousand euros in 2018, and they are recognised under "Consumption of raw materials and other consumables" and “Changes in inventory of finished goods and work in progress” in the consolidated income statement.

The emission rights consumed by the Company during 2019 and 2018 amounted to 266,621 and 258,960 tonnes, respectively.

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

The breakdown for "Trade and other receivables" at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Trade receivables	171,135	153,015
Other receivables	3,175	1,804
Advances to employees	209	237
Provisions for bad debts	(3,821)	(3,264)
Total trade receivables	**170,698**	**151,792**
Receivable from public administrations	12,127	20,741
Prepayments	3,454	2,910
Total other receivables	**15,581**	**23,651**
Total trade and oher receivables	**186,279**	**175,443**

At 31 December 2019 and 2018, the age of trade receivables by maturity was as follows:

	Thousands of euros					
	Not due	Due not impaired				
		< 30 days	31-60 days	61-90 days	> 90 days	*Total*
2019	146,169	19,276	3,686	(694)	2,261	***170,698***
2018	131,523	15,673	3,077	785	734	***151,792***

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

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

	Thousands of euros	
	2019	2018
Balance at January 1,	**(3,264)**	**(3,388)**
Translation differences	(626)	118
Amounts provisioned	(255)	(431)
Amounts applied	324	437
Balance at December 31,	**(3,821)**	**(3,264)**

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

The breakdown by currency of trade receivables is as follows:

	Thousands of euros							
	Euros	US dollars	Czech crown	Brazilian real	Mexican peso	Chinese yuan	Others	*Total carrying amount*
2019	55,599	71,156	286	20,734	553	11,785	10,585	***170,698***
2018	52,645	62,173	8	18,728	969	8,597	8,672	***151,792***

At 31 December 2019 and 2018, balances receivable from public administrations are as follows:

	Thousands of euros	
	2019	2018
VAT receivable form the Treasury	11,217	19,676
Withholdings and peyments on account receivable from the Treasury	210	-
Other public bodies	700	1,065
Balance at December 31,	**12,127**	**20,741**

A breakdown by currency is as follows:

	Thousands of euros							
	Euros	US dollars	Czech crown	Brazilian real	Mexican peso	Chinese yuan	Others	*Total carrying amount*
2019	5,028	17	770	4,216	143	369	1,584	***12,127***
2018	5,954	-	617	10,007	2,118	64	1,981	***20,741***

In 2018, VAT payable includes a balance to be recovered by ICMS (Brazilian VAT equivalent) amounting to 3,785 thousand euros. Viscofan do Brasil took steps to offset and recover these balances in the short term.

Impairment losses on financial assets

Trade and other receivables are subject to the expected credit loss model. However, the impairment identified is immaterial.

Cash and cash equivalents are also subject to the impairment requirements under IFRS 9, although the impairment identified is also immaterial.

To establish the expected credit loss, the Group applies the simplified approach set out under IFRS 9.

To measure expected credit loss, trade receivables have been grouped together based on the characteristics of the shared credit risk and the days past due.

The expected loss rates are based on the payment profiles of sales during a 36-month period prior to 1 January 2019 and the corresponding historic credit losses experienced during this period. Historic loss rates are adjusted to reflect annual, forward-looking information about macroeconomic factors that affect the ability of customers to repay accounts receivable.

Furthermore, the Group impairs these accounts receivable by assessing the specific risks of non-recoverability, as was the case in the previous year, to establish whether there is objective evidence that impairment has occurred. The Group considers that impairment occurs when the debtor experiences significant financial difficulties or when there is a non-payment or delay in payments of more than 180 days.

The accounts receivable for which an impairment provision was recognised are eliminated against the provision when there is no expectation that additional cash will be recorded.

14. Current and non-current financial assets

All financial derivative instruments at 31 December 2019 and 2018 are included in level 2: assets and liabilities whose fair value has been determined with technical valuation techniques that use hypotheses observable in the market.

The breakdown at 31 December 2019 and 2018 of current and non-current financial assets not including trade and other receivables is as follows:

	Thousands of euros			
	Measured at			
	Amotised cost	Fair value with changes in P&L	*Carrying amount*	*Fair value*
Financial investments	704	633	*1,337*	*1,337*
Guarantees and deposits	1,039	-	*1,039*	*1,039*
Non-current financial assets	**1,743**	**633**	***2,376***	***2,376***
Equity funds investments	-	746	*746*	*746*
Loans and other receivables	69	-	*69*	*69*
Current financial assets	**69**	**746**	***815***	***815***
Total at December 31, 2019	**1,812**	**1,379**	***3,191***	***3,191***

	Thousands of euros			
	Measured at			
	Amotised cost	Fair value with changes in P&L	*Carrying amount*	*Fair value*
Financial investments	1,726	266	*1,992*	*1,992*
Guarantees and deposits	623	-	*623*	*623*
Non-current financial assets	**2,349**	**266**	***2,615***	***2,615***
Equity funds investments	-	730	*730*	*730*
Loans and other receivables	57	-	*57*	*57*
Short term deposits	7,646	-	*7,646*	*7,646*
Current financial assets	**7,703**	**730**	***8,433***	***8,433***
Total at December 31, 2018	**10,052**	**996**	***11,048***	***11,048***

A breakdown of financial assets by maturity is as follows:

	Thousands of euros						
	Less than 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	More than 5 years	*Total*
2019	815	268	8	2	806	1,292	*3,191*
2018	8,433	1,195	184	291	184	761	*11,048*

A breakdown by currency is as follows:

	Thousands of euros					
	Euros	US dollars	Brazilian real	Chinese yuan	Others	*Total carrying*
2019	1,450	146	1,447	142	6	*3,191*
2018	2,138	692	899	7,314	5	*11,048*

All debt investments by the entity at amortised cost and at fair value through profit or loss and through other comprehensive income are considered as being under credit risk and, therefore, the value adjustment recognised during the year is limited to the losses expected in 12 months. The management believes that the investment is "low risk" when the risk of non-payment is low and the issuer has a strong ability to fulfil its contractual cash flow obligations in the short term.

The Group has not recognised any impairment in relation to these assets at 31 December 2019 (or 31 December 2018).

15. Cash and cash equivalents

"Cash and cash equivalents" at December, 31 2019 and 2018 correspond entirely to balances held by the Group in cash and credit accounts, and an account which earns interest at market rates. The Group had no banking overdrafts during the periods, with all its balances freely distributable.

A breakdown by currency is as follows:

	Thousands of euros							
	Euros	US dollars	Czech crown	Brazilian real	Mexican peso	Chinese yuan	Others	*Total carrying amount*
2019	5,448	21,053	14	4,138	3,260	15,077	2,380	*51,370*
2018	9,010	9,788	896	1,245	1,549	6,370	2,192	*31,050*

16. Equity

16.1. Share capital

At 31 December 2019, the Parent's share capital consisted of 46,500,000 bearer shares of 0.70 euros par value each. Total capital value was 32,550 thousand euros.

In 2019, 103,682 shares were redeemed.

At 31 December 2018, the Parent's share capital consisted of 46,603,682 bearer shares of 0.70 euros par value each. Total capital value was 32,623 thousand euros.

In both years, shares were fully subscribed for and paid up.

All shares bear the same voting and dividend rights and obligations, and are listed on the official Stock Exchanges of Madrid, Barcelona, and Bilbao under the automatic quotation system (continuous market). All shares are freely distributable.

At 31 December 2019 and 2018, the parent was aware of the following shareholders with a direct or indirect stake of over 3%:

	% of investment	
	2019	2018
Corporación Financiera Alba, S. A.	13.03	13.00
APG Asset Management N.V.	10.09	10.07
Angustias y Sol, S.L.	5.26	5.27
Norges Bank	4.98	5.20
Marathon Asset Management, LLP.	4.94	4.93
Setanta Asset Management Limited	4.02	-
Wellington Management Group LLP	3.22	-

Additionally, in accordance with Article 32 of Royal Decree 1362/2007, of 19 October, on shareholders obliged to notify their residence in tax havens or in countries not requiring the payment of taxes, or with whom there is no effective exchange of tax information, no notification was received at year-end 2019 and 2018.

Capital management

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

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

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

The Viscofan Group's primary objective is to maintain a healthy capital position. The leverage ratios as well as the analysis of net debt, at 31 December 2019 and 2018 were as follows:

	Thousands of euros	
	2019	2018
Cash and cash equivalents (Note 15)	51,370	31,050
Other financial assets, S.T. (Note 14)	815	8,433
Financial liabilities (Note 20)	(122,337)	(134,860)
Liabilities on Right-of-use assets (Note 11.2)	(19,295)	(63)
Total net financial debt	**(89,447)**	**(95,440)**
Total equity	**(784,366)**	**(757,626)**
Leverage ratio	**11.4%**	**12.6%**

	Thousands of euros	
	2019	2018
Cash and cash equivalents (Note 15)	51,370	31,050
Other financial assets, S.T. (Note 14)	815	8,433
Financial debt refundable in one year (Note 20)	(55,331)	(78,448)
Financial debt refundable in more than one year (Note 20)	(86,301)	(56,475)
Net debt	**(89,447)**	**(95,440)**

	Thousands of euros	
	2019	2018
Cash and cash equivalents (Note 15)	51,370	31,050
Other financial assets, S.T. (Note 14)	815	8,433
Gross debt at fixed interest rates	(107,291)	(86,937)
Gross debt at variable interest rates (Note 23.4)	(34,341)	(47,986)
Net debt	**(89,447)**	**(95,440)**

The change in net debt, at 31 December 2019 and 2018 is as follows:

	Thousands of euros					
	Balance at January 1, 2019	Cash flow	Adquisitions and other non-monetary changes	Variarion on fair value	Translation differences	*Balance at December 31, 2019*
Cash and cash equivalents	31,050	19,964	-	-	356	*51,370*
Other financial assets, S.T.	8,434	(7,743)	-	-	124	*815*
Liabilities included on cash flows from financing activities	-	-	-	-	-	-
S.T. Financial debt	(66,206)	66,355	(38,420)	-	(233)	*(38,504)*
L.T. Financial debt	(44,175)	(49,366)	38,420	-	(113)	*(55,234)*
Interest	(219)	1,909	(2,034)	-	165	*(179)*
Fixed assets suppliers	(7,838)	665	-	-	(13)	*(7,186)*
Other financial liabilites, S.T.	(3,795)	2,778	562	(4,111)	7	*(4,559)*
Other financial liabilites, L.T.	(12,628)	(3,949)	(562)	495	(31)	*(16,675)*
Current liabilities on Right-of-use assets	(9,506)	4,552	51	-	-	*(4,903)*
Non current liabilities on Right-of-use assets	(14,341)	-	(51)	-	-	*(14,392)*
Total net debt	(95,440)	35,165	(2,034)	(3,616)	262	*(65,663)*

	Thousands of euros					
	Balance at January 1, 2018	Cash flow	Adquisitions and other non-monetary changes	Variarion on fair value	Translation differences	*Balance at December 31, 2018*
Cash and cash equivalents	28,143	2,960	-	-	(53)	*31,050*
Other financial assets, S.T.	790	7,675	-	-	(31)	*8,434*
Liabilities included on cash flows from financing activities	-	-	-	-	-	-
S.T. Financial debt	(6,343)	8,907	(66,498)	-	(2,272)	*(66,206)*
L.T. Financial debt	(62,679)	(47,778)	66,561	-	(279)	*(44,175)*
Interest	(228)	2,182	(2,169)	-	(4)	*(219)*
Fixed assets suppliers	(8,079)	71,949	(72,922)	-	1,214	*(7,838)*
Other financial liabilites, S.T.	(4,713)	(9,477)	-	10,335	60	*(3,795)*
Other financial liabilites, L.T.	(11,656)	(958)	-	-	(14)	*(12,628)*
Current liabilities on Right-of-use assets	-	-	(35)	-	-	*(35)*
Non current liabilities on Right-of-use assets	-	-	(28)	-	-	*(28)*
Total net debt	(64,765)	35,460	(75,091)	10,335	(1,379)	*(95,440)*

16.2. Share premium and other reserves

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

Changes in this item are as follows:

	Thousands of euros			
	Share premium	Other reserves	Share-based payments (Note 24.3	*Total*
Balance at January 1, 2018	12	650,573	-	*650,585*
Actuarial gain (losses)	-	476	-	*476*
Distribution of prior year results	-	50,331	-	*50,331*
Own shares acquisition	-	(3)	-	*(3)*
Balance at December 31, 2018	12	701,377	-	*701,389*
Share capital reduction	-	(5,216)	-	-
Actuarial gain (losses)	-	(1,818)	-	*(1,818)*
Own shares acquisition	-	(5)	-	*(5)*
Transactions with non-controlling interests	-	(279)	-	*(279)*
Apropiation of prior year results	-	43,840	-	*43,840*
Share-based payements cost	-	-	262	*262*
Balance at December 31, 2019	12	737,899	262	*738,173*

(a) Legal reserves

In accordance with the Spanish Corporate Enterprises Act, companies registered in Spain are obliged to transfer 10% of the profits for the year to a legal reserve until it reaches an amount of at least an amount equivalent to 20% of share capital. This reserve is not distributable to shareholders and its value at 31 December 2019 and 2018 amounts to 2,935 thousand euros.

(b) Revaluation reserve

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

On 31 December 2019, once the inspection period had past the balance may be used to:

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

Revaluation reserve in accordance with Navarre Regional Law 23/1996, is considered as distributable from 31 December 2006, on to the extent that gains have been realised, that is, when the related assets have been depreciated, disposed of or otherwise written off.

(c) Treasury share reserves

Pursuant to Article 148 of Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the Corporate Enterprises Act, the Parent Company must establish an unavailable reserve equivalent to the value of treasury shares in its possession (see Note 16.3). These reserves must be held for both stakes and shares that have not been disposed of.

16.3. Movement in treasury shares

At the Ordinary Meeting of 25 May 2018, an agreement was reached to invalidate the authorisation granted to the Board of Directors at the General Meeting of 30 April 2013 and new authorisation granted to the Board of Directors to acquire and hold treasury shares as follows:

Provide new authorisation to the Board of Directors to buy and sell on the market, through the person, Company or institution that it deems advisable, shares in the Company at the market price on the transaction date, for the maximum number of shares permitted by the Corporate Enterprises Act and related provisions, with the minimum price not being below the nominal value or more than 15% higher than the share price listed on the Spanish Automated Quotation System at the time of the acquisition.

In 2019, treasury share acquisitions took place. At 31 December 2019, Viscofan, S.A. held a total of 150,000 treasury shares that represented 0.32% of the voting rights, acquired at a total price of 6,487 thousand euros.

In 2018 Viscofan, S.A. acquired a total of 103,682 of its own shares, representing 0.22% of voting rights, acquired at a total price of 5,289 thousand euros. These shares were fully redeemed in 2019.

16.4. Valuation adjustments

Movements in the years ended 31 December 2019 and 2018 were as follows:

	Thousands of euros		
	Exchange rate insurance	Raw material derivatives	*Total*
Balance at January 1, 2018	**274**	**1,498**	***1,772***
Gains/(losses), net of tax effects	593	-	*593*
Reclassification of gains to the income statement, net of tax	(274)	(2,471)	*(2,745)*
Balance at December 31, 2018	**593**	**(973)**	***(380)***
Gains/(losses), net of tax effects	2,027	-	*2,027*
Reclassification of gains to the income statement, net of tax	(593)	608	*15*
Balance at December 31, 2019	**2,027**	**(365)**	***1,662***

16.5. Exchange gains (losses)

The detail of the most significant translation differences by company for the years ended 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	2018
Koteks Viscofan, d.o.o.	(11,158)	(11,315)
Viscofan de México S.R.L. de C.V.	(6,473)	(9,546)
Viscofan do Brasil, soc. com. e ind. Ltda.	(45,273)	(40,364)
Viscofan Uruguay, S.A.	(15,223)	(16,840)
Rest of Group companies	21,145	19,320
Balance at December 31, 2019	**(56,982)**	**(58,745)**

16.6. Profit distribution and other remuneration paid to the shareholders

The proposed distribution of income of the parent for 2019, formulated by the Directors of the parent and pending approval by the General Shareholders' Meeting, corresponds to a total remuneration to shareholders of 1.62 euros per share, of which, the distribution of earnings in the form of dividends is 1.61 euros per share and 0.01 euros per share for the premium payment for attending the General Shareholders' Meeting in 2020.

In relation to 2018, the total remuneration for shareholders amounted to a total of 1.73 euros per share. The distribution of earnings resulted in a dividend of 1.59 euros per share (0.64 euros per share paid on 20 December 2018 as an interim dividend), an extraordinary dividend of 0.13 euros per share (paid on 22 March 2018) for the extraordinary gain from the collection of patent indemnities, and 0.01 euros per share for the payment of a premium for attendance at the 2019 General Meeting. This premium was recognised as an expense for the year.

	Thousands of euros	
	Distribution proposal year 2019	Distributed profits year 2018
Dividends	74,624	79,993
Voluntary reserves	30,838	11,260
Distributable profits attributable to the parent	**105,462**	**91,253**

Parent profits for the year ended 31 December 2018 were distributed as approved by the shareholders at their annual general meeting held on 12 April 2019.

On 21 November 2019, based on projected profit for the year, the Board of Directors approved an interim dividend for 2019 of 30,127 thousand euros, equal to 0.65 euros per share. This dividend was paid on December 20, 2019.

The value of the dividend is less than the maximum limit permitted by prevailing legislation on distributable profit after the previous year end.

The statement required by current legislation and prepared by the parent's Board of Directors in respect of the distribution of the interim dividend for 2019 is as follows:

	Miles de euros
Cash available at 8.11.2019	**10,686**
Trade and other receivables	213,790
Trade and other payables	(137,143)
Payments to employees	(50,467)
Interest expense	(816)
Other payments	(5,600)
Cash flow from operating activities	**19,764**
Dividends received	91,986
Purchases of property, plant and equipment	(14,700)
Cash flow from investment activities	**77,286**
Variations in bank borrowings	(15,746)
Dividends paid	(75,087)
Cash flows from financing activities	**(90,833)**
Projected liquidity at 8.11.2020	**16,903**

17. Capital grants

The movements under this heading in 2019 and 2018 were as follows:

	Thousands of euros
Balance at January 1, 2018	**2,482**
Translation differences	16
Additions	274
Taken to profit	(637)
Balance at December 31, 2018	**2,135**
Translation differences	6
Taken to profit	(590)
Balance at December 31, 2019	**1,551**

The breakdown of capital grants during 2019 and 2018, all related to fixed assets, is as follows:

	Thousands of euros	
	2019	2018
Navarre Regional Government	1,053	1,468
Ministry of Science and Technology	233	261
International organizations	265	406
Balance at December 31	**1,551**	**2,135**

18. Current and non-current provisions

The breakdown of this heading in the Consolidated Statement of Financial Position is as follows:

		Thousands of euros	
	Note	2019	2018
Defined benefit	18.1	29,995	18,012
Other employee benefits	18.2	3,298	3,566
Provisions for other litigation	18.3	307	312
Others		2	74
Total non-current provisions		**33,602**	**21,964**
Provisions for warranties/repayments	18.4	1,582	1,818
Provisions for safety in the workplace	18.5	1,183	1,323
Provisions for emission rights	18.6	5,667	2,357
Others		527	247
Total current provisions		**8,959**	**5,745**

18.1. Provisions for defined benefit plans

The Group makes contributions to various different defined benefit plans. The key plans were located in Germany, until 2018, and with the new business combinations, also in the United States and Canada.

Independent actuarial valuations are used for all plans, and, for new entrants, there are assets assigned to the pension plans.

- Pension plans in Germany

A contribution is made through the Naturin Viscofan GmbH subsidiary for a defined benefit plan consisting of a life pension plan for retired employees. At 31 December 2019, there were 360 employees, 456 retirees and ex-employees. At 31 December 2018, there were 386 employees and 442 retirees and ex-employees.

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

The net obligation corresponding to pension plans amounts to 18,757 thousand euros at 31 December 2019, and 16,153 thousand euros at 31 December 2018.

- Pension plans in the United States

Through the subsidiary Viscofan Collagen USA Inc. the Group has two defined benefit plans.

1) Retirement Plan for Hourly Employees. This plan is frozen as of 1 December 2010. It provides a life annuity for employees and former employees of the company and has a total of 190 beneficiaries (35 of them active, 155 retired and former employees).

   The net obligation amounted to 3,642 thousand euros at 31 December 2019. The capitalisation rate was 72.7% of the value of the obligation.

2) Retirement Plan for Salaried Employees. This plan is frozen as of 31 January 2008 and provides an annuity for 133 participants (21 of whom are active, while 112 are retirees and former employees).

   The net obligation amounted to 5,444 thousand euros at 31 December 2019. The capitalisation rate was 65.6% of the value of the obligation.

- Pension plans in Canada

Through the subsidiary Viscofan Collagen Canada Inc. the Group operates a defined benefit plan consisting of an annuity for the 41 beneficiaries (21 of whom are active, 20 retired and former employees). This plan is frozen as of 31 March 2011.

The net obligation amounted to 138 thousand euros at 31 December 2019. The capitalisation rate was 97.2% of the value of the obligation.

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

	Thousands of euros					
	Germany		Plans in other countries		*Total*	
	2019	2018	2019	2018	*2019*	*2018*
Obligations at january 1,	**16,153**	**16,446**	**1,859**	**1,915**	***18,012***	***18,361***
Service cost for the current period (Note 5)	283	302	135	33	*418*	*335*
Interest cost	320	310	81	71	*401*	*381*
Payments made	(285)	(285)	(211)	(219)	*(496)*	*(504)*
Actuarial gains/(losses)	2,286	(620)	105	(26)	*2,391*	*(646)*
Translations differences	-	-	45	85	*45*	*85*
Acquired on business combination	-	-	34,042	-	*34,042*	*-*
Present value of the obligation	**18,757**	**16,153**	**36,056**	**1,859**	***54,813***	***18,012***
Acquired on business combination	-	-	(24,818)	-	*(24,818)*	*-*
Fair value of pension plan assets	**-**	**-**	**(24,818)**	**-**	***(24,818)***	***-***
Obligation at December 31,	**18,757**	**16,153**	**11,238**	**1,859**	***29,995***	***18,012***

Amount of the obligation corresponding to						
Active members	*10,208*	*9,049*	*7,562*	*349*	*17,770*	*9,398*
Ex employee	*3,084*	*2,690*	*2,370*	*-*	*5,454*	*2,690*
Retired beneficiaries	*5,465*	*4,414*	*26,124*	*1,510*	*31,589*	*5,924*

The detail of plan assets is as follows:

	Thousands of euros	
	USA	Canada
Cash	79	-
Domestic Investment funds	18,584	2,447
Foreing Investment funds	1,431	1,535
Real estate funds	-	742
Fair value of pension plan assets	20,094	4,724

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

	Thousands of euros	
	2019	2018
Current service cost	**417**	**335**
Plans in Germany	283	302
Plans in other countries	134	33
Net financial cost	**401**	**381**
Interest expense for German plans	320	310
Interest expense for plans in other countries	81	71
Expense (income) recognized for the year	**818**	**716**

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

	Thousands of euros	
	2019	2018
Actuarial losses and gains of	(2,391)	646
Arising from changes in demographic assumptions	(110)	96
Arising from changes in financial assumptions	(2,363)	355
Arising from experience	82	195
Tax effect	573	(169)
Net results recognized in the consolidated statement of comprehensive income	(1,818)	477

d) The principal actuarial assumptions used in the plans located in Germany are as follows:

	2019	2018
Annual discount rate	1.3%	1.9%
Expected rate of salary increases	2.0%	2.0%
Expected age of retirement for employees	65-67	65-67

The mortality tables used to quantify the defined benefit obligation were those corresponding to Heubeck Richttafeln 2005 G.

In relation to the valuation of the net obligation of the pension plans acquired in the business combination, the actuarial assumptions used were

	USA	Canada
Annual discount rate	3.0%	2.9%
Expected rate of return on assets	5.3%	2.9%

The mortality tables used in the determination of the defined benefit obligation were those for Pri-2012 Private Retirement Plans Mortality Tables (in the USA) and Canadian Private Sector Pensioners' Mortality Table combined with mortality improvement scale MI-2017 (in Canada).

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

	Thousands of euros	
	2019	2018
Payable within the next 12 months	306	283
Payable within 1 and 2 years	326	303
Payable within 2 and 3 years	347	323
Payable within 3 and 4 years	381	359
Payable within 4 and 5 years	413	395
Payable within 5 and 10 years	2,670	2,564
Payable within more than 10 years	21,706	21,946

The following table shows the sensitivity analysis for each of the main hypotheses on how a possible reasonable change in each hypothesis would affect the obligation at year end. This information is not included in the analysis of the pensions acquired in the business combination.

	Thousands of euros	
	2019	2018
Discount rate		
Increase of 50 basic points	(1,784)	(1,498)
Decrease of 50 basic points	2,053	1,720
Increase in pensions		
Increase of 50 basic points	1,416	1,166
Decrease of 50 basic points	(1,282)	(1,059)
Life expectancy		
Increase of 1 additional year	742	598

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

18.2. Other employee benefits and long-term remuneration

The movements at 31 December 2019 and 2018 are as follows:

	Thousands of euros	
	2019	2018
Balance at January 1,	**3,566**	**3,277**
Translation differences	(3)	(18)
Modifications	(936)	-
Allowances	970	433
Payments	(299)	(126)
Balance at December 31,	**3,298**	**3,566**

Included under this heading are prizes that the subsidiary Naturin Viscofan GmbH has established for its employees. This loyalty premium was modified in 2019 in agreement with the company's employees. When employees reach 25 years of length of service, they are entitled to a salary of 1,000 euros and one month's gross salary multiplied by 0.8 (1.6 in 2018) plus one day's holiday; when they reach 40 years of length of service, a payment of 1,000 euros and the gross salary of one month multiplied by 1.1 (1.6 in 2018) plus a holiday day; when they reach 50 years, a holiday day (as in 2018). In 2018, a payment of 1,000 euros was included when they reached 10 years of length of service.

The hypotheses used for calculating the obligations were the same as those used for the pension plan of the same subsidiary as described in the previous point.

The number of beneficiaries amounts to 360 employees (386 in the previous period), while the obligation amounts to 1,751 and 2,754 thousand euros at 31 December 2019 and 2018, respectively. The beneficiaries received 284 thousand euros in payments during 2019 (2018: 126 thousand euros). The payable amount expected for 2020 totals 137 thousand euros.

Recognised service costs and financial expenses for the current period amounted to 164 thousand and 52 thousand euros, respectively (2018: 163 thousand and 48 thousand euros, respectively).

This heading also includes the long-term incentive plan amounting to 930 thousand euros, the features of which are detailed in Note 24.3.

18.3. Provisions for other litigations

The movements at 31 December 2019 and 2018, are as follows:

	Thousands of euros	
	2019	2018
Balance at January 1,	**312**	**554**
Translation differences	(1)	(32)
Allowances	-	72
Payments	(4)	(282)
Balance at December 31,	**307**	**312**

The provision for other litigation mainly covers claims brought against the Brazilian subsidiary by the Brazilian tax authorities and certain company employees. After seeking appropriate legal counsel, the directors consider that the result of the litigation will not significantly differ from the amounts provisioned at 31 December 2019.

18.4. Provision for guarantees / refunds

A provision is recognised for warranty claims anticipated for products sold during the last year, based on past experience regarding the volume of returns. Most of these costs are expected to be incurred in the following year.

18.5. Safety in the workplace provision

The safety in the workplace provision covers claims brought against the Group by certain employees, most of whom are based in the US, related to workplace accidents. These claims did not arise as a result of a specific incident, but are customary practice in many companies. After seeking appropriate legal counsel, the directors consider that the result of the litigation will not significantly differ from the amounts provisioned at 31 December 2019.

18.6. Emission rights provision

The emission rights provision includes the estimated consumption of emission rights during 2019 and 2018 valued in accordance with the measurement standard described in Note 4.17.

18.7. Contingent assets and liabilities

(a) Contingent liabilities

At year end, there were a number of different legal claims filed against the Brazilian subsidiary totaling 3.7 million euros (2018: 4.47 million euros) classified as possible.

Also, at year-end there are several legal claims in progress with Griffith Colombia, S.A. ("Griffith"). In the year ending 31 December 2012, Viscofan terminated its commercial relationship with Griffith. As a consequence of such termination, in 2013 Griffith filed suits in Colombia against Viscofan do Brasil, Viscofan CZ and Viscofan SA claiming an indemnity for the termination of the commercial relationship for a total amount of approximately 3,700,000 euros. Griffith pursued a single suit and a claim for a cumulative amount and therefore it is not possible to determine the amount claimed from each of the companies, although it is viewed as possible. The court proceedings are ongoing. There were no significant developments in 2019. In addition, Griffith filed a claim of unfair competition in in Colombia against Viscofan do Brasil, Viscofan CZ and Viscofan SA. The proceedings are pending appeal in cassation to the Supreme Court. The risk is assessed as probable, although the suit does not involve a monetary claim.

In September 2019 an accident occurred at the production centre in Cáseda, Navarra, Spain. An external worker at the centre died; a Viscofan S.A. employee was seriously injured. Preliminary proceedings opened before the Court of First Instance and Investigation No. 2 of Aoiz. Liability cannot be determined at this time.

(b) Contingent assets

Viscofan S.A. filed legal proceedings before the Commercial Court against Sayer Technologies S.L. for disclosing confidential information. In 2018 the trial was held. In 2019 the first instance judgment was handed down; it was appealed against by Viscofan. The proceedings are currently in the appeal phase before the Provincial Court of Navarre.

In terms of the electricity sector regulation in Spain, in September 2018, Viscofan, S.A. received the combined agreement from the Treasury of Navarre rejecting the applications for the refund of revenue obtained unduly in terms of the tax on Electricity Production corresponding to 2013, 2014 and 2015 on the basis that this tax breaches different legal provisions at a European level and in the Spanish Constitution. On 31 October 2018, Viscofan, S.A., filed an administrative economic claim against this rejection before the Administrative Economic Court of Navarre. This claim was dismissed by the Regional Economic Administrative Tribunal in December 2019. Against that decision, in January 2020, within the time limit laid down for that purpose, Viscofan S.A. lodged an administrative appeal with the Pamplona Court of Judicial Review, requesting that the proceedings be suspended until the Court of Justice of the European Union has ruled on the issue referred for a preliminary ruling by the Judicial Review Chamber of the High Court of Justice of the Community of Valencia on various questions relating to the IVPEE. Viscofan S.A. received from the Judicial Review Court No. 3 of Pamplona a ruling accepting its request of suspension of the judicial review proceedings by reason of a prior issue at civil law.

In July 2018, Supralon International AG, a Group company, initiated arbitration proceedings against Podanfol S.A. for different breaches of a supply contract it had entered into. In these proceedings, Supralon International AG is requesting the payment of contractual penalties for the sum of 3 million euros and damages for an amount yet to be defined. The arbitration continues. In 2019, Podanfol responded to the claim filed by Supralon International AG by denying any breach of the supply contract and making a counterclaim in the amount of 1.1 million euros. The risk is qualified as remote.

19. Trade and other payables

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

	Thousands of euros	
	2019	2018
Suppliers	29,961	29,565
Amounts owed for services received and other payables	26,021	26,730
Customer advances	2,624	2,161
Remuneration pending payments	15,937	12,941
Trade payable	**74,543**	**71,397**
Payable to public administrations	11,404	11,074
Other payables	**11,404**	**11,074**
Balance at December 31,	**85,947**	**82,471**

The breakdown by currency of trade payables is as follows:

	Thousands of euros							
	Euros	US dollars	Czech crown	Brazilian real	Mexican peso	Chinese yuan	Others	*Total carrying amount*
2019	33,570	17,856	2,882	4,642	3,878	3,621	8,094	*74,543*
2018	30,639	20,477	2,436	1,768	4,253	3,264	8,560	*71,397*

At 31 December 2019 and 2018, balances payable to public administrations were as follows:

	Thousands of euros	
	2019	2018
VAT payable to Treasury	3,681	2,782
Amounts payable to the Treasury for withholdings	6,752	6,020
Payable to social security agencies	792	2,091
Other public bodies	179	181
Balance at December 31,	**11,404**	**11,074**

A breakdown by currency is as follows:

	Thousands of euros							
	Euros	US dollars	Czech crown	Brazilian real	Mexican peso	Chinese yuan	Others	*Total carrying amount*
2019	8,098	137	488	661	969	579	472	*11,404*
2018	6,894	98	469	500	1,875	701	537	*11,074*

Information on the average period of payment to suppliers in Spain in commercial transactions

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

	Days	
	2019	**2018**
Average supplier payment period	23.20	27.67
Ratio of transactions paid	23.50	28.13
Ratio of unpaid transactions	20.10	22.92

	Thousands of euros	
	2019	**2018**
Total payments made	132,329	132,840
Total unmade payments	10,002	12,801

20. Current and non-current financial liabilities

The breakdown of current and non-current financial liabilities, taking into account discounted contractual maturities at 31 December 2019 and 2018, is as follows:

	Thousands of euros					
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	*Carrying amount*	*Fair value*
Bank borrowings	17,111	21,392	54,234	1,000	*93,737*	*93,737*
Accrued interest payable	115	64	-	-	*179*	*179*
Other financial liabilities	8,646	3,100	10,612	6,063	*28,421*	*28,421*
Measured at amorised cost	*8,646*	*3,100*	*10,612*	*6,063*	*28,421*	*28,421*
Total at December 31, 2019	**25,872**	**24,556**	**64,846**	**7,063**	***122,337***	***122,337***

	Thousands of euros					
	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	*Carrying amount*	*Fair value*
Bank borrowings	45,400	20,843	44,203	-	*110,446*	*110,446*
Accrued interest payable	170	49	-	-	*219*	*219*
Other financial liabilities	8,039	3,912	8,828	3,417	*24,196*	*24,196*
Measured at amorised cost	*8,039*	*3,912*	*8,828*	*3,417*	*24,196*	*24,196*
Total at December 31, 2018	**53,609**	**24,804**	**53,031**	**3,417**	***134,861***	***134,861***

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

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

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

Financial liabilities for bank borrowings bearing interest at floating rates are referenced to Euribor or Libor plus an average spread of 0.86 percentage points (0.683 percentage points in 2018).

The average fixed interest rate on financial liabilities for bank borrowings in 2019 is 0.76% (1% in 2018).

"Other financial liabilities" at 31 December 2019, both current and non-current, mainly includes:

- A loan from the parent amounting to 1,666 thousand euros. The nominal amount received from COFIDES (Compañía Española de Financiación del Desarrollo) totalled 5,000 thousand euros. It accrues interest at market rates.
- Loans with interest rates granted by entities such as the CDTI and the Ministry of Economy and Competitiveness amounting to 12,031 thousand euros.
- Non-current assets suppliers, amounting to 7,187 thousand euros.

At 31 December 2018 mainly includes:

- A loan from the parent amounting to 2,500 thousand euros. The nominal amount received from COFIDES (Compañía Española de Financiación del Desarrollo) totalled 5,000 thousand euros. It accrues interest at market rates.
- Loans with interest rates granted by entities such as the CDTI and the Ministry of Economy and Competitiveness amounting to 10,588 thousand euros.
- Non-current assets suppliers, amounting to 7,838 thousand euros.

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

A breakdown by currency is as follows:

	Thousands of euros				
	Euros	US dollars	Czech crown	Others	*Total carrying amount*
2019	107,440	8,458	956	5,483	*122,337*
2018	115,177	10,393	5,478	3,813	*134,861*

The limits, the amount drawn down, and the undrawn amount under credit and discount lines at December 31 are as follows:

	Thousands of euros	
	2019	2018
Limit	131,767	115,238
Amount draw down	14,867	37,542
Drawable amount	116,900	77,696

The undiscounted value of financial liabilities classified by maturity stripping out derivative financial instruments at 31 December 2019 and 2018 is as follows:

	Thousands of euros						
	Less than 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	More than 5 years	*Total*
Borrowings - debt principal	38,503	26,571	15,467	10,196	2,000	1,000	*93,737*
Interest	600	419	209	89	17	6	*1,340*
Financial liabilities - borrowings	**39,103**	**26,990**	**15,676**	**10,285**	**2,017**	**1,006**	***95,077***
Debt principal	11,746	5,262	2,240	1,939	1,171	6,063	*28,421*
Interest	71	42	29	23	18	15	*198*
Other financial liablities	**11,817**	**5,304**	**2,269**	**1,962**	**1,189**	**6,078**	***28,619***
Total at December 31, 2019	**50,920**	**32,294**	**17,945**	**12,247**	**3,206**	**7,084**	***123,696***

	Thousands of euros						
	Less than 1 year	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	More than 5 years	*Total*
Borrowings - debt principal	66,243	12,539	12,539	12,447	6,678	-	*110,446*
Interest	845	450	313	180	42	-	*1,830*
Financial liabilities - borrowings	**67,088**	**12,989**	**12,852**	**12,627**	**6,720**	**-**	***112,276***
Debt principal	11,967	3,560	2,475	1,541	1,236	3,417	*24,196*
Interest	53	37	22	9	6	6	*133*
Other financial liablities	**12,020**	**3,597**	**2,497**	**1,550**	**1,242**	**3,423**	***24,329***
Total at December 31, 2018	**79,108**	**16,586**	**15,349**	**14,177**	**7,962**	**3,423**	***136,605***

At 31 December 2019, the Group had reverse factoring facilities with a joint limit of 5,000 thousand euros (5,600 as at 31 December 2018), as well as multi-risk policies totalling 8,000 thousand euros, as in December 2018.

21. Derivatives

The breakdown of balances which include the values of derivatives at 31 December 2019 and 2018 is as follows:

Thousands of euros

	2019				2018			
	Measured at fair value with changes in OCI		Measured at fair value with changes in P&L		Measured at fair value with changes in OCI		Measured at fair value with changes in P&L	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Exchange rate insurance	32	-	-	-	13	-	-	-
Raw materials hedges	64	-	-	-	-	495	-	-
L.T. Derivatives	**96**	**-**	**-**	**-**	**13**	**495**	**-**	**-**
Exchange rate insurance	2,277	40	47	85	701	49	41	142
Raw materials hedges	444	-	-	-	-	856	-	-
S.T. Derivatives	**2,721**	**40**	**47**	**85**	**701**	**905**	**41**	**142**
Total	**2,817**	**40**	**47**	**85**	**714**	**1,400**	**41**	**142**

Derivatives are only used for hedging purposes and not as speculative investments. However, when derivatives do not meet the test to be treated as accounting hedges, they are classified as "held for trading" for accounting purposes and are carried at fair value through profit and loss. They are presented as current assets or liabilities to the extent that they are expected to be settled within 12 months after the reporting period.

Thousands of euros

	Measured at fair value		*Carrying amount*	*Fair value*
	With changes in P&L	With changes in OCI		
Non-current derivatives	-	96	*96*	*96*
Current derivatives	47	2,721	*2,768*	*2,768*
Total Financial assets at December 31, 2019	**47**	**2,817**	***2,864***	***2,864***
Current derivatives	(85)	(40)	*(125)*	*(125)*
Total Financial liabilities at December 31, 2019	**(85)**	**(40)**	***(125)***	***(125)***

Thousands of euros

	Measured at fair value		*Carrying amount*	*Fair value*
	With changes in P&L	With changes in OCI		
Non-current derivatives	-	13	*13*	*13*
Current derivatives	41	701	*742*	*742*
Total Financial assets at December 31, 2018	**41**	**714**	***755***	***755***
Non-current derivatives	-	(495)	*(495)*	*(495)*
Current derivatives	(142)	(905)	*(1,047)*	*(1,047)*
Total Financial liabilities at December 31, 2018	**(142)**	**(1,400)**	***(1,542)***	***(1,542)***

21.1. Raw material hedges

A significant amount of the Company's production costs is linked to energy costs. For this reason, and in order to mitigate the negative effect of variations of energy prices, in 2018 the Company entered into hedging contracts on the cost of gas for a total of 840,000 MWh, covering gas purchases for the period from February 2019 to January 2020, the contracted prices of which range from 2.05 to 2.368 euro cents per kilowatt hour. The amount contracted in 2016, for 2018, amounted to a total of 540,000 MWh. These contracts were arranged based on the parent's hedging policies, which cover up to 80% of the foreseen gas consumption.

In 2019, the Company entered into hedging contracts for the period from February 2020 to January 2021 for a total of 240,000 MWh, with a contracted price of 1.9. These contracts were arranged based on the parent's hedging policies, which cover up to 80% of the foreseen gas consumption.

The valuation formula used included, among other variables, Brent forward prices; and there are no significant inefficiencies.

21.2. Exchange rate insurance

Part of the fair value of the exchange rate insurances at year end was recognised as income or expense on the consolidated income statements for 2019 and 2018. The amount recognised directly in the consolidated income statements relates to exchange rate insurances designated as hedges to cover amounts payable or receivable recognised in the consolidated statements of financial position at the exchange rate at year end. No significant inefficiencies were noted in 2019 and 2018 in any derivative financial instruments contracted.

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

The nominal value of the main exchange rate insurances in effect at 31 December 2019 and 2018 is as follows:

	Thousands of euros	
	2019	**2018**
US dollar	117,700	94,950
Pounds sterling	5,550	9,850
Canadian dollar	2,550	4,000

22. Income tax

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

	Thousands of euros					
	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Non-current assets	14,293	9,404	20,562	18,917	(6,269)	(9,513)
Current assets	8,844	8,355	1,732	1,740	7,112	6,615
Non-current liabilities	4,205	3,820	196	196	4,009	3,624
Current liabilities	1,090	954	1,179	499	(89)	455
Total at December 31,	**28,432**	**22,533**	**23,669**	**21,352**	**4,763**	**1,181**

Deferred tax assets, on current assets, are mainly due to the effect on tax of the elimination of the margin in inventory acquired between Group companies, as well as provisions on inventories that are not tax-deductible in some countries. The deferred tax asset for non-current assets relates mainly to the capitalisation of tax credits for tax losses (6,355 thousand euros) and investment deductions (2,848 thousand euros). In addition, deferred tax assets arising from current and non-current liabilities relate mainly to provisions at different Group companies that will be used for tax purposes when applied. A large number of the provisions described in Note 18 have led to adjustments in the tax assessment basis in the different countries.

Deferred tax liabilities arising from non-current assets for the years ended 31 December 2019 and 2018, mainly relate to the application of different amortisation rates by certain Group subsidiaries (mostly in the USA) than those used for tax purposes. Also the tax effect of gains on PP&E items acquired in different business combinations is included.

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

	Thousands of euros	
	2019	2018
Non-current assets	(3,993)	(3,972)
Current assets	(281)	(935)
Non-current liabilities	210	182
Current liabilities	784	(152)
Consolidated income statement	**(3,280)**	**(4,877)**
Non-current assets	749	1,234
Current assets	(216)	(280)
Non-current liabilities	(595)	139
Current liabilities	(240)	(439)
"Other comprehensive income" on the consolidated statements of comprehensive income	**(302)**	**654**
Total changes in taxes and deferred tax liablities	**(3,582)**	**(4,223)**

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

	Thousands of euros	
	2019	2018
Actuarial gains/(losses) on pension plans		
Germany	(573)	166
Other countries	-	3
Unrealized gains/(losses) on cash flow hedges	(823)	826
Changes due to translation differences	1,094	(341)
Charged directly against "Other comprehensive income" on the consolidated income statement	**(302)**	**654**

The major components of income tax expense for the years ended 31 December 2019 and 2018, are as follows:

	Thousands of euros	
	2019	2018
Income tax expense for the year	27,753	28,529
Adjustment to income tax from prior years	14	(64)
Current income tax	**27,767**	**28,465**
Origination and reversal of temporaty differences	(3,280)	(4,877)
Defered income tax	**(3,280)**	**(4,877)**
Profit por continuing operations	**24,487**	**23,588**

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

	Thousands of euros	
	2019	2018
Profit before tax for the year	**130,064**	**147,299**
28% tax rate	36,418	41,244
Effect of application of tax rates in each country	(6,085)	(5,820)
Deductions generated	(6,084)	(10,941)
Adjustment to income tax from prior years	14	(64)
Impact of permanent differences	224	(831)
Tax on income expense	**24,487**	**23,588**

During 2019 the Chinese subsidiary Viscofan Technology (Suzhou) Co. Ltd.'s rating was again deemed as "High Tech" for 3 years and therefore its tax rate changed from 25% to 15%.

Koteks Viscofan, d.o.o. may avail itself of a tax incentive which would reduce the corporate income tax quota 83% in tax returns presented until 2021 thanks to investments and the creation of jobs in the Serbian Republic.

In addition, Uruguay's Ministry of Economy and Finance approved in 2012 the exemption from corporation tax for an amount related to the eligible investment, which will be applicable for a period of 25 years. The exemption may not exceed a maximum percentage of net tax income (90% in the first half of the 25-year period and thereafter will fall to 10%).

Income tax payable from continued operations is as follows:

	Thousands of euros	
	2019	2018
Current tax	27,753	28,529
Withholdings and payments on account	(24,117)	(28,723)
Total at December 31,	**3,636**	**(194)**

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

	Thousands of euros	
	2019	2018
Tax assets receivable	1,522	6,178
Tax liabilities payable	(5,158)	(5,984)
Total at December 31,	**(3,636)**	**194**

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected by the tax authorities or the inspection period of four years has elapsed. At 31 December 2019, the parent and subsidiaries in Spain are open to inspection of all applicable taxes to which they are liable and for which the corresponding inspection periods have yet to expire. The situation of foreign companies depends on the legislation prevailing in each country.

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

23. Risk management

Risk management is controlled by the Group, in keeping with policies approved by the Board of Directors. The risk control system is described in *section E. Risk management and control systems* of the Annual Corporate Governance Report from the parent company, listing those that might affect the achievement of objectives, their appearance in 2019, and response and supervision plans. We will now focus on the financial risks described below.

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

23.1. Exchange rate risk

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

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

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

	Thousands of euros			
	2019		2018	
	+ 5%	- 5%	+ 5%	- 5%
US dollar	6,467	(5,845)	6,279	(5,681)
Czech Crown	(1,634)	1,478	(1,468)	1,328
Brazilian Real	1,451	(1,314)	999	(905)
Chinese Yuan Renmimbi	803	(728)	710	(643)

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

	Thousands of euros			
	2019		2018	
	+ 5%	- 5%	+ 5%	- 5%
US dollar	9,661	(8,740)	8,378	(7,593)
Czech Crown	3,141	(2,841)	2,183	(1,975)
Brazilian Real	4,910	(4,442)	5,001	(4,525)
Chinese Yuan Renmimbi	3,211	(2,905)	3,350	(3,031)

23.2. Credit risk

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

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

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

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

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

The Directors consider that at 31 December 2019 there were no significant assets that could be impaired with respect to their net carrying amount.

23.3. Liquidity risk

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

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

The following ratios show the level of liquidity at 31 December 2019 and 2018:

	Thousands of euros	
	2019	2018
Current asstes	520,144	506,187
Current liabilities	(155,520)	(173,694)
Working capital	**364,624**	**332,493**
Current liabilities	155,520	173,694
% working capital/current liabilities	**234.45%**	**191.42%**
Cash and cash equivalents	51,370	31,050
Available borrowing facilities (Note 20)	116,900	77,696
Cash and available on credit and discount lines	**168,270**	**108,746**
% cash and cash equivalents+available on credit and discount lines/Current liabilities	**108.20%**	**62.61%**

The amounts available on credit and discount lines do not include confirming lines or multi-risk policies which are described in Note 20.

Certain of the Group’s non-current loans must meet a series of ratios calculated based on its consolidated financial statements. Lack of compliance represents an increase in finance costs and, depending on the case, represents the early termination of a contract. As of 31 December 2019 and 2018, all the main ratios have been satisfactorily met and neither Viscofan, S. A. nor any of its material subsidiaries were in breach of their financial commitments or any kinds of obligation that could trigger their early redemption.

In 2019 and 2018 there were no defaults or other noncompliance of the principal, interest, or repayments of debts with credit entities. No defaults are foreseen for 2020.

23.4. Interest rate risks in cash flows and fair value

The Group manages interest rate risk by maintaining a balanced portfolio of fixed and floating rate loans and credits. The Group's policy is to hold between 50% and 85% of its loans at a fixed interest rate. To manage it, the Group receives fixed-interest loans. At 31 December 2019, approximately 70% of the Group's loans are remunerated at a fixed interest rate (2018: 62%).

The Group does not own significant remunerated assets.

At 31 December 2019 and 2018 the structure of financial liabilities subject to interest rate risk, once hedges through the derivatives arranged have been taken into account, is as follows:

	Thousands of euros	
	2019	2018
Bank borrowings	93,916	110,665
Other financial debt	21,234	16,358
Financial debt total	**115,150**	**127,023**
Fixed interest rate (*)	80,809	79,100
Variable interest rate	34,341	47,923

(*) Granted loans included

In 2019 and 2018, the floating interest rates on loans are linked to Euribor and Libor dollar.

The Group is likewise exposed to changes in the interest rates used to calculate the pension plan obligations in US and Germany (Note 18.1).

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

	Thousands of euros			
	2019		2018	
	+ 1%	- 1%	+ 1%	- 1%
Pension plans commitments				
Germany	(168)	181	(163)	163
Plans in other countries	(18)	19	(20)	19
Financial debt				
Euribor	(413)	410	(319)	320

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

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

The Group policy is to set the prices for main fuels through the arrangement of one-year duration contracts with suppliers, or by using hedging policies (Note 21.1). It thus attempts to mitigate the impact of Brent variations on the consolidated income statement.

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

	Thousands of euros	
	2019	2018
+ 10%	2,874	2,709
- 10%	(2,874)	(2,709)

24. Information on the Board of Directors of the Parent and Top Management

24.1. Directors

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

The breakdown for Board remuneration in 2019 and 2018 is as follows:

	Thousands of euros							
	Salaries	Fixed remuneration	Allowances	Variable short-term remuneration	Variable long-term remuneration	Remuneration for membership of commissions	Other notions	*Total*
Mr. José Domingo de Ampuero y Osma	595	160	-	271	-	-	6	*1,032*
Mr. José Antonio Canales García	458	80	-	209	-	-	39	*786*
Mr. Ignacio Marco-Gardoqui Ibáñez	-	80	36	-	-	45	-	*161*
Mr. José María Aldecoa Sagastasoloa	-	80	36	-	-	50	-	*166*
Mr. Jaime Real de Asúa y Arteche	-	80	36	-	-	30	-	*146*
Mr. Nestor Basterra Larroudé	-	80	36	-	-	20	-	*136*
Ms. Agatha Echevarría Canales	-	80	36	-	-	30	-	*146*
Mr. Juan March de la Lastra	-	80	33	-	-	20	-	*133*
Mr. Santiago Domecq Bohórquez	-	80	33	-	-	30	-	*143*
Ms. Laura González Molero	-	80	36	-	-	30	-	*146*
Total 2019	**1,053**	**880**	**282**	**480**	**-**	**255**	**45**	***2,995***

	Thousands of euros							
	Salaries	Fixed remuneration	Allowances	Variable short-term remuneration	Variable long-term remuneration	Remuneration for membership of commissions	Other notions	*Total*
Mr. José Domingo de Ampuero y Osma	585	239	-	212	129	-	10	*1,175*
Mr. José Antonio Canales García	450	47	-	163	99	-	25	*784*
Mr. Ignacio Marco-Gardoqui Ibáñez	-	80	33	-	-	53	-	*166*
Mr. José María Aldecoa Sagastasoloa	-	80	30	-	-	42	-	*152*
Mr. Jaime Real de Asúa y Arteche	-	80	33	-	-	30	-	*143*
Mr. Nestor Basterra Larroudé	-	184	33	-	-	54	-	*271*
Ms. Agatha Echevarría Canales	-	153	33	-	-	59	-	*245*
Mr. Juan March de la Lastra	-	80	30	-	-	20	-	*130*
Mr. Santiago Domecq Bohórquez	-	80	30	-	-	30	-	*140*
Ms. Laura González Molero	-	47	18	-	-	17	-	*82*
Mr. Alejandro Legarda Zaragüeta	-	33	15	-	-	13	-	*61*
Total 2018	**1,035**	**1,103**	**255**	**375**	**228**	**318**	**35**	***3,349***

Remuneration paid to Mr. Alejando Legarda Zaragüeta correspond until the month of May 2018, when he stepped down as member of the parent's Board of Directors, in accordance with the decision made during the General Shareholders' Meeting held on 25 May 2018.

During the same meeting, Ms. Laura González Molero was appointed as an independent director of the parent company.

The two Executive directors, José Domingo de Ampuero y Osma and José Antonio Canales García earned a variable compensation totalling 480 thousand euros in the short term (375 thousand euros in the short term and 228 thousand euros long-term in 2018). These were calculated based on EBITDA, net profit, sales, and share price values which were determined in accordance with the annual and multi-year plan as well as personal performance.

In relation to the Long Term Incentive Plan, a liability of 101 thousand euros was recognised in the year.

"Other items" includes 45 thousand euros (35 thousand euros in 2018) in respect of life and accident insurance premiums, health care policies and company car.

During 2019, amounts were paid for insurance premiums covering the civil liability of its directors for damage caused by acts or omissions in their position amounting to 46 thousand euros (50 thousand euros in 2018).

At 31 December 2019 and 2018, no advances or loans had been granted to the Viscofan Group, nor did the Group have any pension commitments or other non-current savings plans. Likewise, no type of guarantee was granted on behalf of any present or former members of the Board of Directors, related individuals or entities. In 2019 and 2018 the members of the Board of Directors and related individuals or entities did not perform any transactions with the Company or with Group companies other than in the ordinary course of business or on terms other than on an arms' length basis.

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

In 2019, all the Group companies had no legal person administrators in any companies

The Viscofan Group has contracts with its two executive directors which include golden parachute clauses. The termination of these contracts in certain objective circumstances not attributable to these board members, may entitle them to indemnification worth twice their fixed remuneration, comprising two years of non-competition.

24.2. Top management

The breakdown of the Top Management positions during 2019 follows:

Corporate management	
Mr. José Angel Arrarás	R&D and Quality Officer
Mr. Andrés Díaz	Chief Operations Officer
Mr. Gabriel Larrea	Chief Commercial Officer
Ms. María Carmen Peña	Chief Financial Officer
Mr. Oscar Ponz	Chief Plastic Business Unit Officer
Corporate services	
Mr. Armando Ares	Chief IR & Corporate Communications Officer
Mr. César Arraiza	Chief Strategy Officer & IT
Mr. Javier García (*)	Chief Internal Audit
Ms. Alejandro Bergaz (*)	Chief Internal Audit
Mr. José Antonio Cortajarena	Chief Legal Officer and Secretary of Board of Directors
Mr. José Ignacio Recalde	Chief Technology & Diversification Officer
Mr. Juan José Rota	Chief Human Resources Officer
Mr. Ricardo Royo	Chief European Business Officer
Subsidiaries management	
Mr. Eduardo Aguiñaga	General Manager Mexico
Mr. Luis Bertoli	General Manager Brazil
Mr. Jesús Calavia	General Manager Spain
Ms. Belén Aldaz	Human Resources Manager Spain
Mr. Guillemo Eguidazu	General Manager USA
Mr. Miloslav Kamis	General Manager Czech Republic
Mr. Angel Maestro	Financial Manager Uruguay
Mr. Iñigo Martinez	General Manager Serbia
Mr. Juan Negri	General Manager Asia - Pacific
Mr. Wilfried Schobel	General Manager Germany

(*) Javier Garcia served until June 2019. Alejandro Bergaz was appointed Head of Internal Audit in December 2019.

In 2019, remuneration received by key management personnel totalled 4,587 thousand euros. In relation to the Long Term Incentive Plan, a liability of 411 thousand euros was recognised in the year. In 2018, remuneration amounted to 4,679 thousand euros, including 678 thousand euros as an additional payment for multi-year supplements. This amount does not include the abovementioned payments made to José Antonio Canales García and José Domingo de Ampuero y Osma, which is reflected further on.

24.3. Long-term Incentive Plan

The Board of Directors of Viscofan S.A., in a meeting held on 30 July 2019, at the proposal of the Appointments and Remuneration Committee, approved a Long-Term Incentive Plan for 2019-2021 intended for the Company's executive directors, managers and other key staff of the Viscofan Group which, subject to compliance with its objectives, will result in a cash payment and a payment in Company shares. In accordance with Article 219 of the consolidated text of the Corporate Enterprises Act approved by Royal Legislative Decree 1/2010 of 2 July and Article 29.2 of Viscofan's Bylaws, the Plan will be submitted, with regard to the Company's executive directors, for approval at the next General Meeting of Shareholders, under the terms provided for in current legislation and in the current Policy on the Remuneration of Directors.

The Plan consists of an extraordinary, multi-year and mixed incentive, payable in cash and in Company shares, in the percentages assigned according to the professional level of the Beneficiary, which may arise after the application of certain factors, based on the degree of attainment of certain targets, (i) the payment of a cash amount (ii) on the basis of an initial number of assigned shares, to the effective payment of shares in Viscofan S.A. on the scheduled payment date.

The parameters to be taken into account during the measurement period were:

- Total shareholder return
- Accident rate reduction
- Environmental sustainability

It has been estimated that the Bonus will have around 140 beneficiaries, notwithstanding the possibility that new beneficiaries may be included in the authorised limits during the measurement period as a result of new hires or changes the maximum authorised limit in both cash and shares.

The Plan will be due and paid within one month of the approval by the Company's General Shareholders' Meeting of the financial statements for 2021 ("Settlement Date"), i.e. within the first half of 2022. Beneficiaries who voluntarily withdraw before the Settlement Date will lose all rights arising from it.

The Plan has the following limits:

- With regard to the part to be paid in cash, the Plan anticipates a maximum cost or payment of 11.5 million euros in the event of 100% attainment of the Target, and 13 million euros if the Target is exceeded.

- With regard to the part to be paid in shares, the Plan provides for a maximum of 175,000 shares for all beneficiaries if the Target is achieved and 230,000 shares if the Target is exceeded.

The amounts and maximum number of shares for executive directors, which are to be submitted to the shareholders at General Meeting for approval, are as follows:

- For the Executive Chairman a maximum of 374,850 euros and 17,853 shares for achieving the Target (449,820 euros and 21,424 shares if the Target is exceeded).

- A maximum of 288,540 euros for the Group's Chief Executive Officer and 13,742 shares for the target (346,248 euros and 16,491 shares in the event of exceeding the target).

The basic features of the Plan were disclosed as Inside Information to the CNMV on 30 July 2019.

25. Transactions and balances with related parties

The operations with directors and members of senior management are detailed in Note 24. No material transactions have been carried out with the Company or its group of companies that were outside the ordinary course of business of the company or were not carried out under normal market conditions.

In 2019, Viscofan S.A. had dealings with Banca March, a financial institution linked to Corporación Financiera Alba, S.A. which held 13.03% of the Company's shares at 31 December 2019 (13% at 31 December 2018). Specifically, borrowings include a loan of 10 million euros. At 31 December 2018, this included a loan of 5 million euros granted in 2018 by that bank, which was renegotiated and completely repaid in 2019, the payment of which totalled 5,061 thousand euros, including financial expenses. Viscofan S.A. has also taken out exchange rate insurance with the financial institution associated with Corporación Financiera Alba, S.A., worth 213 thousand euros at 31 December 2019 (24 thousand euros in 2018). No additional services been received by companies related to this shareholder in 2019 or 2018. All transactions took place in normal market conditions.

26. Environmental information

The cost of items related to the Group's environmental projects on 31 December 2019 was 54,172 thousand euros (2018: 50,279 thousand euros), with an accumulated amortisation of 25,781 thousand euros (2018: 24,432 thousand euros).

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

The emission rights consumed by the Company during 2019 and 2018 amounted to 266,621 and 258,960 tonnes, respectively.

In 2019, the Group incurred in environmental protection and improvement costs amounting to 5,020 thousand euros. In 2018 this amount totalled 4,684 thousand euros.

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

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

27. Audit fees

The auditors of the Group's consolidated Financial Statements, PricewaterhouseCoopers Auditores, S.L. in 2019, 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, with the exception of "Other Services", which are based on their billing date, for the year ended 31 December 2019 and 2018 as follows:

	Thousands of euros		
Year 2019	In the parent's Company	In other companies	*Total*
PwC Auditores, S.L.	118	77	*195*
PwC Network	-	425	*425*
Audit services	118	502	*620*
PwC Auditores, S.L.	4	-	*4*
Other audit related services	4	-	*4*
Total at December 31, 2019	122	502	*624*

	Thousands of euros		
Year 2018	In the parent's Company	In other companies	*Total*
PwC Auditores, S.L.	85	77	*162*
PwC Network	-	424	*424*
Audit services	85	501	*586*
PwC Auditores, S.L.	4	-	*4*
Other audit related services	4	-	*4*
PwC Network	-	6	*6*
Other services (tax services)	-	6	*6*
Total at December 31, 2018	89	507	*596*

"Other audit-related services" correspond to the review of the system of Internal Control over Financial Reporting (ICFR) of Viscofan S.A.

28. Events after the balance sheet date

The Board of Directors, at its meeting on 27 February 2020, agreed to propose to the shareholders at General Meeting the distribution of a final dividend of 0.96 euros per share to be paid on 4 June 2020. Thus, total shareholder return amounts to 1.62 euros per share, including the interim dividend of 0.65 euros per share paid on 19 December 2019, the final dividend of 0.96 euros per share and the premium for attending the Meeting of 0.01 euros per share. This proposal increases ordinary remuneration by 1.3% as compared to the total of 1.60 euros approved for the previous year.

There are no significant events other than those mentioned above, from year-end to the date of preparation of these financial statements.