GRUP SEDA

LA SEDA DE BARCELONA

ANNUAL REPORT 2005

LA SEDA DE BARCELONA annual report **2005**

LETTER FROM THE CHAIRMAN

Dear Shareholders,

The internationalisation of **LA SEDA DE BARCELONA** is no longer a reference, but rather reality. As you know, our Company is undergoing expansion based on the purchase of new companies to increase its capacity in assets involved in PET production. It is well-known that our objective to grow in the international dimension has recently been fulfilled with the purchase of 70% of the capital in SELENIS PORTUGAL and SELENIS ITALY (formerly Aussapol). It is also well-known that we plan to complete the purchase of the remaining 30% of these companies in September of this year, and continue negotiating to purchase the Greek company VOLOS PET INDUSTRY (VPI).

Now, at the doors to a new annual meeting, I would like to stress that for the first time in the recent history of the Company, our opening to foreign markets is no longer only commercial, but has taken on an industrial slant. We now produce in three countries of Europe (Spain, Portugal and Italy) but our radius of action does not stop there; it will grow in a short time driven by the globalising objective that is the priority of our Group. A Group that is already integrated vertically, with the glycol production of IQA-LSB in Tarragona, and which does not decline the possibility of participating in some project including PTA actives, which would allow us to close the Polyester manufacturing circle (PET and fibres), fully integrated in raw materials.

LA SEDA DE BARCELONA will continue making further purchases, for as you know, our objective is to form a large Industrial Group in the short term, leading the PET producers in Europe; alongside this, together with the concentration of PET as a strategic product, the Company has turned its textile business towards technical fibres, the end uses of applications of which improve the life of people.

With respect to the general economic environment and the situation of the sector, in 2005 and the first three months of 2006, the world chemical sector has begun to recover. In the specific field of plastic polymers, this reaction has been due to renewed consumption and the slight improvement in the price of a barrel of crude oil. In this environment, PET polymer producers are already talking of a return to the high rates of competitiveness thanks to the improvement in exports which, in recent years, had been punished by the exchange rate of the Euro with respect to the Dollar.

We have begun to improve, even before the bonanza. We have anticipated the change and our Company has managed to come out of this crude oil inflationary period with a clear comparative advantage over other operators. However, it is not enough to take advantage of the good situation, because today in the PET polymer market, with an approximate capacity of 3 million tons/year, the battle to improve profitability is particularly strong.

In the opinion of the analysts, the competitiveness of the large European PET companies largely depends on two basic factors: their industrial integration and their market share. **LA SEDA DE BARCELONA** has unbeatable credentials in these two factors: we manufacture glycols at competitive prices and are gaining market share in the production and distribution of PET.

These good perspectives are now complemented by the results of the consolidated accounts of **LA SEDA DE BARCELONA**, which draw out a brilliant scenario. At the end of 2006, the Company will have an annual turnover of more than 700 million euros and a PET capacity of over 500,000 tons. These are the strengths of a firm like ours, which has found its place after years of hard reconversion. From now on, **LA SEDA DE BARCELONA** will go with the current and this is backed by the analysts and the qualification agencies, which are rewarding our Company with a clear rising value on the Stock Market.

The financial recovery of **LA SEDA DE BARCELONA**, though produced over a number of years, has seen the light in hardly a few months and thanks to the combined effect of three operations: a syndicated credit (the emblem of the confidence of the entities in the project); an issue of convertible bonds and the latest capital increase undertaken by the Company. The first two movements have served to reduce our short term credit and balance the financial cost of the long term liabilities; the third movement, the capital increase, has supposed a large injection of resources, as shown by the fact that we have just moved a net 56 million euros in investment for the purchase of SELENIS PORTUGAL and SELENIS ITALY.

With a correct balance and the benefit of the industrial synergies of leadership in Europe, we hope that our manufacturing might increase at a substantial rate in the forthcoming years. I am therefore enormously satisfied to contemplate with you the emergence of **LA SEDA DE BARCELONA** as the new European leader in PET and fully placed as a large chemical group in expansion.

To conclude these few lines and on behalf of the Board of Management and in my own name, I would once more like to thank the shareholders, customers and suppliers for their support and confidence in the past and the great immediate future seen by **LA SEDA DE BARCELONA**. Furthermore, I would like to extend this sincere thanks to our employees and collaborators for their absolute dedication and commitment to the Company.

Rafael Español
CHAIRMAN OF LA SEDA DE BARCELONA

B O A R D   O F   D I R E C T O R S

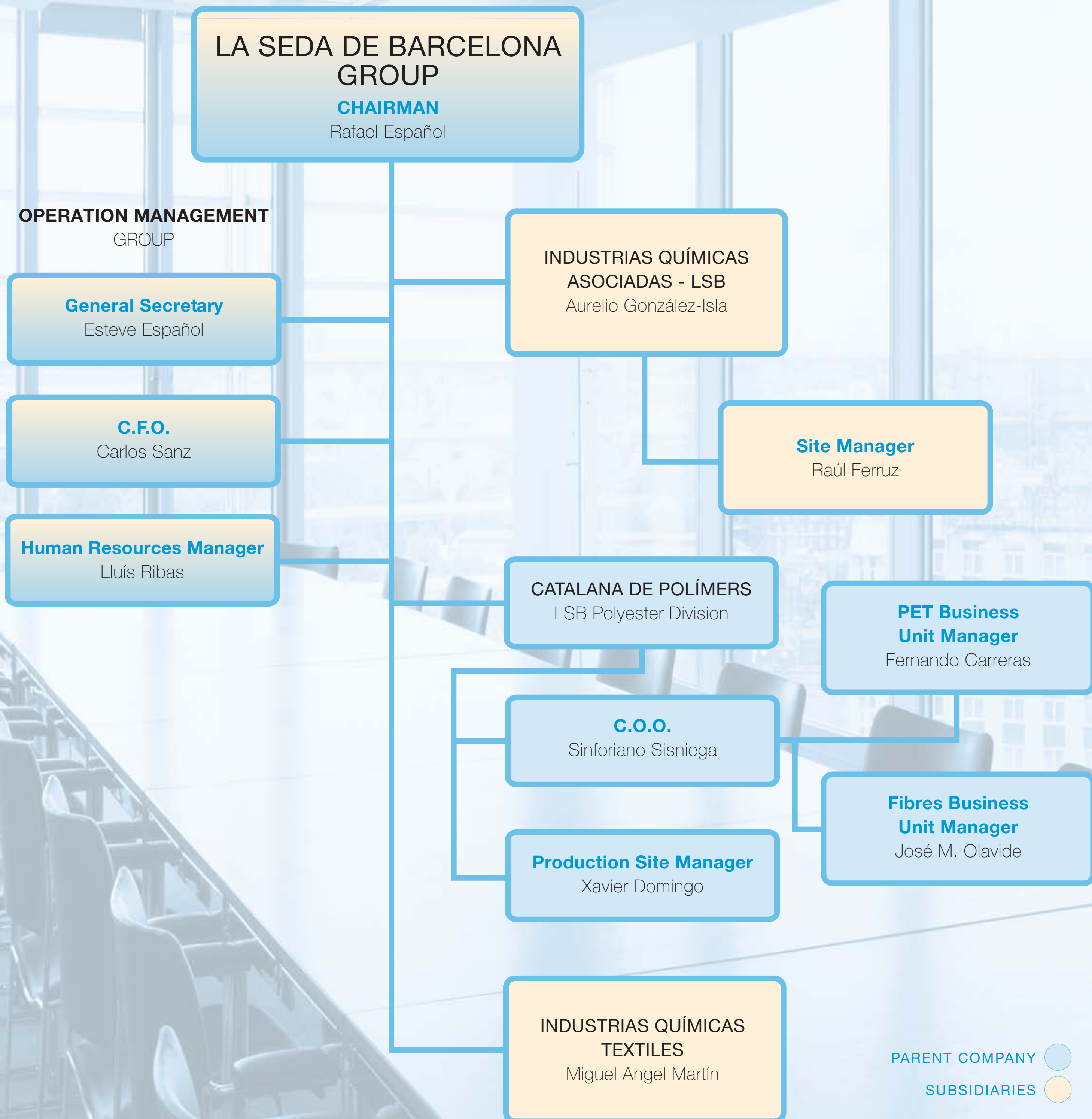
CHAIRMAN	Mr. Rafael Español Navarro
VICE-CHAIRPERSONS	Mr. Joan Castells Trius
	Mr. Fernando José Guimares Freire de Sousa
	Mr. Francesc Robert Ribes
BOARD MEMBERS	Mr. Vicenç Ignasi Blanes Tort
	Mr. Ferran Conti Penina
	Mr. José Manuel Fandiño Crespo
	FIATC FIATC Mutua de Seguros y Reaseguros a Prima Fija, represented by Mr. Joaquim M. Gabarró Ferrer
	Mr. Nuno Ricardo Gaioso Jorge Ribeiro
	Ibersuizas Participadas, S.A., represented by Mr. Luis Chicharro Ortega
	Ibersuizas Alfa, S.A., represented by Mr. Juan Luis Ramírez Belaustegui
	Invercartera, S.A., represented by Mr. Lluís Gasull Moros
	PC Siglo XXI Inversiones Bursátiles S.L., represented by Mr. Gustavo Pérez Carballo
	Mr. José Luis Morlanes Galindo
	Mr. Ramón Pascual Fontana
	Mr. Jacint Soler Padró
SECRETARY Non board member	Mr. Albert Carrillo Carrillo
ADVISORS	Mr. Joan Majó Cruzate
	Mr. Joan Poch Serrats

MODIFICATIONS TO THE BOARD OF MANAGEMENT

Following the Extraordinary General Assembly of 29th December 2004, the board member Mr. Joan Majó Cruzate resigned to become the Director of the “Corporació Catalana de Radio i Televisió”. At the same time, PC S. XXI reported the change in the physical person representing them, which is now Mr. Gustavo Pérez Carballo. To cover the vacancy caused by the resignation of Mr. Joan Majó, the board appointed Mr. Francesc Robert Ribes by co-option.

The Extraordinary General Assembly of Shareholders of 27th June 2005 ratified this appointment by appointing Mr. Francesc Robert Ribes as a member of the Company Board of Management for the statutory 5 years.

MANAGERS OF THE LA SEDA DE BARCELONA GROUP



MOST SIGNIFICANT EVENTS

2005

LA SEDA DE BARCELONA strengthens its financial structure

On 26th May 2005, LA SEDA DE BARCELONA signed a financing line for 64.5 million euros aimed at strengthening its financial structure and to complete the payments of the last stage of investment in the El Prat de Llobregat production plant, which allowed the PET and technical polymer productive capacity to be increased to 190,000 tons / year.

Resource income of 120 million euros

In 2005, resources of 120 million euros were brought into the Company to finance its growth in the European PET sector.

This expansion of the financial resources was expressed in two operations:

- **Issue of bonds convertible into shares of 47.47 million euros.**
  The shareholders of LA SEDA DE BARCELONA subscribed to all of the convertible bonds for 47.47 million euros in the first period of the issue, which ended on 2nd August 2005, the market having asked for convertible purchase orders exceeding the total issue by 18 million euros.

- **Capital increase of 72.69 million euros.**
  Likewise, the Company shareholders covered 100% of the capital increase of 72.69 million euros in advance following the first period of preferential subscription, which ended on 19th November 2005.

The excellent market welcome in both operations, once more reveals the backing of the shareholders for the growth plan of the Company.

Agreement to purchase SELENIS POLÍMEROS and SELENIS ITALY

On 22nd December 2005, LA SEDA DE BARCELONA reached an agreement with SELENIS HOLDING, SGPS to purchase the Portguese SELENIS POLÍMEROS and SELENIS ITALY (formerly called Aussapol).

This operation lies within the industrial project to expand and consolidate the Company as a leader in the European PET market.

CATALANA DE POLÍMERS
LSB Polyester Division
El Prat de Llobregat (BCN)

IQA-LSB
Tarragona

INQUITEX
Andoain (Guipúzcoa)

2006

Conversion of 94% of the Bond Issue

On 10th February 2006, the first period of conversion of the bonds into shares ended with 94.40% of conversion requests, which supposed an increase in the Company Stockholders' Equity of 44.8 million euros.

The process starts to evaluate the assets of VOLOS PET INDUSTRY

The Board of Management of LA SEDA DE BARCELONA held on 1st February 2006 agreed to proceed with negotiating the purchase of the Greek company VOLOS PET INDUSTRY (VPI).

With the purchase of VPI, LA SEDA DE BARCELONA will reach a production capacity of over 500,000 tons a year of PET polymers, and become the leader on the European ranking in the sector. The new resulting Industrial Group will have a turnover of over 700 million euros.

LA SEDA DE BARCELONA formalises the purchase of 70% of SELENIS POLÍMEROS and SELENIS ITALY

In Oporto on 15th February 2006, LA SEDA DE BARCELONA formalised the purchase of 70% of SELENIS POLÍMEROS and SELENIS ITALY for 56 million euros. This purchase is made after receiving the respective authorisations from the competition services in Spain, Portugal and Italy.
The purchase of the remaining 30% of both companies is expected before 30th September.

SELENIS ITALY
San Giorgio - Italy

SELENIS POLÍMEROS
Portalegre - Portugal

VOLOS PET INDUSTRY
Volos - Greece

ACTIVITY REPORT

COMPANY STRUCTURE

2005

LA SEDA DE BARCELONA

CATALANA DE POLÍMERS
LSB Polyester Division

Installed Production Capacity (T/year)

PET and technical polymers	190,000
Polyester technical fibres	22,000

IQA - LSB

Installed Production Capacity (T/year)

Ethylene Oxide	120,000*
Monoetthylenglycol	63,000
Derivatives	54,000

* 60,000 T./year self-consumption

INQUITEX

Installed Production Capacity (T/year)

Polyester technical fibres	16,000
Polyamide fibres	5,000
PET sheet	7,000

OTHER PARTICIPATIONS

CARB-IQA DE TARRAGONA

Production Capacity (T/year)

CO^2 purification:	25,000

PETROLEST

Activity

Petrochecmical product transport

2006

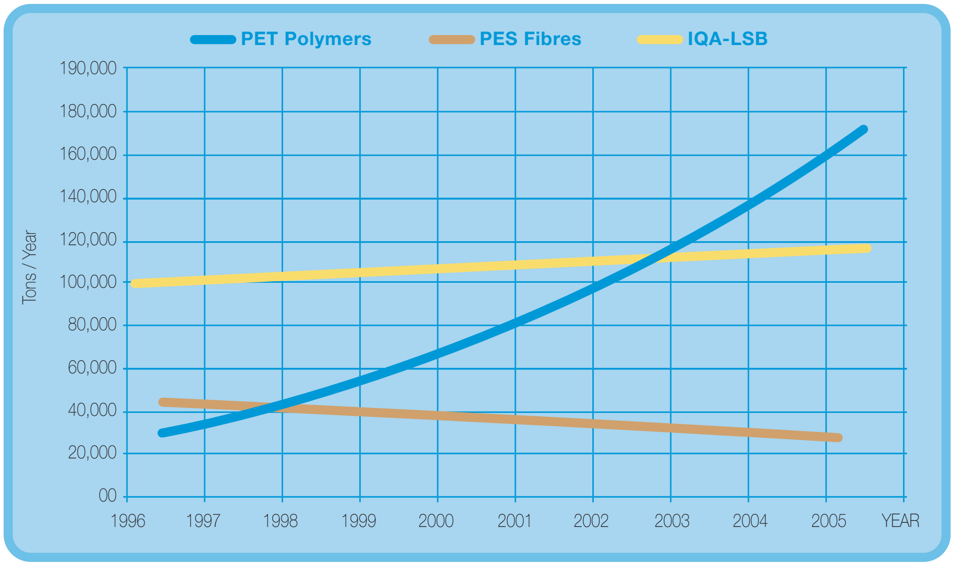
In accordance with its strategy to grow and concentrate on the PET polymer business, LA SEDA DE BARCELONA has started a new stage of international expansion following the formalisation of the purchase of 70% of SELENIS POLÍMEROS in Portugal and SELENIS ITALY. It is currently completely immersed in the *due diligence* process to study the possible purchase of the Greek company VOLOS PET INDUSTRY (VPI).

RECENT PURCHASES

COMPANIES	ACTIVITY	CAPACITY
SELENIS POLÍMEROS-Portugal	PET	70,000 T./year
SELENIS ITALIA		185,000* T./year
VPI (under study)	Polymers	80,000 T./year

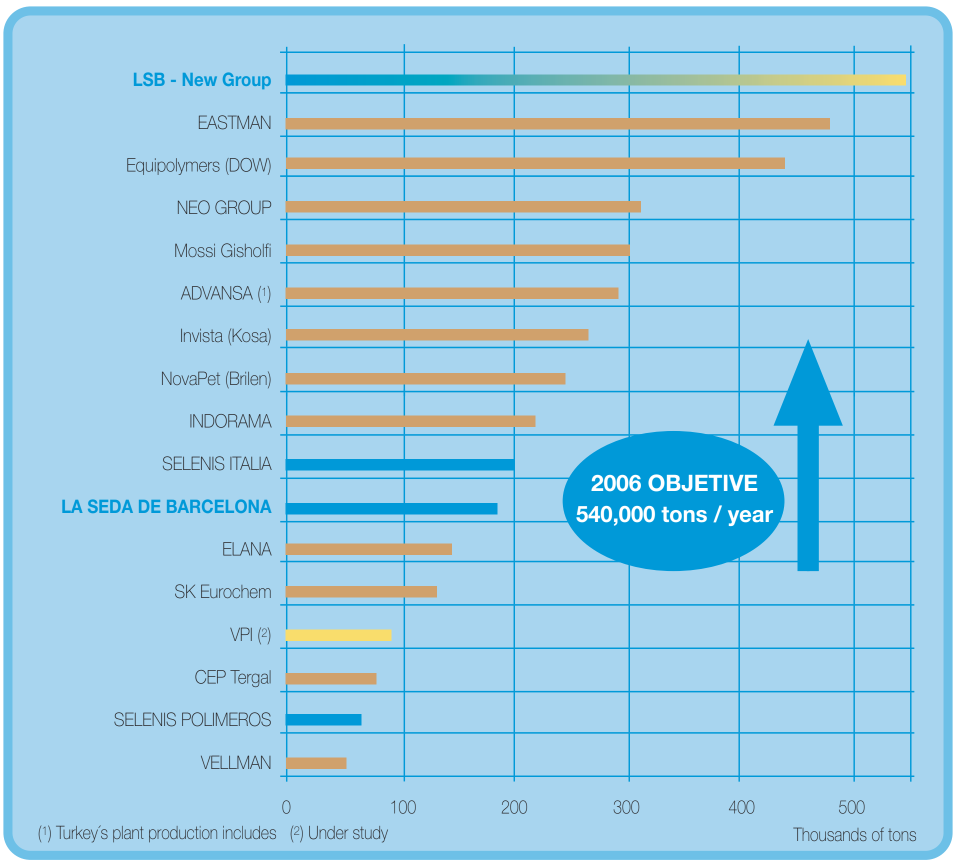
(*) Increased capacity to 200,000 T./year. Start-up expected in 2006

PRODUCTION CAPACITY EVOLUTION LA SEDA DE BARCELONA GROUP



LA SEDA DE BARCELONA has successfully culminated a complex process of industrial reconversion in which it has progressively redirected the traditional textile businesses to concentrate investment on expanding and consolidating the chemical activities, with PET as the main future stake of the Company.

EUROPEAN PRODUCERS: POSITIONING OF THE NEW GROUP



The LA SEDA DE BARCELONA industrial project has given rise to a leading European multinational in the emerging PET market.

YEAR 2005

Following the establishment of the new CSSP-2 Postcondensation Unit in the El Prat de Llobregat production plant (Barcelona) in the first quarter of 2005, the Company has experienced growth in its turnover, reaching 256 million euros, with an increase of 9% over the previous year. To this result we add the improvement of the margins, which has given us an operative cash flow of 39 million euros.

One of the objectives of LA SEDA DE BARCELONA in 2005 was to strengthen its financial structure to face the expected growth in the PET sector by starting a purchase programme, which was presented to the shareholders at the past General Assembly in June 2005.

This year, the growth strategy of the Company received the resources gained on the market from a capital increase and the concession of a financing line.

The financing line signed by LA SEDA DE BARCELONA is established in three sections:

- A syndicated credit for 46.3 million euros over a period of 5 years, led by Deutsche Bank and participated in by other entities such as Caixa Catalunya, the Institut Català de Finances (ICF), Caja de Ahorros del Mediterraneo, Caja de Ahorros de Castilla la Mancha, Ibercaja and Fortis Bank.
- The refinancing of the debt with the Institut Català de Finances by means of a two-way loan for 13.2 million euros and a period of 7 years.
- A leasing contract for 5 million euros over 5 years to cover a small part of the investments in machinery in the El Prat de Llobregat plant (Barcelona).

With these financial operations, the evolution of the Company indebtedness is as follows:

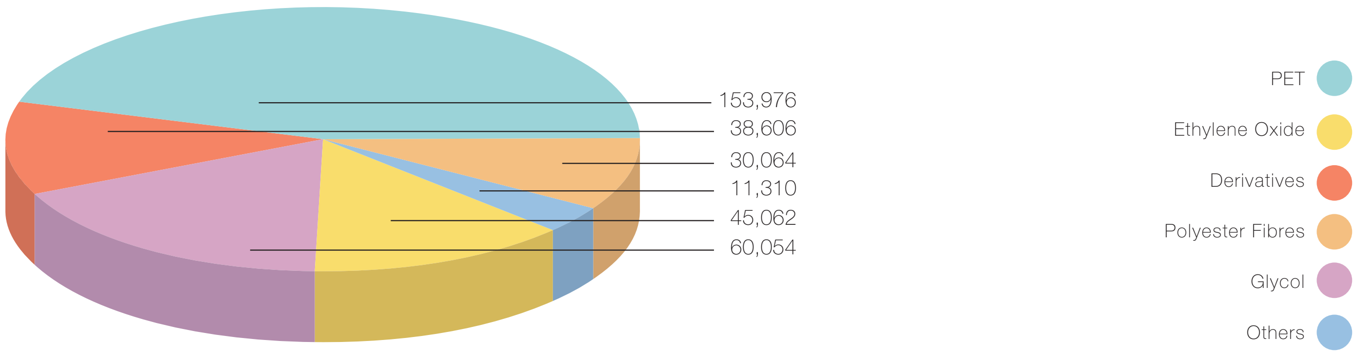
Long term (millions of euros)	**2004**	**2005**
Convertible bonds	-	42.9
Debts withs credit entities	4.7	54.1
Other financial liabilities	86.3	69.7
Total long term	91.0	166.7

Short term (millions of euros)	**2004**	**2005**
Convertible bonds	-	1.1
Debts with credit entities	86.9	48.4
Other financial liabilities	11.3	15.8
Drafts and other equivalent liquid media	1.9	36.9
Total short term	**96.3**	**28.4**

This transformation of the short term debt into long term has given a financial stability that places LA SEDA DE BARCELONA in a position to face future growth with success. From February 2006, this scenario has become more solid following the first period of converting the bonds, in which 94.4% of the issue became shares.

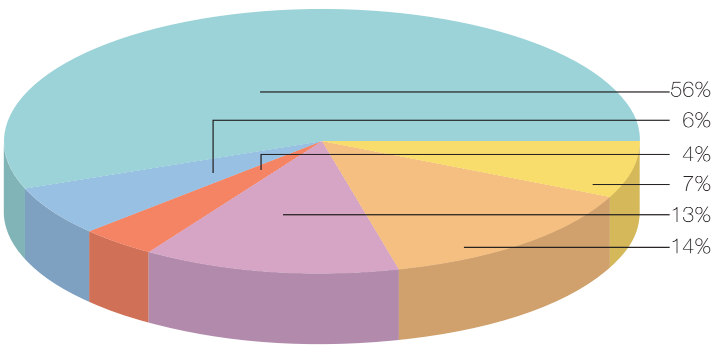
GROUP SALES DISTRIBUTION

2005 (tons / year)

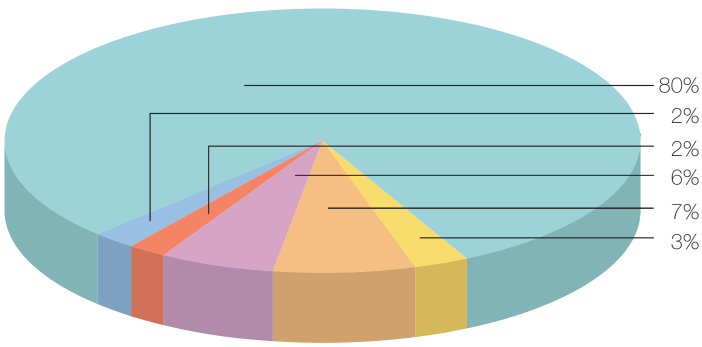


Sales between Group Companies: 36,254 Tons

2005 (percentage in €)



Target 2006 New Group (percentage in €)



With the new Industrial Group, currently being configured, the percentage of PET polymers that will affect all of the sales will be increased to 80%.

INVESTMENTS

In the first quarter of 2005, with the establishment of the second Continuous Postcondensation Unit in the El Prat de Llobregat production plant, LA SEDA DE BARCELONA closes a long process of industrial reconversion characterised by the investment effort, and which has given the Company an optimal industrial and technological profile to currently be able to face a new phase of expansion and growth in the European PET markets.

Likewise, throughout the year in the IQA-LSB production plant in Tarragona, a new early CO2 extraction system (low CO2 project) was brought into service, achieving better than expected results as regards the selectiveness of the Ethylene Oxide catalyst, with the resulting improvement in the margins.

LA SEDA DE BARCELONA is now starting a new stage of international expansion marked by a growth strategy based on the purchase of PET assets. It has been considered that with the current state of the market and the fragmentation of the offer, this is the best option for the Company.

In 2005, LA SEDA DE BARCELONA reached agreements for the future purchase of new PET assets, in order to become the new European leader in the sector. To this effect, we began to evaluate the PET polymer production assets of SELENIS POLÍMEROS in Portugal and Aussapol (currently SELENIS ITALIA), reaching an agreement with SELENIS HOLDING SGPS for the purchase of the two companies before the end of the year. This operation was materialised on 15th February 2006 with the purchase of 70% of both PET producers for 56 million euros. The remaining 30% is expected to be purchased before 30th September 2006.

SHARE CAPITAL

In 2005, LA SEDA DE BARCELONA carried out three operations to modify its share capital.

On 27th June 2005, the General Assembly of Shareholders agreed to modify the par value of the shares making up the Share Capital of the Company, which passed from 3.00506 euros per share to 1.00 euro per share. The difference of 2.00506 euros per share was paid into unavailable reserves, without the Stockholder's Equity of the Company being altered. In this way, it was possible to adjust the par value of the share to Stock Market levels and thus facilitate the future issues of shares.

In second place, the General Assembly of Shareholders on 27th June 2005 also agreed to issue convertible bonds for 47,468,750 euros by issuing 37,975,000 bonds with a par value of 1.25 euros per bond and maturing at 5 years. The issue was entirely subscribed. The obligations accrue fixed annual interest of 5%.

This operation does not affect the stockholder's equity of the Company in 2005, but it does in 2006, as in February, the right of conversion into shares was exercised on 35,847,883 bonds that went into the conversion option.

Finally, the Extraordinary Assembly of Shareholders on 21st October 2005 agreed on a capital increase for 72,693,750 euros by issuing 58,155,000 shares with a par value of 1 euro each, with an issue premium of 0.25 euros per share, which was entirely subscribed.

With all of these operations and the application of the results of the year, the net wealth of the Company evolved in the following manner:

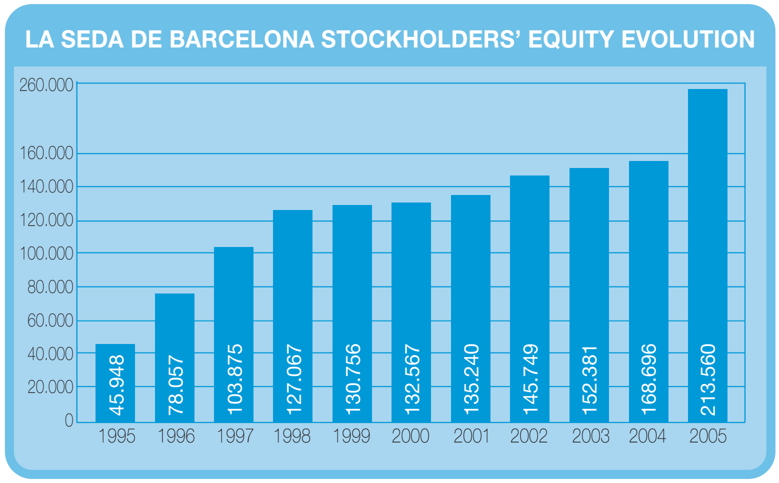
(thousands of euros)	**2004**	**2005**
Share Capital	130,552	101,599
Other reserves	36,437	137,375
Accumulated gains	6,583	13,608
Other wealth instruments	_	1,855
Own values	_	(-223)
Minority interests	637	482
Net Wealth	**174,209**	**254,696**

STOCK MARKET QUOTATION

In 2005, the LA SEDA DE BARCELONA quotation accumulated a revaluation of 69.84%. This share behaviour was above the rises reflected in the same period by the reference indexes, the Ibex-35 and the IGBM, which finished the year with rises of 18.2% and 20.46% respectively.

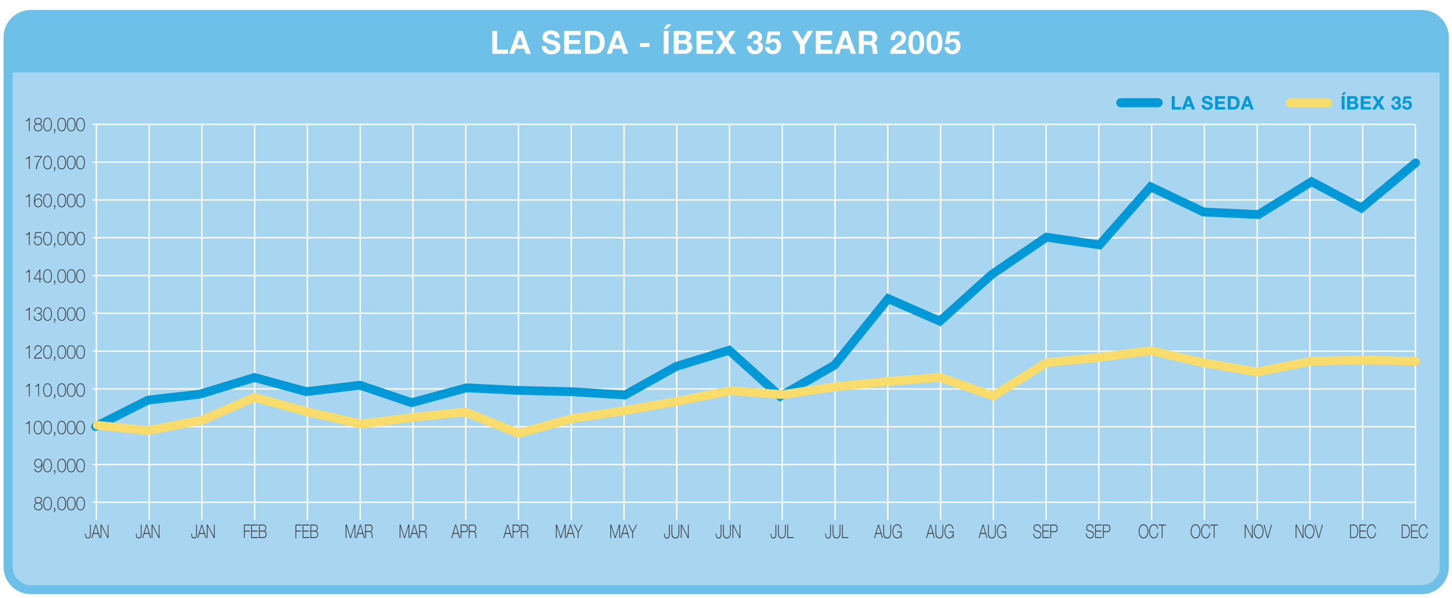
The stock market year was characterised by the structural change in the number of shares open to negotiation, which passed from 43,443,982 to 101,598,982 at the end of 2005, with an increase of 133.6%. This increase replies to the capital increase in the second half of 2005 and does not bear in mind the 37,975,000 bonds issued previously, which can be quoted on the fixed income market and of which 94.4% were turned into shares in mid-February of this year. This will suppose an additional increase of 35.28% in the number of shares quoted, up to 137,446,865 shares. The Company's stock market capitalisation was increased by 131.70% to 217,421,821 euros at 30th December 2005.

The negotiated volume moved from 21,292,416 shares in 2004 to 141,129,152 shares in 2005, an increase of 562.3% and leaving the daily average of negotiated titles on 532,563 shares. This tendency, which started in late 2004, was consolidated throughout the year that concerns us and was even accentuated with the entry into quotation of the new shares in mid December, the month when the number of contracted titles rose to 33,414,137, 23.7% of the total. This negotiation volume reflects the liquidity that has installed in the market and the interest and expectation awoken by the Company's growth project.



Throughout 2005, LA SEDA DE BARCELONA maintained a clearly rising tendency, reaching an annual maximum of 2.36 euros (13th December 2005), with the data corrected by the issue of the convertible and the new shares. The shares of the Company quoted in 100% of the working sessions (256).

In the first two months of the year, the value accumulated more than 56.6 million negotiated shares, equivalent to cash of 119.07 million euros and a revaluation of 3.27%.



BUSINESS UNITS

RAW MATERIALS

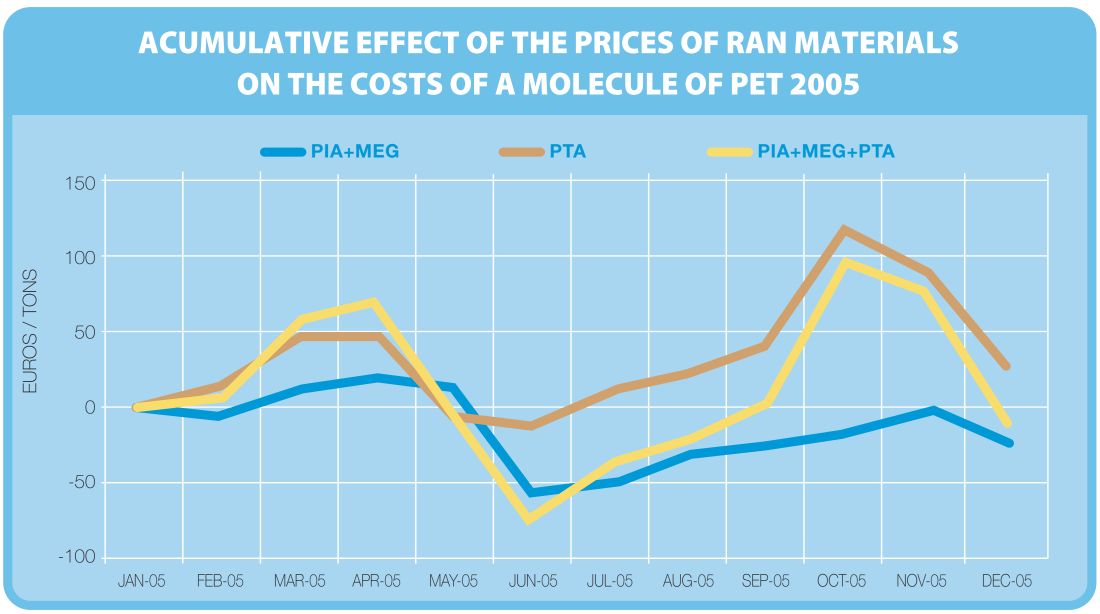
In 2005, the original raw materials derived from oil, which are the source for obtaining the Basic Raw Materials consumed by the LA SEDA DE BARCELONA Group, reached the highest levels in the last five years with sharp rising oscillations in the monthly quote. These oscillations have been due mainly to the extraordinary incidents caused by hurricanes Katrina and Rita that hit the Gulf of the United States in the second half of the year.

The cost of the PET molecule, the main industrial product of LA SEDA DE BARCELONA, presented very different scenarios throughout the year. In the first four months, demand for PET in the domestic markets of the countries of the European Union registered a very sharp pull, which caused a general rise in the prices of producers.

In the second four months, the scenario was entirely the opposite: PET prices fell gradually and continuously due to the atony of the European market. This fall in the purchasing contracts was significantly affected by the meteorological conditions that hit some areas of crude oil supply.

Unfortunately, the third four months confirmed the direct relationship between the rises in the price of crude and adverse climate. It was specifically in this last part of the year when hurricanes Katrina and Rita affected the petrochemical plants on the gulf coast from which the spot markets are largely fed, aside from the contingents agreed with the pool of the OPEC producers.

However, despite the negative tendency in 2005, in the first three months of 2006, the world chemical sector has begun to recover and, in the case of the plastic polymers, is being led largely by the United States and, to a lesser extent, Europe. This reaction has been due to a relaunch of consumption, to the slight improvement since the past month of January in the price of crude and the revaluation of the dollar after more than a year and a half of changes in the intervention of the green note by the North American Federal Reserve. A strong dollar means considerable increases in value for European exporters.



LA SEDA DE BARCELONA is organised in three divisions integrated vertically in a large chemical group in expansion in which the strategic product is PET.

CHEMICAL DIVISION

In 2005, the activity of the Chemical Division of LA SEDA DE BARCELONA continued to maintain the levels of the previous year. In this period, it must be stressed that for a greater use of the contribution margins, the total volume of sales was reduced slightly.

With this premise, the total volume of aggregate sales of the Chemical Division reached 143,722 tons, a figure that is 6% down on sales in the same period of the previous year. Moreover, the turnover increased by approximately 3% with respect to sales in 2004, which reached 77.18 million euros, and which in the year that concerns us achieved 79.4 million euros.

The total volume of sales, 143,722 tons, was distributed by product lines as follows:

2005	Volume (T)
ETHYLENE OXIDE	45,061
GLYCOLS	60,054
PEG'S	4,228
POLYOLS	9,807
ETHOXYLATES	24,571

With respect to the evolution of business, by product line, market activity remained stable with respect to the previous year, although glycol prices fell with respect to 2004. Despite this and the increase in the price of ethylene, the basic raw material, margins remained at a good level in comparison with the historical cycles. In this sense, the price of Ethylene increased in the order of 100 euros / ton on average in 2005 with respect to the previous year. This increase affected the sale prices of the majority of the products of this Division.

By geographical distribution, the largest percentage of sales in this Division, as usual, went to the domestic market, as IQA-LSB mainly supplies the companies of the Tarragona chemical area.

The products commercialised by the Chemical Division of the Company are mainly intended for the following sectors:

- DETERGENTS
- POLYESTER FIBRES
- PET POLYMERS
- RESINS
- ANTI-FREEZE
- CERAMICS

IQA-LSB

The activity of the Chemical Division of LA SEDA DE BARCELONA is concentrated exclusively on IQA-LSB, the Company subsidiary in the Tarragona petrochemical estate.

COVER WITH RESPECT TO THE PLANNED PRODUCTIVE CAPACITY	
Ethylene Oxide Plant	89%
Glycol Plant	87%
Derivative Plant	
U-350 Polyglycols	131%
U-2360 Polyols	134%
U-2500 Oxyethylenates	79%

Furthermore, 2005 highlighted the confirmation of the good results achieved in the Ethylene Oxide production plant thanks to the investment made in 2004 in the Low-CO_2 System. The selectiveness of the Ethylene Oxide catalyst reached 84.8% with an improvement of 2% over the previous year.

LA SEDA DE BARCELONA REACHES AN AGREEMENT WITH REPSOL QUÍMICA FOR POLYOL PRODUCTION

LA SEDA DE BARCELONA has reached an agreement with REPSOL QUÍMICA by which IQA-LSB will produce a total 27,000 tons a year of polyols from September 2006.

Before this alliance, the Chemical Division of LA SEDA DE BARCELONA supplied around 8,000 tons a year to REPSOL. This increase in production is the result of the significant market increase these products are experiencing, with a main application in polyurethane foam.

For the Chemical Division of LA SEDA DE BARCELONA, this agreement means an annual contribution margin of over 3 million euros.

PET POLYMER DIVISION

PET is the main stake of the LA SEDA DE BARCELONA. It is a product with a strong accumulative growth and high development potential.

In 2005, the PET market continued in its growing evolution of recent years, with an annual average rate of around 10%. This percentage may increase in the short term with the final introduction of the PET container in the juice, dairy and beer market.

Expectation for the coming years indicate that PET will continue to expand. The exceptional characteristics and properties of this polymer have made it one of the plastics of greatest versatility in the market, with multiple, varied applications, both in new developments and replacing other materials.

The technological evolution experienced in the manufacturing processes and in the materials used in the packing and packaging sector have enabled us to very broadly evaluate the exceptional properties of PET polymer, which is being imposed as an essential raw material in the sector.

The use of PET has been consolidated in the market of mineral waters, fizzy drinks and oils, and it is fast entering new applications in the sector of foodstuffs, cleaning products, cosmetics and pharmacy, and in applications for industry and engineering.

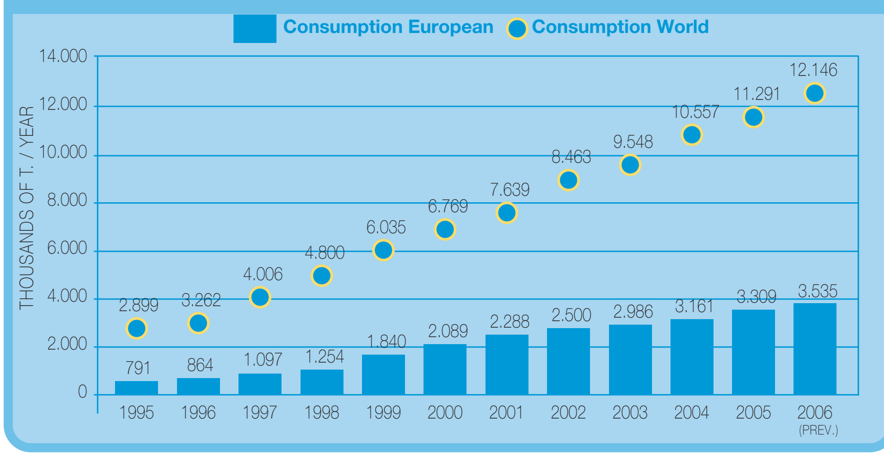
NEW DEVELOPMENTS
SedaPet Flow

LA SEDA DE BARCELONA has developed a new generation of PET polymers called SedaPet Flow, with highly improved properties that give the polymer a better flow. In these developments, we must stress the reduction of the crystallisation speed, which allows work at lower temperatures both in pre-form injection and bottle blowing. These polymers achieve a smaller power consumption in the overall manufacturing process, an increase in productivity and an improvement of the mechanical characteristics of the containers.

SedaPet Flow polymers are presented in two ranges of different viscosities, one intended for the fizzy drinks sector and the other for the still mineral water sector.

The R&D+i department of LA SEDA DE BARCELONA is working on new specific formulae for each application, with a new development intended for the dairy sector.

EVOLUTION OF WORLD-EUROPEAN CONSUMPTION OF PET POLYMERS



Data prepared by the Company from different publications.

CATALANA DE POLÍMERS
LSB Polyester Division

The activity of the PET Division of LA SEDA DE BARCELONA in 2005 concentrated exclusively on the production plant in El Prat de Llobregat, Catalana de Polímers- LSB Polyester Division.

LA SEDA DE BARCELONA has successfully completed a complex reconversion process by which it has concentrated its main industrial activity on the production of PET polymers. With the adaptation of the Polycondensation Unit for PET production and the start-up of the new Postcondensation Unit in the El Prat de Llobregat production plant, in the first quarter of 2005, the production capacity of PET and technical polymers increased to 190,000 tons / year.

The total volume of aggregate sales of PET and technical polymers in the year that concerns us reached 153,976 tons, up 44.8% over the sales volume in the previous year.

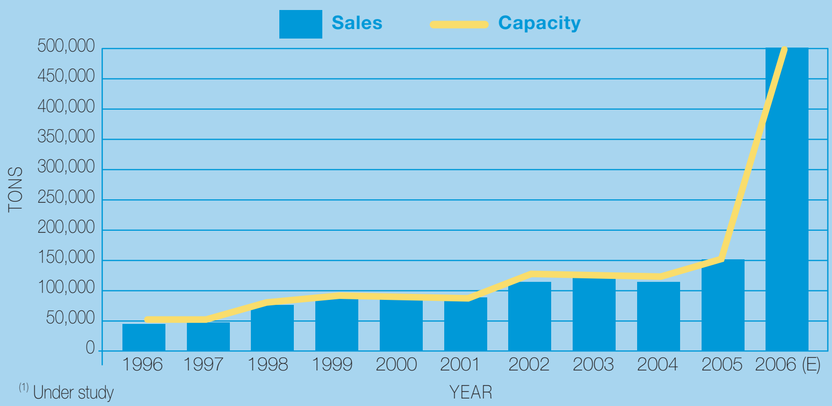
By geographical areas, 76% of sales were aimed at the domestic market, 17% to other countries of the European Union and the remaining 7% to third countries.

The coverage with respect to the planned productive capacity was 90%, 8% down on the previous year due to the start-up of the new PET facilities. Although the process was carried out successfully, both in the CPU-2 liquid phase polymerisation facilities and in the new CSSP-2 solid state polymerisation unit, PET production increased gradually in the early months of the year, until it reached the design capacity of the plant.

LA SEDA DE BARCELONA
TOWARDS EUROPEAN PET LEADERSHIP

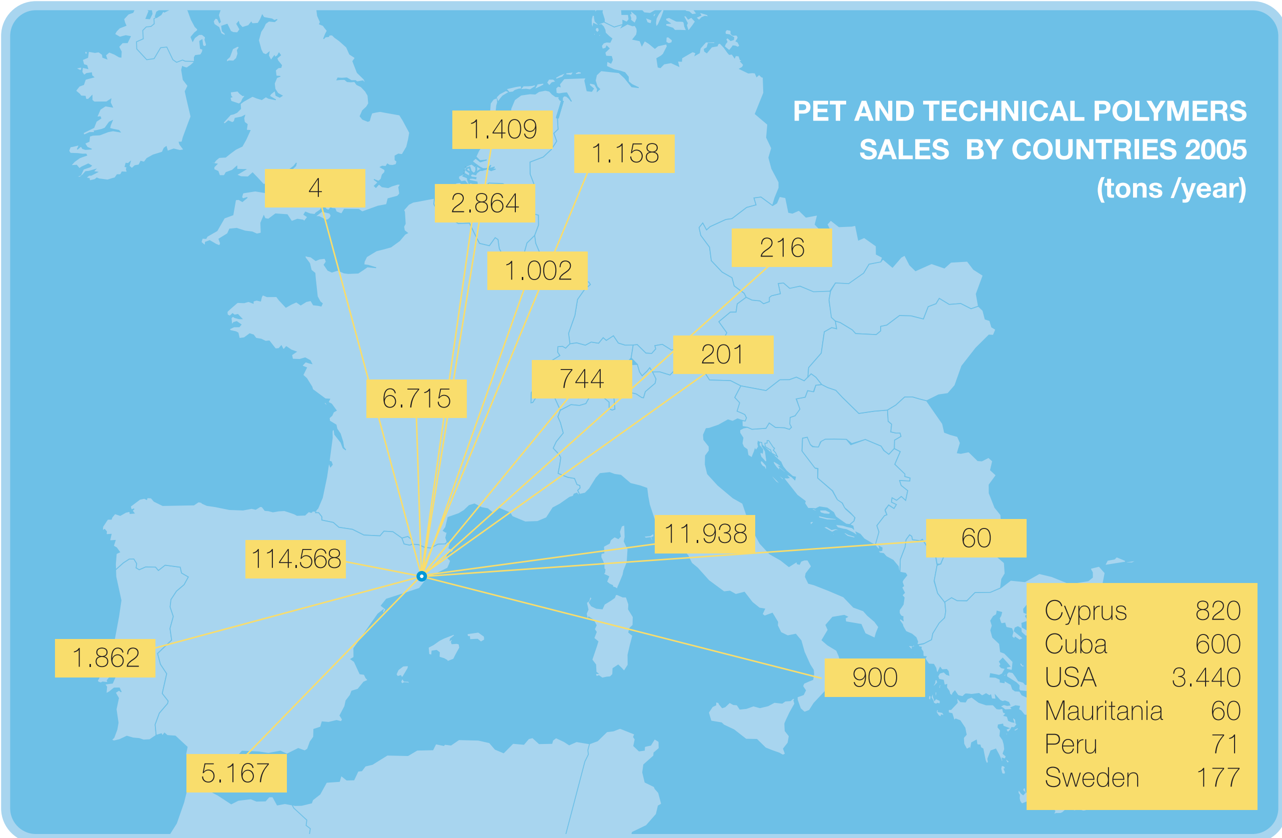
LA SEDA DE BARCELONA is starting on a new stage of international expansion with the purchase of 70% of SELENIS POLÍMEROS in Portugal and SELENIS ITALIA in the first quarter of 2006. The main objective of the Company is to set up a great European PET producing group and become the leading company in the sector in Europe.

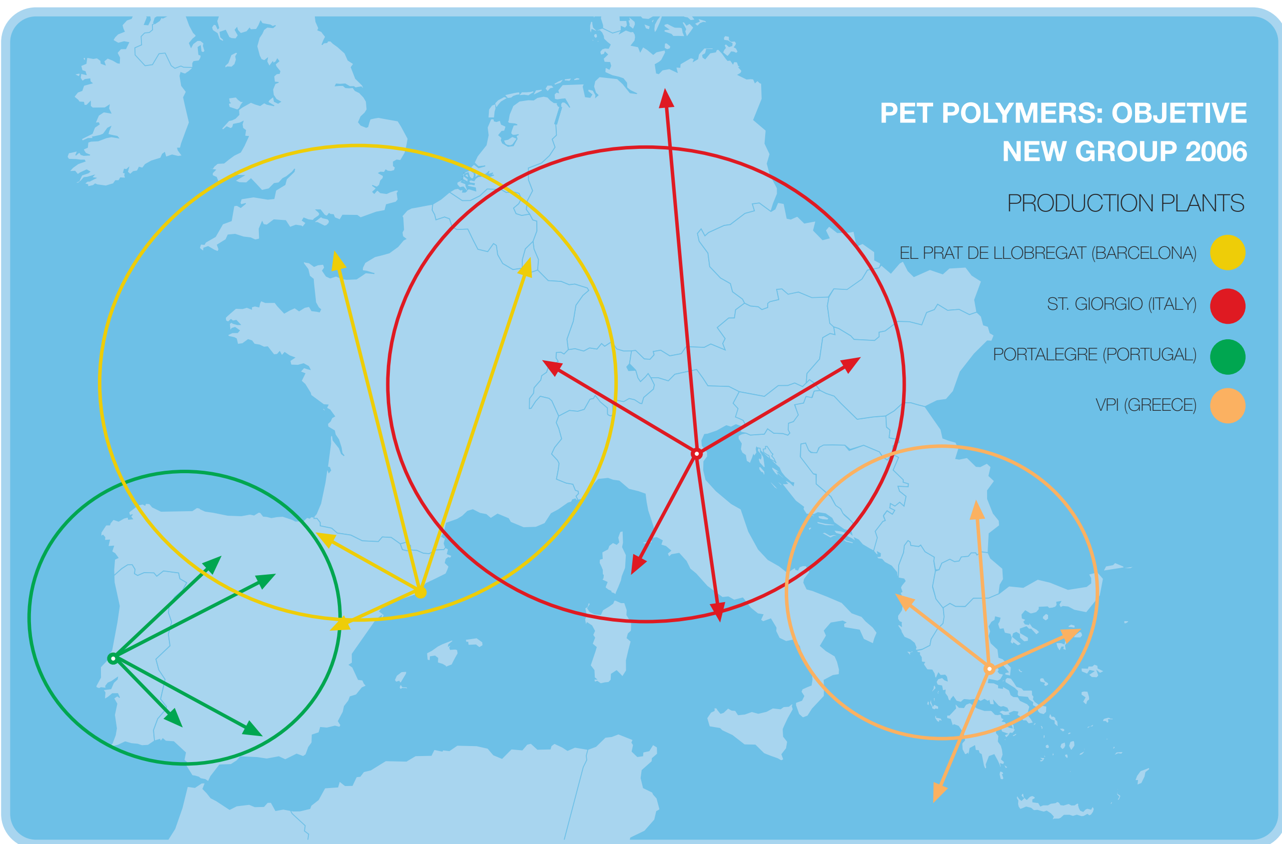
CAPACITY EVOLUTION - PET SALES New Group:
LA SEDA DE BARCELONA, SELENIS PORTUGAL, SELENIS ITALY, VPI [1]



(1) Under study

PRODUCT	APPLICATIONS
PET POLYMERS	• FOODSTUFFS Mineral waters / Oils and vinegars Fizzy and isotonic drinks / juices and dairy Wine and alcoholic drinks / fresh products Dried fruit and frozen articles • COSMETIC AND PHARMACEUTICAL PRODUCTS • DETERGENTS AND CLEANING PRODUCTS
TECHNICAL POLYMERS	• INDUSTRY AND ENGINEERING Injected parts / Electrical applications / Video and audio / Construction and decoration Radiography materials, industrial uses Conveyor belts, safety belts Tyres


PET AND TECHNICAL POLYMERS
SALES BY COUNTRIES 2005
(tons /year)
1.409
1.158
4
2.864
1.002
216
201
744
6.715
11.938
60
114.568
1.862
900
5.167
Cyprus 820
Cuba 600
USA 3.440
Mauritania 60
Peru 71
Sweden 177


PET POLYMERS: OBJETIVE
NEW GROUP 2006
PRODUCTION PLANTS
EL PRAT DE LLOBREGAT (BARCELONA)
ST. GIORGIO (ITALY)
PORTALEGRE (PORTUGAL)
VPI (GREECE)

FIBRE AND TRANSFORMED PRODUCT DIVISION

1st January 2005 saw the total liberation of the textile trade with the suppression of the last existing import quotas. This culminated the process started in 2002 with the inclusion of China in the World Trade Organisation (WTO), which supposed the entry of Asiatic products, mainly Chinese but also from other emerging countries such as India, in the European market without limitation.

In this environment, LA SEDA DE BARCELONA took the decision to change its business strategy with the reconversion of its traditional textile activity, which has allowed it to turn its production towards technical fibres with high added value.

The LA SEDA DE BARCELONA Fibre Division carried out the following actions in 2005:

Significant reduction in the spinning sector. This is the sector most directly affected by the Asiatic competition, fundamentally from China.
Concentration of the production of fibres for the non-woven sector. This is a sector intensive in capital but not in labour, so it has been better protected from Asiatic products.

The R&D+i Department of the LA SEDA DE BARCELONA Fibre Division moved forward in developing new fibres of high added value in 2005, aimed at small markets of great specialisation.

NEW DEVELOPMENTS
New Anti-mite Fibre

Modern society demands end articles manufactured with new fibres that give functional properties and contribute to improving the quality of life.

In 2005, LA SEDA DE BARCELONA developed a new anti-mite polyester fibre for highly specific uses which include hospital fibres, and a large variety of applications in domestic fabrics and sports articles, also covering the deodorising and comfort requirements demanded of these types of articles.

There is a wide range of micro-organisms such as bacteria, fungi and yeast. The new LA SEDA DE BARCELONA anti-mite fibre inhibits the presence of a wide spectrum of these organisms.

The LA SEDA DE BARCELONA Fibre and Transformed Product Division develops its activity in the production plant in El Prat de Llobregat (Barcelona), Catalana de Polímers-LSB Polyester Division and the subsidiary INQUITEX in Andoain (Guipúzcoa).

PRENATAL TRUSTS THE
LA SEDA DE BARCELONA
ANTI-MITE FIBRES IN MAKING THEIR PRODUCTS

PRENATAL, the largest European chain specialised in products for children and pregnant women has trusted the anti-mite fibres of LA SEDA DE BARCELONA for its products.

One of the clearest stakes of the Fibre Division has been the optimisation of its anti-mite fibres for applications in garments and articles for the children's sector. In 2005, the Company introduced these new fibres in the market of high range cuddly toys and recently received the approval of companies of renowned prestige such as the El Corte Inglés and Nenuco.

Polyester

The volume of aggregate sales of polyester fibres in 2005 was 30,064 tons, of which 16,522 tons correspond to the El Prat de LLobregat plant and 13,542 tons to INQUITEX in Andoain.

The participation of the LA SEDA DE BARCELONA Group in the European polyester fibre market was 10.9%.

82% of all sales were aimed at the non-woven industrial sector and only 18% went to the traditional sector.

By geographical areas, 34% of sales went to customers in the domestic market, 63% to customers in countries of the European Union and the remaining 3% to other countries such as Saudi Arabia, Algeria, Morocco and Taiwan.

CATALANA DE POLIMERS
LSB Polyester Division

INDUSTRIAS QUÍMICAS TEXTILES

Polyamide

In 2005 Polyamide sales amounted to 3,902 tons, a European polyamide fibre market share of 13.3%.

By geographical areas, 83% of sales went to countries of the European Union, mainly Italy and Germany. The domestic market represented 9% and the remaining 8% went to other countries such as Mexico and Argentina.

PET sheet

Sales of PET sheet in 2005 amounted to 4,163 tons, 13% up on the previous year. This increase was smaller than expected due to the persistent technical problems in the new production line, which we hope will soon be resolved.

66% of sales went to the domestic market and the remaining 34% to countries of the European Union, mainly customers in England and Italy.

CORPORATE SOCIAL LIABILITY

LA SEDA DE BARCELONA, aimed at offering its shareholders maximum profitability, stakes on growing sustainably in the current business units. The culture of the parent company and its subsidiaries involves making the necessary investments not only to adapt production to market needs, but also to adapt the teams and the facilities to the good practices in Health and Labour Safety, and in the policy of respect for the Environment.

RELATIONS WITH THE INTERNATIONAL CHEMICAL COMMUNITY

The objective of continuous improvement by the LA SEDA DE BARCELONA Group becomes visible through the voluntary adhesion of the parent company and its subsidiary IQA-LSB to the **Progress Commitment**, underwritten by the FEIQUE (Business Federation of the Spanish Chemical Industry); an initiative promoted by the World Chemical Industry to responsibly manage its products, taking international regulations of renowned solvency as a reference point for the management systems. This voluntary, public and active pact of the chemical companies to each other and society, stakes on accounting sustainable development with the continuous improvement of Safety and protection of Health and the Environment throughout their whole area of action.

In this line, LA SEDA DE BARCELONA and its subsidiary IQA-LSB are also members of the COASHIQ (Autonomous Commission of Safety and Hygiene in the Chemical Industry) to share experiences and improve the Safety, Health Protection and Accident Prevention in the associated companies. Likewise, LA SEDA DE BARCELONA is also a member of AITEX, Textile Technological Institute, which guarantees the absence of substances harmful to consumers and the Environment in the articles made with their polyester fibres.

With respect to the subsidiary INQUITEX, in 2005 it upheld the commitments defined in the Voluntary Agreement signed between the Chemical Sector and the Basque Government for the environmental improvement of the sector. Amongst other things, this agreement implies the participation of the Company in the project to measure EPER contaminating parameters and in the development of the BREF Polymer documents.

POLICY OF QUALITY, SAFETY, HEALTH AND ENVIRONMENT

Through their Integrated Management System based on the reference ISO 9001, ISO 14001 and OSHAS 18001 standards, the production plants of the LA SEDA DE BARCELONA Group have their main objective in achieving the necessary efficiency and efficacy in their production processes for the optimal development of their commercial and industrial activities. The purpose of the Company Quality Policy is to increase its economic results each year, to assure sustainability and manage to attract, satisfy and gain the loyalty of its customers.

Our MISSION: to satisfactorily attend the needs and requirements of our customers in a manner that is profitable for our Group.

Our VIEW: to become the European reference Industrial Group leading in PET polymer production.

LA SEDA DE BARCELONA applies prevention criteria at origin in all its actions concerning respect for the environment and ensures compliance with the legal requirements that may be demanded at any time.

The Company understands that this effort would not be effective without developing a personnel training policy aimed at knowledge and sensitisation in the prevention of labour risks and respect for the environment, in addition to the training that might functionally be necessary in each case.

For its business processes to be efficient, the company culture must be proactive and collaborative so the plans are developed and the necessary resources are provided to set up a management focused on key results, placing special emphasis on the inclusion of new technologies to facilitate access to information on all levels.

In the same line, LA SEDA DE BARCELONA considers that profitability in business must also be based on the establishment of reliable, lasting relations with their spokespeople: customers, suppliers, employees, social organisations, public administrations etc., this being a reference criterion in defining the commercial, industrial and social strategies of the group.

The LA SEDA DE BARCELONA General Management, with the entire support of the Management Team, periodically reviews the evolution of the key management indicators, trying to identify the strengths and weaknesses of the Company in order to propose and prioritise the opportunities for improvement that are considered most suitable for achieving the general objectives.

TARRAGONA PRODUCTION PLANT

In 2005, the production plant of the Tarragona Petrochemical Estate - IQA-LSB – made a significant effort in the area of environment, which has resulted in the achievement of ISO 14001:2004 certification at the beginning of this year. In this line of work, it has been possible to reduce the emission of pollutants into the atmosphere, with objectives that go beyond the limits established by the Administration through the Environmental Authorisation of IQA-LSB, which this year passed the two-yearly check with a satisfactory result.

In accordance with the environmental policy of the Group, the subsidiary IQA-LSB has signed a framework agreement with the “Departament de Medi Ambient de la Generalitat de Catalunya”, which is intended to achieve environmental improvement in the Tarragona field area. Within this framework, adaptations have been made to the facilities, which allow the Public Administration to be continuously informed on the operation of the torch and the boiler chimneys. This year the second phase was also carried out to adapt the tank park to the regulation on the storage of special products.

There are several particular measures aimed at preventing land pollution, actions that are in line with the new regulations on polluted soils that came in at the beginning of the year.

In the area of safety, having consolidated the good results concerning the accident rate among its own staff, considerable effort has been put into co-ordinating with contractor companies in subjects such as the inter-contract safety committee, the introduction of the figures of the safety co-ordinator and preventive resource, stoppage safety plans, etc...

At the end of 2005, an analysis was made of the Hazop risk in all facilities of the Tarragona production plant, in addition to the Safety Determination required by Regulations on serious accidents, which concluded without any deviation.

EL PRAT DE LLOBREGAT PRODUCTION PLANT (BARCELONA)

In 2005, in the El Prat de Llobregat production plant, Catalana de Polímers - División Poliéster LSB, significant actions have been carried out related to Safety, Health and Environment, of which we must highlight the following:

- Feasibility plan for the recovery of glycol in waste waters by the process of inverse osmosis, with the objective of reducing the environmental impact in the waters vector.
- Presentation of the Environmental Impact Study of the facilities of the Company to the Autonomic Administration.
- Use of recycled polyester to reduce the consumption of virgin raw materials in the manufacture of technical fibres.
- Start-up of specific programmes of Industrial Hygiene.
- Significant improvement in introducing and following codes of Environment Protection, Safety in processes and reply to emergencies and Safety in the Progress Commitment labour environment.

In 2005, the preliminary visit was made by AENOR for ISO 14001 certification with satisfactory results, putting off the date for final certification until the integration of the activities of the Power Centre, which until 2005 had formed part of the UTE (LA SEDA / FISIPE) and which has now been integrated into the production plant of LA SEDA DE BARCELONA in El Prat de Llobregat.

ANDOAIN PRODUCTION PLANT (GUIPÚZCOA)

In the year that concerns us, the Andoain production plant - INQUITEX - maintains the integration in a single Management System for all of the productive processes (Quality – Environment – Labour Risk Prevention) with the main objective aimed at the continuous improvement of the business processes.

In 2005, the quality certificate was renewed according to UNE-EN-ISO 9001:2000, reaching all activities and products of the production plant, and before the end of the year, environment UNE-EN-ISO 14001:2004 environmental certification was achieved.

In September 2005, processing began on the "Integrated Environmental Authorisation" (AAI) requirement brought in by Law 16/2002 of Integrated Control and Prevention of Contamination (IPPC), which is applicable in this plant.

As in previous years, without having any specific certification, the aspects of Labour Risk Prevention follow the directives of international standards for maintaining the efficacy of the System, and is submitted to voluntary external auditors. This year, the audit was performed in December with a satisfactory result and the necessary measures began to be introduced to correct the small deviations identified.

RECYCLING

Amongst other initiatives carried out by LA SEDA DE BARCELONA is the stake on reusing surplus materials or sub-products of the production processes of the Group and the incorporation in the formulae of some of the types of polyester fibre and PET sheet from recycled materials arising from post-industrial and post-consumption uses.

In 2005, the processes were optimised to use the consumption of recycled PET in fibre production, thus contributing to increasing the PET recycling quota in Spain. These actions have placed LA SEDA DE BARCELONA as a leading company in Spain as regards the volume of recycled products used in their productive processes, a fact that reaffirms our Company's commitment to preserving the Environment.

R&D&i

The Department of Research, Development and Innovation – R&D+i - of LA SEDA DE BARCELONA concentrated in 2005 on the development and optimisation of products of greater added value. The following projects were specified in the year:

- Optimisation work on a new formula for PET resin with more ecological catalysts. A new product has been developed, the SedaPet-Flow, under a new formula with improved rheological properties, which also allows a reduction of power consumption in the injection and blowing processes, aimed at the fizzy drinks and mineral water sectors.

- Preliminary work has started to develop PET formulae with the addition of NANOCLAYS, in order to obtain a resin with improved barrier properties.

- Furthermore, in order to maximise the Company's competitiveness, the development has continued of new types of fireproof fibres that reply to the changing requirement of the market. With regard to anti-mite fibres, the Company continues in the process of introducing this speciality in the market of applications for anti-allergic articles.

- This year, the studies also started to introduce a new formula with anti-bacterial properties, which is expected to come out in 2006.

In the INQUITEX plant in Andoain, work has been focused on developing new colours of polyester fibre and a new product, Polyester fibre 4,4 dtex mass-dyed, both intended for the car sector. With regard to PET sheet, work has continued on developing the C-PET, which will enable us to enter a new market "niche".

PRODUCT GUARDIANSHIP

In 2005, LA SEDA DE BARCELONA improved the communication flows with its customers in order to reaffirm its commitment to the environment, by making an effort to help them in all subjects that allow their products to be managed responsibly and ethically throughout their Life Cycle.

In this sense, based on current legislation, the Company is able to corroborate that the products made in all the production plants of the Group easily and rigorously meet all corresponding legal regulations.

CUSTOMER ATTENTION

The LA SEDA DE BARCELONA Group has a special service for customer attention in all matters related to the environment and health care requirements that affect its products and are required by the markets. This special service reaffirms once more the Company's commitment to producing highly ecological products.

Basic Chemicals

LA SEDA DE BARCELONA invested 2 million euros in reducing CO_2 in the IQA-LSB production plant in Tarragona, which allowed Ethylene Oxide production to be increased by 5,000 tons/year by improving the selectivity of the catalyst, now situated at 120,000 tons/year. With the introduction of the Low CO_2, System, the Tarragona plant will significantly reduce the consumption of raw materials and the generation of by-products (exterior emissions), coming into line with the commitment to reduce polluting emissions within the framework of the Kyoto Protocol.

IQA-LSB has since 1997 maintained a contract with the company Carburos Metálicos through the joint company CARB-IQA DE TARRAGONA for the recovery and purification of the carbon dioxide current from the process to manufacture Ethylene Oxide. In this way, the Tarragona production plant avoids sending approximately 30,000 tons a year of CO_2 into the atmosphere.

PET polymers

All the polymers produced in the LA SEDA DE BARCELONA production plants comply with European Directives and their transposition to the corresponding Spanish Regulations referring to their productive processes, respect for the environment and the sanitary conditions of their products.

The main investments in this field in 2005 were aimed at increasing the safety of the facilities of the El Prat de Llobregat factory, broadening the fire detection system of the production buildings, modernising vital electrical installations such as, for instance, the PTA unloading hoist (the raw material of the factory) and developing new products.

Polyester fibres

The fibres of LA SEDA DE BARCELONA are certified by the AITEX Textile Technological Institute for the use of the Oeko-Tex Standard 100 ecological label for polyester fibre. This certification guarantees the non-presence of substances harmful for consumers in the articles manufactured with the said fibres.

As for the main investments in technical fibres, we particularly mention the modification of the conventional spinning by E2 extruder to allow recycled PET to be brought into the production process, and the modification of a stretching bench used to stretch PES fibre from PET recycling. Both investments were carried out with a double objective: economic and environmental, complemented by recycled materials.

UNITED NATIONS WORLD PACT

LA SEDA DE BARCELONA is a member of the Group of Large Companies adhered to the United Nations World Pact, an initiative of ethical commitment for entities from all countries to take on, as an integral part of their strategy and operations, ten principles (see: www.pactomundial.org) of conduct and action in areas of Human Rights, Work, Environment and the Fight against corruption.

LA SEDA DE BARCELONA, S.A.: active presence in its relations with the community

Throughout the years, LA SEDA DE BARCELONA has consolidated excellent relations with the communities in the areas most nearby their productive plants.

In the Tarragona petrochemical complex where the plant is located of IQA-LSB (Industrias Químicas Asociadas LSB), subsidiary of LA SEDA DE BARCELONA and the only producer of Ethylene Oxide in Spain, the Group has an excellent relationship with the nearest Tarragona community and also with the associations of proprietors (La Granja, Camp Clar, Torrenova…). In this province, the Group also collaborates with sports associations (Torreforta, Camp Clar Zona Esportiva...), with collectives in favour of the social and labour integration of the disabled (La Muralla), the elderly (Llar Avis SP iSP) and professional colleges (Enginyers Decena musical and Colegio Oficial de Químicos de Catalunya). The Company also sponsors a cycle team in the city.

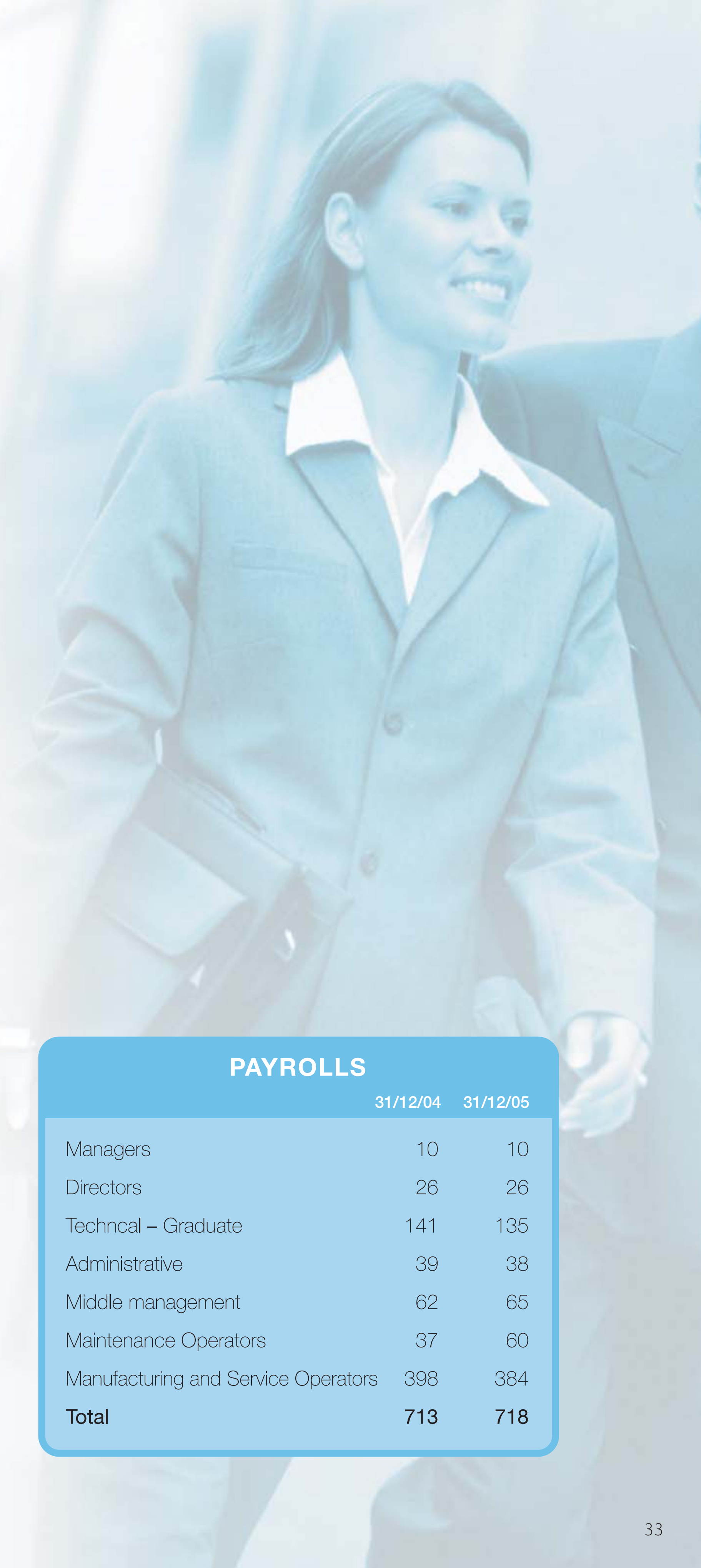
In the field of teaching and promoting access to labour life, the LA SEDA DE BARCELONA Group collaborates through agreements with the Universidad Rovira i Virgili in Tarragona (the Chemical Faculty) to provide practice for students, and with Professional Training schools, such as the IES Comte de Rius.

The community nearby the company headquarters of LA SEDA DE BARCELONA, El Prat de Llobregat (Barcelona), also benefits from the actions included in the relations of the Company with the community. In fact in declarations to Dossier Econòmic, the mayor of El Prat de Llobregat, the Rt. Hon. Mr. Luis Tejedor, recalls that “La Seda de Barcelona is the company that brought El Prat to industrialisation” and Mr. Tejedor adds that LA SEDA DE BARCELONA was the company that brought women into the industrial working world. Within this line of action, the Company is also an active part of the project “Plans d´Igualitat de les Empreses de la ciutat de Barcelona” led by Barcelona City Hall with the aim of promoting policies to nurture equal opportunities between sexes in company management, and non-discrimination for any other reason.

In the same area of influence, marked geographically by the river Llobregat, LA SEDA DE BARCELONA forms part of the Board of Government of the Comunitat d’Usuaris d’Aigües del Delta del Riu Llobregat and takes part in new development projects (R&D+i) with the UPC (Chemical Department of Polymers of the ETSIIB).

Furthermore, LA SEDA DE BARCELONA is a collaborating member of the IQS foundation (Sarriá Chemical Institute), which this year celebrates its centenary, and participates in various important cultural and social activities: it is a protector member of the “Fundació Orfeó Català Palau de la Musica” and a sponsor of numerous acts organised by the Down’s Syndrome Foundation. With respect to sports activities, LA SEDA DE BARCELONA collaborates with different local teams.

HUMAN RESOURCES



In 2005 in the three Production Centres: El Prat de Llobregat, Tarragona and Andoain, the Collective Agreements signed in 2003 were maintained for the third consecutive year. Each centre has its own Collective Agreement, and this year was the last the three will hold.

We must mention the total absence of labour conflict in this period, which developed with total normality.

With respect to the volume of payrolls and as this may be appreciated from the attached numerical table, at 31st December 2004, there had been a slight increase in the overall number of employees. The most significant variation occurred in LA SEDA DE BARCELONA and specifically in the El Prat de Llobregat plant, Catalana de Polímers, which is currently the Polyester Division of the parent company.

In 2005 there were different events that caused changes in the payrolls:

- In the first quarter of 2005, a productivity adjustment plan was started in the production plant in El Prat de Llobregat, which supposed a fall in the number of manufacturing operators.
- On 1st July 2005, personnel were transferred from CATALANA DE POLÍMERS to LA SEDA DE BARCELONA as a consequence of the merger by absorption approved in the Extraordinary General Assembly of Shareholders held on 29th December 2004.
- At the end of the year, following the dissolution of the Power Centre "UTE LA SEDA-FISIPE", the personnel of the UTE came into LA SEDA DE BARCELONA as maintenance operators, which caused the mentioned increase in the payroll.

The payroll remained stable in the Tarragona and Andoain production plants.

With respect to investment in personnel training, in order of importance we point to: Safety and Environment, Production Systems and Quality.

A total 58 theoretical and practical courses were given with the participation of almost 800 employees, which in relation to the average total payroll for the year gave a participation ratio of 113 %.

PAYROLLS

	31/12/04	31/12/05
Managers	10	10
Directors	26	26
Techncal – Graduate	141	135
Administrative	39	38
Middle management	62	65
Maintenance Operators	37	60
Manufacturing and Service Operators	398	384
Total	**713**	**718**

ANNUAL ACCOUNTS AND REPORT

BALANCE SHEET AT 31ST DECEMBER 2005 AND 2004

(Thousands of Euros)

FIXED	31.12.2005	31.12.2004
ASSETS		
Preliminary expenses (Note 5)	5,381	1,439
Intangible assets (Note 6)		
Research & development expenses	3,349	-
Concessions, patents, licences, trademarks and similar	85	-
Computer applications	8,258	1,611
Rights on goods being leased	4,773	-
Repayments	(4,434)	(78)
	12,031	1,533
Tangible assets (Note 7)		
Land and buildings	51,434	986
Integrated production plant and machinery	202,631	34,739
Other plant, tools and fittings	1,222	657
Advance payments and tangible fixed assets for work in progress	5,350	-
Other fixed assets	5,158	3,177
Repayments	(152,581)	(18,828)
	113,214	20,731
Investments (Note 8)		
Shares in Group undertakings and associated undertakings	59,304	129,189
Loans to Group undertakings	-	15,194
Long-term stock portfolio investment	170	163
Other loans	139	6,912
Long-term debts to Public Bodies	23,775	18,295
Guarantee deposits and deposits set up in the long-term	273	34
	83,661	169,787
	214,287	**193,490**
DEFERRED EXPENSES (NOTE 9)	**7,081**	**16,828**
CURRENT ASSETS		
Stocks (Note 10)		
Trade stocks	209	-
Raw materials and other supplies	6,250	-
Work in progress and semi-finished goods	1,870	-
Finished goods	13,956	-
Provisions	(227)	-
	22,058	-
Debtors		
Trade debtors for sales and provision of services	157,319	13,475
Group and associated undertakings, debtors (Note 11)	37,814	16,075
Sundry debtors (Note 12)	2,786	1,714
Employees	101	3
Public Bodies	1,596	667
Provisions	(1,782)	(621)
	197,834	31,313
Short-term investments (Note 8)		
Loans to Group undertakings	331	-
Short-term securities portfolio investment	29,872	1,035
Other loans	715	412
Guarantee deposits and deposits set up in the short-term	8,007	1
Provisions	(10)	(11)
	38,915	1,437
Own shares in short-term (Note 13)	223	625
Cash	5,710	217
Prepayments and deferred income	109	-
	264,849	**33,592**
	486,217	**243,910**

Notes 1 to 33 in the attached report form an integral part of the balance sheet as of 31st December, 2005.

BALANCE SHEET AT 31ST DECEMBER 2005 AND 2004

(Thousands of Euros)

LIABILITIES	31.12.2005	31.12.2004
EQUITY (Note 14)		
Subscribed capital (Note 15)	101,599	130,552
Issue premium (Note 16)	26,918	12,379
Reserves (Note 17)	86,911	24,476
Fiscal period income/loss	(1,868)	1,289
	213.560	**168,696**
LONG-TERM CREDITORS		
Issue of bonds and other marketable securities (Note 18)		
Convertible bonds	47,469	-
	47,469	-
Liabilities with financial institutions (Note 19)		
Long-term liabilities with financial institutions	51,125	1,974
Long-term financial leasing creditors	3,540	-
	54,665	1,974
Liabilities to Group companies and associated undertakings (Note 11)	12,274	5,278
	12,274	5,278
Other creditors (Note 20)		
Long-term debts to Public Bodies	42,008	29,591
Other debts	4,709	1,948
Long-term guarantee deposits and other deposits received	9	7
	46,726	31,546
	161,134	**38,798**
SHORT-TERM CREDITORS		
Issue of bonds and other marketable securities (Note 18)		
Interest on debenture loans and other securities	923	-
	923	-
Liabilities with financial institutions (Note 18)		
Loans and other liabilities	33,611	11,024
Short-term financial leasing creditors	1,416	-
Liabilities for interest	574	279
	35,601	11,303
Liabilities to Group undertakings and associated undertakings		
Liabilities to Group companies and associated undertakings (Note 11)	34,348	20,455
	34,348	20,455
Trade creditors		
Advances received for orders	2,000	-
Liabilities for purchases or provision of services	13,774	1,254
	15,774	1,254
Other non-trade liabilities (Note 20)		
Public Bodies	15,117	1,768
Other liabilities	4,647	947
Accrued salaries and wages	5,113	689
	24,877	3,404
	111,523	**36,416**
	486,217	**243,910**

Notes 1 to 33 in the attached report form an integral part of the balance sheet as of 31st December, 2005.

PROFIT AND LOSS ACCOUNT FOR THE FISCAL YEARS ENDING ON 31ST DECEMBER 2005 AND 2004

(Thousands of Euros)

OPERATING EXPENSES	31.12.2005	31.12.2004
Procurement		
Consumption of raw materials and other consumable materials (Note 23)	123,902	11
Other external expenditure	211	-
Expenses for employees (Note 24)		
Wages, salaries and similar	23,210	959
Welfare costs	5,463	287
Depreciation and amortisation charges for tangible fixed assets	10,765	2,370
Differences in the provisions for other assets		
Difference in provisions for stocks	70	-
Difference in provisions for and losses from bad debts (Note 25)	7,547	425
Other operating expenses		
External services	31,365	2,853
Taxes	546	328
	203,079	7,233
OPERATING PROFITS	**10,032**	**2,775**
	213,111	10,008
FINANCIAL CHARGES AND SIMILAR		
Financial charges and similar expenses		
For liabilities with third parties and similar expenses	11,518	1,829
Difference in the provisions for investments	(2)	9
Foreign exchange losses	24	-
	11,540	1,838
	11,540	1,838
FINANCIAL LOSSES	**11,428**	**1,701**
PROFITS FROM ORDINARY ACTIVITIES	**-**	**1,074**
	11,428	2,775
EXTRAORDINARY EXPENSES		
Expenses for staff changeover	-	1,165
Losses from intangtible fixed assets, tangible fixed assets and controlling interests	111	-
Losses on sales and redemptions of own shares and debenture loans	1	4
Extraordinary expenses	1,433	1,214
Expenses and losses from previous fiscal years	-	237
	1,545	2,620
EXTRAORDINARY PROFITS	-	**1,497**
	1,545	4,117
EXTRAORDINARY LOSSES	**685**	**-**
LOSSES FROM ORDINARY ACTIVITIES	**1,396**	**-**
PRE-TAX PROFITS	**-**	**2,571**
	2,081	2,571
PRE-TAX LOSSES	**2,081**	**-**
CORPORATION TAX (NOTE 21)	**(106)**	**1,282**
DECREASE IN CORPORATION TAX FOR 2004 (NOTE 21)	**(107)**	**-**
PROFITS FROM THE FISCAL YEAR	**-**	**1,289**
	1,868	**2,571**

Notes 1 to 33 in the attached report form an integral part of the profit and loss account for the fiscal year 2005.

PROFIT AND LOSS ACCOUNT FOR THE FISCAL YEARS ENDING ON 31ST DECEMBER 2005 AND 2004

(Thousands of Euros)

OPERATING REVENUES	31.12.2005	31.12.2004
Net sum for turnover (Note 26)		
Sales	197,243	-
Provision of services	5,389	10,000
Increase in stocks of finished goods and work in progress	859	-
Work performed by the company for the tangible fixed assets	9,552	-
Other operating revenue		
Additional revenues and miscellaneous operating revenues	68	8
	213,111	10,008
	213,111	10,008
FINANCIAL REVENUES AND SIMILAR		
Revenues from investments in capital		
In companies from outside of the Group	12	6
Revenues from other marketable securities and from loans on the tangible fixed assets	-	119
Other charges and similar revenues		
Other charges	70	12
Foreign exchange gains	30	-
	112	137
FINANCIAL LOSSES	**11,428**	**1,701**
	11,540	1,838
OPERATING PROFITS	**10,032**	**2,775**
LOSSES FROM ORDINARY ACTIVITIES	**1,396**	**-**
	11,428	2,775
EXTRAORDINARY INCOME		
Profits from disposal of intangible fixed assets, tangible fixed assets and controlling interests	130	3,374
Profits on sales and redemptions of own shares and debenture loans	201	10
Extraordinary income	529	729
Income and profits from previous fiscal years	-	4
	860	4,117
EXTRAORDINARY LOSSES	**685**	**-**
	1,545	4,117
EXTRAORDINARY PROFITS	**-**	**1,497**
PROFITS FROM ORDINARY ACTIVITIES	**-**	**1,074**
PRE-TAX LOSSES	**2,081**	**-**
	2,081	2,571
PRE-TAX PROFITS	**-**	**2,571**
LOSSES FROM THE FISCAL YEAR	**1,868**	**-**

Notes 1 to 33 in the attached report form an integral part of the profit and loss account for the fiscal year 2005.

LA SEDA DE BARCELONA, S.A.

NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AT 31ST DECEMBER 2005

NOTE 1. COMPANY ACTIVITY

The Company was set up on 23rd May 1925, its duration is indefinite and as stated in its memorandum of association of the same date, its corporate object is the manufacture and sale of artificial silk in all its aspects and derivatives, the production, handling, processing and sale of all kinds of fibres and textile and technical threads and artificial and synthetic materials, including the construction of its own machinery, the production of power and steam earmarked for its plants, as well as the performance of research in the aforesaid fields.

The aforementioned activities may also be carried out fully or partially in an indirect manner, through shareholdings in other companies with identical or similar corporate purposes. Furthermore and as a result of the merger process described below, its corporate purpose has been extended to include the manufacture and trading of polyester resin, polyester fibre, polyethylene telephtalate (PET polymer), the production of eicosapentaenoic acid (EPA), docosahexaenoic acid (DHA) and all kinds of polyunsaturated fatty acids.

The Company is registered at the Company Register for Barcelona, on page 16.004, sheet 11, volume 209 and it has its registered offices and carries out its activity at Avda. Remolar, nº 2, 08820 El Prat de Llobregat. The Company's central offices are located at Pº de Gracia, 85, 08008 Barcelona.

On 2nd June 1998 and by means of a public deed of the same date, the Company merged with the subsidiary company called **Industrias Químicas Asociadas-IQA, S.A. (Single-member Company)** through the absorption and liquidation of the latter, thus assigning all its equity in a block and completely to **La Seda de Barcelona, S.A.** The merger was carried out and came into effect on 1st January 1997. Furthermore, on 14th December 2001, the Company took over, by means of the procedure of overall assignment of assets and liabilities, the whole of the equity of **Hispano Química, S.A. (Single-member Company)** and **Viscoseda Barcelona, S.L. (Single-member Company).**

On 1st October 2003, the spin-off was performed, by means of the provision of a branch of activity, for the industrial complex called IQA in Tarragona to a company called **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)**, fully owned by the Company (see Note 4 g)).

The accounting effects of the aforementioned transactions were described in the pertinent annual accounts.

Subsequently, on 29th December 2004, the Annual General Meeting of Shareholders of La Seda de Barcelona, S.A. approved the merger by absorption with effect on 1st January, whereby the Company took over the Companies in the Group: **Catalana de Polímers, S.A. (Single-member Company), KD-IQA, S.L. (Single-member Company), Iberseda, S.L. (Single-member Company), Proyectos Voltak, S.L. (Single-member Company), Celtibérica de Finanzas, S.L. (Single-member Company)** and **Mendilau, S.L. (Single-member Company)**, of which it was the holder of 100% of their share capital.

The accounting effects of this transaction are recorded in the pertinent notes in this report under the description of "Incorporation by merger", with its breakdown by companies being the one stated in Note 21.2.

La Seda de Barcelona, S.A. is the controlling company for the **Seda Group**, which includes several companies with common management and shareholders.

NOTE 2. BASES FOR PRESENTATION OF THE ANNUAL ACCOUNTS

a) True and fair view.

The enclosed balance sheet, profit & loss account and notes were drawn up on the basis of the Company's accounting records at 31st December 2005, modified by the effects of the update carried out according to the Royal Decree-Act 7/1996, of 7th June, and they are presented in line with generally accepted accounting principles. The said annual accounts are pending approval by the Company's Annual General Meeting of Shareholders. The Administrators of **La Seda de Barcelona, S.A.** believe they will be approved without any modifications.

As regards the annual accounts for the fiscal year 2004, the Company Administrators proceeded to draw them up again on 7th July 2005 due to the fact that the merger agreement described in Note 1 above was registered at the Companies Register on 16th June 2005. The aforesaid new wording was submitted to and approved by the Extraordinary General Meeting of Shareholders held on 21st October 2005.

As a result of this fact, the merger by absorption was entered in its accounts during the fiscal year 2005 for the companies in the Group: **Catalana de Polímers, S.A. (Single-member Company), KD-IQA, S.L. (Single-member Company), Iberseda, S.L. (Single-member Company), Proyectos Voltak, S.L. (Single-member Company), Celtibérica de Finanzas, S.L. (Single-member Company)** and **Mendilau, S.L. (Single-member Company)** by means of inclusion in the Company taking them over of their respective balance sheets and profit & loss accounts as of 1st January 2005.

On 14th November 2005 and by means of a public deed, La Seda de Barcelona, S.A. and Teín Química, S.A.U., undergoing bankruptcy proceedings, agreed in their capacity as partners in La Seda de Barcelona-Courtaulds España, Central Energética, a Joint Venture as per Act 18/82 of 26th May, to deem the Joint Venture Agreement between both companies to be ended and to that purpose considered the said association to be annulled, rescinded, dissolved and wound up. Therefore Teín Química, S.A.U. assigned and transferred to La Seda de Barcelona, S.A. as a result of the unilateral early dissolution of the Joint Venture, 10% of its undivided holding in the ownership of the estate with registration No. 28653 valued at the sum total of Euros 520,540.
Due to the winding-up of the Joint Venture mentioned in the previous paragraph, La Seda de Barcelona, S.A. incorporated the balance sheet for La Seda de Barcelona-Courtaulds España, Central Energética, a Joint Venture as per Act 18/82 of 26th May, with its breakdown being the following:

ASSETS	(Thousands of Euros)
FIXED ASSETS	
Net investments	182
CURRENT ASSETS	
Debtors	86
Cash	-
	268
LIABILITIES	
LONG-TERM LIABILITIES	459
SHORT-TERM LIABILITIES	2,187
FIXED EQUITY	(2, 378)
	268

b) Comparison of the information.

The enclosed financial statements for **La Seda de Barcelona, S.A.** closed on 31st December 2005 and 2004, are presented in accordance with the schedules and regulations on accounting for Companies contained in the Act 19/1989, of 25th July, for partial restatement and adaptation of company legislation to comply with European Economic Community directives in terms of Companies and the Revised Text of the Public Limited Companies Act, approved by Legislative Royal Decree 1564/1989, of 22nd December, with the aim of showing a true and fair view of the net worth, the financial situation and the Company's profits/losses. Nonetheless and considering the effects on the net worth and the operation of the business deriving from the merger and the inclusion described in Notes 1 and 2 a) above, the financial statements from both fiscal years cannot be compared.

NOTE 3. DISTRIBUTION OF PROFITS/LOSSES

The distribution of the profit from the fiscal year shall be decided at the Annual General Meeting of Shareholders.

The Administrators shall propose the following distribution of the profit, in thousands of Euros:

BASIS OF THE SHAREOUT	(Thousands of Euros)
Adjustment of profit from fiscal year 2004 (see Note 21)	107
Fiscal period income/loss	(1,975)
	(1,868)
DISTRIBUTION	
To Legal Reserve	11
To Other Reserves	96
To Losses from previous periods	(1,975)
	(1,868)

NOTE 4. VALUATION STANDARDS

a) Preliminary expenses.

These basically correspond to the expenses incurred in relation to the incorporation and the setting up of new plants for the companies included in the merger (see Note 1), as well as the share capital increases carried out by the Company (see Note 15).

Their depreciation is carried out using the linear method, at a rate of 20% per year.

b) Research & development expenses.

The expenses incurred in the individual research & development projects are valued at their acquisition price or direct production cost, with their capitalization being carried out when there are credible reasons for their technical success and financial and commercial profitability, which are entered as an expense otherwise.

The capitalized costs are depreciated using the linear method in a maximum period of five years, considering that within this period they will produce profits in the Company's transactions.

c) Concessions, patents, licences, trademarks and similar.

They are valued at the acquisition price, including the cost for registration and arrangement of the pertinent patent or trademark.

Their depreciation is carried out using the linear method, at a rate of 20% per year.

d) Computer applications.

Computer applications are valued at the purchase price and/or production cost for the ownership of computer programmes and applications, both those purchased from third parties and those produced by the Company itself, therefore the maintenance charges for the computer applications would not appear.

Their depreciation is carried out using the linear method, in a maximum term of five years.

e) Assets under finance leases, lease-back transaction.

In accordance with that stipulated in Temporary Provision 5 of Royal Decree 1643/1990, of 20th December, whereby the General Chart of Accounts was passed, the Company proceeded to enter the assets deriving from the lease-back contracts as intangible assets at the net book value of the asset that was the object of the transaction, whilst entering on the liabilities side the total debt for the repayments plus the sum total of the purchase option. The difference between the latter and the value of disposing of the asset that was the object of the transaction, made up by the financial charges for the transaction, is entered in the accounts under deferred expenses. Assets entered as intangible assets are depreciated by taking into account the useful life of the asset that was the object of the contract. When the purchase option is exercised, the value of the assets entered and their pertinent accumulated depreciation are removed from the accounts, since they then go on to form part of the value of the purchased asset.

The deferred expenses are entered under profits/losses in accordance with a financial criterion.

f) Tangible fixed assets.

Tangible fixed assets are valued at the cost price, production cost or transfer value, with the latter matching the book value of the elements incorporated as a result of the takeover process described in Note 1 above. The said cost is adjusted in accordance with the value reappraisal carried out in accordance with that set forth by Royal Decree-Act 7/1996 (see Note 7.1). The gains or net increases in the value resulting from the aforesaid reappraisal transaction are amortised in the tax periods that are outstanding until the end of the useful life of the reappraised elements.

Subsequent additions are valued at the cost price, which includes additional expenses until the asset is in proper working order.

Repairs that do not represent an increase in the useful life and the maintenance charges are charged directly to the profit & loss account. The costs for extension or improvement that give rise to a greater duration of the asset or an increase in productivity, capacity or efficiency, are capitalized as the greater value thereof.

During the fiscal year, the Company carried out for itself building works and works that may be entered as the greater cost of the tangible fixed assets for a sum total of Euros 9.55 million.

Depreciation of elements of tangible fixed assets is started in relation to their purchase and/or repair date, in a linear method according to the estimated years of useful life and applying it to the cost values, as per the following breakdown:

Group of elements	% Depreciation
Buildings	1 - 5
Technical plant and machinery	1 ,5 - 15
Other plant, tools and fittings	5 - 9,1
Other fixed assets	7,2 - 12,5 - 16 - 25

Besides the aforementioned percentages and due to the detection of factors showing obsolescence, the pertinent depreciations have been entered.

There are no items of the tangible fixed assets that appear on the assets side for a fixed sum.

g) Marketable securities and other similar investments.

The Company follows the following criterion when entering its investments in marketable securities:

1. Securities with official quotation. At cost or market price, the lower of the two. The official average quotation from the last quarter of the fiscal year or the quotation at the close is deemed to be the market value, the one that is the lower of the two.

2. Securities without official quotation. Generally speaking, at cost and reduced, where applicable, by the necessary provisions for depreciation, by the excess of the cost as regards its reasonable value at the close of the fiscal year.

In relation to the criterion described above, certain specific circumstances should be stated relating to the following company shareholdings:

- **Petrolest, S.L.** The shareholdings received, equivalent to 49% of the share capital, correspond to the valuation made for the contribution to the Company's net worth from the branch of activity consisting of the distribution, logistics, loading, unloading and transportation of the whole range of products that **La Seda de Barcelona, S.A.** manufactures and trades, made up by a number of tangible fixed assets that form an autonomous operating unit and the sum total of which amounts to Euros 2.74 million (see Note 8.2.).

- **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)** The holdings acquired match the valuation made for the contribution to the net worth of the company for the branch of activity consisting of the manufacture and trade of glycol and ethoxylates, made up by a number of assets, rights and duties that form an autonomous financial unit and the sum total of which amounts to Euros 30.74 million (see Note 8.2.).

The capital losses between the cost and the market value, if they correspond to holdings that are quoted on an organised market, or otherwise between the cost and the reasonable value at the close of the fiscal year that is taken from the last balance sheet approved at the Annual General Meeting and/or drawn up by the Managing Body corresponding to each one of the non-quoted holdings, are entered, if they are correct, in the account for "Provisions" under the heading for "Long-Term Investments" and "Temporary Investments" on the enclosed balance sheet.

Along this line, and as an exception to the criterion described above, the Company, with regards to its holding in **Petrolest, S.L.** has chosen not to make a provision for the difference between the pertinent theoretical book value of the said holding (see Note 8.4.) and its purchase price on the basis of the existence of reasonable expectations for achieving future profits that ensure a saving in costs for the Group from the fact that **Petrolest, S.L.** will perform the transportation service for all its range of products exclusively. The profits budgeted for and checked on drawing up these annual accounts justify this decision.

Non-trade loans, both in the short and the long term, to Group undertakings and other loans, are entered according to the sum total handed over. The difference with the nominal value is deemed to be income from interest in the fiscal year in which it is accrued, following a financial criterion.

The deposits and guarantees set up, both in the short and in the long term, are entered according to the sums actually paid over.

Short-term deposits are shown at their nominal value.

Along this line, as stated in Note 8.2., the Company is the majority shareholder or owns holdings of over 20% in the share capital of certain companies.

The enclosed annual accounts do not reflect the effect that would arise in the pertinent financial statements if they were to include the said holdings in the latter by applying the Standards for the Preparation of Consolidated Annual Accounts.
The Company has also drawn up its consolidated annual accounts and management report for the fiscal year ending on 31st December 2005.

The main figures for the consolidated accounts for La Seda de Barcelona, S.A. for the fiscal year 2005, drawn up in accordance with that set forth in the final Provision Eleven of Act 62/2003 of 30th December by applying the International Financial Reporting Standards passed by the European Commission regulations, are the following:

	(Thousands of Euros)	
	31.12.2005	
Total Assets		561,372
Net worth		254,696
- Controlling Company	254,214	
- Minority shareholders	482	
Net turnover		255,976
Fiscal period income/loss		6,117
- Controlling Company	6,115	
- Minority shareholders	2	

h) Long-term debts to Public Bodies.

The following items are entered under this heading:

- As regards Assets, the fiscal credit for compensation of the taxable bases owed that the Company plans to recover in the coming fiscal years, as well as the tax deductions and allowances pending application.
  Along this line, in the short term a sum total is entered that amounts to Euros 0.18 million corresponding to fiscal credit, deductions and tax allowances pending compensation and application.
- As regards the Liabilities, the non-current liability deferred with the Tax Authorities, as well as the deferred tax within the Group.

i) Deferred expenses.

This basically corresponds to the expenses from deferred charges for the postponement of debts, which are attributed to profits/losses in accordance with a financial criterion in the period for their duration, with a sum total of Euros 22.74 million having been transferred to profits/losses during the fiscal year.

j) Stocks.

Raw materials and other supplies. They are valued at the cost price in accordance with the weighted average price method. As an exception to the aforementioned criterion, the basic raw materials derived from petroleum are valued at the latest price agreed with the suppliers, which is not significantly different from the one that would be obtained from a valuation using the weighted average price method. The value correction for reversible losses is deducted from the amount obtained. The estimate for such losses is made at the close of the fiscal year when the market value of the raw materials and other supplies is lower than their cost price.

Work in progress, half-finished and finished goods. They are valued by means of a cost list per article and process that is established by the company for this purpose.

The production cost defined by the price list is found by adding to the purchase price of the raw materials and other consumable materials, the costs directly attributable to the product, as well as the part that corresponds from the costs indirectly attributable thereto in so far that such costs correspond to the manufacturing process from the pertinent period.

The valuation of obsolete, defective or slow-moving products has been reduced to their possible realization value.

k) Debtors and creditors for trade transactions.

The debt and credit balances resulting from the Company's trade transactions, both in the short and the long term, are entered at their nominal value. The interest charges included in the value of such transactions with maturity exceeding one fiscal year are deferred and accrued, then they are attributed to the profits/losses following financial criteria.

l) Provision for bad debts.

The provision for bad debts is allocated with a charge to the profits/losses for the fiscal year, and for the whole of the outstanding balance, when the following circumstances coincide:

- Clients whose balances reveal a debt lasting for over 6 months.

- Clients declared to be undergoing bankruptcy proceedings.

- Clients tried for the crime of concealment of assets.

- Clients whose balances have been sued for, with the aim of going to court or arbitration proceedings.

ll) Own shares.

They appear valued at their cost price, with the pertinent restricted reserve being entered under the heading for "Equity" for the same amount, in accordance with Article 79.3. of the Revised Text of the Public Limited Companies Act (see Notes 13, 14 and 17).

The purchase of the Company's own shares was authorised by the Annual General Meeting of Shareholders held on 27th June 2005 and for a maximum duration of eighteen months.

m) Undertakings with the staff.

The Company has taken on, in accordance with the collective agreement that is applicable to it dated on 28th October 1997, the undertaking to pay a bonus at the time of becoming a pensioner to the staff who retire between 60 and 65 years of age, amounting to Euros 118.7 per year of service.

Furthermore, in the fiscal year 1998, the Company, applying the collective agreement signed with its workers, set up an external pensions fund which consists of the sum of 2% of each gross annual salary for each and every one of the participants. This annual contribution began in the year 1998.

At the same time, the Company, in compliance with Act 30/1995 and Royal Decree. 1588/1999, on 23rd October 2000 proceeded to outsource its undertakings with its workers using the method of taking out insurance policies with the firm Norton Life M.P.S., the pertinent liability of which is entered under the heading "Other creditors" (see Note 20.2. "Other liabilities").

n) Convertible bonds.

Convertible bonds appear on the liabilities side in the long term on the balance sheet for the sum total to be handed over in accordance with the nominal value of the bonds issued. The interest charges are acknowledged in the current liabilities, as and when they accrue.

The expenses for issuing bonds are amortised during the period in which the bonds are kept in circulation, in proportion to the maturity thereof.

o) Debts with financial institutions.

The debts with financial institutions for loans and credits received are entered in the accounts at their repayment value. The financial interest charges accrued and pending payment at the close of the fiscal year appear separately under the heading "Debts for interest charges" on the enclosed balance sheet.

p) Income and expenses.

The income and expenses are attributed depending on the real flow of goods and services that they represent, and regardless of the time at which the monetary or financial flow deriving from them actually arises.

Nonetheless, following the principle of prudence, the Company only enters in its accounts the profits made at the close of the fiscal year, while foreseeable risks and losses, which are still possible, are entered as soon as they are known.

The sales of goods and revenues from services provided are entered without including the amounts corresponding to the taxes that apply to these transactions, deducting as the lowest amount of the transaction all the discounts, included or not on invoices, that do not belong to fast payment. The latter are deemed to be financial charges.

The sums of the taxes that are applicable to the purchases of merchandise for resale and other goods for their subsequent resale, excluding Value Added Tax (VAT), are entered as the highest value of the goods or services acquired.

Discounts following the issue or reception, where applicable, of an invoice, brought about by defects in quality, breach of time limits for delivery or other similar causes, as well as discounts for volume, are entered by differentiating between the sums from the sales or purchases of goods and the income or expenses from services, respectively.

q) Transactions in currencies other than the Euro.
The conversion of transactions carried out in currencies other than the Euro and their pertinent balances is carried out by applying the following criteria:

1. **Tangible and intangible fixed assets.** The conversion into Euros is carried out by applying the exchange rate in force to the cost price or production cost on the inclusion of the goods in the Company's net worth.

2. **Credits and debits.** The conversion of credits and debits into currencies other than the Euro is carried out by applying the exchange rate in force on the transaction, then transferring the exchange gains/losses to the profit and loss account that arise at the time of the pertinent settlement or payment. At the close of the fiscal year the value of the debit and credit balances was worked out in currencies other than the Euro at the exchange rate in force on 31st December 2005, with the gains/losses obtained being entered under the profits/losses. For this purpose, the sum total entered for exchange gains was not significant as at 31st December 2005.

r) Corporation Tax.
So as to enter Corporation Tax in the accounts, the differences were taken into account that might arise between the book profit/loss and the fiscal profit/loss, with the latter being understood to be the taxable basis for the tax, as well as the allowances and deductions from the charge for the tax that are deemed to be a lesser amount of the charge to be paid for Corporation Tax for the fiscal year in which that profit is obtained, providing that the taxable basis for the tax is positive.

s) Transactions with Group undertakings.
Transactions between undertakings in the Group were carried out in the same conditions as those applied with third parties not linked to the Company as regards shareholdings.

t) Classification of the balances as short and long-term.
On the enclosed balance sheet, transactions that are deemed to be long-term ones are those for which the maturity period at 31st December 2005 is over twelve months.

u) Instruments for covering risk.
During the fiscal year 2005 the Company signed contracts for swaps as instruments for covering the risk in the change of the interest rate for its financial debts referenced at a variable interest rate. Since they are coverage transactions without any purpose for speculation, the profits/losses arising from them are entered at the time of the settlement of the transactions.

At the close of the fiscal year 2005 the possible financial risk was mitigated as a result of the rise in the interest rates on the inter-bank market.

NOTE 5. PRELIMINARY EXPENSES

Analysis of the movement during the fiscal year. The movement recorded during the fiscal year ended on 31st December 2005, was the following:

	(Thousands of Euros)						
		Movements in the fiscal year 2005					
	Balance at 31.12. 2004	Creation by Merger (*)	Additions	Endowment	Transfers D	Transfers (H)	Balance at 31.12.2005
Start-up expenses	-	11	-	(8)	-	-	3
Preliminary expenses	-	1,227	-	(429)	-	-	798
Expenses for capital increase	1,439	-	3,675	(534)	-	-	4,580
	1,439	1,238	3,675	(971)	-	-	5,381

*: See Note 1

The charge to profits/losses for the period by way of allocation to depreciation of preliminary expenses amounted to Euros 0.97 million.

NOTE 6. INTANGIBLE FIXED ASSETS

Analysis of the movement during the fiscal year.

The movement recorded during the fiscal year ended on 31st December 2005, was the following:

	(Thousands of Euros)								
		Movements in the fiscal year 2005					Balance at 31.12.2005		
	Balance at 31.12. 2004	Creation by Merger (*)	Additions	Withdrawals	Transfers D	Transfers H	Cost	Depreciation Accumulated	Net Value
Research & development expenses	-	3,328	21	-	-	-	3,349	(1,070)	2,279
Concessions, patents, licences, trademarks and similar	-	86	-	(1)	-	-	85	(66)	19
Computer applications	1,611	6,391	256	-	-	-	8,258	(3,143)	5,115
Assets under finance leases	-	-	-	-	4,773	-	4,773	(155)	4,618
	1,611	9,805	277	(1)	4,773	-	16,465	(4,434)	12,031

	(Thousands of Euros)						
		Movements in the fiscal year 2005					
	Balance at 31.12. 2004	Creation by Merger (*)	Additions	Withdrawals	Transfers D	Transfers H	Balance at 31.12.2005
Accumulated depreciation Research & development expenses	-	(595)	(475)	-	-	-	(1,070)
Accumulated depreciation Concessions, patents, licences, trademarks and similar	-	(64)	(2)	-	-	-	(66)
Accumulated depreciation Computer aplications	(78)	(1,545)	(1,520)	-	-	-	(3,143)
Accumulated depreciation Assets under finance leases	-	-	(155)	-	-	-	(155)
	(78)	(2,204)	(2,152)	-	-	-	(4,434)

All of the trademarks were created by the Company.

The charge to profits/losses for the period by way of allocation to depreciation of intangible fixed assets amounted to Euros 2.15 million.

*: See Note 1

6.1. Assets under finance leases. In accordance with the criterion set forth in Note 4 e), the Company entered at their net book value the goods included in the lease-back transaction arranged during the fiscal year 2005. This transaction consisted of obtaining finance by means of the sale to financial institutions of a plant for the post-condensation of bottle granules, for an overall sum total of Euros 5.29 million plus the pertinent Value Added Tax.

On the date of the maturity of the contract, i.e., 10th June 2009, the Company may exercise the purchase option for a sum total of Euros 0.12 million plus Value Added Tax.

Assets under finance leases Their breakdown on the date of the close of the fiscal year was as follows:

	(Thousands of Euros)					
	Contract date		Net Value	Value (*)	Expenses (**)	
	Start	Maturity	Accounting	Disposal	Financial	Total
Postcondensation plant for granules	10-06-05	10-06-09	4,773	5,292	489	5,781
			4,773	5,292	489	5,781

	(Thousands of Euros)					
	Pending maturity at 31.12.2005					
	Expenses (**)			Charges paid in fiscal year 2005		
	Financial	Short-term	Long-term	Capital	Charges	Total
Postcondensation plant for granules	378	1,416	3,540	715	111	826
	378	1,416	3,540	715	111	826

(*) Includes residual value
(**) Financial expenses according to the original lease contract.

The maturity terms for the long-term debt are distributed as follows:

(Thousands of Euros)			
2007	2008	2009	Totals
1,416	1,416	708	3,540

6.2. Fully amortised assets. The sum total for the assets fully amortised at 31st December 2005 amounts to Euros 0.57 million and their breakdown is the following:

	(Thousands of Euros)
Research & development expenses	172
Concessions, patents, trademarks and similar	63
Computer applications	340
	575

NOTE 7. TANGIBLE FIXED ASSETS

7.1 As stated in Note 4 f), the Company has carried out a restatement of the values of its tangible fixed assets pursuant to Royal Decree 7/1996 of 7th June.

The accounts affected by the restatement pursuant to the Royal Decree-Act 7/1996 of 7th June and their effect at 31st December 2005 are as follow:

	(Thousands of Euros)		
	Increase	Accumulated Depreciation	Effect Net
Buildings	4,490	(1,688)	2,802
Technical plant and machinery	5,391	(5,018)	373
Other plant, tools and fittings	19	(19)	-
Other fixed assets	18	(18)	-
	9,918	(6,743)	3,175

The effect of the restatement on the amortisations in the period amounted to Euros 0.34 million. For the fiscal year 2006, this effect is estimated to be Euros 0.32 million.

Analysis of the movement during the fiscal year. Its composition and progress during the fiscal year ended on 31st December 2005, were as follows:

	(Thousands of Euros)								
		Movements in the fiscal year 2005					Balance at 31.12.2005		
	Balance at 31.12. 2004	Creation by Merger (*)	Additions	Withdrawals	Transfers D	Transfers H	Cost	Depreciation Accumulated	Net Value
Land and buildings	986	48,481	-	-	1,967	-	51,434	(14,486)	36,948
Technical plant and machinery	34,739	160,716	-	(940)	8,116	-	202,631	(133,388)	69,243
Other plant, tools and fittings	657	566	-	(1)	-	-	1,222	(1,021)	201
Advance payments an tangible fixed assets for work in progress	-	10,533	9,797	-	-	(14,980)	5,350	-	5,350
Other fixed assets	3,177	1,857	-	-	124	-	5,158	(3,686)	1,472
	39,559	222,153	9,797	(941)	10,207	(14,980)	265,795	(152,581)	113,214

	(Thousands of Euros)						
		Movements in the fiscal year 2005					
	Balance at 31.12. 2004	Creation by Merger (*)	Additions	Withdrawals	Transfers D	Transfers H	Balance at 31.12.2005
Accumulated depreciation Buildings	(35)	(13,760)	(691)	-	-	-	(14,486)
Accumulated depreciation Technical plant and machinery	(15,898)	(111,675)	(6,745)	930	-	-	(133,388)
Accumulated depreciation Other plant, tools and fittings	(509)	(487)	(25)	-	-	-	(1,021)
Accumulated depreciation Other fixed assets	(2,386)	(1,118)	(182)	-	-	-	(3,686)
	(18,828)	(127,040)	(7,643)	930	-	-	(152,581)

The charge to profits/losses for the period by way of amortisation of intangible fixed assets amounted to Euros 7.64 million.

*: See Note 1

7.2. Fully amortised assets. The sum total for the assets fully amortised at 31st December 2005 amounts to Euros 80.86 million and their breakdown is the following:

	(Thousands of Euros)
Buildings	963
Technical plant and machinery	76,098
Other plant, tools and fittings	779
Other fixed assets	3,018
	80,858

7.3. Assets covered by a guarantee. At 31st December 2005, the estates with registration numbers 3.954-N and 31.137-N, located in the municipal district of El Prat del Llobregat (at Avda. Remolar, s/n) and the property of the Company, are mortgaged as a guarantee for the syndicated loan arranged during the fiscal year 2005 (see Note 19) and for the postponement of debt agreed with the **Tesorería General de la Seguridad Social** (Social Security Authorities), for a maximum amount of Euros 58.21 million and 29.46 million, respectively. From the aforementioned total of debts with the Tesorería General de la Seguridad Social, a sum total of Euros 8.91 million was transferred to **Viscoseda Barcelona, S.L.**, a company subsequently taken over by **La Seda de Barcelona, S.A.** (see Note 1).

Furthermore, as regards the aforesaid estates there is a mortgage guarantee in favour of **Tereftalatos Mexicanos, S.A. de C.V**. and **the Institut Català de Finances** as a guarantee deposit for Euros 18.91 million and 13.22 million, respectively.

Upon the close of the fiscal year, the Company also has a mortgage guarantee on the estate number 28.653, located in the municipal district of El Prat del Llobregat (at Avda. Remolar, s/n) for a maximum sum total of Euros 45.27 million, as a guarantee for the postponement of debt agreed with the **Tesorería General de la Seguridad Social.**

NOTE 8. INVESTMENTS

8.1. Analysis of the movement during the fiscal year. Its composition and progress during the fiscal year ended on 31st December 2005, were as follows:

	(Thousands of Euros)							
		Movements in the fiscal year 2005						
	Balance at 31.12. 2004	Creation by Merger (*)	Creation Joint Venture	Additions	Reductions	Transfers D	Transfers (H)	Balance at 31.12.2005
Long-term								
Holdings in Group and associated undertakings	129,189	(69,885)	-	-	-	-	-	59,304
Loans to Group undertakings	15,194	(15,194)	-	-	-	-	-	-
Long-term stock portfolio investment	163	7	-	-	-	-	-	170
Other Loans	6,912	116	4	34	(37)	-	(6,890)	139
Long-term debts to Public Bodies	18,295	5,054	-	102	(127)	451	-	23,775
Guarantee deposits and deposits set up in Long-term	34	1	178	60	-	-	-	273
	169,787	(79,901)	182	196	(164)	451	(6,890)	83,661
Short-term								
Loans to Group undertakings	-	1,064	-	958	(1,691)	-	-	331
Short-term securities portfolio investment	1,035	-	-	92,225	(63,388)	-	-	29,872
Other Loans	412	400	-	230	(327)	-	-	715
Guarantee deposits and deposits set up in the short-term	1	6	-	8,000	-	-	-	8,007
Provisions	(11)	-	-	-	1	-	-	(10)
	1,437	1,470	-	101,413	(65,405)	-	-	38,915

*: See Note 1

Long-term

8.2. Shares in Group undertakings and associated undertakings. The breakdown of this heading, as of the date of the close of the fiscal year, was the following:

Group Companies	(Thousands of Euros)	Direct Holding
Industrias Químicas Asociadas LSB, S.L. (Single-member Company)	30,742	100,00%
Industrias Químicas Textiles, S.A. (Single-member Company)	22,491	100,00%
SLIR, S.L. (Single-member Company)	3,325	100,00%
Fibracat Europa, S.L. (Single-member Company)	3	100,00%
ANERIQA, A.I.E.	-	10,00%
	56,561	
Associated Companies		
Petrolest, S.L.	2,743	49,00%
	59,304	

8.3. Investments covered by a guarantee. As of the date of the close of the fiscal year, 100% of the shares in **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)** have been pledged in favour of a supplier of raw materials.

8.4. The most relevant information regarding the previous heading is the following:

Company Registered offices	Main activity	% Holding of La Seda de Barcelona, S.A. Direct	Direct and Indirect	Corporate capital	Reserves
Group					
Industrias Químicas Asociadas LSB, S.L. (Single-member Company) Pº de Gracia, 85, 08008 - Barcelona	The performance of any industrial or commercial activity related to the chemical industry	100%	100%	30,742	3,291
Industrias Químicas Textiles, S.A. (Single-member Company) Pº de Gracia, 85, 08008 - Barcelona	Manufacture and trading of chemical fibres, granules for plastics and synthetic polymers for sheets and heat-mouldings	100%	100%	6,671	21,851
ANERIQA, A.I.E. Ctra. Nacional 340, Km.1157 Polígono Industrial La Canonja (Tarragona)	Electricity cogeneration plant	100%	100%	1	-
SLIR, S.L. (Single-member Company) Carretera de Carcastillo a Figarol Carcastillo (Navarra)	Recycling of farm waste and sale of organic fertilisers	100%	100%	2,404	707
FIBRACAT EUROPA, S.L. (Single-member Company) Pº de Gracia, 85, 08008 - Barcelona	Dormant Company	100%	100%	3	(1)
Associated Undertakings					
Petrolest, S.L. Raset, 7, 2º 3ª, 08021 - Barcelona	Specialist transportation of chemical products and similar	49%	49%	118	3,206

Company Registered offices	Profit/loss last fiscal year	Profit/loss Extraordinary	Net Value accounting	Book value equity holding	Dividends received in the fiscal year	Quotation on Stock Market	Exclusion of the perimeter for consolidation
Group							
Industrias Químicas Asociadas LSB, S.L. (Single-member Company) Pº de Gracia, 85, 08008 - Barcelona	1,077	(595)	35,110	30,742	-	NO	NO
Industrias Químicas Textiles, S.A. (Single-member Company) Pº de Gracia, 85, 08008 - Barcelona	(1,907)	(35)	26,615	22,491	-	NO	NO
ANERIQA, A.I.E. Ctra. Nacional 340, Km.1157 Polígono Industrial La Canonja (Tarragona)	-	-	1	-	-	NO	NO
SLIR, S.L. (Single-member Company) Carretera de Carcastillo a Figarol Carcastillo (Navarra)	42	-	3,153	3,325	-	NO	NO
FIBRACAT EUROPA, S.L. (Single-member Company) Pº de Gracia, 85, 08008 - Barcelona	-	-	2	3	-	NO	NO
			64,881	56,561	-		
Associated Undertakings							
Petrolest, S.L. Raset, 7, 2º 3ª, 08021 - Barcelona	35	47	1,646	2,743	-	NO	NO
			1,646	2,743	-		

8.5. Long-term debts to Public Bodies. This heading records the tax credits for Corporation Tax to be compensated with future taxable bases, as well as taxes paid in advance deriving from the tax deductions pending application.

Analysis of the movement during the fiscal year. The movements recorded during the fiscal year ended on 31st December 2005 are the following:

	(Thousands of Euros)		
	Fiscal credit for losses compensation	Deductions pending application	Total
Balance at 31.12.2004	17,627	668	18,295
Creation by Merger (*)	5,463	42	5,505
Retrocession of fiscal credit from fiscal year 2004	102	-	102
Fiscal credit to be compensated applied in the period	(127)	-	(127)
Balance at 31.12.2005	23,065	710	23,775

*: See Note 1

Short-term

8.6. Loans to Group undertakings. This corresponds in full to a line of credit granted temporarily to **Industrias Químicas Asociadas LSB, S.L. (Single-member Company).**

8.7. Short-term securities portfolio. This is broken down as follows:

	(Thousands of Euros)
Securities with official quotation	172
Treasury bills	29,700
	29,872

In accordance with the criterion set forth in Note 4 g), the pertinent provision for depreciation of marketable securities was applied during the fiscal year 2005 for a sum total of Euros 1,000, with the balance at 31st December 2005 standing at Euros 10,000.

The investments that make up the balance as of the date of the close of the fiscal year provide an average annual profit of 2.18%.

NOTE 9. DEFERRED EXPENSES

The movements recorded during the fiscal year ended on 31st December 2005 are the following:

Deferred expenses

	(Thousands of Euros)				
		Movements in fiscal year 2005			
	Balance at 31.12.2004	Creation by Merger (*)	Additions	Applications	Balance at 31.12.2005
Charges for restructuring and arranging liabilities	16,828	6,922	6,070	(22,739)	7,081
	16,828	6,922	6,070	(22,739)	7,081

*: See Note 1

NOTE 10. STOCKS

Their breakdown, as of 31st December 2005, was the following:

	(Thousands of Euros)
Goods for resale	209
Raw materials and other supplies	3,595
Spares	2,655
Half-finished goods	1,870
Finished goods	13,956
Provision for depreciation	(227)
	22,058

There is no kind of limitation on the availability of stocks due to guarantees, pledges, deposit guarantees or similar reasons.

No stock items appear in the enclosed annual accounts that appear on the assets side for a fixed sum.

There are no firm undertakings for the purchase or sale of stocks.

NOTE 11. GROUP UNDERTAKINGS AND ASSOCIATED UNDERTAKINGS

These correspond to balances generated as a result of the usual transactions between the said undertakings.

Their breakdown, as of 31st December 2005, was the following:

	(Thousands of Euros)			
	Short-term		Long-term	
	Debit	Credit	Debit	Credit
Group Companies				
Industrias Químicas Textiles, S.A., (Single-member Company)	1,286	3,167	-	12,274
Industrias Químicas Asociadas LSB, S.L., (Single-member Company)	26,332	29,058	-	-
SLIR, S.L. (Single-member Company)	598	-	-	-
ANERIQA, A.I.E.	9,598	-	-	-
Fibracat Europa, S.L.	-	1	-	-
	37,814	32,226	-	12,274
Associated Companies				
Petrolest, S.L.	-	2,122	-	-
	-	2,122	-	-

The term for the return of the loan in the long term is 5 years, with the latter being repaid by means of 10 equal half-yearly payments, with the first being made on 30th June 2006. The present loan accrues an interest charge referenced to the Euribor plus a differential of 0.5%

NOTE 12. SUNDRY DEBTORS

At the close of the fiscal year, the breakdown was the following:

	(Thousands of Euros)
Tein Química, S.A.U.	531
Debtors for sale of Lands	1,270
Bad debts (see Note 25)	452
Others	533
	2,786

Debtors for sale of lands:

- **Land in El Prat de Llobregat:** This corresponds to the amount pending payment for the sale made during the fiscal year 2003 of an estate that was the property of **Catalana de Polímers, S.A. (Single-member Company)**, located in El Prat de Llobregat as stated in the Land Register for that municipal district, under Volume 982, Book 342, Sheet 79, Estate No. 3954, entry nine.

During the fiscal year an allocation was made charged to the profits/loss of Euros 0.45 million, by way of a provision to the transfer for sundry bad debts (see Note 25).

NOTE 13. OWN SHARES

The Company's own shares held by the Company at the close of the fiscal year represent an irrelevant percentage of the total share capital (0.10%), transferring for this purpose and at its cost price the pertinent non-restricted reserve (see Notes 14 and 17), in accordance with Article 79.3. of the Revised Text of the Public Limited Companies Act. The total number of own shares held directly by the Company amounts to 103,932 with an average cost price of Euros 2.15/share. The stock market quotation for the Company's shares on the close of the fiscal year was Euros 2.14/share.

NOTE 14. MOVEMENT OF EQUITY

Progress. Its composition and progress during the fiscal year ended on 31st December 2005, were as follows:

	(Thousands of Euros)						
		Movements in the fiscal year 2005					
	Balance at	Creation			Transfers		Balance at
	31.12. 2004	by Merger (*)	Increase	Reduction	(D)	(H)	31.12.2005
Subscribed capital	130,552	-	58,155	-	(87,108)	-	101,599
Issue premium	12,379	-	14,539	-	-	-	26,918
Reserves:							
- Legal reserve	11,590	-	-	-	-	129	11,719
- Reserve for own shares	625	-	-	-	(402)	-	223
- Voluntary reserves	20,633	-	-	-	-	1,562	22,195
- Reserve for depreciated capital	6,060	-	-	-	-	87,108	93,168
- Reserve for assignment	(14,432)	-	-	-	-	-	(14,432)
- Reserve for merger	-	(25,962)	-	-	-	-	(25,962)
Profit/loss for fiscal year 2004	1,289	-	-	-	(1,289)	-	-
Profit/loss for fiscal year 2005	-	-	-	-	-	-	(1,868)
	168,696	(25,962)	72,694	-	(88,799)	88,799	213,560

*: See Note 1

NOTE 15. SUBSCRIBED CAPITAL

On 27th June 2003, the Annual General Meeting of Shareholders of **La Seda de Barcelona, S.A.**, authorised the Company's Board so that within a term of one year it could carry out a share capital increase of up to a maximum of Euros 30,050,600 by means of the issue and sale of 10,000,000 new common shares, each one with a face value of Euros 3.005060.

On 1st April 2004, the Board of Directors and using the authorisation granted to it by the AGM, agreed to increase the full corporate share capital by Euros 27,700,643.08, by means of the issue and sale of 9,218,000 shares issued at par, each one with a face value of Euros 3.005060, with a share in the company profits as from 1st January 2004. This share increase was subscribed by means of a cash outlay of Euros 1.63 per share that was supported by Euros 1.37506 per share charged to the freely available reserves, and with the award to the shareholders of a preferential subscription right in a proportion of ten new shares for every thirty-seven old shares (10 for 37).

Once both subscription periods ended, on 16th July and 26th July 2004, the whole of the share increase was covered, with a figure for the subscribed share capital of Euros 27,700,643.08, divided into 9,218,000 shares, each one with a face value of Euros 3.005060, by means of a cash outlay from the shareholders of Euros 15,025,340.00 plus Euros 12,675,303.08 charged to the Company's freely available reserves.

On 27th June 2005, the Ordinary and Extraordinary General Meeting of Shareholders unanimously approved, passed by the shareholders with voting rights present and represented, a reduction in the share capital by a sum total of Euros 87,107,802.50 by means of the reduction of the face value of each one of the shares that make up the Company share capital and which was finally set at Euro 1.00 per share, with the pertinent restricted reserve being set aside for this purpose in accordance with Article 167.3. of the Revised Text of the Public Limited Companies Act.

According to the decision passed unanimously by the Ordinary and Extraordinary General Meeting of Shareholders held on 21st October 2005 and the agreement for implementation passed on that same day by the Board of Directors, the increase of the share capital for La Seda de Barcelona, S.A. was passed for a sum total of Euros 72,693,750.00 by means of the issue and sale of 58,155,000 new common shares, each one with a face value of Euros 1.00 with an issue premium of Euros 0.25 per share, which will have a share in the Company profits as from 1st January 2005. The preferential subscription right for the new shares in a proportion of 5 new shares for every 7 old shares/marketable securities is acknowledged in this share increase.

Once the first subscription period ended, on 19th November 2005, the share capital increase was fully covered, with a figure for the subscribed share capital of Euros 58,155,000 euros, divided into 58,155,000 shares, each one with a face value of Euros 1.00 plus an issue premium of Euros 0.25 per share for an overall sum total of Euros 14,538,750 euros, by means of a cash outlay by the shareholders of Euros 72,693,750.

The final figure for the share capital after the share capital increase stood at Euros 101,598,982.00, divided into 101,598,982 common shares, fully subscribed and paid up, each one with a face value of Euros 1.00, belonging to the same, single series and represented by means of account entries.

Holdings in the Company share capital equal to or over 3%, excluding the bought-back shares (see Note 13), correspond to the following breakdown:

Shareholding	% Shareholder
Imatosgil Investimentos SPGS, S.A.	12.77
Matrust, S.L.	5.01
Invercartera, S.A.	4.92

NOTE 16. ISSUE PREMIUM

As regards this sum total, the Revised Text of the Public Limited Companies Act expressly allows the use thereof for increasing the share capital and does not establish any restriction as regards to its availability.

NOTE 17. RESERVES

Their breakdown, on the close of the fiscal year, was as follows:

	(Thousands of Euros)
Restricted reserves	
Legal reserve	11,719
Reserve for own shares	223
Reserve for depreciated capital	93,168
Reserve for assignment	(14,432)
Reserve for merger	(25,962)
Freely available reserves	
Voluntary reserves	22,195
	86,911

Legal reserve. In accordance with Article 214 of the Revised Text of the Public Limited Companies Act, the said reserve must be endowed with 10% of the profits from the fiscal year, until the fund set up for the reserve reaches 20% of the paid-up share capital. The legal reserve may be used to increase the share capital to the extent that its balance exceeds 10% of the share capital already increased. Except for that purpose and as long as it does not exceed 20% of the share capital, this reserve may only be used to compensate for losses and as long as there are no other sufficient reserves available for this purpose.

As of 31st December 2005, the sum total for the legal reserve did not cover 20% of the share capital.

Reserves for own shares. As stated in Note 13, the Company, pursuant to Article 79.3 of the Revised Text of the Public Limited Companies Act, proceeded to endow the restricted reserve corresponding to the cost price of its own shares held by the latter.

Reserve for depreciated capital. In accordance with Article 167.3. of the Revised Text of the Public Limited Companies Act, the Company proceeded to endow a reserve for the face value of its own shares depreciated in 1996 (Euros 6.06 million) and which were acquired by the Company in the said fiscal year for free.

During the fiscal year 2005 and as a result of the reduction in share capital approved by the Ordinary and Extraordinary General Meeting of Shareholders held on 27th June 2005 (see Notes 14 and 15), the Company, pursuant to the article mentioned in the preceding paragraph, endowed a reserve for a sum total of Euros 87.11 million as a result of the reduction in the face value of each one of the shares that make up the Company share capital and which finally stood at Euros 1.00 per share.

The endowed reserve may only be used with the same requirements as those demanded for the reduction of the share capital.

Reserve for assignment. As a result of the takeover by the Company of **Hispano Química, S.A. (Single-member Company)** and **Viscoseda Barcelona, S.L. (Single-member Company)** carried out on 14th December 2001 (see Note 1), a reserve for assignment was set up for the difference between the assets and liabilities provided by the companies that had been taken over.

Reserve for merger. The said sum total is entered as a result of the merger process described in Note 1 above.

NOTE 18. ISSUE OF BONDS AND OTHER MARKETABLE SECURITIES

On 27th June 2005, the Company's Board of Directors, using the authorisation granted by the AGM of Shareholders on the same date and pursuant to Article 153.1 a) of the Public Limited Companies Act, agreed to issue convertible securities for a sum total of Euros 47,468,750.00, by means of the issue of 37,975,000 convertible securities, each one of them with a face value of Euros 1.25.

The conversion of the securities issued shall be carried out in the initial period at a fixed rate of Euros 1.25, i.e., a face value of Euros 1.00 plus an issue premium of Euros 0.25 per share and in the ordinary periods for conversion, as well as in the exceptional ones, at a variable rate equal to 90% of the average quotation value of the common shares in the Company in the 65 trading sessions prior to the date of the start for each ordinary conversion period.

The securities issued accrue a fixed nominal interest of 5% payable half-yearly, as from the date of the outlay (11th August 2005) until the amortisation date (11th August 2010) or, where applicable, from conversion into Company shares. In accordance with the criterion set forth in Note 4 n), the Company enters for the item on the balance sheet "Interest from debenture loans and other securities" the interest accrued pending settlement, which, at the date of the close of the fiscal year, stood at Euros 0.92 million.

NOTE 19. LIABILITIES WITH FINANCIAL INSTITUTIONS

The breakdown for this heading at 31st December 2005 was the following:

	(Thousands of Euros)			
	Credit Drawn		Limit [1]	
Type of transaction	Short-term	Long-term	Granted	Available
Loans	3,885	50,986	-	-
Credits	1,184	139	1,550	-
Discounted bills	28,542	-	33,900	5,358
	33,611	51,125	35,450	5,358

[1] This corresponds to short-term transactions.

The maturity terms for the long-term liabilities are distributed as follows:

	(Thousands of Euros)					
	2007	2008	2009	2010	2011 and following	Totals
Loans	6,568	13,538	15,708	10,150	5,022	50,986
Credits	139	-	-	-	-	139
	6,707	13,538	15,708	10,150	5,022	51125

The transactions described are mainly linked to the EURIBOR rate for one year.

At the close of the fiscal year the sum total of the financial charges accrued and not due amounts to Euros 0.57 million.

In the item for loans, the Company has entered the assignment by different financial institutions of a syndicated loan for a sum total of Euros 46.2 million and a loan granted by the Institut Català de Finances for Euros 13.2 million, the maturity terms for which are for 5 and 7 years, respectively, which was ratified in a contract on 26th May 2005. At the same time, the balance includes a funding transaction with a financial institution for a sum total of Euros 5 million and for a period of 5 years, formalized by means of a SWAP contract that guarantees a maximum interest rate of 3.5%.

NOTE 20. OTHER CREDITORS

20.1. Public Bodies. The breakdown at 31st December 2005 was the following:

Public Bodies

	(Thousands of Euros)								
	Maint Debt			Interest charges and penalties for late payment			Total Debt		
Debt Financed	Short-Term	Long-Term	Total	Short-Term	Long-Term	Total	Short-Term	Long-Term	Total
Value Added Tax	-	-	-	-	-	-	-	-	-
Social Security	4,304	41,242	45,546	-	-	-	4,304	41,242	45,546
Fee for sewage and water infraestructure	-	-	-	-	-	-	-	-	-
Tax on electricity	1,677	-	1,677	-	-	-	1,677	-	1,677
Deferred tax within the Group	208	766	974	-	-	-	208	766	974
	6,189	42,008	48,197	-	-	-	6,189	42,008	48,197
Current Debt									
Personal income Tax corresponding to the month of December 2005, paid in January 2006	376	-	376	-	-	-	376	-	376
Social Security payments owed corresponding to the month of December 2005, paid in January 2006	373	-	373	-	-	-	373	-	373
Fee for sewage and water infraestructure	134	-	134	-	-	-	134	-	134
VAT outstanding	8,045	-	8,045	-	-	-	8,045	-	8,045
	15,117	42,008	57,125	-	-	-	15,117	42,008	57,125

As regards the non-current debt with Public Bodies, the guarantees granted are described in Note 7.3. above.

At 31st December 2005, the balance for long-term debt with Public Bodies includes the tax deferred amounting to Euros 0.97 million by way of the transactions within the Group, with Euros 0.21 million having been applied in this fiscal year.

The maturity terms for the long-term debt with Public Bodies (Social Security), in accordance with the different agreements reached, are distributed as follows:

	(Thousands of Euros)					
	2007	2008	2009	2010	2011 and following	Totals
Social Security	4,476	4,655	4841	5,035	22,235	41,242
	4,476	4,655	4,841	5,035	22,235	41,242

20.2. Other liabilities. The breakdown for this heading as at the close of the fiscal year is the following:

	(Thousands of Euros) Credit Drawn	
	Short-term	Long-term
Norton Life M.P.S.	186	842
Suppliers of fixed assets	4,459	554
Staff-Salaries and wages pending payment	5,113	3,313
Others	2	-
	9,760	4,709

The most significant aspects as regards this heading are the following:

- **Norton Life M.P.S.** This corresponds to the undertakings acquired with the said insurance firm as a result of the outsourcing of the Company pension funds carried out during the fiscal year 2000 (see Note 4 m). The maturity terms for the long-term debt are distributed as per the following breakdown:

(Thousands of Euros)				
2007	2008	2009	2010	Totals
199	213	228	202	842

- **Staff - Salaries and wages pending payment.** Debts with the staff basically correspond to compensation payments taken on by the Company as a result of the overall transfer of assets and liabilities from **Hispano Química, S.A. (Single-member Company)** and **Viscoseda Barcelona S.L. (Single-member Company)** (see Note 1) and the restructuring process carried out by the Group, with the latter having been generated between 2000 and 2005. The maturity terms for the long-term debt are distributed according to the following breakdown:

(Thousands of Euros)					
2007	2008	2009	2010	2011 and following	Totals
2,545	484	56	56	172	3.313

NOTE 21. TAX SITUATION

In the fiscal year ended on 31st December 2005 **La Seda de Barcelona, S.A.** and its companies owned directly or indirectly with at least 75% of their share capital (see Note 8.2.), were covered by the System for Consolidated Statements through forming part of the Consolidated Group 236/03, with **La Seda de Barcelona, S.A.** being the Controlling Company.

The Companies that make up the Group covered by the said Tax System are:

- La Seda de Barcelona, S.A (which includes Catalana de Polímers, S.A. (Single-member Company), KD-IQA, S.L.(Single-member Company), Celtibérica de Finanzas, S.L. (Single-member Company), Mendilau, S.L. (Single-member Company), Proyectos Voltak, S.L. (Single-member Company), Iberseda, S.L. (Single-member Company), taken over by means of a merger approved by the Extraordinary General Meeting of Shareholders dated on 29th December 2004 and registered on 16th June 2005 at the Companies Register).

- SLIR, S.L. (Single-member Company)

- Industrias Químicas Asociadas LSB, S.L. (Single-member Company)

- Fibracat Europa, S.L. (Single-member Company)

Application of the Consolidated Tax System means that the individual credits and debits for Corporation Tax are included within the Controlling Company (La Seda de Barcelona, S.A.), hence the companies have to pay over to La Seda de Barcelona, S.A. the settlement for this tax. The provision for Corporation Tax is entered under the heading for “Public Bodies” of the assets side of the enclosed balance sheet and amounts to Euros 6 thousand, corresponding to withholdings from the yield on movable capital and interim payments. The controlled companies not included in the said Consolidated Group pay tax individually and directly to the Tax Authorities.

Reconciliation of the book profit/loss with the taxable base for Corporation Tax

	(Thousands of Euros)		
	Increases	Reductions	Sum total
Fiscal period book profit/loss before Tax			(1,974)
Permanent differences			
- Non-deductible expenses	-	-	-
- Allocation for Joint Venture	2,377	(548)	1,829
-Correction of Corporation Tax	-	(107)	(107)
Temporary Differences			
-Provision for Joint Venture	21	-	21
-Temporary Difference within Group	594	-	594
Compensation for taxable bases			
Previous fiscal years			(363)
Taxable basis			
Fiscal result			-

The instalment from the fiscal year closed 31st December2005 to be returned after withholdings and interim payments has been calculated in the following way:

	(Thousands of Euros)
Taxable basis	-
35% of Taxable Basis	-
Withholdings and interim payments	(5)
	5

In accordance with the accounting criterion mentioned in Note 4 q), the sum total entered for the Corporation Tax accrued in the fiscal year 2005, has been calculated by performing the following operations:

	(Thousands of Euros)
Fiscal period book profit/loss before Tax	(1,974)
Permanent differences	1,722
Adjusted book profit/loss	(252)
35% of adjusted book profit/loss	(88)
Deductions from the individual instalment	-
Corporation Tax accrued	(88)

21.1. The Taxable Income returns pending compensation from the Tax Authorities are listed below:

Fiscal year that is the source of the compensation	(Thousands of Euros)										
	31.12.1997			31.12.1998		31.12.1999			31.12.2000		
La Seda de Barcelona, S.A.	Balance before tax check	Effect of the tax check	Balance after tax check	Application fiscal year	Final balance	Application fiscal year	Additions fiscal year	Final balance	Application fiscal year	Additions fiscal year	Final balance
1991	8,722	(1,380)	7,342	(7,342)	-	-	-	-	-	-	-
1992	42,772	-	42,772	(3,281)	39,491	(7,950)	-	31,541	(4,292)	-	27,249
1993	7,162	-	7,162	-	7,162	-	-	7,162	-	-	7,162
1996	13,571	(118)	13,453	(625)	12,828	-	-	12,828	(754)	-	12,074
1197	5,341	-	5,341	-	5,341	-	-	5,341	-	-	5,341
1998	-	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	13,754	13,754	-	-	13,754
2000	-	-	-	-	-	-	-	-	-	1,063	1,063
2001	-	-	-	-	-	-	-	-	-	-	-
2002	-	-	-	-	-	-	-	-	-	-	-
2003	-	-	-	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-	-	-	-
	77,568	(1,498)	76,070	(11,248)	64,822	(7,950)	13,754	70,626	(5,046)	1,063	66,643

Fiscal year that is the source of the compensation	(Thousands of Euros)										
	31.12.2001			31.12.2002			31.12.2003				
La Seda de Barcelona, S.A.	Additions by assignment	Fiscal Year Application	Final balance	Fiscal Year Application	Fiscal Year Additions	Final balance	Individual Application	Fiscal Group Application	Individual Additions	Fiscal Group Additions	Final balance
1991	-	-	-	-	-	-	-	-	-	-	-
1992	-	(3,004)	24,245	(3,276)	-	20,969	(3,169)	-	-	-	17,800
1993	-	-	7,162	-	-	7,162	-	-	-	-	7,162
1996	-	(885)	11,189	(872)	-	10,317	(966)	-	-	-	9,351
1197	11,847	-	17,188	-	-	17,188	-	-	-	-	17,188
1998	15,167	-	15,167	-	-	15,167	-	-	-	-	15,167
1999	6,084	-	19,838	-	-	19,838	-	-	-	-	19,838
2000	2,622	-	3,685	(5)	-	3,680	(6)	-	-	-	3,674
2001	1,530	-	1,530	-	-	1,530	-	-	-	-	1,530
2002	-	-	-	-	15	15	-	-	-	-	15
2003	-	-	-	-	-	-	-	-	-	1	1
2004	-	-	-	-	-	-	-	-	-	-	-
	37,250	(3,889)	100,004	(4,153)	15	95,866	(4,141)	-	-	1	91,726

Fiscal year that is the source of the compensation	(Thousands of Euros)									
	31.12.2004					31.12.2005				
La Seda de Barcelona, S.A.	Individual Application	Fiscal Group Application	Individual Additions	Fiscal Group Additions	Final balance	Individual Application	Fiscal Group Application	Individual Additions	Fiscal Group Additions	Final balance
1991	-	-	-	-	-	-	-	-	-	-
1992	-	-	-	-	17,800	(363)	-	-	-	17,437
1993	-	-	-	-	7,162	-	-	-	-	7,162
1996	-	-	-	-	9,351	-	-	-	-	9,351
1197	-	-	-	-	17,188	-	-	-	-	17,188
1998	-	-	-	-	15,167	-	-	-	-	15,167
1999	-	-	-	-	19,838	-	-	-	-	19,838
2000	-	-	-	-	3,674	-	-	-	-	3,674
2001	-	-	-	-	1,530	-	-	-	-	1,530
2002	-	-	-	-	15	-	-	-	-	15
2003	-	-	-	-	1	-	-	-	-	1
2004	-	-	-	1,356	1,356	-	-	-	-	1,356
	-	-	-	1,356	93,082	(363)	-	-	-	92,719

As set forth by the legislation in force, taxes cannot be deemed to have been finally settled until the declarations presented have been inspected by the Tax Authorities, or the prescription period of four years has elapsed. At 31st December 2005, the Company had the fiscal years 2001 to 2004, both inclusive, open for inspection for Corporation Tax and for the rest of the main taxes that are applicable to it, it had the fiscal years 2002 to 2005, both inclusive, open for inspection.

The Tax Authorities, during the fiscal year 2005, started up inspection proceedings that it notified to the Company that had been taken over, i.e., **Catalana de Polímers, S.A. (Single-member Company)** (see Note 1) on 22nd June 2005, in relation to Corporation Tax for the fiscal years 2000, 2001 and 2002, Value Added Tax and Personal Income Tax for the period included between June 2001 and December 2004 and the Annual Declarations for transactions with third parties from the fiscal years 2001, 2002, 2003 and 2004. Subsequently, the aforesaid inspection was extended in relation to the Annual Summary for Personal Income Tax for the fiscal periods 2001, 2002, 2003 and 2004. As a result of this inspection procedure, **Catalana de Polímers, S.A. (Single-member Company)** had the fiscal years from 2000 to 2004, both inclusive, opened for inspection for Corporation Tax and for the rest of the main taxes that are applicable to it, it had them opened between June 2001 and December 2005, both inclusive.

In relation to the fiscal years that have not been prescribed, the Company Administrators do not expect, in the event of an inspection, any extra sizeable liabilities to arise.

The Company has pending for application as of 31st December 2005 a sum total of Euros 0.72 million corresponding to allowances and deductions from previous fiscal years and Euros 18 thousand corresponding to allowances and deductions from the present fiscal year. According to a Decision of the I.C.A.C. (Accounting and Audit Institute) of 15th March 2002, the deductions and allowances not applied in the declaration for the fiscal year because of insufficient tax payable, must be entered in the accounts providing there are no reasonable doubts regarding their possible application in future fiscal years. For this purpose, the allowances and deductions from the fiscal year were entered with payment to the account 630 “Corporation Tax”, for a sum total of Euros 18 thousand, with their balancing entry being the account for “Short-term public bodies - Deductions pending application”.

At 31st December 2005, there were the following deductions pending application:

Fiscal year of origin	(Thousands of Euros)	Maximum term for compensation
1997	128	2007
1998	158	2008
1999	305	2009
2000	22	2010
2001	57	2011
2002	30	2012
2003	8	2013
2004	9	2014
2005	18	2015
	735	

21.2. According to the merger deed registered at the Companies Register on 16th June 2005, the companies involved in the merger recorded their intent to be covered by the system of fiscal neutrality envisaged in Chapter VIII, under Heading VII, of Legislative Royal Decree 4/2004 of 5th March, whereby the Revised Text of the Corporation Tax Act was passed.

The breakdown by purchase date of the assets transferred liable to amortisation that have been included in the accounts for the Controlling Company is the following:

	Purchase Dates
Preliminary expenses	2000 - 2001
Research & development expenses	2000, 2001 and 2003
Concessions, patents and licences,	2002
Computer applications	2001 and 2003
Buildings	1961 - 2003
Technical plant and machinery	1987 - 2003
Other plant, tools and fittings	1987 - 2001
Other fixed assets	1996 - 2003

The latest balance sheets closed corresponding to the companies transferring their assets which took part in the merger process described in Note 1 are the following:

	Catalana de Polímers, S.A. (*)	Celtiberica de Finanzas, S.L. (*)	Voltak, S.L. (*)	Mendilau, S.L. (*)	KD-IQA, S.L. (*)	Iberseda, S.L. (*)
Assets	(Thousands of Euros)					
Fixed assets						
Preliminary expenses	1.238	-	-	-	-	-
Net, intangible fixed assets	6.907	-	-	-	694	-
Net, tangible fixed assets	92.002	-	-	-	3.111	-
Net, investments	5.180	7.266	6.606	2.117	-	-
Deferred expenses	6.922	-	-	-	-	-
Current assets liabilities						
Stocks	20.308	-	-	-	679	-
Debtors	91.944	-	-	-	2.608	3
Temporary investments	1.691	-	-	-	-	1
Cash	203	-	-	-	7	6
Prepayments and deferred income	482	-	-	-	-	-
	226.877	7.266	6.606	2.117	7.099	10
Liabilities						
Fixed equity	56.851	58	24	712	2.292	(22)
Provisions for contingencies and risk	-	-	-	-	-	-
Long-term liabilities	34.036	7.208	6.581	1.405	-	-
Short-term liabilities	135.990	-	1	-	4.807	32
	226.877	7.266	6.606	2.117	7.099	10

(*) Single-member Company

The purchasing Company, as a result of the merger process described in Note 1 above, has included on its assets, for the sum total of Euros 57,000, the tax gains from the Company that has been taken over, i.e., **Catalana de Polímers, S.A. (Single-member Company)**, corresponding to the deductions and allowances pending application.

NOTE 22. GUARANTEES ARRANGED WITH THIRD PARTIES

As regards this point and in addition to that already stated in Notes 7.3., 8.3. and 20.1., the Company at 31st December 2005 had guarantees arranged with third parties amounting to Euros 4.31 million. The Company also received guarantees from **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)** and **Industrias Químicas Textiles, S.A. (Single-member Company)** amounting to Euros 46.53 million and 46.08 million, respectively.

NOTE 23. CONSUMPTION OF RAW MATERIALS AND OTHER CONSUMABLE MATERIALS

The breakdown at the close of the fiscal year was the following:

	(Thousands of Euros)
Purchases of raw materials and other consumable materials	124,182
Change in stocks	(280)
	123,902

The change in stocks includes the consumptions made by the Companies taken over (see Note 1) taking into account the initial stocks that each one of them brought to the Company taking them over.

NOTE 24. STAFF EXPENSES

The breakdown for this heading at 31st December 2005 was the following:

	(Thousands of Euros)
Wages and salaries	14,641
Indemnities	8,569
Social Security payable by the Company	4,043
Contributions to complementary pensions systems	485
Other welfare expenses	935
	28,673

Average number of people employed in the fiscal year distributed according to professional categories as per collective agreement

Categories	Average number of Employees
Management staff and mid-level executives	17
Technical and administrative staff	83
Manufacturing workers	299
	399

NOTE 25. DIFFERENCE IN PROVISIONS FOR AND LOSSES FROM BAD DEBTS

The breakdown at 31st December 2005 was the following:

	(Thousands of Euros)
Losses for bad trade debts	6,852
Endowment for provision for clients' bad debts	246
Endowment for provision for bad debts from sundry debtors (see Note 12)	452
Application of provision for bad debts	(3)
	7,547

NOTE 26. NET SUM FOR TURNOVER

26.1. The breakdown at the close of the fiscal year was the following:

	(Thousands of Euros)
Sales	198,906
Volume discount on sales	(1,663)
Provision of services	5,389
	202,632

26.2. The breakdown for the net sum of the turnover for the fiscal year 2005 by markets and geographical activities is as follows:

	(Thousands of Euros)			
	Domestic	EU	Rest of Countries	Total
Polyester fibre	7,212	13,967	1,201	22,380
PET Polymer	121,644	30,010	11177	162,831
Granules	6,514	2,134	-	8,648
Others	8,711	62	-	8,773
	144,081	46,173	12,378	202,632

NOTE 27. TRANSACTIONS CARRIED OUT WITH GROUP UNDERTAKINGS AND ASSOCIATED UNDERTAKINGS

Their breakdown at 31st December 2005 was the following:

	(Thousands of Euros)					
			Services		Charges	
	Sales	Purchases	Provided	Received	Charged	Paid
Group Companies	2,430	21,247	5,100	132	-	-
Associated Companies	-	-	40	4,574	-	-
	2,430	21,247	5,140	4,706	-	-

NOTE 28. TRANSACTIONS IN CURRENCIES OTHER THAN THE EURO

The volume of transactions in currencies other than the Euro, basically for sales and purchases, amounts to Euros 0.83 and 0.016 million, respectively, with their breakdown being the following:

	(Thousands of Euros)	
Currency	Sales	Purchases
US Dollar	1,052	1
Pound Sterling	-	2
Swiss Franc	-	20

In this item, the accounts to be settled in currencies other than the Euro at 31st December 2005 amount to Euros 0.032 million and their breakdown into currencies is the following:

Currency	(Thousands of Euros)
US Dollar	39

NOTE 29. ENVIRONMENT

During the fiscal year 2005, so as to apply the strategy defined by the Group, it continued to make investments in fixed assets earmarked for protecting the environment, the sum total of which amounted to Euros 11,000. The most significant aspects in the section for the Environment for the present fiscal year were the following:

- The Company carried out the visit prior to the award of the ISO14001 certificate with AENOR, with the results being satisfactory, with the award of the final certificate being postponed until the integration of the activities of the Power Plant that was part of a Joint Venture until 2005.

  During the visit it was found that the Company had continued to comply with all the regulations applicable in terms of the Environment, as well as the targets for cutting down the environmental impacts and also ongoing improvement in line with the principles of the Management Codes for Commitment to Progress (Responsible Care) of the FEIQUE.

- Viability study on the recovery of glycol from sewerage using reverse osmosis with the aim of cutting the environmental impact in the vector for water.

- Presentation of the Environmental Impact Study for our plant to the Administration.

- Use of recycled polyester to cut the consumption of unused raw materials in the manufacture of fibres.
- Implementation of specific programmes for Industrial Hygiene.
- Significant improvement in the implementation and monitoring of the codes for Environmental Protection, Safety for processes and response to emergencies and Workplace Safety with Commitment for Progress.

The current expenses supported by the Company during the present fiscal year amount to Euros 0.22 million. This includes expenses for the transportation and external management of the waste, as well as those associated with the operation of the chemical waste plant.

NOTE 30. OTHER INFORMATION

Payments and other benefits for the Administrators. During the fiscal year ended on 31st December 2005 the payments received by the members of the Company's Board of Directors corresponded to the following breakdown:

	(Thousands of Euros)
Wages and salaries	266
Expense allowances for attending Board Meetings	320
	586

There were no credits, advances, loans or securities contracted in terms of pensions with regards to the Board of Directors.

In relation to the information demanded by new Article 127, section three, 4 of the Public Limited Companies Act, the shareholdings and the posts and/or functions that the Company Directors hold and/or exercise in other companies with the same, similar or complementary kind of activity that represents the Company's corporate purpose, are the following:

- Mr. Rafael Español Navarro holds the post of Chairman in the following companies: La Seda de Barcelona, S.A., Industrias Químicas Textiles, S.A. (Single-member Company), CARB-IQA de Tarragona, S.L., KD-IQA, S.L. (Single-member Company); Joint Director in CARB-IQA de Tarragona, S.L and Director of DOGI, S.A., Endesa Internacional, S.L. and Enersis, S.L., upon the date of drawing up their respective annual accounts.

- Mr. Ramon Pascual Fontana, holds the post of Director in the following Companies: Petrolest, S.L. and Industrias Químicas Textiles, S.A. (Single-member Company), upon the date of drawing up their respective annual accounts.

- The Company called Ibersuizas Alfa, S.L., fully owned by Ibersuizas Participadas, S.A., holds the post of Director in the firm called Selenis, SGPS, S.A.

- The Company Ibersuizas Participadas, S.A. holds indirectly through its subsidiary company Capital Fund I, SCR, S.A. 4.53% of the share capital in Selenis Control, LDA.

NOTE 31. FEE FOR THE AUDITORS

The pay for the auditors for carrying out the audit on the individual and consolidated annual accounts at 31st December 2005 amounts to Euros 65,206.06, being the only item for which they were paid.

NOTE 32. EVENTS FOLLOWING THE CLOSE OF THE FISCAL YEAR

On 15th February 2006 the Company, once it had obtained the respective permits from the competent authorities in Spain, Italy and Portugal in terms of free competition, carried out the purchase of 70% of the Portuguese company Selenis Polímeros and the Italian firm Selenis Italia (previously called Aussapol) whose corporate purpose is the manufacture of PET polymers. It also plans to take over the remaining 30% before 30th September 2006.
Along this line of action and within the strategy defined by the Group, on 1st February 2006, the Company's Board of Directors approved the start of negotiations for the takeover of the Greek company Volos PET Industry (VPI).

As a result of the process of Group restructuring, the Company plans to carry out a split by means of the assignment of the branch of textile activity to the Group Company called Fibracat Europa, S.L (Single-member Company), with the aim of differentiating in each one of the companies that make up the Group the main activities for the Group (PET, fibres and basic chemicals). Upon the date of drawing up the present annual accounts, the decision on the split is still pending approval.

Upon the date of drawing up the present annual accounts final approval is still pending for the granting by a financial institution as the sole underwriter for a syndicated loan amounting to Euros 570 million, which shall be used for writing off all of the debts with financial institutions and with the Social Security Finance Department and the extension of the Company's production capacity, as well as the takeover of new companies in the PET sector.

NOTE 33. FUNDS-FLOW STATEMENT

	(Thousands of Euros)	
APPLICATIONS	31.12.2005	31.12.2004
Acquisitions of fixed assets		
• Preliminary expenses	3,675	-
• Intangible fixed assets	277	1
• Tangible fixed assets	9,797	1
• Investments:		
• Group companies	-	11,140
• Other investments:	94	-
Deferred expenses	6,070	450
Resources applied through the effect of the merger transaction (see Note 1)	22,898	-
Short-term cancellation or transfer of long-term liabilities		
• Loans and others similar liabilities	31,233	13,618
• Of others liabilities	2,532	327
Total applications	76,576	25,537
Increase in current share capital	133,252	4,552
	209,828	30,089

SOURCES	31.12.2005	31.12.2004
	(Thousands of Euros)	
Resources from transactions	31,642	1,678
Resources from and generated by the effect of the transaction from demerger	-	-
Shareholders contributions		
• Share capital increases	72,694	15,025
Long-term liabilities		
• From Group undertakings	-	-
• Loans and others similar liabilities	105,461	-
Disposal of fixed assets		
• Tangible fixed assets	31	9,230
• Investments:		
• Group companies and associated undertakings	-	4,156
• Other investments	-	-
Total sources	209,828	30,089
	209,828	30,089

Increase in current share capital	31.12.2005		31.12.2004	
	(Thousands of Euros)			
	Increases	Reductions	Increases	Reductions
Stocks	22,058	-	-	-
Debtors	166,521	-	-	1,097
Short-term investiments	37,478	-	-	6,429
Own shares	-	402	484	-
Creditors	-	75,107	11,424	-
Cash	5,493	-	170	-
Prepayments and deferred income	109	-	-	-
Change in the current capital through the effect of the merger transaction		22,898		
	231,659	98,407	12,078	7,526
Increase in current share capital	-	133,252	-	4,552
	231,659	231,659	12,078	12,078

CONCILIATION OF THE BOOK PROFIT/LOSS WITH THE RESOURCES GENERATED BY TRANSACTIONS

	(Thousands of Euros)	
	31.12.2005	31.12.2004
Fiscal period income/loss	(1,868)	1,289
Transactions not releated with movements of funds:		
- Allocations to the depreciation of fixed assets	10,765	2,370
- Net effect of deferred expenses and income	22,739	1,297
- Application to result of fiscal credit and advance taxes in the long-term	25	102
- Losses in the disposal of tangible fixed assets and controlling interests	111	-
- Losses in the disposal of own shares	-	4
- Profits from the disposal of own shares	-	(10)
- Profits from the disposal of tangible fixed assets and controlling interests	(130)	(3,374)
Resources arising from transactions	**31,642**	**1,678**

MANAGEMENT REPORT
La Seda de Barcelona

In compliance with that set forth in Article 171 of the Revised Text of the Public Limited Companies Act, the present management report for the Company is drawn up in relation to the corporate fiscal year closed on 31st December 2005, including the matters required in Article 202 of the said legal corpus, as modified by Article 107 of Act 62/2003 on Measures of a Fiscal, Administrative and Social Nature.

1. Progress of the Business and the Company's Situation. The progress of the Company's activities during the fiscal year 2005 was the following:

Following the opening of the new CSSP-2 Post-Condensation Unit at the Production Plant in El Prat de Llobregat (Barcelona) in the first quarter of 2005, the Company had a rise in its consolidated turnover that reached Euros 256 million (Euros 203 million on an individual level), with an increase of 9% over the previous fiscal year.

One of the targets for La Seda de Barcelona, S.A., during the fiscal year 2005, was to strengthen its financial structure in order to deal with the growth envisaged in the sector for PET by means of the start-up of a takeover plan that was submitted to the shareholders at the last AGM in June, 2005.

The Company's strategy for growth has been backed, during this fiscal year, with the resources obtained on the market through a share capital increase and the granting of a line of credit. The line of credit taken out by the Controlling Company within the Group is set out in three sections:

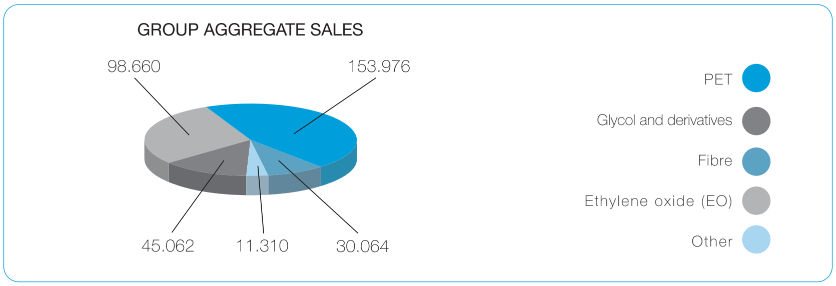
1) A syndicated loan for Euros 46.2 million for a period of 5 years, headed by Deutsche Bank and in which several other financial institutions participate, such as Caixa Catalunya, Institut Català de Finances (ICF), Caja de Ahorros del Mediterráneo, Caja de Ahorros de Castilla la Mancha, Ibercaja and Fortis Bank.

2) The refinancing of the debt with the Institut Català de Finances by means of a bilateral loan amounting to Euros 13.2 million and for a period of 7 years.

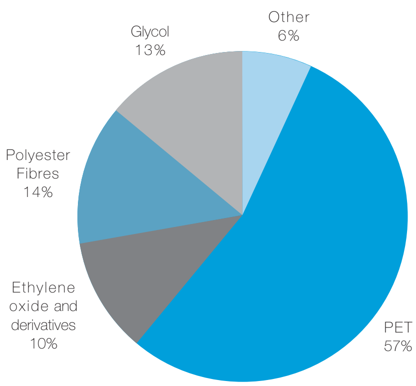
3) A lease-back contract worth Euros 5 million and a term of 5 years in order to cover a small part of the investments in machinery at the plant in El Prat de Llobregat (Barcelona).

This conversion of the short-term debt into long-term debt provided financial stability that puts LA SEDA DE BARCELONA in a position to deal with future growth successfully.

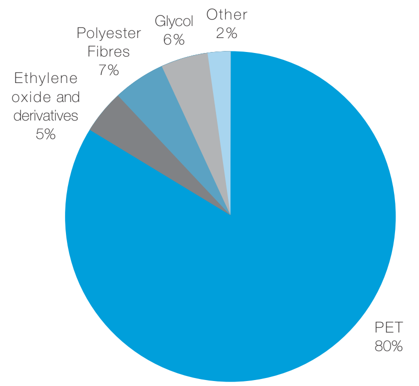
GROUP AGGREGATE SALES



Fiscal year 2005



Target for fiscal year 2006



INVESTMENT ACTIVITY

During the first quarter of 2005, with the start-up of the second Continuous Post-Condensation Unit at the Production Plant in El Prat de Llobregat, the Group has closed a long process for industrial reconversion that had been characterised by the effort made in investments and which provided the Company with the optimal industrial and technological profile for dealing with, at the present time, a new phase for expansion and growth on the European PET markets.

La Seda de Barcelona, S.A. is now starting a new phase of international expansion imbued with a strategy for growth based on the acquisition of firms in the PET field. It is deemed that the present situation on the market and the fragmentation of supply will mean that this option is the most profitable one for the Company.

In the fiscal year 2005 **La Seda de Barcelona, S.A.** reached agreements for the future takeover of new assets in the PET field, with the aim of becoming the new European leader in this sector. For this purpose, it proceeded to value the production assets for PET polymers of Selenis Polímeros in Portugal and Aussapol (currently Selenis Italia), then it reached an agreement with SELENIS HOLDING SGPS to take over both companies before the end of the year. This transaction took place on 15th February 2006 with the purchase of 70% in both PET producers for a sum total of Euros 56 million. It plans to take over the remaining 30% before 30th September 2006.

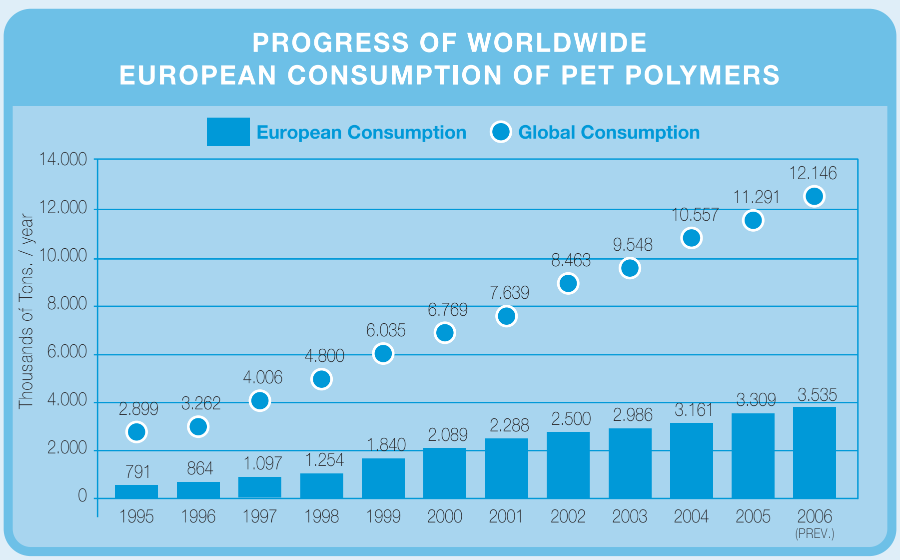
PROGRESS OF THE PET MARKET

PET is the Company's main industrial project. It is a product with strong accumulated growth and a great potential for development.

During the fiscal year 2005, the PET market continued its ongoing growth of the last few years, with an annual average rate close to 10%. This percentage may rise in the short-term with the definitive implementation of the PET pack on the market for fruit juices, milk products and beer.

Expectations for the coming years indicate that PET will carry on with its rate of expansion. Its exceptional characteristics and properties have turned this polymer into one of the most versatile plastics in the world with multiple and varied applications, both novel ones and those replacing other materials.

PROGRESS OF WORLDWIDE-EUROPEAN CONSUMPTION OF PET POLYMERS
(Thousands of Tons.)



The technological advances achieved in the manufacturing processes, as well as in the materials used in the sector for containers and packaging, have allowed the exceptional properties of the PET polymer to be very widely assessed, and it is now gaining ground as an essential raw material in the sector.

The use of PET has been consolidated on the market for mineral waters, gassy drinks and oils and it is very quickly gaining ground in new applications in the sectors for foodstuffs, cleaning products, cosmetics and pharmaceuticals, as well as in applications for industry and engineering.

The Research, Development and Innovation (R,D&I) Department at **La Seda de Barcelona, S.A.** concentrated, in the fiscal year 2005, on the development and enhancement of products with more added value. The following projects were implemented throughout the year:

• Work for enhancing a new formula for PET resin with more ecological catalysts. A new product was developed, called SedaPet-Flow, using a new formulation with enhanced rheological properties that also allows a drop in power consumption levels in the processes for injection and blowing earmarked for the gassy drinks and mineral waters sectors.

• Preliminary work began on developing PET formulations with NANOCLAYS additives aimed at obtaining a resin with enhanced barrier properties.

• Furthermore, with the aim of maximizing the Company's competitiveness, it carried on with the development of new kinds of fireproof fibres that meet the market's changing needs. With regards to fibres that are resistant to mites, the Company is carrying on with the process for introducing this speciality on the market for applications in anti-allergy articles.

• In this fiscal year, studies were also started up for introducing a new formula with properties that are resistant to bacteria, which is planned to be presented during the course of 2006.

2. **Risk factors.** Any activity is subject to risks, not just external ones but also those that are inherent to the activity itself. Economic activities are no exception and competent management requires that the risks that might affect a company's business not just in the short term but also in the long term should be identified, measured and assessed.

The Company's top management is in charge of carrying out ongoing monitoring to identify, assess and prioritise current and potential risks and take the pertinent measures in order to counteract as far as possible the threats to the business that might arise from the risks that are identified.

The main financial risks are listed below and the measures taken by the Company's management for dealing with them:

Interest rate risk

Several items on the balance sheet and their associated financial derivatives are set at fixed interest rates and are not, therefore, subject to changes in their reasonable value as a result of changes in the interest rates on the market. Moreover, the Seda Group faces a risk with regards to the items on the balance sheet and derivatives at a variable interest rate, insofar that the market swings affect cash flows.

La Seda de Barcelona, S.A. mitigates this risk through the management of the structure of its debt between fixed and variable according to the situation on the markets, through new funding sources and the use of interest rate derivatives, all of which are within the approved limits for risk.

Risk in the management of raw materials

The Company's main risk in the management of the raw materials is the change in the price of PTA. This product comes under the fraction of aromatics (BTX), with the composition of the latter being Benzene, Toluene and Xylene.

These three components are also used for manufacturing derivatives of gasolines with the aim of cheapening their cost. Due to the rise in the price of oil, there is a rise in demand for Benzene, Toluene and Xylene from fuel manufacturers.

One of the derivatives of Xylene, commonly known as paraxylene, is the base for obtaining PTA and its price ranges according to the supply and demand for Xylene on the international market, which is closely linked to the price of fuel.

The price of the PTA, therefore, will depend on the end use that the producers of aromatic fractions decide for Benzene, Toluene and Xylene.

There is no system for covering specific risks in this market segment.

Market risk
During the fiscal year 2005 a new competitor on the international PET market was discovered in Lithuania, which caused a drop in its prices.

The risk of new competitors appearing in the next few years is mitigated by the need for a minimum of 2 years and a high financial cost for building new plants for manufacturing PET, apart from obtaining the pertinent permits related to the environment. At the close of the fiscal year, no project was known to be under way for building new plants for PET by any possible competitors.

Exchange rate risk
Practically 90% of the purchase and sale transactions carried out by La Seda de Barcelona, S.A. are done so in Euros, which is why there is no need for specific risk management in this field.

Liquidity risk
The liquidity policy followed by the Group ensures performance of the undertakings for payment without having to resort to funding from third parties under exorbitant conditions.

Credit risk
The credit risk deriving from the failure of a counterpart (client, supplier, partner or financial institution) is properly controlled in the Seda Group through different policies and risk limits in which requirements are established relating to:

- Suitable contracts in the transaction carried out.
- Proper internal or external credit rating for the counterpart.
- Additional guarantees where necessary.
- Limitation of the costs for bankruptcy and the financial cost deriving from bad debts.

3. **Important events arising after the close of the fiscal year.** No other important events have arisen following the close of the fiscal year apart from those already stated in Note 32 above.

4. **Foreseeable progress for the Company.** During the fiscal year 2006 the appropriate measures and policies are going to be taken in order to back up the Group's new structure that is mainly concentrated on the manufacture of PET.

To do so, the meeting of the Board of Directors of **La Seda de Barcelona, S.A.** held on 1st February 2006 approved that it should carry on negotiating the takeover of the Greek Company Volos PET Industry (VPI).

With the takeover of VPI, the Seda Group would achieve a production capacity of 540,000 tonnes per year of PET polymers, thus becoming the leader in the European ranking for the sector. The new Industrial Group thus formed would have a turnover exceeding Euros 700 million.

At the same time, the acquisition of the remaining 30% in the companies called Selenis Polímeros and Selenis Italia is planned for before 30th September 2006.

5. **Purchases and disposals of own shares.** At the Ordinary General Meeting of Shareholders of La Seda de Barcelona, S.A., during its meeting on 27th June 2005, it was agreed to authorise the Company's Board of Directors to purchases its own shares in the company for a maximum duration of eighteen months. It was also authorised to reduce the share capital with the aim of amortising its own shares that the Company might hold in its own stock portfolio, charged to profits or unrestricted reserves.

GVA

Gironella Velasco auditores

Auditors' Report on Annual Accounts

To the shareholders of
La Seda de Barcelona, S.A.

1. We have audited the annual accounts for the Company **La Seda de Barcelona, S.A.** which include the balance sheet at 31st December 2005, the profit & loss account and the notes relating to the fiscal year ending on the said date, the preparation of which is the duty of the Company Administrators. Our duty is to express an opinion regarding the aforementioned accounts as a whole, based on the work carried out in accordance with generally accepted auditing standards, that demand the examination, by means of performing selective tests, of the supporting evidence for the annual accounts and the evaluation of their presentation, the accounting principles applied and the estimates made.

2. In accordance with company legislation, the Administrators present, for the purposes of comparison, the figures from the previous fiscal year along with each one of the items on the balance sheet, the profit & loss account and the funds-flow statement, as well as the figures from the fiscal year 2005. Our opinion refers exclusively to the annual accounts for the fiscal year 2005. On 13th June 2005 we issued our auditors' report regarding the revised annual accounts (see Note 2 a) in the enclosed Notes) for the fiscal year 2004, in which we expressed a favourable opinion.

3. The Company, as stated in Note 4 f) to the enclosed Notes, is the majority shareholder in the share capital of certain companies, with which it also carries out different kinds of business transactions. The enclosed balance sheet and the profit & loss account refer to the Company individually and hence the enclosed annual accounts do not show the changes that would arise in the different components of the balance sheet and profit & loss account if we were to consolidate the annual accounts for the companies in which it has a holding, changes which, in our opinion, it would be necessary to present in order to achieve a true and fair view of the situation regarding the Company's finances, net worth and profits/losses.

Nonetheless, the Company has also drawn up its consolidated annual accounts and management report separately for the fiscal year 2005, being the first ones the Group has drawn up by applying the International Financial Reporting Standards passed by the European Union. If the changes in value generated by the consolidation with the associated undertakings had been entered, at 31st December 2005 the net worth would have risen by Euros 41.14 million and the profits from the fiscal year would have risen by Euros 7.98 million.

4. As stated in Note 2 a) in the enclosed Notes, on 16th June 2005, the agreement was registered at the Company Register for a merger by takeover, as approved on 29th December 2004 by the Annual General Meeting of Shareholders of **La Seda de Barcelona, S.A.,** whereby the Company took over the Companies in the Group: **Catalana de Polímers, S.A. (Single-member Company), KD-IQA, S.L. (Single-member Company), Iberseda, S.L. (Single-member Company), Proyectos Voltak, S.L. (Single-member Company), Celtibérica de Finanzas, S.L. (Single-member Company) and Mendilau, S.L. (Single-member Company)**, of which it was the holder of 100% of their share capital. As a result of this, the aforementioned merger by takeover was entered in the accounts during the fiscal year 2005 by means of the inclusion by the company taking them over of the balance sheets and profit & loss accounts from the companies taken over as of 1st January 2005, hence this fact should be taken into account when comparing the Company's annual accounts for the fiscal year 2005 with those from the previous fiscal year.

Gironella Velasco auditores S.A. Avda. Diagonal, 453 bis, 7ª planta, 08036 Barcelona Tel. +34 93 363 81 80 Fax +34 93 363 81 82 gva@gvauditores.com
Inscrita en el Registro Oficial de Auditores de Cuentas (ROAC) y en el Instituto de Censores Jurados de Cuentas de España
Registro Mercantil de Barcelona, Tomo 26.127, Folio 21, Hoja B-100.292, Inscripción 9ª, N.I.F. A-58881459

GVA

II

5. In our opinion, the enclosed annual accounts for the fiscal year 2005 express, in all significant aspects, a true and fair view of the equity and the financial situation of the Company **La Seda de Barcelona, S.A.** at 31st December 2005 and the results of its operations and the resources obtained and applied during the fiscal year ending on the said date and contain the necessary and sufficient information for their proper interpretation and understanding, in accordance with the generally accepted accounting principles and standards which are the same as those applied in the previous fiscal year.

6. The enclosed management report for the fiscal year 2005 contains the explanations that the Administrators deem to be pertinent regarding the Company's situation, the progress of its business and other matters and does not form an integral part of the annual accounts. We have checked that the accounting information contained in the aforesaid management report matches that provided in the annual accounts for the fiscal year 2005. Our work as auditors is limited to verifying the management report within the scope mentioned in this paragraph itself and does not include a review of any information other than that obtained from the Company' accounting records.

COL·LEGI
DE CENSORS JURATS
DE COMPTES
DE CATALUNYA

Membre exercent:
GIRONELLA VELASCO AUDITORES,S.A.
Any **2006** Núm. **CC006028**
CÒPIA GRATUÏTA

Aquest informe està subjecte a la taxa aplicable establerta a la Llei 44/2002 de 22 de novembre.

Gironella Velasco auditores, S.A.
Member of the R.O.A.C. (Official Registry of Auditors) No. S0427

Gironella Velasco auditores, S.A.
IURATA FIDES
Gva

José Frejo Marín
Auditor
Member of the R.O.A.C. (Official Registry of Auditors) No. 14,807

21st April 2006

CONSOLIDATED ANNUAL ACCOUNTS

CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER 2005 AND 2004 (International Financial Reporting Standards selected)

(Thousands of Euros)

ASSETS	31.12.2005	31.12.2004
NON CURRENT ASSETS		
Tangible assets (Note 5)	245,841	242,955
Property investments	-	-
Goodwill (Note 6)	8,275	8,333
Other intangible assets (Note 7)	8,186	7,893
Non current financial assets (Note 8)	1,297	7,578
Investments entered by applying the holding method (Note 8)	2,794	2,777
Biological assets	-	-
Assets from deferred taxes (Note 14.2)	34,309	37,211
Other non current assets	-	-
	300,702	**306,747**
CURRENT ASSETS		
Biological assets	-	-
Stocks (Note 9)	61,744	35,794
Trade debts and other accounts to be settled	150,407	127,747
Other current financial assets	8,120	97
Assets from taxes on current earnings	19	13
Other current assets	2,606	1,427
Cash and other equivalent liquid assets	36,897	1,891
	259,793	166,969
Non current assets classed as being maintained for sale and from interrupted activities	877	2,462
	260,670	**169,431**
	561,372	**476,178**

CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER 2005 AND 2004
(International Financial Reporting Standards selected)

(Thousands of Euros)

LIABILITIES AND NET WORTH	31.12.2005	31.12.2004
NET WORTH (NOTE 10)		
Capital	101,599	130,552
Other reserves	137,375	36,437
Accumulated earnings	13,608	6,583
Other instruments of net worth	1,855	-
Own stocks	(223)	-
Exchange rate gains/losses	-	-
Valuation adjustments	-	-
Reserves from apreciation of non current assets classed as kept for the sale and interrupted activities	-	-
Interim dividends	-	-
Minority interests	482	637
	254,696	**174,209**
NON CURRENT LIABILITIES		
Issue of bonds and other marketable securities (Note 11)	42,936	-
Debts with financial institutions	54,143	4,752
Other financial liabilities	69,686	86,261
Liabilities from deferred taxes (Note 14.2)	20,495	20,751
Provisions	-	-
Other non current liabilities	449	4,086
	187,709	**115,850**
CURRENT LIABILITIES		
Issue of bonds and other marketable securities (Note 11)	1,095	-
Liabilities with financial institutions (Note 12.1)	48,359	86,882
Trade debts and other accounts to be settled	34,232	75,214
Other financial liabilities (Note 12.2)	15,793	11,277
Provisions	-	-
Liabilities for taxes on current earnings	-	-
Other current liabilities (Note 13)	19,488	12,746
	118,967	186,119
Liabilities directly associated with non current assets classed as being kept for sale and interrupted activities	-	-
	118,967	**186,119**
	561,372	**476,178**

PROFIT AND LOSS ACCOUNT FOR THE FISCAL YEARS ENDING ON 31ST DECEMBER 2005 AND 2004 (International Financial Reporting Standards selected)

(Thousands of Euros)

	31.12.2005	31.12.2004
OPERATING REVENUES	296,005	239,381
Net sum for turnover (Note 16)	255,976	234,420
Other operating revenue	13,906	7,068
Increase in stocks of finished goods and work in progress	26,123	(2,107)
OPERATING EXPENSES	(272,426)	(228,558)
Stocks (Note 17.1)	(168,395)	(127,009)
Staff expenses (Note 17.2)	(34,650)	(38,377)
Depreciation and amortisation charges for tangible fixed assets	(15,566)	(15,523)
Other operating expenses	(53,815)	(47,649)
OPERATING PROFITS(/LOSSES)	23,579	10,823
FINANCIAL REVENUE AND CHARGES AND SIMILAR ONES		
Financial revenues	560	609
Financial charges (Note 20)	(14,401)	(9,526)
(Net) Exchange rate gains/losses	(49)	(183)
Profit/loss from changes in value of financial intruments at a reasonable cost (net)	2	(9)
Profit/loss from changes in value of non financial assets at a reasonable cost (net)	-	-
Profit/loss through deterioration/reversion of the deterioration in assets (net)	(58)	-
Share in the profit/loss from the fiscal year for the associated undertakings and joint ventures, method for the share	17	27
Profit/loss from disposal of non current assets or valuation of non current assets classed as being maintained for sale not included as dormant activities (net)	144	(20)
Other earnings or losses	(995)	(1,596)
PRE-TAX PROFITS (LOSSES) FROM ONGOING ACTIVITIES	8,799	125
Corporation tax (Note 14.1)	(2,682)	(733)
PROFITS (LOSSES) FROM ONGOING ACTIVITIES	6,117	(608)
Profit/loss after tax from dormant activities (net)	-	-
PROFIT (LOSS) FROM THE FISCAL YEAR	6,117	(608)
Minority interests	(2)	(3)
PROFIT (LOSS) ATTRIBUTIBLE TO HOLDERS OF INSTRUMENTS FOR NET WORTH IN THE PARENT COMPANY	6,115	(611)

CONSOLIDATED CASH FLOW STATEMENT FOR THE FISCAL YEARS 2005 AND 2004

(Thousands of Euros)

	Balance as of 31-12-2005	Balance as of 31-12-2004
Cash from operating activities		
Net profit/loss after tax	6,117	(608)
Profit/loss from companies consolidated by equivalence	(17)	(27)
Allocations for amortisation of tangible fixed assets	15,566	15,523
Net change in the provisions	7,463	686
Goodwill	58	-
Profit/loss from the disposal of assets	(144)	26
Cash arising from operating	**29.043**	**15,600**
Accounts to be settled	(22,660)	(15,917)
Other current assets	(35,152)	(4,653)
Accounts to be paid	(40,982)	(8,399)
Public Bodies	(905)	10,157
Other current liabilities	(40,786)	6,427
Other items	(453)	(428)
Cash produced by current assets	**(140,938)**	**(12,813)**
Corporation Tax	2,682	733
Cash from operating activities	**(109,213)**	**3,520**
Cash applied in investment activities		
Acquisitions of fixed assets	(15,423)	(15,580)
Acquisitions of intangible fixed assets	(2,925)	(448)
Acquisition of other financial assets	(499)	(56)
Cash obtained from/paid for contracts for derivatives	-	
Sales of tangible fixed assets	263	9,312
Sales of intangible fixed assets	-	-
Sales of subsidiaries and associated undertakings	-	-
Sales of other financial assets	37	648
Dividends received	-	-
Net cash applied in investment activities	**(18,547)**	**(6,124)**
Cash applied in finance activities		
Share capital increases	72,694	15,025
Issue of bonds	47,469	-
Drawdowns of loans	66,711	-
Repayments of loans	(30,159)	(10,151)
Payments for leases	4,466	-
Net cash applied in finance activities	**161,181**	**4,874**
Effect of exchange rate gains/losses on cash and other equivalent assets	-	-
Increase (drop) in cash and other equivalent assets	**33,421**	**2,270**
Cash and other equivalent assets at the start of the fiscal year	**4,353**	**2,083**
Cash and other equivalent assets at the end of the fiscal year	**37,774**	**4,353**

STATEMENT FOR CHANGES IN THE CONSOLIDATED NET WORTH AT 31ST DECEMBER 2004

(Thousands of Euros)

Description	Balance at 31.12.2003	Distribution of profits/losses: Dividends	Distribution of profits/losses: Reserves	Modification of the scope for consolidation: Increases	Modification of the scope for consolidation: Reductions	Others Adjustments	Increases	Reductions	Transfers	Balance at 31.12.2004
Subscribed capital	102,851	-	-	-	-	-	15,025	-	12,676	130,552
Issue premium	12,379	-	-	-	-	-	-	-	-	12,379
Other reserves	35,546	-	1,606	-	-	-	-	-	(12,676)	24,476
Reserves for initial application IFRS	-	-	-	-	-	-	17,998	-	-	17,998
Reserves in consolidated undertakings by global integration	(10,774)	-	(99)	-	357	-	-	-	-	(11,230)
Reserves in undertakings placed on a par	(9)	-	-	-	-	-	17	-	-	8
Minority interests	-	-	-	-	-	-	-	-	637	637
Profits and losses	1,507	-	(1,507)	-	-	-	-	-	-	(611)
	141,500	-	-	-	357	-	33,040	-	637	174,209

STATEMENT FOR CHANGES IN THE CONSOLIDATED NET WORTH AT 31ST DECEMBER 2005

(Thousands of Euros)

Description	Balance at 31.12.2004	Distribution of profits/losses: Dividends	Distribution of profits/losses: Reserves	Modification of the scope for consolidation: Increases	Modification of the scope for consolidation: Reductions	Others Adjustments	Increases	Reductions	Transfers	Balance as of 31.12.2005
Subscribed capital	130,552	-	-	-	-	-	58,155	-	(87,108)	101,599
Issue premium	12,379	-	-	-	-	-	14,539	-	-	26,918
Other reserves	24,476	-	1,289	-	-	(3,372)	200	-	87,108	109,701
Reserves for initial application IFRS	17,998	-	-	-	-	-	-	709	-	17,289
Other instruments of net worth	-	-	-	-	-	-	1,855	-	-	1,855
Own stocks	-	-	-	-	-	-	-	223	-	(223)
Reserve for merger	-	-	-	-	-	7,770	-	25,962	-	(18,192)
Reserves in consolidated undertakings by global integration	(11,230)	-	(1,900)	22,248	-	-	-	-	-	9,118
Reserves in undertakings placed on a par	8	-	-	-	-	-	26	-	-	34
Minority interests	637	-	-	-	155	-	-	-	-	482
Profits and losses	(611)	-	611	-	-	-	-	-	-	6,115
	174,209	-	-	22,248	155	4,398	74,775	26,894	-	254,696

LA SEDA DE BARCELONA, S.A.

CONSOLIDATED NOTES AT 31ST DECEMBER 2005

NOTE 1. GROUP ACTIVITY

La Seda de Barcelona, S.A. is the controlling company for the Group, which includes several companies with common management and shareholders. The Company was set up on 23rd May 1925, its duration is indefinite and as stated in its memorandum of association of the same date, its corporate object is the manufacture and sale of artificial silk in all its aspects and derivatives, the production, handling, processing and sale of all kinds of fibres and textile and technical threads and artificial and synthetic materials, including the construction of its own machinery, the production of power and steam earmarked for its plants, as well as the performance of research in the aforesaid fields.

The aforementioned activities may also be carried out fully or partially in an indirect manner, through shareholdings in other companies with identical or similar corporate purposes. Furthermore and as a result of the merger process described below, its corporate purpose has been extended to include the manufacture and trading of polyester resin, polyester fibre, polyethylene telephtalate (PET polymer), the production of eicosapentaenoicacid (EPA), docosahexaenoic acid (DHA) and all kinds of polyunsaturated fatty acids.

Through the companies in which **La Seda de Barcelona, S.A.** has a majority shareholding, the group's main sectors of activity are:

- The manufacture and trading of continuous chemical fibres, raw sliced and mass-dyed fibres, granules for plastics, as well as sheets and heat-moulded products in compounds made from synthetic polymers.

- Any industrial or commercial activity related to the chemical industry, as well as the assembly of industrial plants, and participating in, managing and operating chemical companies.

On 29th December 2004, the General Meeting of Shareholders of **La Seda de Barcelona, S.A.** approved the merger by absorption with effect on 1st January, whereby the Company took over the Companies in the Group: **Catalana de Polímers, S.A. (Single-member Company), KD-IQA, S.L. (Single-member Company), Iberseda, S.L. (Single-member Company), Proyectos Voltak, S.L. (Single-member Company), Celtibérica de Finanzas, S.L. (Single-member Company)** and **Mendilau, S.L. (Single-member Company)**, of which it was the holder of 100% of their share capital, with its effect according to the companies being described in detail in Note 14.5.

The Group's consolidated annual accounts corresponding to 2004 were drawn up in accordance with Spanish accounting principles and therefore do not match the figures for the fiscal year 2004 included in these annual accounts, which have been drawn up according to the International Financial Reporting Standards (see in Note 27 a conciliation of the profit from the fiscal year 2004 and of the net worth at 1st January 2004 and at 31st December 2004), except for the fact that the Group has resorted to the exception contained in IFRS 1 that allows IAS 32 and 39 relating to financial instruments to be applied as from 1st January 2005. As regards the consolidated annual accounts for the fiscal year closed on 31st December 2004, the Administrators of the Controlling Company proceeded to draw them up again on 7th July 2005 due to the fact that the merger agreement described above was registered at the Companies Register on 16th June 2005. The aforesaid new wording was submitted to and approved by the Extraordinary General Meeting of Shareholders held on 21st October 2005.

As a result of this fact, the merger by absorption was entered in the accounts during the fiscal year 2005 for the companies in the Group: **Catalana de Polímers, S.A. (Single-member Company), KD-IQA, S.L. (Single-member Company), Iberseda, S.L. (Single-member Company), Proyectos Voltak, S.L. (Single-member Company), Celtibérica de Finanzas, S.L. (Single-member Company)** and **Mendilau, S.L. (Single-member Company)** by means of the inclusion in the Company taking them over of their respective balance sheets and profit & loss accounts at 1st January 2005.

On 14th November 2005 and by means of a public deed, La Seda de Barcelona, S.A. and Teín Química, S.A.U., undergoing bankruptcy proceedings, agreed in their capacity as partners in La Seda de Barcelona-Courtaulds España, Central Energética, a Joint Venture as per Act 18/82 of 26th May, to deem the Joint Venture Agreement between both companies to be ended and to that purpose they considered the said association to be annulled, rescinded, dissolved and wound up. Therefore Teín Química, S.A.U. assigned and transferred to La Seda de Barcelona, S.A. as a result of the unilateral early dissolution of the Joint Venture, 10% of its undivided holding in the ownership of the estate with registration No. 28653 valued at the sum total of Euros 520,540.

Due to the winding-up of the Joint Venture mentioned in the previous paragraph, La Seda de Barcelona, S.A. incorporated the balance sheet for La Seda de Barcelona-Courtaulds España, Central Energética a Joint Venture as per Act 18/82 of 26th May, with its breakdown being the following:

ASSETS	(Thousands of Euros)
FIXED ASSETS	
Net investments	182
CURRENT ASSETS	
Debtors	86
Cash	-
	268
LIABILITIES	
LONG-TERM LIABILITIES	459
SHORT-TERM LIABILITIES	2,187
FIXED EQUITY	(2,378)
	268

NOTE 2. BASES FOR PRESENTATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

a) True and fair view.

The consolidated annual accounts for the fiscal year 2005 have been drawn up in accordance with that set forth by the International Financial Reporting Standards (hereinafter "IFRS"), as passed by the European Union, in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, taking into account all of the accounting principles and standards and the assessment criteria that are obligatory to apply that have a significant effect, as well as the alternatives that the regulations allow in this matter and which are specified in Note 2 c). Along this line, in accordance with that set forth in IFRS 1, the Controlling Company in the Group as well as **Industrias Químicas Asociadas LSB, S.L.** and **Industrias Químicas Textiles, S.A.**, have kept the restatements made in accordance with the legislation in force prior to 1st January 2004, in particular prior to the update carried out pursuant to Royal Decree-Act 7/1996 of 7th June (see Note 5.1).

The enclosed consolidated annual accounts have been drawn up based on the individual accounting records of **La Seda de Barcelona, S.A.** and of each one of the consolidated Subsidiary Companies and show a true and fair view of the net worth, the financial position at 31st December 2005 and of the results of their transactions, the changes in the statement of income and expenses acknowledged and of the cash flows which arose in the consolidated Group during the fiscal year closed on the said date.

The enclosed consolidated annual accounts, which have been drawn up by the Board of Directors of the Controlling Company, shall be submitted for approval by the Ordinary Annual General Meeting of Shareholders. The Administrators of the Controlling Company believe they will be approved without any modification.

As stated in Note 1 above, the consolidated annual accounts from 2004 included for the purposes of comparison, have been drawn up in accordance with that set forth in the IFRS passed by the European Union in a way consistent with those applied in the fiscal year 2005, except for the fact that the Group has resorted to the exemption contained in IFRS 1, which allows IAS 32 and 39 to be applied relating to financial instruments as from 1st January 2005, without requiring the adaptation of the comparative figures from the previous fiscal year. Therefore, the comparison between both fiscal years should be made taking this circumstance into account.

b) Responsibility for the information and the estimates made.

The information contained in these annual accounts is the responsibility of the Group's Administrators.

In the consolidated annual accounts corresponding to the fiscal year 2005, estimates have been used occasionally that were made by the Management for the Group and the other undertakings to quantify some of the assets, liabilities and undertakings that are recorded therein. Basically, these estimates refer to:

- The valuation of the assets and goodwill in order to determine the existence of losses through the deterioration of the latter (see Note 6).
- The hypotheses used for calculating the actuarial value of liabilities.
- The useful life of the tangible and intangible assets (see Notes 5 and 7).
- The hypotheses used for calculating the reasonable value of the financial instruments.
- The probability of occurring and the sum total for the indeterminate or contingent liabilities.

Despite the fact that these estimates were made according to the best information available on the date of drawing up these consolidated annual accounts regarding the facts analysed, it is possible that events which may take place in the future may force them to be altered (upwards or downwards) in forthcoming fiscal years, which would be done in a prospective way acknowledging the effects of the change in the estimate on the pertinent future consolidated profit and loss accounts.

c) First application of the IFRS.

The Group's consolidated annual accounts corresponding to the fiscal year 2005 are the first ones that have been drawn up in accordance with the IFRS.

In the preparation of the enclosed consolidated financial statements, the alternatives were taken into account that are allowed as regards the application of the IFRS for the first time. The main alternatives chosen by the Seda Group are the following:

- It was decided not to reconstruct the business combinations as if they had taken place under IFRS, hence the assets and liabilities existing under Spanish accounting regulations have been eliminated against reserves which are not considered this way under IFRS.
- Both the intangible assets and the assets entered under the heading "Tangible fixed assets", may be valued at the market value or at their cost price corrected by the accumulated depreciation and the write-offs carried out, where applicable. The Seda Group has chosen to enter those lands on which the different production units are located at the market value.
- The book value that the assets had under the Spanish regulations has been taken as the amortised cost of the tangible fixed assets and of the intangible assets at 31st December 2005, since the Management of the Controlling Company has assumed that the revaluations of assets which took place in accordance with the regulations in force in Spain reflect, approximately, the variations in the prices in the aforesaid country.
- It chose to consolidate the holdings in joint ventures using the shareholding method.
- The alternatives for presenting the information are the following:

  • Presentation of the financial statements by type.
  • Calculation of the cash flow statement using the indirect method.
  • The information by segments is structured, firstly, in line with the Group's different lines of business and, secondly, following a geographical distribution.

d) Principles of consolidation and consolidated undertakings.

The criteria followed for deciding on the consolidation method applicable to each one of the companies that make up the scope for consolidation were the following:

1. **Global integration:** This method was applied to the companies in which the Controlling Company controls a majority of the voting rights or, even if this is not so, has the power to manage the financial and operating policies for the latter.

2. **Method of shareholding:** This method was applied for the associated undertakings, with the latter being deemed to be those in which the direct or indirect holding in the share capital belonging to **La Seda de Barcelona S.A.** stands at between 20% and 50% or even if it does not reach the said percentages of shareholdings, it does have a significant influence on the management.

This method consists of entering the shareholding on the balance sheet for the fraction of its net worth that the Group's holding in its share capital represents once, where applicable, the effect of the transactions performed with Group undertakings has been adjusted, plus the tacit capital gains that correspond to the goodwill paid in the takeover of the company.

The most relevant information regarding the previous heading is the following:

(Thousands of Euros)

Company Registered offices	Main activity	% Holding of La Seda de Barcelona, S.A. Direct	Direct and Indirect	Corporate capital	Reserves	Profit/loss last fiscal year	Extraordinary
GLOBAL INTEGRATION							
Industrias Químicas Asociadas LSB, S.L. (Single-member Company) Pº de Gracia, 85, 08008-Barcelona	The performance of any industrial or commercial activity related to the chemical industry	100%	100%	30.742	3.291	1.077	(595)
Industrias Químicas Textiles, S.A. Pº de Gracia, 85, 08008-Barcelona	Manufacture and trading of chemical fibres, granules for plastics and synthetic polymers for sheets and heat-mouldings	100%	100%	6.671	21.851	(1.907)	(35)
CARB-IQA de Tarragona, S.L. Ctra. Nacional 340, Km.1157 Polígono Industrial La Canonja (Tarragona)	Production, distribution and sale of gases	-	50%	938	24	3	-
SLIR, S.L. (Single-member Company) Carretera de Carcastillo a Figarol Carcastillo (Navarra)	Recycling of farm waste and sale of organic fertilisers	100%	100%	2.404	707	42	-
FIBRACAT EUROPA, S.L. ((Single-member Company) Pº de Gracia, 85, 08008-Barcelona	Dormant Company	100%	100%	3	(1)	-	-
ANERIQA, A.I.E. Ctra. Nacional 340, Km.1157 Polígono Industrial La Canonja (Tarragona)	Electricity cogeneration plant	10%	100%	1	-	-	-
PLACED ON A PAR							
Petrolest, S.L. Raset, 7 2º 3ª, 08021 - Barcelona	Specialist transportation of chemical products and similar	49%	49%	118	3.206	35	(47)

Company Registered offices	Net Value accounting	Book value equity holding	Dividends received in the fiscal year	Quotation on Stock Market	Exclusion of the perimeter for consolidation
GLOBAL INTEGRATION					
Industrias Químicas Asociadas LSB, S.L. (Single-member Company) Pº de Gracia, 85, 08008-Barcelona	35,110	30,742	-	NO	NO
Industrias Químicas Textiles, S.A. Pº de Gracia, 85, 08008-Barcelona	26,615	22,491	-	NO	NO
CARB-IQA de Tarragona, S.L. Ctra. Nacional 340, Km 1157 Polígono Industrial La Canonja (Tarragona)	483	-	-	NO	NO
SLIR, S.L. (Single-member Company) Carretera de Carcastillo a Figarol Carcastillo (Navarra)	3,153	3,325	-	NO	NO
FIBRACAT EUROPA, S.L. (Single-member Company) Pº de Gracia, 85, 08008-Barcelona	2	3			
ANERIQA, A.I.E. Ctra. Nacional 340, Km.1157 Polígono Industrial La Canonja (Tarragona)	1	-	-	NO	NO
	65,364	56,561	-		
PLACED ON A PAR					
Petrolest, S.L. Raset, 7 2º 3ª, 08021 - Barcelona	1,646	2,743	-	NO	NO
	1,646	2,743	-		

All the sizeable balances and transactions between the companies included within the scope for consolidation have been removed from the enclosed consolidated annual accounts, as well as the sum total of the shareholdings held between them, except for the profit margin obtained by the company selling them, which is included in the value of the stocks at the close of the fiscal year, arising from transactions between Group undertakings, since the said margin is of very little interest with regards the true and fair view of the consolidated annual accounts.

The interests belonging to external shareholders represent the aliquot of the stockholder equity at 31st December 2005 for those Subsidiary Companies that are consolidated using the global integration method, in which ownership is shared with third parties.

e) Variation in the scope of consolidation.

The Controlling Company, complying with the modifications introduced in Article 43 of the Code of Commerce establishing the causes for which a company shall be exempt from consolidation and in which the different causes of exclusion from the scope of consolidation described in Article 11.2 c) of the Standards for the Preparation of Consolidated Annual Accounts are not included (Official State Gazette 27-12-91), has included within the scope of the consolidation for the first time the Group company **Aneriqa, A.I.E.**, which has been consolidated using the global integration method, with its inclusion not having in any event a significant effect on the consolidated annual accounts.

At the same time, the scope for consolidation has changed as a result of the Controlling Company entering in its accounts the merger by absorption of the companies in the Group: **Catalana de Polímers, S.A. (Single-member Company), KD-IQA, S.L. (Single-member Company), Iberseda, S.L. (Single-member Company), Proyectos Voltak, S.L. (Single-member Company), Celtibérica de Finanzas, S.L. (Single-member Company)** and **Mendilau, S.L. (Single-member Company)** by means of the inclusion of their respective balance sheets and profit & loss accounts as of 1st January 2005 (see Note 14.5).

NOTE 3. DISTRIBUTION OF PROFITS/LOSSES FOR THE CONTROLLING COMPANY

The distribution of the profit from the fiscal year for **La Seda de Barcelona, S.A.** shall be decided at the Annual General Meeting of Shareholders.

The Board of Directors shall propose the following distribution of the profit, in thousands of Euros:

BASIS OF THE SHAREOUT	(Thousands of Euros)
Adjustment of profit from fiscal year 2004 (see Note 14.1)	107
Fiscal period income/loss	(1,975)
	(1,868)
DISTRIBUTION	
To Legal Reserve	11
To Other Reserves	96
To Losses from previous periods	(1,975)
	(1,868)

NOTE 4. VALUATION STANDARDS

a) Tangible fixed assets.

Tangible fixed assets are valued at their cost price or production cost, net of the pertinent depreciations or provisions applied to them, except for the revaluation carried out for the lands in which the different production units are located, on the basis of that set forth in IAS 16, as well as the revaluations carried out pursuant to Royal Decree-Act 7/1996 of 7th June, by the Group's Controlling Company as well as **Industrias Químicas Asociadas LSB, S.L.** and **Industrias Químicas Textiles, S.A.**

IFRS 1 allows companies to keep the latter revaluations in force in accordance with the previous regulations in force.

The financial charges corresponding to the loans granted by financial institutions directly related with the construction of tangible fixed assets are entered as the highest value of the fixed assets.

Repairs that do not represent an increase in the useful life and the maintenance charges are charged directly to the profit & loss account. The costs for extension or improvement that give rise to a greater duration for the asset or an increase in the productivity, capacity or efficiency, are capitalized as the greater value thereof.

Works performed for fixed assets are valued according to the costs incurred for labour, materials and other indirect costs. During the fiscal year, the Companies that make up the Group have carried out for themselves building works and works that may be entered as the greater cost of the tangible fixed assets for a sum total of Euros 12.85 million.

Depreciation of the elements of the tangible fixed assets is started in relation to their purchase and/or repair date, in a linear method according to the estimated years of useful life and applying it to the cost values, as per the following breakdown:

Group of elements	Intervals for estimated useful life
Buildings	50 - 33 - 20
Technical plant and machinery	18 - 8 - 6,75
Other plant, tools and fittings	20 - 14 - 11
Other fixed assets	14 - 8 - 6 - 4

The sum totals for the restatement carried out according to Royal Decree-Act 7/1996 are amortised in line with the years of useful life remaining at 31st December 1996 for the pertinent elements of the equity restated.

The tangible fixed assets acquired through leases or lease-back are entered under the heading for “Tangible fixed assets” to which the assets leased corresponds, which is amortised during its planned useful life following the same method as for assets which are owned or within the term of the pertinent lease, should the said useful life be shorter. The sales transaction with a subsequent lease back arranged by the Group in the fiscal year 2005 was entered by deferring and amortising the excess of the sum total of the sale over the book value for the asset sold throughout the term of the lease.

This transaction consisted of obtaining financing by means of the sale to financial institutions of a plant for the post-condensation of granules in bottles, for an overall sum total of Euros 5.29 million plus the pertinent Value Added Tax.

On the date for the maturity of the contract, i.e., 10th June 2009, the Company may exercise the purchase option for a sum total of Euros 0.12 million plus Value Added Tax.

b) Goodwill. This corresponds to the gain existing between the cost price and/or the reasonable value of shareholdings in Group undertakings and the net value of the shareholding at the time of including them within the scope for consolidation or the modification thereof.

If these gains may be attributed to specific elements of the net worth of the companies taken over, they are entered by increasing the value of the assets or by reducing that of the liabilities for which the market values are higher or lower than the net book values that appear on their balance sheets and for which the accounting treatment is similar to that for the same assets or liabilities for the Group. If they cannot be assigned to specific elements of net worth, then they are entered as goodwill.

The items of goodwill acquired prior to 1st January 2004 are kept at their net value entered at 31st December 2003 in accordance with Spanish accounting criteria. As from 1st January 2004 goodwill is not amortised and at the close of each fiscal year there is an estimate to see whether there has been any reduction in it that would cut the recovery price to an amount lower than the net cost entered, then carrying out, where applicable, the pertinent write-off.

c) Other intangible assets. This heading only includes computer applications that are valued at the purchase price and/or production cost for the ownership of computer programmes and applications, both those purchased from third parties and those produced by the Company itself, therefore the maintenance charges for the computer application would not appear.

d) Provisions and coverage for losses from deterioration. At the close of each fiscal year, or on the date deemed necessary, the value of the assets is analysed to determine whether there is any sign that they had undergone a loss through deterioration. If there is a sign, an estimate is made of the sum total recoverable for the said asset to determine, where applicable, the sum total of the write-off required. If this involves identifiable assets that do not generate cash flows independently, the capacity for recovery is estimated for the unit generating cash to which the asset belongs.

In the case of units generating cash to which the items of goodwill with an indefinite useful life have been assigned, the analysis of recovery capacity is carried out in a systematic fashion at the close of each fiscal year or under the circumstances deemed necessary in order to perform such an analysis.

The recoverable sum total is determined as the higher between the market value reduced by the cost required for its sale and the value of use, with the latter being understood to be the current value of the estimated future cash flows.

The losses through deterioration acknowledged in an asset in previous fiscal years are reverted when a change arises in the estimates regarding its recoverable amount by increasing the value of the asset with the limit of the book value that the asset would have had if the write-off had not been carried out. The reversion of the loss of value through deterioration is immediately acknowledged as income on the profit and loss account, except in the case of goodwill, for which deteriorations cannot be reverted.

e) Financial instruments.

1. Non-current and current financial assets. The following are entered under this heading:

1.1. Investments to be kept until their maturity. Investments are classified as being non-current when they are the ones that the Group intends to hold onto and is capable of holding onto until their maturity. These are entered at their amortised cost value.

1.2. Loans and accounts to be settled. These are entered, both in the long and short terms, at their amortised cost, corresponding to the cash handed over, less the repayments made for the principal. In certain cases, they include the interest accrued and not due at the close.

1.3. Deposits and guarantees. These are entered, both in the long and short terms, for the amounts actually paid over.

2. Cash and other equivalent liquid assets. This heading on the consolidated balance sheet records the cash available and in banks, sight deposits and other short-term investments with fast liquidity and which do not have any risk of changes in their value.

3. Financial liabilities. Loans, undertakings and similar debts are entered at the sum total received, net of the costs incurred in the transaction. Financial charges and transaction costs are entered on the profit and loss account according to the criterion for accrual based on the effective interest-rate method. The sum total accrued and not settled is entered as the higher amount to be paid.

Accounts payable are initially entered at market cost and then valued at the amortised value using the effective interest-rate method.

4. Compound financial instruments. The issue of bonds that may be exchanged for shares carried out by the Controlling Company during the fiscal year 2005 meets the necessary requirements set forth by the IFRS to be considered as “Capital instruments”. That is why the amount corresponding to the item of liability from the component of net worth, which represents the reasonable value of the option incorporated from this instrument (see Note 11), has been differentiated from the net amount received since the issue of the bonds.

f) Investments entered using the shareholding method. This heading enters the shareholding using this method that the Controlling Company holds in Petrolest, S.L. (see Note 8.2). The shareholding method consists of replacing the net book value for which the investment appears in the Controlling Company’s financial statements with the sum total corresponding to the percentage of equity of the Company in which the shareholding is held.

The profits/losses obtained by the associated company that correspond to the Group according to its shareholding are entered, net of their tax result, on the profit and loss account under the heading “Profit/loss from companies using the shareholding method”.

g) Non-current assets maintained for sale. Non-current assets kept for sale are entered at the lower amount between the book value and the reasonable value after deducting the costs required for carrying out the sale and are not depreciated.

Non-current assets are classed as kept for sale if their book value is expected to be recovered through their subsequent sale and not from their continued use as part of the performance of the Company's main activity. This condition is deemed to be met only when the sale is highly probable and the asset is available for immediate sale in its current state. Management must undertake to carry out the sale, which is likely to be deemed to be acknowledged as a completed sale within the term of one year from the date of the classification.

h) Stocks.

Raw materials and other supplies. These are valued at the cost price in accordance with the weighted average-price method in the cases of **La Seda de Barcelona, S.A., Industrias Químicas Asociadas LSB, S.L. (Single-member Company)** and **SLIR, S.L. (Single-member Company)** and with the FIFO (First In, First Out) method in the case of **Industrias Químicas Textiles, S.A. (Single-member Company)**, with the exception of spares, which are entered using the specific-identification method. The value correction for reversible losses is deducted from the amount obtained. The estimate for such losses is made at the close of the fiscal year when the market value of the raw materials is lower than their cost price.

Work in progress, half-finished and finished goods. They are valued by means of cost sounding per article and processes established for that purpose.

The production cost defined by the price list sounding is found by adding to the cost price of the raw materials and other consumable materials the costs directly attributable to the product, as well as the part that corresponds from the costs indirectly attributable thereto in so far that such costs correspond to the manufacturing process from the pertinent period.

The valuation of obsolete, defective or slow-moving products has been reduced to their possible realization value.

i) Trade debts and other accounts to be settled. Trade debts and other accounts to be settled are entered at their nominal value, with those balances that the Group deems difficult to recover being written off against the profits.

j) Shares in the Controlling Company. They appear valued at their cost price, with the pertinent restricted reserve being entered under the heading for "Equity" for the same amount, in accordance with Article 79.3. of the Revised Text of the Public Limited Companies Act (see Note 10.3).

These shares appear as from 1st January 2005 and applying IAS 32 and 39 thus reducing the net worth for the Group.

k) Undertakings with the staff.

External pensions fund (**La Seda de Barcelona, S.A.** and **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)**).

Monthly contributions are made to an external pensions plan in the mode of a fixed contribution:

- Staff from **La Seda de Barcelona, S.A.**: 2% of the gross salary, excluding extraordinary overtime.

- Staff from **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)**: percentages of the pension-related salary, i.e., basic salary plus time employed, which range between:

- 3.5%-10.5% as regards the Company's contribution.

- Up to a maximum of 3.5% as regards the contribution payable by the employee.

Internal pension fund

- Fixed staff:

In compliance with Act 30/1995 and Royal Decree. 1588/1999, **La Seda de Barcelona, S.A.** and **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)** on 23rd October, 2000 proceeded to outsource its undertakings with its fixed workers using the method of taking out insurance policies with the firm called Norton Life M.P.S., the pertinent liability of which is entered under the heading "Other financial liabilities" (see Note 12.2).

- Fixed staff at the industrial plant in Tarragona (**Industrias Químicas Asociadas LSB, S.L. (Single-member Company)**.

This includes the staff who appear on the payroll for the company stated as of the date of the close and who joined the latter prior to 31st December 1994.

Whilst the Company does not outsource it, the employees who are entitled to any of the benefits envisaged by the pensions plan are entitled to receive the full amount of the accumulated individual internal fund.

Its sum total is obtained from the pertinent actuarial study carried out by an independent expert, by means of individual capitalization. The yield for the fund is linked to the one that is obtained by the external pensions plan mentioned in the previous point, equivalent to 6.81% per year at 31st December 2005.

On 13th November 2002 a plan was approved to restore a balance with the transfer and outsourcing of the internal fund. The starting date for the transfer was 31st October 2002, with an interest rate of 4% being applied to the balance pending amortisation and which, at 31st December 2005, amounted to Euros 407,000. The time limit for the transfer was set at 10 years.

l) Acknowledgement of income and expenses. Income and expenses are attributed according to the criterion of accrual regardless of the time at which the monetary or financial flow deriving from them arose.

Nonetheless, following the principle of care, the Company only enters in its accounts the profits made on the close of the fiscal year, in so far that foreseeable risks and losses, which are still possible, are entered as soon as they are known.

The sales of goods and revenues from services provided are entered without including the amounts corresponding to the taxes that apply to these transactions, deducting as the lowest amount of the transaction all the discounts, included or not on invoices, that do not belong to fast payment. The latter are deemed to be financial charges.

The sums of the taxes applicable to the purchases of merchandise for resale and other goods for their subsequent resale, excluding Value Added Tax (VAT), are entered as the highest value of the goods or services acquired.

Discounts following the issue or reception, where applicable, of an invoice brought about by defects in quality, breach of time limits for delivery or other similar causes, as well as discounts for volume, are entered by differentiating between the sums from the sales or purchases of goods and the income or expenses from services, respectively.

As a result of that set forth in IAS 18 relating to the acknowledgement as income of the sales of goods, the Controlling Company for the Group has postponed the sale transaction with the deposit of the merchandise in the Group's own warehouses arranged during the fiscal year 2005, since it is deemed that La Seda de Barcelona, S.A. can influence the management of the goods sold and it has effective control over the latter.

ll) Tax situation. The expense for tax on earnings from the fiscal year is calculated by means of the sum of the expense for the current tax and the deferred tax. The expense for current tax is calculated, in each one of the consolidated companies, according to the profit/loss from the fiscal year with the differences being taken into account that might exist between the book profit/loss and the fiscal profit/loss, with the latter understood as the taxable base for the tax, as well as allowances and deductions from the payment of tax deemed to be the lower amount of the tax payment to be paid for Corporation Tax from the fiscal year in which profit is obtained, providing the taxable base for the tax turns out to be positive.

The assets and liabilities for deferred taxes come from the temporary differences defined as the sums envisaged that may be recovered or payable in the future and which are derived from the difference between the book value for the assets and liabilities and their taxable base. Said sums are entered by applying the tax rate to the temporary difference at which it is expected they will be recovered or settled. At the same time, the latter also come from the taxable bases pending compensation and from credits for tax deductions and allowances generated and not applied.

La Seda de Barcelona, S.A. and its companies which are owned directly or indirectly with at least 75% of the share capital (see Note 2 d)), were covered, except for the company located in the Basque Country Industrias Químicas Textiles, S.A. (Single-member Company), by the System for Consolidated Declaration forming part of the Consolidated Tax Group 236/03, with La Seda de Barcelona, S.A. being the Controlling Company.

m) Transactions in currencies other than the Euro. Transactions carried out in currencies other than the Euro are entered at the exchange rates in force at the time of the transaction. During the fiscal year, the differences that arise between the exchange rate entered and the one in force on
the date of settlement or payment are entered as financial profits/losses on the consolidated profits/losses account.

n) Classification of balances between current and non-current. In general, assets and liabilities are classified as current or non-current depending on the operating cycle, with the Group choosing to consider as current assets and liabilities all those with maturity date equal to or prior to twelve months counting from the date thereof, and as non-current those with a maturity date after the said period.

o) Per-share profit. Basic per-share profit is calculated as the ratio between net profit from the period attributable to the Controlling Company and average number of common shares for the latter in circulation during the said period, not including the average number of shares in the Controlling Company held by the Group.

To calculate diluted per-share profit, the increase in the weighted average number of shares in circulation will be issued as a result of conversion into common shares of the convertible bonds issued by the Group during the fiscal year 2005 (see Note 22).

p) Statement of cash flows. The following expressions are used in the statements of cash flows with the meanings that appear below:

- Cash flows: Cash incomes and outgoings or those of other equivalent means, with the latter being understood to be investments with a term of less than three months with fast liquidity and a low risk of change in their value.
- Operating activities: these are the activities that make up the main source of ordinary income for the Group, as well as other activities that cannot be classed as being for investment or financing.
- Investment activities: those for purchase, sale or disposal by other means of fixed assets and other investments not included in the cash at hand and its equivalents.
- Financing activities: activities that cause changes in the size and makeup of the net worth and the liabilities of a financial nature.

q) Financial derivatives at a reasonable value. The Group's activities are subject to different types of financial risks, mainly the interest rate risk.

With the aim of covering this risk, the Group has arranged various financial swap contracts , the book treatment of which consists of entering the element covered by its reasonable value, and the same for the coverage instrument, with the changes in value for both being entered at their net value on the consolidated profit and loss account.

The main coverage systems in force at 31st December 2005 in relation to this kind of financing are those relating to changes in the interest rate that ensures the existing debt at a fixed interest rate of 3.15%.

NOTE 5. TANGIBLE FIXED ASSETS

5.1. As stated in Note 4 a), **Industrias Químicas Asociadas LSB, S.L. (Single-member Company), La Seda Barcelona, S.A.** and **Industrias Químicas Textiles, S.A. (Single-member Company)** carried out a restatement of the value of their tangible fixed assets pursuant to different legal provisions, inter alia, the Royal Decree- 7/1996 of 7th June.

The accounts affected by the restatement pursuant to the Royal Decree-Act 7/1996 of 7th June and their effect at 31st December 2005 are as follow:

	(Thousands of Euros)		
	Increase	Accumulated Depreciation	Net Effect
Land and buildings	6,433	(2,651)	3,782
Technical plant and machinery	8,816	(7,952)	864
Other plant, tools and fittings	62	(62)	-
Other fixed assets	25	(25)	-
	15,336	(10,690)	4,646

The effect of the restatement on the amortisations in the period amounted to Euros 0.54 million. For the fiscal year 2006, this effect was estimated to be approximately Euros 0.48 million.

5.2. As a result of the application of the International Financial Reporting Standards, the Group has carried out the statement for the lands on which the different production units are located, for an overall sum total of Euros 55.38 million, with payment to the account for "Reserves for first application of IFRS".

5.3. Analysis of the movement during the fiscal year. Its composition and progress during the fiscal year ended at 31st December 2005 were as follows:

	(Thousands of Euros)								
		Movements in fiscal year 2005					Balance at 31.12.2005		
	Balance at 31.12. 2004	IFRS Application	Additions	Withdrawals	Transfers L	Transfers (A)	Cost	Accumulated Depreciation	Net Value
Land and buildings	117,069	-	4	(6)	1,967	-	119,034	(19,225)	99,809
Technical plant and machinery	372,172	5,292	49	(14,740)	16,499	-	379,272	(244,337)	134,935
Other plant, tools and fittings	2,975	-	-	(1)	15	-	2,989	(2,225)	764
Advance payments and tangible fixed assets for work in progress	15,838	1,004	15,370	(27)	-	(23,401)	8,784	-	8,784
Other fixed assets	6,206	-	-	-	147	-	6,353	(4,804)	1,549
	514,260	6,296	15,423	(14,774)	18,628	(23,401)	516,432	(270,591)	245,841

	(Thousands of Euros)						
		Movements in fiscal year 2005					
	Balance at 31.12. 2004	IFRS Application	Additions	Withdrawals	Transfers L	Transfers (A)	Balance at 31.12.2005
Accumulated depreciation Buildings	(18,356)	-	(869)	-	-	-	(19,225)
Accumulated depreciation Technical plant and machinery	(246,247)	(155)	(12,590)	14,655	-	-	(244,337)
Accumulated depreciation Other plant, tools and fittings	(2,141)	-	(84)	-	-	-	(2,225)
Accumulated depreciation Other fixed assets	(4,561)	-	(243)	-	-	-	(4.804)
	(271,305)	(155)	(13,786)	14,655	-	-	(270,591)

The charge to profits/losses for the present fiscal year by way of depreciation of the tangible fixed assets amounted to Euros 13.78 million.

5.4. Fully amortised assets. The sum total for the assets fully amortised at 31st December 2005 amounts to Euros 164.56 million and their breakdown is the following:

	(Thousands of Euros)
Buildings	3,802
Technical plant and machinery	155,189
Other plant, tools and fittings	1,627
Other fixed assets	3,937
	164,555

5.5. Assets covered by a guarantee. The sum total for assets covered by a guarantee at 31st December 2005 corresponds to the following breakdown (figures expressed in thousands of Euros):

Element of fixed assets	Type of charge	Sum total of the charge	Beneficiary
La Seda de Barcelona, S.A.	Mortgage	55,470	Mortgages with the institutions for the syndicated loan.
Estates with registration Nos. 3.954-N and 31.137-N and 28.653 located in El Prat de Llobregat (Barcelona), which includes lands, buildings and plant.	Mortgage	18,912	Mortgage payable to Tereftalatos Mexicanos, S.A. de C.V.
	Mortgage	13,224	Mortgage for maximum sums received from the Institut Català de Finances
	Mortgage	74,737	Mortgage payable to Tesorería General de la Seguridad Social (Social Security Department)
		162,343	
Industrias Químicas Asociadas LSB, S.L. (Single-menber Company)	Mortgage	2,740	Mortgage payable to the institutions for the syndicated loan (holder of the mortgage loan is La Seda de Barcelona, S.A.)
Estates with registration Nos. 4.315, 11.535, 11.537, 13.570 and 13.572, located in the municipal district of Tarragona, with a total area of 232.254,73 m^2.	Mortgage	27,666	Mortgage payable to the Agencia Estatal de la Administración Tributaria (State Tax Authorities).
	Total	**30,406**	
General total		**192,749**	

At the same time, at 31st December 2005, there was a mortgage on the estate number 8103 registered at the Land Register for Tolosa, under volume 1428, book 144, the property of **Industrias Químicas Textiles, S.A. (Single-member Company)**, with a maximum amount of Euros 46.92 million, as a guarantee for the postponement of debt with the Tesorería General de la Seguridad Social (Social Security Authorities), within the framework of an agreement for return of debt from **La Seda de Barcelona, S.A.** to the said Body.

5.6. The most significant transactions that took place in the fiscal year 2005 are described below:

Additions of tangible fixed assets

- Conversion of electrical equipment to comply with the regulations in force and renovation of the fire-detection equipment.
- New well for getting better-quality water, thus improving the environment and safety for the factory.
- New electrical control for the PTA crane, to make this equipment reliable, which is the one that ensures the entry of raw materials in the factory.
- Sundry investments for a lesser amount.

Investments from previous periods, not yet finished.

- Assembly of silencers and performance of improvements in the CSSP-2 plant. Investments have also been made to improve the CPU-2 plant.
- Due to the winding-up of the Joint Venture called La Seda de Barcelona-Courtaulds España, Central Energética, Joint Venture as per Act 18/82 of 26th May, described in Note 1, the Group's Controlling Company has taken over ten per cent of the undivided shareholding in Teín Química, S.A.U.
- Several investments have been made at the production centre in Tarragona for plant meant to cut CO^2 emissions.

• Lease-back transaction: This transaction consisted of obtaining financing by means of the sale to financial institutions of a plant for the post-condensation of granules in bottles, for an overall sum total of Euros 5.29 million plus the pertinent Value Added Tax. According to the criterion set forth in Note 4 a), this kind of transaction is entered under the heading for "Tangible fixed assets".

Removals of tangible fixed assets. During the fiscal year 2005 the main items removed from the accounts were the plants called RX I and II and benches numbers 3 and 4 for stretching fibres.

5.7. Analysis of the movement during the fiscal year 2004. Its breakdown and progress during the fiscal year closed on 31st December 2004 were the following:

	(Thousands of Euros)								
		Movements in fiscal year 2004					Balance at 31.12.2004		
	Balance at 31.12. 2003	IFRS Application	Additions	Withdrawals	Transfers L	Transfers (A)	Cost	Accumulated Depreciation	Net Value
Land and buildings	68,126	55,378	2,051	(8,775)	289	-	117,069	(18,356)	98,713
Technical plant and machinery	364,717	-	199	(827)	8,083	-	372,172	(246,247)	125,925
Other plant, tools and fittings	2,925	-	-	(14)	64	-	2,975	(2,141)	834
Advance payments and tangible fixed assets for work in progress	11,010	-	13,329	-	-	(8,501)	15,838	-	15,838
Other fixed assets	6,140	-	1	-	65	-	6,206	(4,561)	1,645
	452,918	55,378	15,580	(9,616)	8,501	(8,501)	514,260	(271,305)	242,955

	(Thousands of Euros)						
		Movements in fiscal year 2004					
	Balance at 31.12. 2003	IFRS Application	Additions	Withdrawals	Transfers L	Transfers (A)	Balance at 31.12.2004
Accumulated depreciation Buildings	(16,967)	-	(1,389)	-	-	-	(18,356)
Accumulated depreciation Technical plant and machinery	(233,432)	-	(13,087)	272	-	-	(246,247)
Accumulated depreciation Other plant, tools and fittings	(2,059)	-	(88)	6	-	-	(2,141)
Accumulated depreciation Other fixed assets	(4,224)	-	(337)	-	-	-	(4,561)
	(256,682)	-	(14,901)	278	-	-	(271,305)

5.8. The most significant transactions that took place in the fiscal year 2004 are described below:

Additions of tangible fixed assets: The main investments consisted of the purchase and commissioning of the CSSP-II plant, with Euros 2.637 million invested in the fiscal year, as well as purchases earmarked for the conversion of the CPU-II and the cut in CO^2 emissions.

At the same time, investments were made in the actions meant to increase productivity or changes and product enhancements, as well as for keeping the plant in optimum working order.

Removals of tangible fixed assets. During the fiscal year 2004 the sale of a plot of land belonging to La Seda de Barcelona, S.A. took place, which is located in Alcalá de Henares, as stated in the Land Register for that municipal district under Volume 3545, Book 73, Page 83, Estate No. 790, entry ten.

NOTE 6. GOODWILL

Analysis of the movement during the fiscal year. Its composition and progress during the fiscal year closed at 31st December 2005 were as follows:

	(Thousands of Euros)			
	Balance at 31.12. 2004	Increases	Wear in the fiscal year	Balance at 31.12.2005
Catalana de Polímers, S.A. (Single-member Company)	6,406	-	-	6,406
KD-IQA, S.L. (Single-member Company)	58	-	(58)	-
Celtiberica de Finanzas, S.L. (Single-member Company)	768	-	-	768
Proyectos Voltak, S.L. (Single-member Company)	669	-	-	669
Mendilau, S.L. (Single-member Company)	432	-	-	432
	8,333	-	(58)	8,275

NOTE 7. INTANGIBLE FIXED ASSETS

7.1. Analysis of the movement during the fiscal year. Their composition and progress during the fiscal year closed at 31st December 2005 were as follows:

	(Thousands of Euros)								
		Movements in fiscal year 2005					Balance at 31.12.2005		
					Transfers				
	Balance at 31.12. 2004	IFRS Application	Additions	Withdrawals	L	(A)	Cost	Accumulated Depreciation	Net Value
Computer applications	9,622	-	1,921	-	-	-	11,543	(3,357)	8,186
Advance payments and intangible fixed assets in progress	-	(1,004)	1,004	-	-	-	-	-	-
Assets under finance leases	-	(4,773)	-	-	4,773	-	-	-	-
	9,622	(5,777)	2,925	-	4,773	-	11,543	(3,357)	8,186

	(Thousands of Euros)						
		Movements in fiscal year 2005					
					Transfers		
	Balance at 31.12. 2004	IFRS Application	Additions	Withdrawals	L	(A)	Balance at 31.12. 2005
Accumulated depreciation Computer applications	(1,729)	-	(1,628)	-	-	-	(3,357)
Accumulated depreciation Assets under finance leases	-	155	(155)	-	-	-	-
	(1,729)	155	(1,783)	-	-	-	(3,357)

The additions in “Computer applications” during this fiscal year mainly correspond to those developed by the Group’s Controlling Company for the improvement of the financial management of **Industrias Químicas Asociadas LSB, S.L. (Single-member Company).**

The charge to profits/losses for the current fiscal year by way of allocation to the depreciation of intangible fixed assets amounted to Euros 1.78 million.

7.2. Analysis of the movement during the fiscal year 2004. Its breakdown and progress during the fiscal year closed on 31st December 2004 were the following:

	(Thousands of Euros)								
		Movements in fiscal year 2004					Balance at 31.12.2004		
	Balance at 31.12. 2003	IFRS Application	Additions	Withdrawals	Transfers L	Transfers (A)	Cost	Accumulated Depreciation	Net Value
Research & development expenses	4,229	(4,229)	-	-	-	-	-	-	-
Concessions, patents, licences, trademarks and similar	1,025	(1,025)	-	-	-	-	-	-	-
Computer applications	9,174	-	448	-	-	-	9,622	(1,729)	7,893
Other intangible fixed assets	3,285	(3,285)	-	-	-	-	-	-	-
	17,713	(8,539)	448	-	-	-	9,622	(1,729)	7,893

	(Thousands of Euros)						
		Movements in fiscal year 2004					
	Balance at 31.12. 2003	IFRS Application	Additions	Withdrawals	Transfers L	Transfers (A)	Balance at 31.12. 2004
Accumulated depreciation Research & development expenses	(603)	603	-	-	-	-	-
Accumulated depreciation Concessions, patents, licences, trademarks and similar	(927)	927	-	-	-	-	-
Accumulated depreciation Computer applications	(501)	-	(1,228)	-	-	-	(1,729)
Accumulated depreciation Other intangible fixed assets	(1,875)	1,875	-	-	-	-	-
	(3,906)	3,405	(1,228)	-	-	-	(1,729)

As a result of the application of the International Financial Reporting Standards the Group has written off, with a charge to the account for “Reserves for first application of the IFRS”, the intangible fixed assets entered under the headings “Research and development expenses”, “Concessions, patents, licences, trademarks and similar” and “Other intangible fixed assets”.

NOTE 8. INVESTMENTS

8.1. Analysis of the movement during the fiscal year. Its composition and progress during the fiscal year closed at 31st December 2005 were as follows:

	(Thousands of Euros)								
		Movements in fiscal year 2005							
							Transfers		
Long-term	Balance at 31.12. 2004	Modification Consolidation Scope	IFRS Application	Creation U.T.E - "Joint Venture" (*)	Increases	Reductions	L	(A)	Balance at 31.12.2005
Holdings entered using the share method	2,777	-	-	-	17	-	-	-	2,794
Holdings in Group excluded from the scope of the consolidation	1	(1)	-	-	-	-	-	-	-
Long-term stock	509	-	-	-	-	-	-	-	509
Other loans	7,030	-	-	4	156	(37)	-	(6,890)	263
Public Bodies in long-term	37,211	-	-	65	1,342	(4,309)	-	-	34,309
Guarantee deposits and deposits set up in long-term	38	-	-	178	309	-	-	-	525
	47,566	(1)	-	247	1,824	(4,346)	-	(6,890)	38,400

(*) See Note 1

Long-term

8.2. Shareholdings entered using the shareholding method.

Petrolest, S.L. The shareholdings received, equivalent to 49% of the share capital, correspond to the valuation made for the contribution to the Company's net worth from the branch of activity consisting of the distribution, logistics, loading, unloading and transportation of the whole range of products that **La Seda de Barcelona, S.A.**, manufactures and trades, made up by a number of tangible fixed assets that form an autonomous operating unit and the sum total of which amounts to Euros 2.79 million.

8.3. Non-current financial assets. Their breakdown at the close of the fiscal year was as follows:

Company	(Thousands of Euros)	Shareholding Direct
Long-term stock portfolio investment		
Materiales Industriales, S.A.:		
-Shareholding in **La Seda de Barcelona, S.A.**	2	11.10%
-Shareholding in **d'Industrias Químicas Textiles, S.A. (Single-member Company)**	1	11.11%
Aguas Industriales de Tarragona (AITASA)	100	11.00%
Consorci d'Aigües de Tarragona	51	2.40%
Emisario de Morell	180	5.00%
Other stocks	175	
	509	
Other loans	263	
Deposits and guarantees set up in the long-term	525	
	1,297	

8.4. Long-term debts to Public Bodies. The following are entered under this heading: fiscal credits for Corporation Tax to be compensated with future taxable bases, taxes paid in advance deriving from tax deductions pending application, as well as temporary differences envisaged to be recoverable in the future and which derive from the difference between the book value for the assets and liabilities and their tax base.

Analysis of the movement during the fiscal year. The movements recorded during the fiscal year ended on 31st December 2005 and 2004 were the following:

Fiscal year 2005

	(Milers d'euros)			
	Crèdit fiscal per pèrdues que cal compensar	impost anticipat	Deduccions pendents aplicació	Total
Balance at 31.12.2004	25,920	10,531	760	37,211
Timing differences for assets	-	(3,575)	-	(3,575)
Inclusion of Joint Venture	-	65	-	65
Fiscal credit to be compensated generated in the period	1,323	-	19	1,342
Fiscal credit to be compensated applied in the period	(734)	-	-	(734)
Balance at 31.12.2005	26,509	7,021	779	34,309

Fiscal year 2004

	(Thousands of Euros)			
	Fiscal credit for losses compensation	Tax Paid in advance	Deductions pending application	Total
Balance at 31.12.2003	22,741	-	710	23,451
Application of IFRS	3,281	10,531	50	13,862
Fiscal credit to be compensated applied in the period	(102)	-	-	(102)
Balance at 31.12.2004	25,920	10,531	760	37,211

8.5. Investments covered by a guarantee. At the close of the fiscal year, 100% of the shares in **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)** were pledged in favour of a supplier of raw materials.

8.6. Analysis of the movement during the fiscal year 2004. Its breakdown and progress during the fiscal year closed on 31st December 2004 were the following:

	(Thousands of Euros)						
		Movements in fiscal year 2004					
	Balance at	IFRS			Transfers		Balance at
	31.12. 2003	Application	Increases	Reductions	L	(A)	31.12.2004
Long-term							
Holdings placed on a par	2,751	-	26	-	-	-	2,777
Holdings in Group undertakings excluded fron the scope of the consolidation	1	-	-	-	-	-	1
Long-term stock portfolio investment	512	-	-	(3)	-	-	509
Other loans	7,867	-	28	(645)	-	(220)	7,030
Long- term debts to Public Bodies	23,451	13,862	-	(102)	-	-	37,211
Guarantee deposits and deposits set up in the long-term	36	-	2	-	-	-	38
	34,618	13,862	56	(750)	-	(220)	47,566

NOTE 9. STOCKS

No stock items appear in the enclosed annual accounts on the assets side for a fixed sum.

At 31st December 2005 the Company had set up, by way of a guarantee for operations, a store of 2,000 tonnes of glycol with one supplier.

As a result of that set forth in IAS 18 relating to the acknowledgement as income of the sales of goods, the Controlling Company for the Group has postponed, with regards to its individual accounts, a sales transaction with the deposit of the merchandise in the Group's own warehouses arranged during the fiscal year 2005, since it is deemed that La Seda de Barcelona, S.A. can influence the management of the goods sold and it has effective control over the latter. This reversal meant an increase in the value of the stocks for the Controlling Company with regard to its individual accounts to a sum total of Euros 23.85 million.

NOTE 10. NET WORTH

10.1. Corporate capital. On 27th June 2003, the Annual General Meeting of Shareholders of **La Seda de Barcelona, S.A.** authorised the Company's Board so that within a term of one year it could carry out a share capital increase of up to a maximum of Euros 30,050,600 by means of the issue and sale of 10,000,000 new common shares, each one with a face value of Euros 3.005060.

On 1st April 2004, the Board of Directors and using the authorisation granted to it by the AGM, agreed to increase the full corporate share capital by Euros 27,700,643.08, by means of the issue and sale of 9,218,000 shares issued at par, each one with a face value of Euros 3.005060, with a share in the company profits as from 1st January 2004. This share increase was subscribed by means of a cash outlay of Euros 1.63 per share that was supported by Euros 1.37506 per share charged to the freely available reserves, and with the award to the shareholders of a preferential subscription right in a proportion of ten new shares for every thirty-seven old shares (10 for 37).

Once both subscription periods ended, on 16th July and 26th July 2004, the whole of the share increase was covered, with a figure for the subscribed share capital of Euros 27,700,643.08, divided into 9,218,000 shares, each one with a face value of Euros 3.005060, by means of a cash outlay from the shareholders of Euros 15,025,340.00 plus Euros 12,675,303.08 charged to the Company's freely available reserves.

On 27th June 2005, the Ordinary and Extraordinary General Meeting of Shareholders unanimously approved, passed by the shareholders with voting rights present and represented, a reduction in the share capital for a sum total of Euros 87,107,802.50 by means of the reduction of the face value of each one of the shares that make up the Company share capital and which was finally set at Euro 1.00 per share, with the pertinent restricted reserve being set aside for this purpose in accordance with Article 167.3. of the Revised Text of the Public Limited Companies Act.

According to the decision passed unanimously by the Ordinary and Extraordinary General Meeting of Shareholders held on 21st October 2005 and the agreement for implementation passed on that same day by the Board of Directors, the increase of the share capital for **La Seda de Barcelona, S.A.** was passed for a sum total of Euros 72,693,750.00 by means of the issue and distribution of 58,155,000 new common shares, each one with a face value of Euros 1.00 with an issue premium of Euros 0.25 per share, which will have a share in the Company profits as from 1st January 2005. The preferential subscription right for the new shares in a proportion of 5 new shares for every 7 old shares/marketable securities is acknowledged in this share increase.

Once the first subscription period ended, on 19th November 2005, the share capital increase was fully covered, with a figure for the subscribed share capital of Euros 58,155,000 euros, divided into 58,155,000 shares, each one with a face value of Euros 1.00 plus an issue premium of Euros 0.25 per share for an overall sum total of Euros 14,538,750 euros, by means of a cash outlay by the shareholders of Euros 72,693,750.

The final figure for the share capital after the share capital increase stood at Euros 101,598,982.00, divided into 101,598,982 common shares, fully subscribed and paid up, each one with a face value of Euros 1.00, belonging to the same, single series and represented by means of account entries.

Holdings in the Company share capital equal to or over 3%, excluding the bought-back shares (see Note 10.3), correspond to the following breakdown:

Shareholder	% Shareholding
Imatosgil Investimentos SPGS, S.A.	12.77
Matrust, S.L.	5.01
Invercartera, S.A.	4.92

10.2. Issue premium. As regards this sum total, the Revised Text of the Public Limited Companies Act expressly allows the use thereof for increasing the share capital and does not establish any restriction as regards to its availability.

10.3. Reserves.

Legal reserve. In accordance with Article 214 of the Revised Text of the Public Limited Companies Act, the said reserve must be endowed with 10% of the profits from the fiscal year, until the fund set up for the reserve reaches 20% of the share capital paid up. The legal reserve may be used to increase the share capital to the extent that its balance exceeds 10% of the share capital already increased. Except for that purpose and as long as it does not exceed 20% of the share capital, this reserve may only be used to compensate for losses and as long as there are no other sufficient reserves available for this purpose.

As of 31st December 2005, the sum total for the legal reserve did not cover 20% of the share capital.

Reserves for own shares. The Company, pursuant to Article 79.3. of the Revised Text of the Public Limited Companies Act, proceeded to endow the restricted reserve corresponding to the cost price of its own shares held by the latter.

The own shares held by the Controlling Company at the date of the close of the fiscal year represent an unsubstantial percentage of the share capital (0.10%). The total number of own shares held directly by the Controlling Company amounts to 103,932 with an average cost price of Euros 2.15/share. The stock market quotation for the Company's shares at the close of the fiscal year was Euros 2.14/share.

Reserve for depreciated capital. In accordance with Article 167.3. of the Revised Text of the Public Limited Companies Act, the Company proceeded to endow a reserve for the face value of its own shares depreciated in 1996 (Euros 6.06 million) and which were acquired by the Company in the said fiscal year for free.

During the fiscal year 2005 and as a result of the reduction in share capital approved by the Ordinary and Extraordinary General Meeting of Shareholders held on 27th June 2005 (see Note 10.1), the Company, pursuant to the article mentioned in the preceding paragraph, endowed a reserve for a sum total of Euros 87.11 million as a result of the reduction in the face value of each one of the shares that make up the Company share capital and which finally stood at Euros 1.00 per share.

The endowed reserve may only be used with the same requirements as those demanded for the reduction of the share capital.

Reserve for assignment. As a result of the takeover by the Company of **Hispano Química, S.A. (Single-member Company)** and **Viscoseda Barcelona, S.L. (Single-member Company)** carried out on 14th December 2001, a reserve for assignment was set up for the difference between the assets and liabilities provided by the companies that had been taken over.

Reserve for merger. The said sum total is entered as a result of the merger process described in Note 1 above.

Reserves for initial application of IFRS. As a result of the first application of the IFRS in the Group's financial statements at 1st January 2004 certain assets and liabilities appeared, which are explained in Note 27, the effect of which on the net worth is acknowledged in this heading.

Reserves in companies consolidated by global integration and by the shareholding method. The breakdown for undertakings in this heading at 31st December 2005 and 2004 is the following:

Group Companies	(Thousands of Euros)	
	2005	2004
Industrias Químicas Asociadas LSB, S.L., (Single-member Company)	3,291	198
Catalana de Polímers, S.A., (Single-member Company)	-	(14,132)
Celtibérica de Finanzas, S.L. (Single-member Company)	-	(1,293)
Proyectos Voltak, S.L. (Single-member Company)	-	(1,130)
Mendilau, S.L. (Single-member Company)	-	(735)
KD-IQA, S.L. (Single-member Company)	-	(1,081)
Industrias Químicas Textiles, S.A. (Single-member Company)	6,032	7,190
SLIR, S.L. (Single-member Company)	(215)	(240)
CARB-IQA de Tarragona, S.L.	11	9
Remaining Companies	(1)	(16)
	9,118	(11,230)
Associated Companies		
Petrolest, S.L.	34	8

10.4. Minority interests. The balance included in this heading on the enclosed consolidated balance sheet at 31st December 2005 shows the value of the holding of the minority shareholders in the Consolidated Companies. Moreover, the balance shown on the enclosed profit and loss account under the heading “Profits attributed to external shareholders” represents the shareholding for these minority shareholders.

The breakdown of the interests belonging to the external shareholders in those Subsidiary Companies that are consolidated using the global integration method in which the ownership is shared with third parties is the following:

	(Thousands of Euros)							
					Breakdown at 31st December 2005			
Company	Balance at 31.12. 2004	Other adjustments	Profit/loss attributed to the minority	Balance at 31.12. 2005	Capital	Reserves	Profit/loss	Total
CARB-IQA de Tarragona, S.L.	637	(157)	2	482	469	11	2	482
	637	(157)	2	482	469	11	2	482

NOTE 11. ISSUE OF DEBENTURE LOANS AND OTHER MARKETABLE SECURITIES

On 27th June 2005, the Company Board of Directors, using the authorisation granted by the AGM of Shareholders on the same date and pursuant to Article 153.1 a) of the Public Limited Companies Act, agreed to an issue of convertible securities for a sum total of Euros 47,468,750.00, by means of the issue of 37,975,000 convertible securities, each one of them with a face value of Euros 1.25.

The conversion of the securities issued shall be carried out in the initial period at a fixed rate of Euros 1.25, i.e., a face value of Euros 1.00 plus an issue premium of Euros 0.25 per share and in the ordinary periods for conversion, as well as in the exceptional ones, at a variable rate equal to 90% of the average quotation value of the common shares in the Company in the 65 trading sessions prior to the date of the start for each ordinary conversion period.

The securities issued accrue a fixed nominal interest of 5% payable half-yearly, as from the date of the outlay (11th August 2005) until the amortisation date (11th August 2010) or, where applicable, from the conversion into Company shares.

This issue meets the requirements required by the IFRS in order to be considered to be "Capital instruments". That is why the amount corresponding to the item of liability from the component of net worth, for a value of Euros 1.86 million, which represents the reasonable value of the option incorporated by this instrument, has been differentiated from the net amount received since the issue of the bonds.

The amount shown on the balance sheet at 31st December 2005 corresponds to the current net value of the future payments that will be generated, restated at the effective interest rate.

NOTE 12. DEBT FINANCED

12.1. Debts with financial institutions. The breakdown for this heading at 31st December 2005 was the following:

	(Thousands of Euros)			
	Credit Drawn		Limit (1)	
Type of transaction	Short-term	Long-term	Granted	Available
Loans	4,424	50,686	-	-
Lease	1,226	3,318		-
Credits	1,184	139	1,550	
Discounted bills	41,525	-	42,780	1,255
	48,359	54,143	44,330	1,255

(1) This corresponds to short-term transactions.

All of the transactions described are referenced practically in full to the EURIBOR.

The maturity terms for the long-term debt correspond to the following breakdown:

	(Thousands of Euros)					
	2007	2008	2009	2010	2011 and following	Totals
Loans	7,225	13,181	15,275	9,910	5,095	50,686
Lease	1,283	1,341	694	-	-	3,318
Credits	139	-	-	-	-	139
	8,647	14,522	15,969	9,910	5,095	54,143

In the item for loans, the most representative transactions arranged during the fiscal year 2005 in the Group consisted of the assignment by different financial institutions of a syndicated loan for a sum total of Euros 46.2 million and a loan granted by the Institut Català de Finances for Euros 13.2 million, the maturity terms for which are for 5 and 7 years, respectively, which was ratified in a contract on 26th May 2005. At the same time, the balance includes a transaction for financing with a financial institution for a sum total of Euros 5 million and for a period of 5 years, formalized by means of a SWAP contract that guarantees a maximum interest rate of 3.5%.

As a guarantee for the repayment of certain transactions included in the preceding section there are certain tangible fixed assets and investments covered by guarantees (see Notes 5.5. and 8.5.).

At the close of the fiscal year the sum total of the financial charges accrued and not due amounted to Euros 0.57 million.

12.2. Other financial liabilities. The breakdown for this heading at 31st December 2005 was the following:

	(Thousands of Euros)	
	Short-term	Long-term
Norton Life M.P.S.	720	3,286
Postponement of debt with Public Bodies	10,202	53,364
Indemnities	4,048	3,146
Suppliers of fixed assets	-	628
Loan from Intercontinental Química, S,A,	762	8,847
Undertakings with the staff	61	346
Others	-	69
	15,793	69,686

The most significant aspects as regards this heading are the following:

- Postponement of debt with Public Bodies. Its breakdown at 31st December 2005 was the following:

	(Thousands of Euros)								
	Maint Debt			Interest charges and penalties for late payment			Total Debt		
Debt Financed	Short-term	Long-term	Total	Short-term	Long-term	Total	Short-term	Long-term	Total
Value added Tax	1,152	1,270	2,422	438	924	1,362	1,590	2,194	3,784
Social Security	4,304	41,261	45,565	-	-	-	4,304	41,261	45,565
Personal Income Tax	1,798	6,134	7,932	634	3,775	4,409	2,432	9,909	12,341
Tax on electricity	1,677	-	1,677	-	-	-	1,677	-	1,677
Municipal taxes	162	-	162	37	-	37	199	-	199
	9,093	48,665	57,758	1,109	4,699	5,808	10,202	53,364	63,566

The maturity terms for the long-term debt with Public Bodies, in accordance with the different agreements reached, are distributed as follows:

	(Thousands of Euros)					
	2007	2008	2009	2010	2011 and following	Totals
Inland Revenue	4,252	7,851	-	-	-	12,103
Social Security	4,494	4,655	4,841	5,035	22,236	41,261
	8,746	12,506	4,841	5,035	22,236	53,364

- **Préstamo Intercontinental Química, S.A.** On 30th June 2004 **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)** signed an agreement with the Company **Intercontinental Química, S.A.** for acknowledging debt whereby the Company, by means of the assignment of debt by the Group Company **Catalana de Polímers, S.A. (Single-member Company)**, promised to convert the latter into a share loan amounting to Euros 10 million, which will be paid off in a maximum time limit of 7 years, accruing variable annual interest that will be calculated according to the turnover for **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)**. For the period ended on 31st December 2005 the rate applied was 4.36%.

- **Norton Life M.P.S.** This corresponds to the undertakings acquired with the said insurance firm as a result of the outsourcing of the Company pension funds carried out during the fiscal year 2000.

- **Indemnities.** These correspond to the indemnity payments assumed by the Company as a result of the overall transfer of assets and liabilities from **Hispano Química, S.A. (Single-member Company)** and **Viscoseda Barcelona S.L. (Single-member Company)** and from the restructuring process carried out by the Group, the latter generated between 2000 and 2005.

The maturity terms for the rest of the long-term debt are distributed as per the following breakdown:

	(Thousands of Euros)					
	2007	2008	2009	2010	2011 and following	Total
Norton Life M.P.S.	767	818	872	829	-	3,286
Compensations	2,456	452	50	49	139	3,146
Suppliers of fixed assets	628	-	-	-	-	628
Undertakings with the staff	52	54	53	60	127	346
Intercontinental Química, S.A.	614	641	1,669	1,742	4,181	8,847
Others	-	-	-	-	69	69
	4,517	1,965	2,644	2,680	4,516	16,322

NOTE 13. OTHER CURRENT LIABILITIES

On the close of the fiscal year, its breakdown was the following:

	(Thousands of Euros)
Current debt with Public Bodies	9,613
Wages for staff pending payment	1,432
Suppliers of fixed assets	8,439
Others	4
	19,488

NOTE 14. TAX SITUATION

In the fiscal year ended on 31st December 2005 **La Seda de Barcelona, S.A.** and its companies owned directly or indirectly with at least 75% of their share capital (see Note 2 d)), were covered by the System for Consolidated Statements through forming part of the Consolidated Group 236/03, with **La Seda de Barcelona, S.A.** being the Controlling Company.

The Companies that make up the Group covered by the said Tax System are:

- La Seda de Barcelona, S.A (which includes Catalana de Polímers, S.A. (Single-member Company), KD-IQA, S.L.(Single-member Company), Celtibérica de Finanzas, S.L. (Single-member Company), Mendilau, S.L. (Single-member Company), Proyectos Voltak, S.L. (Single-member Company), Iberseda, S.L. (Single-member Company), taken over by means of a merger approved by the Extraordinary General Meeting of Shareholders held on 29th December 2004 and still pending registration at the Companies Register).

- SLIR, S.L. (Single-member Company)

- Industrias Químicas Asociadas LSB, S.L. (Single-member Company)

- Fibracat Europa, S.L. (Single-member Company)

Application of the Consolidated Tax System means that the individual credits and debits for Corporation Tax are included within the Controlling Company **(La Seda de Barcelona, S.A.)**, hence the companies have to pay over to **La Seda de Barcelona, S.A.** the settlement for this tax. The controlled companies not included in the said Consolidated Group pay tax individually and directly to the Tax Authorities.

14.1. Reconciliation of the book profit/loss with the taxable base for Corporation Tax. The following chart shows the conciliation between the result of applying the general tax rate in force in Spain to the consolidated book profit/loss calculated according to the International Financial Reporting Standards and the charge for tax on earnings entered in the fiscal years 2005 and 2004.

	(Thousands of Euros)	
	2005	2004
• Consolidated pre-tax profit/loss	**8,799**	**125**
• Permanent differences	1,615	(833)
• Adjusted profit/loss	10,414	(708)
Tax rate	35%	35%
• Profit/loss adjusted by the tax rate	3,645	(248)
• Effect of applying different tax rate	80	55
• Deductions and allowances	(149)	(137)
• Compensation for taxable bases	(15)	(9)
• Adjustments for application of IFRS	(772)	1,172
• Adjustments to the profit/loss from the previous fiscal year	(107)	(101)
• Tax accrued	**2,682**	**732**

14.2. Assets and liabilities for deferred taxes. The following chart shows the source and sum total of the assets and liabilities for deferred taxes as entered in the accounts in the fiscal years 2005 and 2004 in thousands of Euros.

Assets for deferred taxes with source in:	(Thousands of Euros)	
	31.12.2005	31.12.2004
• Tax credits for the Group	26,509	25,920
• Deductions and allowances pending application	779	760
• Application of IFRS	**6,956**	**10,531**
Preliminary expenses	1,890	946
Tangible fixed assets	1,190	1,567
Deferred expenses	918	8,018
Accounts to be settled and others	2,958	-
• Others	65	-
	34,309	**37,211**

Liabilities for deferred taxes with source in:	(Thousands of Euros)	
	31.12.2005	31.12.2004
• For transactions within the Group	973	1,181
• Accelerated depreciation	17	20
• Application of IFRS	**19,495**	**19,538**
Restatement for land	19,382	19,382
Restatement for liabilities	88	156
Application of lease-back	25	-
• Exemption for reinvestment	10	12
	20,495	**20,751**

The assets and liabilities entered with source in 2005 were entered in the accounts directly with charge or payment to the profit and loss account. In the balance at 31st December 2004, the assets and liabilities were included for deferred taxes resulting from the adjustments deriving from the first application of the International Financial Reporting Standards which were entered in the accounting process in accounts for net worth.

14.3. As set forth by the legislation in force, taxes cannot be deemed to have been finally settled until the declarations presented have been inspected by the Tax Authorities, or the prescription period of four years has elapsed. On 28th January 2001 the Inland Revenue National Office for Inspection issued a certificate for having checked and found to be correct in relation to **La Seda de Barcelona, S.A.**, with regards to the Corporation Tax corresponding to the fiscal years from 1994 to 1997, both inclusive, and with regards to Value Added Tax and Personal Income Tax corresponding to the fiscal years 1995 to 1998, both inclusive. The sum total for the certificates amounted to Euros 0.19 million, a sum that was provided for in the accounts in the fiscal year 1999. Furthermore, as a result of the said inspection, the taxable bases pending compensation were cut by Euros 1.5 million, which meant a tax adjustment to the fiscal credit to be compensated of Euros 0.52 million, which was also entered in the fiscal year 1999. For the rest of the companies that make up the scope for consolidation, at 31st December 2005 they have open for inspection all the main taxes applicable to them since the fiscal year 2002 (2001 for Corporation Tax), or otherwise, from the date of their formation, except for the company taken over by the Controlling Company **Catalana de Polímers, S.A. (Single-member Company)** (see Note 1) which has its accounts open for inspection for Corporation Tax for the fiscal years from 2000 to 2004, both inclusive, and for the rest of the main taxes applicable to it the period between June 2001 and December 2005, both inclusive, as a result of the inspection work started by the Inland Revenue during the fiscal year 2005, in relation to the Corporation Tax from the fiscal years 2000, 2001 and 2002, Value Added Tax and Personal Income Tax for the period included between June 2001 and December 2004 and the Annual Declarations of Transactions with Third Parties from the fiscal periods 2001, 2002, 2003 and 2004. Afterwards the said inspection work was extended to the Annual Summary for Personal Income Tax for the fiscal years 2001, 2002, 2003 and 2004.

In relation to the fiscal years that have not prescribed, the Company Administrators do not expect ,in the event of an inspection, any extra sizeable liabilities to arise.

14.4. The Taxable Bases payable by the companies belonging to the Fiscal Group, which are pending payment to the Tax Authorities, are listed in detail below:

Fiscal year that is the source of the compensation	(Thousands of Euros)										
	31.12.1997			31.12.1998		31.12.1999			31.12.2000		
La Seda de Barcelona, S.A.	Balance before tax check	Effect of the tax check	Balance after tax check	Fiscal year application	Final balance	Fiscal year application	Fiscal year additions	Final balance	Fiscal year application	Fiscal year additions	Final balance
1991	8,722	(1,380)	7,342	(7,342)	-	-	-	-	-	-	-
1992	42,772	-	42,772	(3,281)	39,491	(7,950)	-	31,541	(4,292)	-	27,249
1993	7,162	-	7,162	-	7,162	-	-	7,162	-	-	7,162
1996	13,571	(118)	13,453	(625)	12,828	-	-	12,828	(754)	-	12,074
1197	5,341	-	5,341	-	5,341	-	-	5,341	-	-	5,341
1998	-	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	13,754	13,754	-	-	13,754
2000	-	-	-	-	-	-	-	-	-	1,063	1,063
2001	-	-	-	-	-	-	-	-	-	-	-
2002	-	-	-	-	-	-	-	-	-	-	-
2003	-	-	-	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-	-	-	-
	77,568	(1,498)	76,070	(11,248)	64,822	(7,950)	13,754	70,626	(5,046)	1,063	66,643
SLIR, S.L. (Single-member Company)											
1995-1998	-	-	-	-	1,735	-	-	1,735	-	-	1,735
1999	-	-	-	-	-	-	61	61	-	-	61
2000	-	-	-	-	-	-	-	-	-	549	549
2001	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	1,735	-	61	1,796	-	549	2,345
Inds. Quimicas Asociadas LSB, S.L. (Single-member Company)											
2003	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
Fibracat Europa, S.L. (Single-member Company)											
2004	-	-	-	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
	77,568	(1,498)	76,070	(11,248)	66,557	(7,950)	13,815	72,422	(5,046)	1,612	68,988

The Taxable Bases payable by the companies that do not belong to the Fiscal Group, which are pending payment to the Tax Authorities, are listed in detail below:

Indus. Quimicas Textiles, S.A. (Single-member Company)											
2001	-	-	-	-	-	-	-	-	-	-	-
2003	-	-	-	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
	77,568	(1,498)	76,070	(11,248)	66,557	(7,950)	13,815	72,422	(5,046)	1,612	68,988

Fiscal year that is the source of the compensation	(Thousands of Euros)										
	31.12.2001			31.12.2002			31.12.2003				
	Fiscal year additions	Fiscal year application	Final balance	Fiscal year application	Fiscal year additions	Final balance	individual application	Fiscal group application	individual additions	Fiscal group additions	Final balance
La Seda de Barcelona, S.A.											
1991	-	-	-	-	-	-	-	-	-	-	-
1992	-	(3,004)	24,245	(3,276)	-	20,969	(3,169)	-	-	-	17,800
1993	-	-	7,162	-	-	7,162	-	-	-	-	7,162
1996	-	(885)	11,189	(872)	-	10,317	(966)	-	-	-	9,351
1197	11,847	-	17,188	-	-	17,188	-	-	-	-	17,188
1998	15,167	-	15,167	-	-	15,167	-	-	-	-	15,167
1999	6,084	-	19,838	-	-	19,838	-	-	-	-	19,838
2000	2,622	-	3,685	(5)	-	3,680	(6)	-	-	-	3,674
2001	1,530	-	1,530	-	-	1,530	-	-	-	-	1,530
2002	-	-	-	-	15	15	-	-	-	-	15
2003	-	-	-	-	-	-	-	-	-	1	1
2004	-	-	-	-	-	-	-	-	-	-	-
	37,250	(3,889)	100,004	(4,153)	15	95,866	(4,141)	-	-	1	91,726
SLIR, S.L. (Single-member Company)											
1995-1998	-	-	1,735	-	-	1,735	(121)	-	-	-	1,614
1999	-	-	61	-	-	61	-	-	-	-	61
2000	-	-	549	-	-	549	-	-	-	-	549
2001	569	-	569	-	-	569	-	-	-	-	569
	569	-	2,914	-	-	2,914	(121)	-	-	-	2,793
Inds. Quimicas Asociadas LSB, S.L. (Single-member Company)											
2003	-	-	-	-	-	-	-	-	-	5,290	5.290
	-	-	-	-	-	-	-	-	-	5,290	5.290
Fibracat Europa, S.L. (Single-member Company)											
2004	-	-	-	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
	37,819	(3,889)	102,918	(4,153)	15	98,780	(4,262)	-	-	5,291	99,809

(*) Additions through assignment

The Taxable Bases payable by the companies that do not belong to the Fiscal Group, which are pending payment to the Tax Authorities, are listed in detail below:

Indus. Quimicas Textiles, S.A. (Single-member Company)											
2001	266	-	266	(266)	-	-	-	-	-	-	-
2003	-	-	-	-	-	-	-	-	2,459	-	2,459
2004	-	-	-	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-	-	-	-
	266	-	266	(266)	-	-	-	-	2,459	-	2,459
	38,085	(3,889)	103,184	(4,419)	15	98,780	(4,262)	-	2,459	5,291	102,268

Fiscal year that is the source of the compensation	(Thousands of Euros)									
	31.12.2004					31.12.2005				
La Seda de Barcelona, S.A.	individual application	Fiscal group application	individual additions	Fiscal group additions	Final balance	individual application	Fiscal group application	individual additions	Fiscal group additions	Final balance
1991	-	-	-	-	-	-	-	-	-	-
1992	-	-	-	-	17,800	(363)	-	-	-	17,437
1993	-	-	-	-	7,162	-	-	-	-	7,162
1996	-	-	-	-	9,351	-	-	-	-	9,351
1197	-	-	-	-	17,188	-	-	-	-	17,188
1998	-	-	-	-	15,167	-	-	-	-	15,167
1999	-	-	-	-	19,838	-	-	-	-	19,838
2000	-	-	-	-	3,674	-	-	-	-	3,674
2001	-	-	-	-	1,530	-	-	-	-	1,530
2002	-	-	-	-	15	-	-	-	-	15
2003	-	-	-	-	1	-	-	-	-	1
2004	-	-	-	1,356	1,356	-	-	-	-	1,356
	-	-	-	1,356	93,082	(363)	-	-	-	92,719
SLIR, S.L. (Single-member Company)										
1995-1998	(25)	-	-	-	1,589	(42)	-	-	-	1,547
1999	-	-	-	-	61	-	-	-	-	61
2000	-	-	-	-	549	-	-	-	-	549
2001	-	-	-	-	569	-	-	-	-	569
	(25)	-	-	-	2,768	(42)	-	-	-	2,726
Inds. Quimicas Asociadas LSB, S.L. (Single-member Company)										
2003	-	(3,411)	-	-	1,879	-	(1,664)	-	-	215
	-	(3,411)	-	-	1,879	-	(1,664)	-	-	215
Fibracat Europa, S.L. (Single-member Company)										
2004	-	-	-	1	1	-	-	-	-	1
2005	-	-	-	-	-	-	-	-	-	-
	-	-	-	1	1	-	-	-	-	1
	(25)	(3,411)	-	1,357	97,730	(405)	(1,664)	-	-	95,661

The Taxable Bases payable by the companies that do not belong to the Fiscal Group, which are pending payment to the Tax Authorities, are listed in detail below:

Indus. Quimicas Textiles, S.A. (Single-member Company)										
2001	-	-	-	-	-	-	-	-	-	-
2003	-	-	-	-	2,459	-	-	-	-	2,459
2004	-	-	2,201	-	2,201	-	-	-	-	2,201
2005	-	-	-	-	-	-	-	3,333	-	3,333
	-	-	2,201	-	4,660	-	-	3,333	-	7,993
	(25)	(3,411)	2,201	1,357	102,390	(405)	(1,664)	3,333	-	103,654

14.5. According to the merger deed registered at the Companies Register on 16th June 2005, the companies involved in the latter recorded their intent to be covered by the system of fiscal neutrality envisaged in Chapter VIII, under Heading VII, of Legislative Royal Decree 4/2004 of 5th March, whereby the Revised Text of the Corporation Tax Act was passed.

The breakdown by purchase date of the assets transferred that are liable to be amortised that have been included in the accounts for the Controlling Company is the following:

	Purchase Dates
Preliminary expenses	2000 -2001
Research & development expenses	2000, 2001 and 2003
Concessions, patents and licences	2002
Computer applications	2001 and 2003
Buildings	1961 - 2003
Technical plant and machinery	1987 - 2003
Other plant, tools and fittings	1987 - 2001
Other fixed assets	1996 - 2003

The latest balance sheets closed corresponding to the companies transferring their assets which take part in the merger process described in Note 1 are the following:

	Catalana de Polímers,S.A.(*)	Celtiberica de Finanzas, S.L. (*)	Proyectos Voltak, S.L. (*)	Mendilau, S.L. (*)	KD-IQA, S.L. (*)	Iberseda, S.L. (*)
Assets	(Thousands of Euros)					
Fixed assets						
Preliminary expenses	1,238	-	-	-	-	-
Net, intangible fixed assets	6,907	-	-	-	694	-
Net, tangible fixed assets	92,002	-	-	-	3,111	-
Net, investments	5,180	7,266	6,606	2,117	-	-
Deferred expenses	6,922	-	-	-	-	-
Current assets liabilities						
Stocks	20,308	-	-	-	679	-
Debtors	91,944	-	-	-	2,608	3
Temporary investments	1,691	-	-	-	-	1
Cash	203	-	-	-	7	6
Prepayments and deferred income	482	-	-	-	-	-
	226,877	7,266	6,606	2,117	7,099	10
Liabilities						
Fixed equity	56,851	58	24	712	2.292	(22)
Provisions for contingencies and risk	-	-	-	-	-	-
Long-term liabilities	34,036	7,208	6,581	1,405	-	-
Short-term liabilities	135,990	-	1	-	4,807	32
	226,877	7,266	6,606	2,117	7,099	10

(*) Single-member Company

The purchasing Company, as a result of the merger process described in Note 1 above, has included in its assets, for the sum total of Euros 57,000, the tax gains from the Company taken over called **Catalana de Polímers, S.A. (Single-member Company)**, corresponding to the deductions and allowances pending application.

NOTE 15. GUARANTEES ARRANGED WITH THIRD PARTIES

As regards this point and in addition to that already stated in Notes 5.5 and 8.5, the Controlling Company at 31st December 2005 had guarantees arranged with third parties amounting to Euros 4.31 million. Furthermore, the Company **La Seda de Barcelona, S.A.** received guarantees from **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)** and **Industrias Químicas Textiles, S.A. (Single-member Company)** amounting to Euros 46.53 million and 46.08 million, respectively.

NOTE 16. NET SUM FOR TURNOVER

Its breakdown at the close of the fiscal year was the following:

	(Thousands of Euros)	
	2005	2004
Sales of chemical products	51,611	49,290
Sales of Polymers	139,498	99,796
Sales of Fibres	50,682	38,830
Other sales and services	14,185	46,504
	255,976	234,420

NOTE 17. OPERATING EXPENSES

17.1. Procurement. Its breakdown at the close of the fiscal year was the following:

	(Thousands of Euros)
Purchases of raw materials and other consumable materials	168,227
Change in stocks	168
	168,395

17.2. Staff expenses. Their breakdown at 31st December 2005 was the following:

	(Thousands of Euros)
Wages and salaries	25,205
Welfare costs	7,017
Indemnities	387
Contributions to complementary pensions systems	535
Other welfare expenses	1,506
	34,650

Average number of people employed in the fiscal year by professional category as per collective agreement

Categories	Average number of Employees
Management staff and intermediate executives	25
Technical and administrative workers	249
Manufacturing staff	441
	715

NOTE 18. TRANSACTIONS IN CURRENCIES OTHER THAN THE EURO

The volume of transactions in currencies other than the Euro, basically for sales and purchases, amounts to Euros 2.78 million and 2.00 million, respectively, with their breakdown being the following:

	(Thousands of Euros)	
Currency	Sales	Purchases
Pound Sterling	1,168	2
Swiss Franc	-	13
US Dollar	829	2,761

In this item, the accounts to be settled in currencies other than the Euro at 31st December 2005 amounted to Euros 0.55 million and their breakdown into currencies was the following:

Currency	(Thousands of Euros)
US Dollar	32
Pound Sterling	518

NOTE 19. TRANSACTIONS CARRIED OUT WITH ASSOCIATED UNDERTAKINGS

At 31st December 2005, the transactions carried out with **Petrolest, S.L.** by way of services provided and received by the said Company from the Group amounted to Euros 0.05 million and 6.01 million, respectively. And by way of purchases, Euros 0.19 million.

NOTE 20. FINANCIAL CHARGES

Practically all of the balance in this heading on the consolidated profit and loss account at 31st December 2005 corresponded to interest charges for bank debts, debts with public bodies and trade suppliers.

NOTE 21. BUSINESS AND GEOGRAPHICAL SEGMENTS

In accordance with directives from Group Management and internal reports, the information by segments is presented by business activity and geographical zone:

21.1. Segments principals de negoci. Les línies de negoci que es descriuen tot seguit s'han establert en funció de l'estructura organitzativa del Grup Seda en vigor al tancament de l'exercici 2005, tenint en compte la naturalesa dels productes i serveis oferts.

	(Thousands of Euros)							
	Polymers		Chemical		Others		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
• Net sum for turnover	199,948	191,008	52,416	77,179	3,612	(33,767)	255,976	234,420
• Net sum for turnover between segments	4,100	-	19,230	-	(23,330)	-	-	-
• Other income	9,647	5,221	2,659	1,847	1,600	-	13,906	7,068
• Change in stocks of finished products or work in progress	25,681	(3,387)	42	972	400	308	26,123	(2,107)
• Procurement	(145,420)	(118,071)	(37,588)	(34,471)	14,613	25,533	(168,395)	(127,009)
• Staff expenses	(26,685)	(31,232)	(7,553)	(6,755)	(412)	(390)	(34,650)	(38,377)
• Allocation to depreciation	(11,165)	(11,254)	(4,303)	(4,192)	(98)	(77)	(15,566)	(15,523)
• Other expenses	(37,761)	(30,754)	(20,995)	(25,880)	4,941	8,985	(53,815)	(47,649)
Operating profit (loss)	**18,345**	**1,531**	**3,908**	**8,700**	**1,326**	**592**	**23,579**	**10,823**
• Financial revenues	555	608	1	(3)	4	4	560	609
• Financial charges	(12,026)	(7,003)	(2,353)	(2,511)	(22)	(12)	(14,401)	(9,526)
• (Net) Echange rate gains/losses	49	(48)	(98)	(135)	-	-	(49)	(183)
• Profit/loss from changes in value of financial instruments at a reasonable cost (net)	2	(9)	-	-	-	-	2	(9)
• Profit/loss from changes in value of non financial assets at a reasonable cost (net)	-	-	-	-	-	-	-	-
• Profit/loss through deterioration/reversion of the deterioration in assets	(58)	-	-	-	-	-	(58)	-
• Share in the profit/loss from the fiscal year for the joint ventures included using the share method	-	-	-	-	17	27	17	27
• Profit/loss from disposal of non current assets or valuation of non current assets classed as maintained for sale not included as interrupted activities	144	(20)	-	-	-	-	144	(20)
• Other earnings or losses	(994)	(667)	(1)	(942)	-	13	(995)	(1,596)
Pre-tax profits losses from ongoing activities	**6,017**	**(5,608)**	**1,457**	**5,109**	**1,325**	**624**	**8,799**	**125**
• Tax charge on earnings	(1,938)	1,256	(583)	(1,826)	(161)	(163)	(2,682)	(733)
Profit (Loss) from the fiscal year from ongoing activities	**4,079**	**(4,352)**	**874**	**3,283**	**1,164**	**461**	**6,117**	**(608)**
• Profit/loss after tax from dormant activities (net)	-	-	-	-	-	-	-	-
Profit (loss) from the fiscal year	**4,079**	**(4,352)**	**874**	**3,283**	**1,164**	**461**	**6,117**	**(608)**
• Minority interests	-	-	-	-	(2)	(3)	(2)	(3)
Profit (loss) attributible to holders of instruments for net equity in the parent company	**4,079**	**(4,352)**	**874**	**3,283**	**1,162**	**458**	**6,115**	**(611)**
BALANCE								
Assets	**487,017**	**363,999**	**135,143**	**141,819**	**(60,788)**	**(29,640)**	**561,372**	**476,178**
• Non current	210,174	219,256	84,697	81,542	5,831	5,949	300,702	306,747
• Current	276,843	144,743	50,446	60,277	(66,619)	(35,589)	260,670	169,431
Liabilities	**487,017**	**363,999**	**135,143**	**141,819**	**(60,788)**	**(29,640)**	**561,372**	**476,178**
• Equity	200,778	122,016	47,533	45,854	6,385	6,339	254,696	174,209
• Non current	157,063	80,076	30,387	35,718	259	56	187,709	115,850
• Current	129,176	161,907	57,223	60,247	(67,432)	(36,035)	118,967	186,119

21.2. Secondary geographical segments. The Group's activities are located in Europe and America. The following chart shows the breakdown of the turnover for the Group by the type of product, in accordance with the geographical distribution in which its activities are carried out.

	(Thousands of Euros)			
	Domestic	Europe	Rest of Countries	Total
Chemicals	44,352	6,956	303	51,611
Polymers	109,237	67,492	13,451	190,180
Others	14,110	75	-	14,185
	167,699	74,523	13,754	255,976

All of the assets for the Seda Group are located within Spain.

NOTE 22. PER-SHARE PROFIT

Basic per-share profit is calculated by dividing the net profit (attributable to the Group) by the average weighted number of shares in circulation during the period, excluding the average number of common shares purchased and kept by the Group.

The calculation of the basic per-share profit for the fiscal years 2005 and 2004 is as follows:

	Fiscal year	
	2005	2004
Net profit/loss, in thousands of Euros	6,115	(611)
Weighted average number of shares in circulation	52,302,647	38,745,850
Per-share profit	0.12	(0.02)

The diluted per-share profit is calculated by taking the total of financial instruments that grant access to the share capital of the parent company, both if they were issued by the company itself or by any of its subsidiaries. The dilution is calculated, instrument by instrument, bearing in mind the conditions present on the date of the balance sheet, excluding the instruments for preventing dilution.

The calculation of the diluted per-share profit for the fiscal years 2005 and 2004 is as follows:

	Fiscal year	
	2005	2004
Net profit/loss, in thousands of Euros	6,828	(611)
Weighted average number of shares in circulation	67,180,523	38,745,850
Per-share profit	0.10	(0.02)

NOTE 23. SUBSEQUENT EVENTS

On 15th February 2006 the Company, once it had obtained the respective permits from the competent authorities in Spain, Italy and Portugal in terms of free competition, carried out the purchase of 70% of the Portuguese company Selenis Polímeros and the Italian firm Selenis Italia (previously called Aussapol) whose corporate purpose is the manufacture of PET polymers. It also plans to take over the remaining 30% before 30th September 2006.

Along this line of action and within the strategy defined by the Group, on 1st February 2006, the Company's Board of Directors approved the start of negotiations for the takeover of the Greek Company Volos PET Industry (VPI).

As a result of the process of Group restructuring, the Company plans to carry out a split by means of the assignment of the branch of textile activity to the Group Company called Fibracat Europa, S.L (Single-member Company), with the aim of differentiating in each one of the companies that make up the Group the main activities for the Group (PET, fibres and basic chemicals). Upon drawing up the present annual accounts, the decision on the split is still pending approval.

Upon drawing up the present annual accounts final approval is still pending for the granting by a financial institution as the sole underwriter for a syndicated loan amounting to Euros 570 million, which shall be used for writing off all of the debts with financial institutions and with the Social Security Finance Department and the extension of the Company's production capacity, as well as the takeover of new companies in the PET sector.

NOTE 24. ENVIRONMENT

During the fiscal year 2005, so as to apply the long-term strategy defined by the Group, it continued to make investments in fixed assets earmarked for protecting the environment, the sum total of which amounts to Euros 42,000.

The most significant aspects in the section for the Environment for the present fiscal year were the following:

- The Companies **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)** and **Industrias Químicas Textiles, S.A. (Single-member Company)** have obtained, as a result of their efforts in the area of the environment, the ISO 14.000:2004 certificate.

- At the Company called **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)**, the second phase has been commissioned for adapting the storage tanks to comply with the regulations on the storage of toxic products.

- **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)** has signed a Framework Agreement with the Department for the Environment of the Generalitat (regional government of Catalonia) aimed at environmental improvement for the Camp de Tarragona area. In this context, adaptations have been made in the plants that allow the Administration to be continually informed about the working of the flare and the flues for the boilers.

- During the month of November, the individualised assignment of emission rights for CO2 was published for **Industrias Químicas Asociadas LSB, S.L. (Single-member Company)** and **ANERIQA, A.I.E** for 2006-07, with readings that cover the current needs for the plant in Tarragona.

- The Company **Industrias Químicas Textiles, S.A. (Single-member Company)** during the fiscal year 2005, obtained the undertakings defined in the voluntary agreement signed between the Chemicals Sector and the Basque Government, for the environmental improvement of said sector. This agreement involves, amongst other matters, the Company's participation in the project for measuring the polluting parameters for EPER and in the development of BREF documents for polymers.

- During the month of September 2005, **Industrias Químicas Textiles, S.A. (Single-member Company)** started the paperwork for "Integrated Environmental Authorisation" (IEA), a requirement enforced by Act 16/2002 on Integrated Pollution Prevention and Control (IPPC) and which is applicable at Inquitex, S.A. because it comes within the group of activity 4.1.h in Annex I to Directive 96/61/EC of 24.09.1996.

- **La Seda de Barcelona, S.A.** carried out the visit prior to the award of the ISO14001 certificate with AENOR, with the results being satisfactory, with the award of the final certificate being postponed until the integration of the activities of the Power Plant that was part of a Joint Venture until 2005.

  During the visit it was found that the Company had continued to comply with all the regulations applicable in terms of the environment, as well as the targets for cutting down environmental impacts and also ongoing improvement in line with the principles of the Management Codes for Commitment to Progress (Responsible Care) of the FEIQUE (Spanish Chemical Industry Business Federation).

- **La Seda de Barcelona, S.A.** has carried out a viability study on the recovery of glycol from sewerage using reverse osmosis with the aim of cutting the environmental impact in the vector for water.

- The Controlling Company in the Group has set up specific programmes for Industrial Hygiene. At the same time it has used recycled polyester to cut the consumption of unused raw materials in the manufacture of fibres.

- During the fiscal year 2005 significant improvement was made in the implementation and monitoring of the codes for Environmental Protection, Safety for Processes and Response to Emergencies and Workplace Safety with Commitment to Progress.

The current expenses supported by the Company during the present fiscal year amount to Euros 0.66 million. This includes the expenses for transportation and external management of the waste, as well as those associated with the operation of the chemical waste plant.

NOTE 25. OTHER INFORMATION

Payments and other benefits for the Administrators. During the fiscal year ended on 31st December 2005 the payments received by the members of the Company's Board of Directors corresponded to the following breakdown:

	(Thousands of Euros)
Wages and salaries	266
Expense allowances for attending Board Meetings	320
	586

There were no credits, advances, loans or securities contracted in terms of pensions with regards to the Board of Directors.

In relation to the information demanded by new Article 127, section three, 4 of the Public Limited Companies Act, the shareholdings and posts and/or functions that Company Directors hold and/or exercise in other companies with the same, similar or complementary kind of activity that represents the Company's corporate purpose, are the following:

- Mr. Rafael Español Navarro holds the post of Chairman in the following companies: La Seda de Barcelona, S.A., Industrias Químicas Textiles, S.A. (Single-member Company), CARB-IQA de Tarragona, S.L., KD-IQA, S.L. (Single-member Company); Joint Director in CARB-IQA de Tarragona, S.L and Director of DOGI, S.A., Endesa Internacional, S.L. and Enersis, S.L., upon drawing up their respective annual accounts.

- Mr. Ramon Pascual Fontana holds the post of Director in the following Companies: Petrolest, S.L. and Industrias Químicas Textiles, S.A. (Single-member Company), upon drawing up their respective annual accounts.

- The Company called Ibersuizas Alfa, S.L., fully owned by Ibersuizas Participadas, S.A., holds the post of Director in the firm called Selenis, SGPS, S.A.

- The Company Ibersuizas Participadas, S.A. holds indirectly through its subsidiary company Capital Fund I, SCR, S.A. 4.53% of the share capital in Selenis Control, LDA.

NOTE 26. FEE FOR THE AUDITORS

The fee for the auditors for carrying out the audit on the individual and consolidated annual accounts at 31st December 2005 amounts to Euros 65,206.06, this being the only item for which they were paid.

NOTE 27. TRANSITION FROM SPANISH ACCOUNTING CRITERIA TO IFRS

Until the fiscal year 2004 the Group had always drawn up its annual accounts in accordance with the Accounting Principles and Criteria in force in Spain (known as P.G.C.). As from the fiscal year 2005 the Group has drawn up its annual accounts in accordance with the International Financial Reporting Standards approved by the European Union, in accordance with Regulations (EC) No. 1606/2002 of the European Parliament and of the Council.

27.1. Conciliation of the Net Worth at 1st January 2004 and 31st December 2004.

	(Thousands of Euros)	
	01.01.2004	31.12.2004
• Net Worth P.G.C.	141,500	156,283
• Incorporation of minority interests	2,473	637
• Restatement of land	35,996	35,996
• Charges that cannot be capitalized	(18,186)	(18,186)
• Restatement of accounts to be paid	188	188
• Adjustments to the profit/loss for 2004		(709)
• Net Worth IFRS	161,971	174,209

Incorporation of minority shareholders. According to the Spanish criteria, the net worth is only made up of the funds corresponding to the shareholders in the Controlling Company. However, according to the IFRS, the net worth is made up by both the funds corresponding to the latter and to the minority shareholders. Hence, the balance for minority interests included on the consolidated balance sheet for La Seda de Barcelona, S.A., drawn up with the Spanish criteria, is included in the net worth on the consolidated balance sheet according to the international regulations.

Restatement of land. As stated in Note 4 a) the Group has proceeded to carry out a restatement for the land on which the different production units are located, on the basis of that set forth in IAS 16. The restatement has been entered charged to the account for land, with payment to the account “Reserve for the first application of IFRS” for the restated net amount of the fiscal effect.

Charges that cannot be capitalized. Adjustment as a result of charging to the account for “Reserve for first application of IFRS”, those assets which do not comply with its definition of an asset.

27.2. Conciliation of the profit/loss from the fiscal year 2004

	(Thousands of Euros)
	2004
• Profit/Loss P.G.C.	98
• Goodwill depreciation	563
• Financial revenues	99
• Costs that cannot be capitalized and others	(1,371)
• Profit/loss as of 31.12.2004 with NIIF	(611)

Depreciation of the goodwill. In accordance with the Spanish accounting criteria, goodwill must be depreciated in a systematic manner within a maximum period of 20 years.
In IFRS it is not deemed that there is a systematic depreciation of goodwill, hence it is not depreciated, but it is subject to a periodic test for deterioration.

CONSOLIDATED MANAGEMENT REPORT AT 31ST DECEMBER 2005

SEDA GROUP

In compliance with that set forth in Article 171 of the Revised Text of the Public Limited Companies Act, the present management report for the Company is drawn up in relation to the corporate fiscal year closed on 31st December 2005, including the matters required in Article 202 of the said legal corpus, as modified by Article 107 of Act 62/2003 on Measures of a Fiscal, Administrative and Social nature.

1. Progress of the business and the Company's situation. The progress of the Companies' activities during the fiscal year 2005 was the following:

Following the commissioning of the new CSSP-2 Post-Condensation Unit at the Production Plant in El Prat de Llobregat (Barcelona), in the first quarter of 2005, the Company had a rise in consolidated turnover that reached Euros 256 million, with an increase of 9% over the previous fiscal year.

One of the targets for **La Seda de Barcelona, S.A.** during the fiscal year 2005 was to strengthen its financial structure to deal with the growth envisaged in the PET sector by means of the start-up of a takeover plan that was submitted to the shareholders at the last AGM in June 2005.

The Group's strategies for growth have been backed, during this fiscal year, with the resources obtained on the market through a share capital increase and the granting of a credit line. The credit line taken out by the Controlling Company for the Group is set out in three sections:

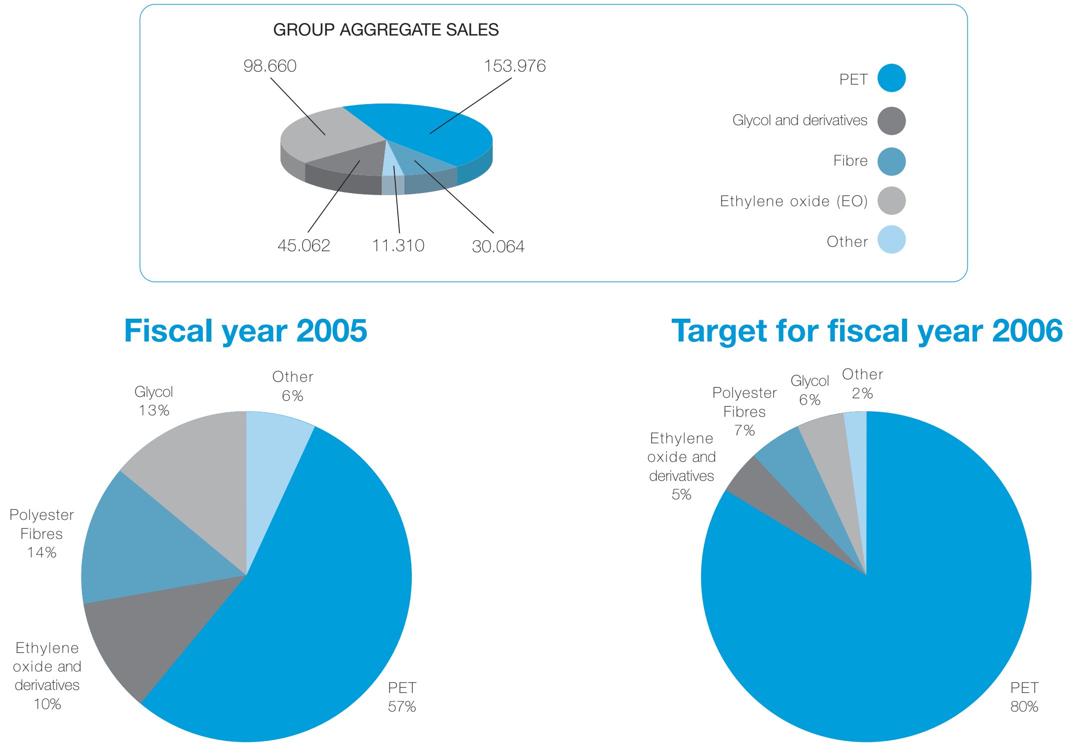
1) A syndicated loan for Euros 46.2 million for a period of 5 years, headed by Deutsche Bank and in which several other financial institutions participate, such as Caixa Catalunya, the Institut Català de Finances (ICF), Caja de Ahorros del Mediterráneo, Caja de Ahorros de Castilla la Mancha, Ibercaja and Fortis Bank.

2) The refinancing of the debt with the Institut Català de Finances by means of a bilateral loan amounting to Euros 13.2 million and for a period of 7 years.

3) A lease-back contract worth Euros 5 million and a term of 5 years in order to cover a small part of the investments in machinery at the plant in El Prat de Llobregat (Barcelona).

This conversion of the short-term debt into long-term debt provided financial stability that puts LA SEDA DE BARCELONA in a position to deal with future growth successfully.

GROUP AGGREGATE SALES



Investment activity.

During the first quarter of 2005, with the commissioning of the second Continuous Post-Condensation Unit at the Production Plant in El Prat de Llobregat, the Group closed a long process for industrial reconversion that had been characterised by the effort made in investments and which provided the Company with an optimal industrial and technological profile for dealing with, at the present time, a new phase for expansion and growth on the European PET markets.

Furthermore, throughout the fiscal year, at the IQA-LSB Production Plant in Tarragona, the new system for the early extraction of CO2 (Low CO2 Project) was put into service, exceeding expected results as regards the selectivity of the Ethylene Oxide catalyser, with the resulting improvement in profit margins.

The Group is now starting up a new phase of international expansion imbued with a strategy for growth based on the acquisition of assets in the field of PET. It is deemed that the present situation on the market and the fragmentation of supply will mean that this option is the most profitable one for the Company.

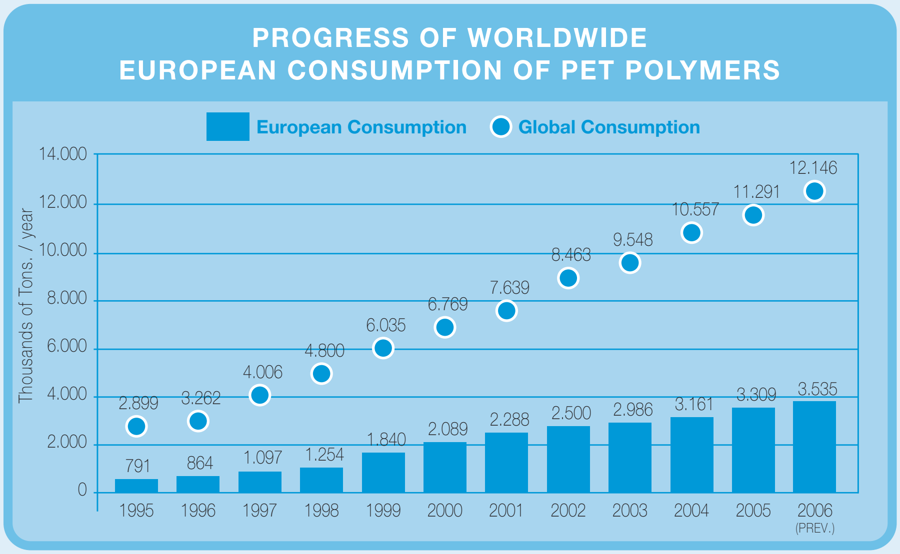
In the fiscal year 2005 **La Seda de Barcelona, S.A.** reached agreements for the future takeover of new PET assets, with the aim of becoming the new European leader in this sector. For this purpose, it proceeded to value the production assets for PET polymers of Selenis Polímeros in Portugal and Aussapol (currently Selenis Italia), then it reached an agreement with SELENIS HOLDING SGPS to take over both companies before the end of the year. This transaction took place on 15th February 2006 with the purchase of 70% in both PET producers for a sum total of Euros 56 million. It plans to take over the remaining 30% before 30th September 2006.

Progress of the PET Market.

PET is the Seda Group's main industrial project. It is a product with strong accumulated growth and a great potential for development.

During the fiscal year 2005, the PET market continued its ongoing growth of the last few years, with an annual average rate close to 10%. This percentage may rise in the short-term with the definitive implementation of the PET pack on the market for fruit juices, milk products and beer.

Expectations for the coming years indicate that PET will carry on with its rate of expansion. Its exceptional characteristics and properties have turned this polymer into one of the most versatile plastics in the world with multiple and varied applications, both novel ones and those replacing other materials.



The technological advances achieved in the manufacturing processes, as well as in the materials used in the sector for containers and packaging, have allowed the exceptional properties of the PET polymer to be very widely assessed, and it is now gaining ground as an essential raw material in the sector.

The use of PET has been consolidated on the market for mineral waters, gassy drinks and oils and it is very quickly gaining ground in new applications in the sectors for foodstuffs, cleaning products, cosmetics and pharmaceuticals, as well as in applications for industry and engineering.

Research & Development Activities

The Research, Development and Innovation (R,D&I) Department at LA SEDA DE BARCELONA, concentrated, in the fiscal year 2005, on the development and enhancement of products with greater added value. The following projects were implemented throughout the year:

- Work for enhancing a new formula for PET resin with more ecological catalysts. A new product was developed, called SedaPet-Flow, using a new formulation with enhanced rheological properties that also allows a drop in power consumption levels in the processes for injection and blowing earmarked for the gassy drinks and mineral waters sectors.

- Preliminary work began on developing PET formulations with NANOCLAYS additives aimed at obtaining a resin with enhanced barrier properties.

- Furthermore, with the aim of maximizing the Controlling Company's competitiveness, it carried on with the development of new kinds of fireproof fibres that meet the market's changing needs. With regards to fibres that are resistant to mites, the Controlling Company is carrying on with the process for introducing this speciality on the market for applications in anti-allergy articles.

- In this fiscal year, studies were also started up for introducing a new formula with properties that are resistant to bacteria, which is planned to be presented during the course of 2006.

- At the INQUITEX Plant in Andoain, work concentrated on the development of new colours for Polyester fibre and a new product, mass-dyed 4.4 dtex Polyester fibre, both earmarked for the car industry. As regards PET sheeting, work continued on the development of C-PET which will allow it to break into a new market niche.

2. Risk factors. Any activity is subject to risks, not just external ones but also those that are inherent to the activity itself. Economic activities are no exception and competent management requires that the risks that might affect a company's business not just in the short term but also in the long term should be identified, measured and assessed.

The Company's top management is in charge of carrying out ongoing monitoring so as to identify, assess and prioritise current and potential risks and take the pertinent measures to counteract as far as possible the threats to the business that might arise from the risks that are identified.

The main financial risks are listed below and the measures taken by the Company's management for dealing with them:

Interest rate risk

Several items on the balance sheet and their associated financial derivatives are set at fixed interest rates and are not, therefore, subject to changes in their reasonable value as a result of changes in the interest rates on the market. Moreover, the Seda Group faces a risk with regards to the items on the balance sheet and derivatives at a variable interest rate, insofar that the market swings affect cash flows.

La Seda de Barcelona, S.A. mitigates this risk through the management of the structure of its debt between fixed and variable according to the situation on the markets, through new sources of finance and the use of interest rate derivatives, all of which are within the approved limits for risk.

Risk in the management of raw materials

The Group's main risk in the management of the raw materials is the change in the price of PTA. This product comes under the aromatics cut (BTX), with the composition of the latter being Benzene, Toluene and Xylene.

These three components are also used for manufacturing derivatives of gasolines with the aim of cheapening their cost. Due to the rise in the price of oil, there is a rise in demand for Benzene, Toluene and Xylene from the fuel manufacturers.

One of the derivatives of Xylene, commonly known as paraxylene, is the base for obtaining PTA and its price ranges according to the supply and demand for Xylene on the international market, which is closely linked to the price of fuel.

The price of the PTA, therefore, will depend on the end use that the producers of aromatic cuts decide for Benzene, Toluene and Xylene.

There is no system for covering specific risks in this market segment.

Market risk

During the fiscal year 2005 a new competitor on the international PET market was discovered in Lithuania, which caused a drop in prices on the latter.

The risk of new competitors appearing in the next few years is mitigated by the need for a minimum of 2 years and a high financial cost for building new plants for manufacturing PET, apart from obtaining the pertinent permits related to the environment.

As of the date of the close of the fiscal year, no project was known to be under way for building new plants for PET by any possible competitors.

Exchange rate risk

Practically 90% of the purchase and sale transactions carried out by the Group are done so in Euros, which is why there is no need for specific risk management in this field.

Liquidity risk

The liquidity policy followed by the Group ensures performance of the undertakings for payment without having to resort to finance from third parties under exorbitant conditions.

Credit risk

The credit risk deriving from the failure of a counterpart (client, supplier, partner or financial institution) is properly controlled in the Seda Group through different policies and risk limits in which requirements are established relating to:

- Suitable contracts in the transaction carried out.
- Proper internal or external credit rating for the counterpart.
- Additional guarantees where necessary.
- Limitation of the costs for bankruptcy and the financial cost deriving from bad debts.

3. Important events occurring after the close of the fiscal year. No other important events have arisen following the close of the fiscal year apart from those already stated in Note 23 of the Notes.

4. Foreseeable Progress for the Company. During the fiscal year 2006 the appropriate measures and policies are going to be taken in order to back up the Group's new structure that is mainly concentrated on the manufacture of PET.

To do so, the meeting of the Board of Directors for **La Seda de Barcelona, S.A.** held on 1st February 2006 approved that it should carry on negotiating the takeover of the Greek Company Volos PET Industry (VPI).

With the takeover of VPI, the Seda Group would achieve a production capacity of 540,000 tonnes per year of PET polymers, thus becoming the leader in the European ranking for the sector. The new Industrial Group thus formed would have a turnover exceeding Euros 700 million.

At the same time, the acquisition of the remaining 30% in the companies called Selenis Polímeros and Selenis Italia is planned for before 30th September 2006.

5. Purchases and disposals of own shares. At the Ordinary General Meeting of Shareholders of **La Seda de Barcelona, S.A.**, during its meeting on 27th June 2005, it was agreed to authorise the Company's Board of Directors to purchases its own shares in the company for a maximum duration of eighteen months. It was also authorised to reduce the share capital with the aim of amortising its own shares that the Company might hold in its own stock portfolio, charged to profits or unrestricted reserves.

gva

Gironella Velasco auditores

Auditors' Report on Consolidated Annual Accounts

To the shareholders of
La Seda de Barcelona, S.A.

1. We have audited the consolidated annual accounts for **La Seda de Barcelona, S.A.** and the companies that make up the **Seda Group** (see Note 2 d in the enclosed notes) that include the consolidated balance sheet at 31st December 2005, the consolidated profit and loss account, the consolidated statement of cash flows, the statement of changes in the consolidated net worth and the consolidated notes corresponding to the fiscal year ended on the said date, the preparation of which is the responsibility of the Administrators of **La Seda de Barcelona, S.A.** as the Controlling Company. Our duty is to express an opinion regarding the aforementioned consolidated accounts as a whole, based on the work carried out in accordance with generally accepted auditing standards, that demand the examination, by means of performing selective tests, of the supporting evidence for the consolidated annual accounts and the evaluation of their presentation, the accounting principles applied and the estimates made.

2. The enclosed consolidated annual accounts for the fiscal year 2005 are the first ones that the Group has drawn up applying the International Financial Reporting Standards passed by the European Union (IFRS-EU), that require, generally speaking, that the annual accounts should present comparative information. In this sense, and in accordance with company legislation, the Administrators of the Controlling Company present, for the purposes of comparison, with each one of the items on the balance sheet, the profit and loss account, the statement of cash flows, the statement of changes in the net worth and the notes, as well as the consolidated figures from the fiscal year 2005, those corresponding to the previous fiscal year, which were obtained by applying the Internacional Financial Reporting Standards in force at 31st December 2005. Hence, the figures corresponding to the previous fiscal year are different from those contained in the consolidated annual accounts approved for the fiscal year 2004 which were drawn up in accordance with the accounting principles and standards in force in the said fiscal year, with the differences being stated in detail in Note 27 of the enclosed consolidated notes that are involved when applying the IFRS-EU to the consolidated net worth at 1st January 2004 and at 31st December 2004 and to the consolidated profits/losses from the fiscal year 2004 for the Group. Our opinion refers exclusively to the consolidated annual accounts for the fiscal year 2005. On 13th June 2005 we issued our auditors' report regarding the revised consolidated annual accounts (see Note 1 in the enclosed Notes) for the fiscal year 2004, drawn up in accordance with the accounting principles and standards in force in the said fiscal year, in which we expressed a favourable opinion.

3. In our opinion, the enclosed consolidated annual accounts for the fiscal year 2005 express, in all significant aspects, a true and fair view of the equity and the financial position of the Company **La Seda de Barcelona, S.A.** and the companies that make up the **Seda Group** at 31st December 2005 and the results of its operations and the changes in the consolidated net worth and the consolidated cash flows corresponding to the fiscal year ending on the said date and contain the necessary and sufficient information for their proper interpretation and understanding, in accordance with the Internacional Financial Reporting Standards approved by the European Union that match those applied to the figures and data corresponding to the previous fiscal year that have been included for the purposes of comparison in these consolidated annual accounts.

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4. The enclosed consolidated management report for the fiscal year 2005 contains the explanations that the Administrators of **La Seda de Barcelona, S.A.** deem to be pertinent regarding the Group's position, the progress of its business and regarding other matters and does not form an integral part of the consolidated annual accounts. We have checked that the accounting information contained in the aforesaid consolidated management report matches that provided in the consolidated annual accounts for the fiscal year 2005. Our work as auditors is limited to verifying the consolidated management report within the scope mentioned in this paragraph itself and does not include a review of any information other than that obtained from the accounting records of the consolidated companies.

COL·LEGI
DE CENSORS JURATS
DE COMPTES
DE CATALUNYA

Membre exercent:
GIRONELLA VELASCO AUDITORES,S.A.

Any **2006** Núm. **CC006029**

CÒPIA GRATUÏTA

Aquest informe està subjecte a la taxa aplicable establerta a la Llei 44/2002 de 22 de novembre.

Gironella Velasco Auditores, S.A.
Member of the R.O.A.C. (Official Registry of Auditors) No. S0427

José Trejo Marín
Auditor
Member of the R.O.A.C. (Official Registry of Auditors) No. 14807

21st April 2006

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