4. Significant accounting principles

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

A summary of the most significant principles is as follows:

4.1. Changes in accounting policies

As a result of the publication of IAS 12 amendment "Deferred Tax Relating to Assets and Liabilities Arising from a Single Transaction", the accounts for the year ended 31 December 2022 had to be restated. However, these changes do not affect the result for said year.

The Group intends to adopt these standards, interpretations and amendments mandatory in the European Union when they enter into force if they are applicable. Based on the analyses performed to date, the Group considers that there were no significant impacts on the consolidated financial statements.

4.2. Going concern basis

Once the financial situation has been assessed, together with the liquidity and obligations undertaken, the directors conclude that no events or conditions exist that cast doubt over the Group's ability to continue as a going concern, hence the consolidated financial statements have been prepared using this principle.

4.3. Method of consolidation

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 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.

Subsidiaries were fully consolidated; hence all the assets, liabilities, equity, income, expenses and cash flow arising from transactions between Group companies are totally eliminated during the consolidation process.

The financial statements of the subsidiaries used in the consolidation process reflect the same reporting date as that of the Parent and are adapted to the Group's accounting policies.

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 the functional currency 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 the functional currency 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 to the functional 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 10 and 16, respectively.

4.7. Financial instruments - Initial recognition and subsequent measurement

(a) Classification

The Group has classified its financial assets in the following measurement 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, in the case of financial assets other than at fair value through profit or loss (FVTPL), 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 those cash flows represent only payments of principal and interest are measured at amortised cost.

Interest income from these financial assets is recorded as financial income in accordance with the effective interest rate method.

Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

Losses from impairment on the other hand are recorded as a separate line item in the income statement.

- Fair value through other comprehensive income: Assets held for the collection of contractual cash flows and for sale, where the cash flows from the assets represent only payments of principal and interest, are carried at fair value through other comprehensive income.

Changes in the carrying amount are taken to other comprehensive income, except for the recognition of impairment gains or losses, ordinary interest income and foreign exchange gains or losses which are recognised in other gains/(losses).

When such financial assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses).

Interest income on these financial assets is included in finance income in accordance with the effective interest method.

Foreign exchange gains and losses are presented in other gains and losses and impairment expense is presented as a separate line item in the income statement.

- Fair value through other profit or loss: Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are recognised at fair value through profit or loss.

A gain or loss on a debt investment that is subsequently recognised at fair value through profit or loss is recognised in profit or loss and presented net in the income statement within other gains/(losses) in the period in which it arises.

- ***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.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in other gains/(losses) in the income statement when applicable. Impairment losses (and reversals of impairment losses) on equity investments measured at fair value through other comprehensive income are not presented separately from other changes in fair value.

(d) Impairment

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 9 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

- recognises the revenue when each performance obligation is satisfied

(a) Sale of casings and film

The Group manufactures and sells casings and film for food use and other applications. 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.

(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.

The Viscofan Group recognises the electricity revenue generated from cogeneration, including the perceived market tariff, together with the energy generation premiums, in line with the regulations, as the energy is generated and commercialised.

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

4.10. 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.

4.11. 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.

Goodwill is recognised as the excess of

- the consideration transferred, the amount of any non-controlling interest at the acquired entity and the fair value at the acquisition date of any equity interest

- on the fair value of the identifiable net assets acquired and the liabilities assumed.

If the amounts of the fair value of the net assets acquired and the liabilities assumed is higher, 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.

4.12. 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 5).

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.

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

(c) Other tangible assets

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

Software maintenance costs are expensed as incurred.

(d) 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 2023 and 2022, the Group had no intangible assets with indefinite useful lives, except for Goodwill discussed in Note 5.

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.

4.13. 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 through the credit of the costs attributable to the assets in accounts under "Other income" 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 availed itself at 1 January 2004 of the exemption related to the restated values pursuant to the corresponding legislation, as an attributed cost of IFRS 1 "First Time Adoption of International Financial Reporting Standards".

(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.

4.14. Right-of-use

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. Right-of-use liabilities include the net present value of the following right-of-use payments:

- fixed payments (including fixed payments in substance), less any right-of-use incentive to collect

- variable right-of-use 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 rights-of-use, if the term of the right-of-use reflects the Group's exercise of that option.

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

Right-of-use payments are discounted using the interest rate implied in the right-of-use.

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

Right-of-use payments are apportioned between principal and finance cost. The finance cost is charged to income over the right-of-use 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 right-of-use liability

- any right-of-use payments made on or before the start date, less any right-of-use 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 end of the lease term.

The Group applies the exemption of recognising leases that have a period equal to or lower than 12 months from the date of commencement, and that do not contain a purchase option, and the leases in which the underlying asset has a scant value. The payment for these leases is recognised as an expense during the lease period.

4.15. 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 recognized in the consolidated income statement for the year. When the circumstances that previously caused the inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed against the following headings: “Changes in inventories of finished products” and “Work in progress and consumption of materials and other supplies.” The reversal of write-downs in the value of inventories is recognised with a credit to the "Changes in inventories of finished goods and work in progress" and "Consumption of raw materials and other consumables" headings.

4.16. 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 derecognized from the provision made when the CO2 emissions take place applying the FIFO method (first in, first out).

4.17. 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 remeasured at the lower of the carrying amount and fair value less costs to sell.

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

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

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

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

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

4.18. 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.

4.19. Dividend

The interim dividends approved by the Board of Directors in 2023 and 2022 are included as a reduction of the Viscofan Group's equity.

4.20. 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, with a credit to "Grants" in the consolidated statement of financial position and they are transferred to “Other income” in the consolidated income statement in line with the depreciation of the subsidised asset.

Non-refundable grants related to emission rights are initially recognised at market value on the date provided 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 with a credit to “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.

4.21. 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 directly 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 "Staff costs" in the consolidated income statement and are obtained as a result of the addition of the net amount of the 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 14.1.

b) Termination benefits

The Group recognises 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 23.3 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.

4.22. 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.

4.23. 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 the derivative financial instruments designated in hedging ratios are broken down in Note 17. The movements in the hedge reserve included in the equity of shareholders are shown in Note 12.

The total fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item exceeds 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.

4.24. 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 carry-forward of unused tax losses, and the carry-forward 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.

4.25. Environment and climate change

(a) Environment

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

Costs incurred from environmental 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 25.

(b) Climate change

Climate change is a significant aspect identified in the materiality analysis and, as such, is included in the Group's long-term operating management processes. It forms an integral part of our risk mitigation policy and an essential part of our Sustainability Action Plan.

Climate change management is regulated in the Climate Change Policy, approved by the Board of Directors, and which demonstrates the Group's commitment to this huge environmental problem, establishing its undertaking to control atmospheric emissions, energy efficiency and to a business strategy related with the development of alternative energy sources.

Furthermore, the internal climate change regulations complemented by the Environmental Policy, approved by the Board of Directors, stipulate that the Group's measures must be adopted with respect for the environment, which means incorporating sustainable development criteria in all areas of activity, guaranteeing the efficient management of natural resources and minimising the undesirable effects of the Group's activities.

The main risks and the opportunities and resources allocated are detailed in Note 25.

4.26. 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 24 "Information relating to directors of the Parent company and key management personnel of the Group".