

Vidrala, S.A. and Subsidiaries

Consolidated Annual Accounts

31 December 2018

Consolidated Directors' Report

2018

(With Independent Auditor's Report Thereon)

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

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

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Balance Sheets

31 December 2018 and 2017

(Expressed in thousands of Euros)

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

	<u>Note</u>	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>			
Non-current assets			
Property, plant and equipment	6	684,114	683,036
Goodwill	7	209,890	209,890
Other Intangible assets	7	25,136	23,354
Other financial assets		28	41
Deferred tax assets	9	38,695	35,304
Derivative financial instruments	8	319	1,701
Other non-current assets		180	234
		<u>958,362</u>	<u>953,560</u>
Current assets			
Inventories	10	185,147	189,829
Trade and other receivables	11	219,086	206,381
Current tax assets		426	391
Derivative financial instruments	8	8,623	3,568
Other current assets	12	13,018	9,127
Cash and cash equivalents		22,673	42,043
		<u>448,973</u>	<u>451,339</u>
Total assets		<u>1,407,335</u>	<u>1,404,899</u>

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Balance Sheets

31 December 2018 and 2017

(Expressed in thousands of Euros)

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

<u>EQUITY AND LIABILITIES</u>	Note	2018	2017
Equity	13		
Share capital		26,555	25,290
Other reserves		7,622	7,545
Retained earnings		644,609	551,362
Own shares		(4,874)	(3,347)
Other comprehensive income		(44,015)	(35,489)
Interim dividend distributed during the year		(19,899)	(17,225)
		<u>609,998</u>	<u>528,136</u>
Equity attributed to equity holders of the Parent			
Non-current liabilities			
Deferred income	14	17,838	25,411
Loans and borrowings	15	394,887	487,819
Derivative financial instruments	8	5,246	2,473
Deferred tax liabilities	9	51,146	45,115
Provisions	19	24,653	23,953
Other non-current liabilities		1,810	1,534
		<u>495,580</u>	<u>586,305</u>
Current liabilities			
Loans and borrowings	15	38,880	41,519
Derivative financial instruments	8	6,433	-
Trade and other payables	16	206,260	223,566
Current tax liabilities		6,909	4,136
Provisions	19	11,956	383
Other current liabilities	12	31,319	20,854
		<u>301,757</u>	<u>290,458</u>
Total liabilities		<u>797,337</u>	<u>876,763</u>
Total equity and liabilities		<u>1,407,335</u>	<u>1,404,899</u>

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Income Statements
for the years ended
31 December 2018 and 2017

(Expressed in thousands of Euros)

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

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Revenues	4 & 22	955,426	822,720
Services rendered		-	477
Other income	22	21,991	8,533
Changes in inventories of finished goods and work in progress		(2,069)	4,240
Merchandise, raw materials and consumables used		(323,635)	(281,046)
Employee benefits expense	24	(190,581)	(174,929)
Amortisation and depreciation	6 & 7	(88,178)	(76,999)
Impairment of non-current assets	6	(4,105)	(1,253)
Other expenses	23	(221,767)	(184,561)
Finance income	25	3,491	1,964
Finance costs	25	(10,149)	(9,384)
Profit before income tax from continuing operations		<u>140,424</u>	<u>109,762</u>
Income tax expense	9	(24,466)	(20,616)
Profit for the year from continuing operations		<u>115,958</u>	<u>89,146</u>
Profit for the year		<u>115,958</u>	<u>89,146</u>
Profit for the year attributable to equity holders of the Parent		<u>115,958</u>	<u>89,146</u>
Earnings per share (expressed in Euros)			
- Basic and diluted	26	<u><u>4.47</u></u>	<u><u>3.61</u></u>

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
for the years ended
31 December 2018 and 2017

(Expressed in thousands of Euros)

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

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Profit for the year		<u>115,958</u>	<u>89,146</u>
Other comprehensive income:			
Translation differences	13	(3,753)	(14,057)
Remeasurements of defined benefit plans		(623)	362
Items to be reclassified in profit or loss			
Cash flow hedges	8	(5,533)	1,111
Tax effect		<u>1,383</u>	<u>(311)</u>
Other comprehensive income, net of income tax		<u>(8,526)</u>	<u>(12,895)</u>
Total comprehensive income for the year		<u>107,432</u>	<u>76,251</u>
Profit for the year attributable to equity holders of the Parent		<u>107,432</u>	<u>76,251</u>

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
for the years ended
31 December 2018 and 2017
(Expressed in thousands of Euros)

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

	Equity attributable to equity holders of the Parent								
	Share capital	Other reserves	Retained earnings	Own shares	Cash flow hedges	Translation differences	Defined benefit plans	Interim dividend paid during the year	Total equity
Balances at 31 December 2016	25,290	7,545	481,879	(2,824)	1,258	(22,544)	(1,308)	(14,362)	474,934
Total comprehensive income for the year	-	-	89,146	-	800	(14,057)	362	-	76,251
Revaluation of property, plant and equipment, net of tax (note 13(b))	-	-	-	-	-	-	-	-	-
Own shares redeemed	-	-	-	(3,529)	-	-	-	-	(3,529)
Own shares sold	-	-	164	3,006	-	-	-	-	3,170
Share capital increase	-	-	-	-	-	-	-	-	-
Share capital reduction	-	-	-	-	-	-	-	-	-
Distribution of 2016 profit	-	-	-	-	-	-	-	-	-
Dividends	-	-	(19,827)	-	-	-	-	14,362	(5,465)
Interim dividend on account of 2017 profit	-	-	-	-	-	-	-	(17,225)	(17,225)
Balances at 31 December 2017	25,290	7,545	551,362	(3,347)	2,058	(36,601)	(946)	(17,225)	528,136
Total comprehensive income for the year	-	-	115,958	-	(4,150)	(3,753)	(623)	-	107,432
Own shares redeemed	-	-	-	(2,852)	-	-	-	-	(2,852)
Own shares sold	-	-	1,103	1,325	-	-	-	-	2,428
Distribution of 2017 profit	1,265	77	(1,342)	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Interim dividend on account of 2018 profit	-	-	(23,784)	-	-	-	-	17,225	(6,559)
Balances at 31 December 2018	26,555	7,622	644,609	(4,874)	(2,092)	(40,354)	(1,569)	(19,899)	609,998

VIDRALA, S.A. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
for the years ended
31 December 2018 and 2017
(Indirect Method)

(Expressed in thousands of Euros)

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

	Note	2018	2017
Cash flows from operating activities			
Profit for the year		115,958	89,146
<i>Adjusted for:</i>			
Amortisation and depreciation	6 & 7	88,178	76,999
Impairment of non-current assets	6	4,105	1,253
(Reversal of) impairment losses on trade receivables		466	(519)
(Reversal of) impairment losses on inventories		9,262	1,793
Exchange (gains) / losses	25	(2,393)	(1,942)
Changes in provisions	19	16,053	3,566
Government grants recognised in the income statement		(10,391)	(5,453)
Finance income	25	(1,098)	(22)
Finance costs	25	10,149	9,384
Income tax	9	24,466	20,616
		138,797	105,675
Changes in working capital			
Inventories		(4,580)	1,212
Trade and other receivables		(13,171)	13,792
Trade and other payables		(12,074)	9,720
Application of provisions		(649)	(485)
Other current liabilities		6.849	(923)
Effect of translation differences on operating assets and liabilities of foreign operations		(1,919)	(3,239)
Cash used in operating activities		(25,544)	20,077
Interest paid		(7,917)	(7,230)
Interest received		877	1,102
Income tax paid		(19,405)	(10,526)
Net cash from operating activities		202,766	198,244
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		(99,541)	-
Acquisition of property, plant and equipment		(2,245)	(86,479)
Acquisition of intangible assets		13	(2,541)
Acquisition of financial assets		-	246
Acquisition of a subsidiary, net of the cash acquired		-	(235,233)
Net cash used in investing activities		(101,773)	(324,007)
Cash flows from financing activities			
Proceeds from issue of treasury shares and own equity instruments		2,428	3,170
Proceeds from loans and borrowings		25,000	201,268
Payments to redeem own shares and other own equity instruments		(2,852)	(3,529)
Payments of loans and borrowings		(121,155)	(13,700)
Dividends paid		(23,784)	(19,827)
		(120,363)	167,382
Net cash from/(used in) financing activities		(120,363)	167,382
Net increase/(decrease) in cash and cash equivalents		(19,370)	41,619
Cash and cash equivalents at 1 December		42,043	424
Cash and cash equivalents at 31 December		22,673	42,043

VIDRALA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

1. Nature, Principal Activities and Composition of the Group

Vidrala, S.A. (hereinafter the Company, the Parent or Vidrala) was incorporated with limited liability under Spanish law. Its principal activity is the manufacture and sale of glass containers and its registered office is in Llodio (Alava, Spain).

Vidrala, S.A. shares are listed on the Madrid and Bilbao stock exchanges.

Likewise, on October 13, 2017, the Inverbeira Company for the Promotion of Companies, S.A. has acquired the Portuguese Society Santos Barosa Vidros, S.A. (see note 5).

Details of the companies comprising the Vidrala Group, the interest held by the Parent (direct and/or indirect) at 31 December 2018 and the location and activity of each company that forms part of the consolidated group are as follows:

VIDRALA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

<u>Company</u>	<u>Location</u>	<u>Investment</u>	<u>Activity</u>
Crisnova Vidrio, S.A.	Caudete (Albacete, Spain)	100%	Manufacture and sale of glass containers
Inverbeira, Sociedad de Promoción de Empresas, S.A.	Llodio (Alava, Spain)	100%	Promotion and development of companies
Aiala Vidrio, S.A.U.	Llodio (Alava, Spain)	100%	Manufacture and sale of glass containers
Gallo Vidro, S.A.	Marinha Grande (Portugal)	99.99%	Manufacture and sale of glass containers
Vidrala Logistics, Ltda	Marinha Grande (Portugal)	100%	Transport services
Castellar Vidrio, S.A.	Castellar del Vallés (Barcelona, Spain)	100%	Manufacture and sale of glass containers
Vidrala Italia, S.R.L.	Corsico (Italy)	100%	Manufacture and sale of glass containers
MD Verre, S.A.	Ghlin (Belgium)	100%	Manufacture and sale of glass containers
Omèga Immobilière et Financière, S.A.	Ghlin (Belgium)	100%	Real estate
Investverre, S.A.	Ghlin (Belgium)	100%	Holding company
CD Verre, S.A.	Bordeaux (France)	100%	Commercialisation
Vidrala Desarrollos, S.L.U.	Llodio (Alava, Spain)	100%	Promotion and development of companies
Encirc Limited	Derrylin (Northern Ireland)	100%	Manufacture of glass containers, packaging and logistical services
Encirc Distribution Limited	Ballyconnell (Ireland)	100%	Logistical services
Santos Barosa Vidros, S.A.	Marinha Grande (Portugal)	100%	Manufacture and sale of glass containers

2. Basis of Presentation

The consolidated annual accounts for 2018 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other provisions of the financial information reporting framework applicable to the Group, to present fairly the consolidated equity and consolidated financial position of Vidrala, S.A. and subsidiaries at 31 December 2018, as well as the consolidated financial performance and changes in consolidated equity and cash flows for the year then ended.

The Parent's directors consider that the consolidated annual accounts for 2018, authorised for issue on 26 February 2019, will be approved without changes by the shareholders at their Shareholders' Annual General Meeting.

(a) Basis of preparation of the annual accounts

These consolidated annual accounts have been prepared on a going concern basis using the historical cost principle, with the exception of derivative financial instruments, which have been recognised at fair value.

(b) Comparative information

The accounting criteria used in preparing these consolidated annual accounts have been applied consistently for the two years presented.

(c) Relevant accounting estimates and relevant assumptions and judgements in the application of the accounting policies

Accounting estimates, judgements and assumptions sometimes have to be made to prepare the consolidated annual accounts in conformity with IFRS-EU. A summary of the items requiring a greater degree of judgement or complexity, or where the assumptions and estimates made are significant to the preparation of the consolidated annual accounts, is as follows:

i) Relevant accounting estimates and assumptions

- Goodwill impairment:

The Group tests for impairment of goodwill on an annual basis. The calculation of the recoverable amount of a cash-generating unit to which goodwill has been allocated requires the use of estimates and the application of financial measurement criteria. The recoverable amount is the higher of fair value less costs to sell and value in use. The Group uses cash flow discounting methods to calculate these values. Cash flow discounting calculations are made considering that the activity of cash generating units has an infinite life and free cash flow projections are made based on financial projections approved by management. Cash flows beyond the budgeted period are extrapolated using estimated growth rates (see note 7). The flows take into consideration past experience and represent management's best estimate of future market performance. The key assumptions used to determine value in use include expected growth rates, the weighted average cost of capital and tax rates indicated in note 7. The estimates, including the methodology used, could have a significant impact on values and impairment.

- Useful lives of property, plant and equipment:

Group management determines the estimated useful lives and depreciation charges for its installations. These estimates are based on the historical and projected life cycles of the assets according to their characteristics, available technology and estimated replacement requirements. This could change as a result of technical innovations and initiatives adopted by the competition in response to pronounced cycles. Management will increase the depreciation charge when the useful lives are lower than the lives estimated previously or will depreciate or eliminate technically obsolete or non-strategic assets which are idle or sold.

- Valuation allowances for bad debts

Valuation allowances for bad debts require a high degree of judgement by management and a review of individual balances based on customers' credit ratings, market trends, and historical analysis of bad debts at an aggregated level. This judgement is put into practice through the application of procedurised methodologies developed by the Vidrala Group, mainly based on the detailed analysis of credit ratings and historical sales and payments as well as the expected loss resulting from a default event during the next 12 months or during the life of the contract (see note 3 (g)). Additionally, control over collection solvency is complemented through credit insurance coverage (see note 18).

- Income tax

The Group files income tax returns in numerous jurisdictions. Tax legislation applicable to certain group companies means that certain calculations have to be estimated.

Any differences between the final tax calculation and the amount initially recognised have an effect on the profit or loss for the period in question.

Group management estimates that any differences arising from the use of assumptions and judgements in estimating income tax for 2018 will be immaterial.

- Capitalised tax credits

The Group evaluates the recoverability of capitalised tax credits based on estimates of whether sufficient future taxable income will be available against which they can be offset.

(ii) Changes in accounting estimates

Although estimates are calculated by the Company's directors based on the best information available at 31 December 2018, future events may require changes to these estimates in subsequent years. Any effect on the consolidated annual accounts of adjustments to be made in subsequent years would be recognised prospectively.

(d) Standards and interpretations approved by the European Union first-time application in the reporting period

The accounting policies used in the preparation of the accompanying consolidated financial statements are the same as those used in the consolidated financial statements for the year ended 31 December 2017, except for the following standards applied for the first time in 2018:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IFRIC 22 *Foreign Currency Transactions and Advanced Consideration*
- Annual Improvements to IFRSs, 2014-2016 Cycle: Other amendments;
- Amendments to IAS 40 *Transfers of Investment Property*
- Amendments to IFRS 2 *Classification and Measurement of Share-Based Payment Transactions*
- Amendment to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
- Amendments to IFRS 15 *Clarifications*

When applying these standards, interpretations and amendments, the only one with a significant impact on the consolidated financial statements was IFRS 9.

IFRS 9 *Financial instruments*

IFRS 9 replaces IAS 39 *Financial Instruments* regarding measurement and classification for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group elected not to early adopt the standard, opting not to restate comparative information for 2017 and reflecting the adjustment in the carrying amount of the financial assets and liabilities in reserves at 1 January 2018.

Application of IFRS 9 did not result in major changes to the consolidated balance sheet and in consolidated equity except for the impact of applying the standard to refinancing of financial liabilities, resulting in a positive impact on equity of Euros 1,312 thousand.

Applying the interpretation of the IASB in 2017 on the treatment of refinancing of financial liabilities under IFRS 9, the contractual cash flows from the refinanced debt must be discounted at the original effective interest rate, rather than at the new rate of the refinanced borrowing.

Any difference is recognised in the consolidated income statement as income or expense at the refinancing date. However, as this interpretation is applied retrospectively, for transactions carried out before 1 January 2018, the difference is recognised against "Reserves".

As described in Note 15 to the consolidated financial statements, the Vidrala Group has a long-term syndicated loan arranged on 12 March 2015 by the Parent, Vidrala, S.A., which has undergone a series of novations and modifications since it was originally taken out.

The impact on the Vidrala Group's financial statements of the interpretation of the new standard on the modifications of the syndicated loan includes a positive impact on "Reserves" of Euros 1,312 thousand, and a reduction in the amount of the debt of approximately Euros 1,773 thousand.

The main impact of applying IFRS 9 on the 2018 consolidated income statement was an increase in finance costs of Euros 892 thousand.

(e) Standards and interpretations issued by the IASB, but not effective in the reporting period

Standard, interpretation or amendment	Date of adoption by the EU	Date of application in the EU	Effective date of the IASB
IFRS 16 <i>Leases</i>	October 2017	1 January 2019	1 January 2019
IFRS 17 <i>Insurance Contracts</i>	Pending	Pending	1 January 2022
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	October 2018	1 January 2019	1 January 2019
Annual improvements to IFRSs – 2015-2017 Cycle	Pending	Pending	1 January 2019
Amendments to IAS 1 and IAS 8 <i>Definition of Materiality</i>	Pending	Pending	1 January 2020
Amendments to IAS 19 <i>Plan Amendment, Curtailment or Settlement</i>	Pending	Pending	1 January 2019
IAS 28 <i>Investments in Associates and Joint Ventures</i>	Pending	Pending	1 January 2019
Amendments to IFRS 3 <i>Business Combinations</i>	Pending	Pending	1 January 2020
Amendments to IFRS 9 <i>Prepayment Features with Negative Compensation</i>	March 2018	1 January 2019	1 January 2019
Amendments to the Conceptual Framework of IFRSs	Pending	Pending	1 January 2020

The Group intends to adopt the standards, interpretations and amendments to standards issued by the IASB applicable to it when they become effective in the EU. Although the Group is currently assessing their impact, based on the analysis performed to date, the Group estimates that their initial application will not have a significant impact on the consolidated financial statements, except for IFRS 16 *Leases*.

IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The

standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

During 2018, the Group has made a detailed assessment of the impact of IFRS 16. Based on these calculations, the Group estimates that from its initial application the impact on its consolidated annual accounts will amount to a greater asset (right of use) and liability (debt - payment obligation) amounting to 1,638 thousand euros. Likewise, the impact on the consolidated income statement for the year 2019 would have a non-significant net impact, because the higher amortisation expense is offset by a lower external services expense.

3. Significant Accounting Principles

(a) Subsidiaries

Subsidiaries are entities over which the Company exercises control, either directly or indirectly through subsidiaries. The Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Company has power over a subsidiary when it has existing substantive rights that give it the ability to direct the relevant activities. The Company is exposed, or has rights, to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

Information on subsidiaries forming the consolidated Group is included in note 1.

The income, expenses and cash flows of subsidiaries are included in the consolidated annual accounts from their acquisition date, which is the date on which the Group obtained effective control of the subsidiaries. Subsidiaries are no longer consolidated once control is lost.

Transactions and balances with Group companies and unrealised gains or losses have been eliminated upon consolidation. Nevertheless, unrealised losses have been considered as an indicator of impairment of the assets transferred.

The subsidiaries' accounting policies have been adapted to Group accounting policies, for like transactions and other events in similar circumstances.

The annual accounts or financial statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent.

(b) Business combinations

The Group applies the acquisition method for business combinations.

The acquisition date is the date on which the Group obtains control of the acquiree.

The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree.

The consideration given excludes any payment that does not form part of the exchange for the acquired business. Acquisition costs are recognised as an expense when incurred.

The Group recognises the assets acquired and liabilities assumed at their acquisition-date fair value. Liabilities assumed include any contingent liabilities that represent present obligations arising from past events for which the fair value can be reliably measured.

(c) Property, plant and equipment

Initial recognition

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

Spare parts for use in installations, equipment and machinery as replacements for similar parts with a warehouse cycle of more than one year are measured using the aforementioned criteria and depreciated over the same period as the related assets. Parts with a warehouse cycle of less than one year are recognised as inventories.

Moulds are considered property, plant and equipment as their period of use exceeds one year, and are depreciated according to the quantities they produce.

At 1 January 2004 the Group applied the exemption permitted by IFRS 1, First-time Adoption of International Financial Reporting Standards, relating to fair value or revaluation as deemed cost, for certain items of property, plant and equipment acquired prior to that date.

Depreciation

The Group determines the depreciation charge separately for each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and with a useful life that differs from the remainder of the asset.

Property, plant and equipment are depreciated on a straight-line basis using the following estimated useful lives:

	Estimated years of useful life
Buildings	20 - 30
Technical installations and machinery	
Internal transport and fixed maintenance installations	6 - 10
General installations	10 - 30
Furnaces, installations and production machinery	8 - 16
Workshop machinery	8 - 14
Furniture	6 - 12
Other property, plant and equipment	8 - 12

The Group reviews residual values, useful lives and depreciation methods for property, plant and equipment at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

Subsequent costs

Subsequent to initial recognition of the asset, only those costs incurred which will generate probable future profits and for which the amount may reliably be measured are capitalised. Costs of day-to-day servicing are recognised in profit or loss as incurred.

Impairment

The Group evaluates and determines impairment losses and reversals of impairment losses on property, plant and equipment in line with the criteria described in section (f).

(d) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that asset (or those assets) is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(e) Intangible assets

(i) Goodwill

Goodwill corresponds to the excess between the consideration paid plus the value assigned to non-controlling interests and the net amount of assets acquired and liabilities assumed in business combinations made by the Group.

Goodwill is not amortised but is tested for impairment annually or more frequently where events or circumstances indicate that an asset may be impaired. Goodwill on business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the business combination and the criteria described in the note on impairment are applied. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(ii) Customer portfolio

“Other intangible assets” includes the allocation of the purchase price related to the acquisition of Santos Barosa Vidros, S.A. (see note 5) attributable to customer acquisition in the business combination, which is amortised over the estimated period in which the cash flows generated are received.

(iii) Internally generated intangible assets

Expenditure on research is recognised as an expense when it is incurred.

Costs associated with development activities relating to the design and testing of new and improved products are capitalised to the extent that:

- The Group has technical studies that demonstrate the feasibility of the production process.
- The Group has undertaken a commitment to complete production of the asset, to make it available for sale (or internal use).

- The asset will generate sufficient future economic benefits as, according to management's best estimates, a market exists that will absorb production or the internal use of the asset.
- The Group has sufficient technical and financial resources to complete development of the asset (or to use the asset internally) and has devised budget control and cost accounting systems that enable monitoring of budgetary costs, modifications and the expenditure actually attributable to the different projects.

Expenditure on activities for which costs attributable to the research phase are not clearly distinguishable from costs associated with the development stage of intangible assets are recognised in profit or loss.

(iv) CO2 emission allowances

Emission allowances are recognised when the Group becomes entitled to such allowances and are measured at cost, less accumulated impairment losses. Allowances acquired free of charge or at a price substantially lower than fair value are carried at fair value, which generally coincides with the market value of the allowances at the beginning of the relevant calendar year. The excess between this value and, where applicable, the payment made for the allowance is credited to government grants under deferred income. Amounts recognised under government grants are taken to profit or loss in accordance with the emissions made as a percentage of total emissions forecast for the entire period for which they have been allocated, irrespective of whether the previously acquired allowances have been sold or impaired.

Expenses generated by the emission of greenhouse gases are recognised in line with the use of emission allowances allocated or acquired as these gases are emitted during the production process, with a credit to the corresponding provision.

Emission allowances recognised as intangible assets are not amortised but written off against the corresponding provision upon delivery to the authorities to cancel the obligations assumed. The Group derecognises emission allowances at weighted average cost.

(v) Other intangible assets

Other intangible assets acquired by the Group are carried at cost, less any accumulated amortisation and impairment losses.

(vi) Useful life and amortisation rates

Intangible assets with finite useful lives are amortised by allocating the depreciable amount of an asset on a systematic basis using the straight-line method over its useful life, which is estimated to be a maximum of ten years for computer software and, in the case of development expenses, the period over which profit is expected to be generated from the start of the commercial production of the product.

The Group reviews the residual value, useful life and amortisation method for intangible assets at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

(vii) Impairment

The Group evaluates and determines impairment losses and reversals of impairment losses on intangible assets in line with the criteria described in section (f).

(f) **Impairment losses of non-financial assets subject to amortisation or depreciation**

The Group tests non-financial assets subject to depreciation or amortisation for impairment with a view to verifying whether their carrying amount exceeds their recoverable amount. The recoverable amount of assets is the higher of their fair value less costs to sell and their value in use determined based on estimated future cash flows.

Negative differences resulting from comparison of the carrying amounts of the assets with their recoverable amount are recognised in profit or loss.

(g) **Financial instruments**

(i) Classification of financial instruments

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

(ii) Offsetting principles

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

(iii) Financial assets

Since January 1, 2018 financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

At initial recognition, the Group measures financial assets at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets measured at fair value through profit or loss are also recognised in profit or loss.

Subsequent measurement depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. After initial recognition, financial assets are classified into three categories:

- *Financial instruments at amortised costs (debt instruments)*

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method. Gains and losses are recognised in profit or loss when the asset is derecognized.

- *Financial assets at fair value through other comprehensive income (debt instruments)*

These are assets acquired for the purpose of selling them in the near term. Derivatives are classified in this category unless they are designated as hedging instruments. These assets are measured both initially and subsequently at fair value, with any changes in fair value recognised in consolidated profit or loss for the year.

Equity instruments classified in this category are recognised at fair value with any gains or losses arising from changes in fair value and proceeds from the sale included in consolidated profit or loss.

The fair values of quoted investments are based on quoted prices (Level 1). For investments in unquoted companies, fair value is based on valuation techniques, including the use of recent arm's length transactions between knowledgeable, willing parties, references to other instruments that are substantially the same and discounted cash flow analysis (Levels 2 and 3). If insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range, the investments are measured at cost less any impairment losses.

- *Financial values at fair value through profit and loss*

Assets that do not meet the criteria of the previous categories are valued at fair value with changes in results.

(iv) Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

Bank loans make up the Group's most important financial liabilities. They are recognised initially at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

The accounting policies for derivatives and hedging instruments are described below in section (h) hedge accounting.

(v) Impairment of financial assets

The Group recognises a loss allowance for impairment losses on financial assets and the uncollectability of loans and other receivables. The recognition criteria followed by the Group is based on the age of the debtors, and the monitoring, knowledge and third-party reports on the debtors' financial situation. When the impairment or uncollectability are considered irreversible because the Group has exhausted all means of claims, including legal, the carrying amount of the asset is eliminated against the loss allowance. Reversals of impairment losses are also recognised against the amount of the allowance account.

Under the new standard (IFRS 9), the general model requires recognition of 12-month or lifetime expected credit losses, depending on the performance of the financial asset's credit risk since initial recognition in the balance sheet. Under the simplified approach, lifetime expected credit losses are recognised based on the information available about past events (such as customer payment behaviour), current conditions and forecasts (macroeconomic factors, such as GDP trends, unemployment, inflation, interest rates) that may affect the credit risk of Vidrala's debtors.

(vi) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has

retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(h) Hedge accounting

Financial derivatives are initially recorded at their acquisition cost in the consolidated balance sheet and, subsequently, the necessary valuation adjustments are made to reflect their fair value. Profits or losses arising from fluctuations in this fair value are recorded in the consolidated income statement, unless the derivatives in question forms part of a cash flow or foreign investment hedge relationship.

The Group has cash flow hedges.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The structure of hedges in the different cases is as follows:

Interest rate hedges

- Hedged item: variable-rate financing received.
- Hedging instrument: the Group manages interest rate risks in cash flows through derivative instrument swaps or interest rate caps. These derivative hedging instruments convert variable interest rates on borrowings to fixed interest rates (swaps) or limit the cost of variable rate borrowings (caps). In some cases, these are forward start instruments, which means that the flows of the hedged item are only hedged from the time the hedging instrument comes into effect.
- Hedged risk: changes in the cash flows of the hedged item (interest payments) in the event of changes in benchmark interest rates.

Energy price swaps

- Hedged item: variable price of gas used as fuel at production plants tied to Brent prices and the euro/dollar exchange rate.
- Hedging instrument: derivative instrument swaps or purchase option caps through which the Group converts the variable purchase cost of certain fuels to a fixed cost (swaps) or limits the variable cost to a maximum price (caps).
- Hedged risk: changes in the cash flows of the hedged item in the event of changes in benchmark fuel prices.

The Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised with a debit or credit to finance costs or finance income.

The Group recognises in profit or loss amounts accounted for in other comprehensive income in the same year or years during which the forecast hedged transaction affects profit or loss and in the same caption of the consolidated income statement.

(i) Parent own shares

The Group's acquisition of equity instruments of the Parent is recognised separately at cost of acquisition in the consolidated balance sheet as a reduction in equity, regardless of the reason for the purchase. No gain or loss is recognised on transactions involving own equity instruments.

Transaction costs related to own equity instruments are accounted for as a reduction in equity, net of any tax effect.

(j) Distribution to shareholders

Dividends are recognised as a reduction in equity when approved by the General Meeting of Shareholders.

(k) Inventories

Inventories are measured at the lower of acquisition or production cost and net realisable value.

The purchase price includes the amount invoiced by the seller, after deduction of any discounts, rebates or other similar items, other costs directly attributable to the acquisition and indirect taxes not recoverable from Spanish taxation authorities.

The Group uses the following measurement criteria to determine the cost of each type of inventory:

- a. Raw materials: at weighted average cost.
- b. Finished goods and work in progress: at actual cost, which includes raw materials, direct labour and direct and indirect manufacturing overheads (based on normal operating capacity).
- c. Auxiliary and production materials: at weighted average cost.

The cost of inventories is adjusted against profit or loss when cost exceeds the net realisable value.

The previously recognised write-down is reversed against profit and loss when the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances. The reversal of the write-down is limited to the lower of the cost and the revised net realisable value of the inventories. Reductions and reversals of the value of inventories are classified under change in inventories of finished goods and work in progress and raw materials and other supplies used in the consolidated income statement.

(l) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions.

(m) Government grants

Government grants are recognised in the balance sheet when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached.

(i) Capital grants

Capital grants awarded as monetary assets are recognised under deferred income in the consolidated balance sheet and allocated to other income in line with the amortisation or depreciation of the assets for which the grants have been received.

The accounting treatment of grants related to emission allowances is described in section (e).

(ii) Operating grants

Operating grants are recognised under other income.

(iii) Interest-rate grants

Financial liabilities comprising implicit assistance in the form of below market interest rates are initially recognised at fair value. The difference between this value, adjusted where necessary for the issue costs of the financial liability and the amount received, is recognised as a government grant based on the nature of the grant awarded.

(n) Employee benefits

(i) Defined benefit plans

The Group includes plans financed through the payment of insurance premiums under defined benefit plans where a legal or constructive obligation exists to directly pay employees the committed benefits when they become payable or to pay further amounts in the event that the insurance company does not pay the employee benefits relating to employee service in the current and prior periods.

Defined benefit liabilities recognised in the consolidated statement of financial position reflect the present value of defined benefit obligations at the reporting date, minus the fair value at that date of plan assets.

Income or expense related to defined benefit plans is recognised as employee benefits expense and is the sum of the net current service cost and the net interest cost of the net defined benefit asset or liability. Remeasurements of the net defined benefit asset or liability are recognised in other comprehensive income, comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability or asset.

The present value of defined benefit obligations is calculated annually by independent actuaries using the Projected Unit Credit Method. The discount rate of the net defined benefit asset or liability is calculated based on the yield on high quality corporate bonds of a currency and term consistent with the currency and term of the post-employment benefit obligations. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high-quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

(ii) Defined contributions

The Group has pension plan commitments. Contributions are made to externally managed funds and are classified as defined contributions.

The Group recognises the contributions payable to a defined contribution plan in exchange for a service when an employee has rendered service to the Group. The contributions payable are recognised as an expense for employee remuneration, and as a liability after deducting any contribution already paid.

(iii) Other commitments with employees

“Provisions” in the consolidated balance sheet include a provision for commitments assumed with the employees of one of the Group’s companies in accordance with legal requirements in the country of origin. According to this legislation, companies are obliged to provide for or contribute certain amounts to an externally managed pension plan, calculated on the basis of employees’ remuneration, which are redeemed when an employee’s working relationship with the company terminates.

(iv) Termination benefits

Under current labor legislation, the Group is required to pay termination benefits to employees terminated under certain conditions.

(v) Short-term employee benefits

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

(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated.

If it is not probable that an outflow of resources embodying economic resources will be required to settle an obligation, the provision is reversed. The provision is reversed against the caption of the consolidated income statement in which the related expense was recognised, and any surplus is accounted for in other income.

(i) Provision for emission allowances

Provision is systematically made under provisions for emission allowances for expenses related to the emission of greenhouse gases at the average price of the allowances expected to be received, and is cancelled through the conveyance of the corresponding allowances, including those purchased to cover the shortfall in allowances received free of charge.

(ii) Provision for defined benefit plans

Income or expense related to defined benefit plans is recognised as employee benefits expense and is the sum of the net current service cost and the net interest cost of the net defined benefit asset or liability. Remeasurements of the net defined benefit asset or liability are recognised in other comprehensive income, comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability or asset.

(p) Revenue recognition

Revenue from contracts with customers should be recognised with accordance with satisfaction of the performance obligations with customers.

Ordinary revenue depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which Vidrala expects to be entitled in exchange for those goods and services.

A five-step model is established for recognising revenue

1. Identifying the contract(s) with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to performance obligations
5. Recognising revenue according to satisfaction of each obligation

Based on this recognition model, sales of goods are recognised when the products have been delivered to and accepted by the customer, even if they have not been invoiced or, where applicable, the services have been rendered and collection of the receivables is reasonably assured.

Discounts for early payment, volume or other, are recognised as a reduction. Revenue is presented net of value-added tax and any other amount or tax whose substance relates to amounts received by third parties.

Discounts granted to customers are recognised when it is probable that the attaching conditions will be met as a reduction of revenue.

(q) Income tax

The income tax expense or tax income for the year comprises current tax and deferred.

Current tax is the amount of income taxes payable or recoverable in respect of the consolidated taxable profit or tax loss for the period.

Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences, whereas deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses and the carryforward of unused tax credits. Temporary differences are considered to be the difference between the carrying amount of the assets and liabilities and their tax base.

Vidrala, S.A. together with Vidrala Desarrollos, S.A., Aiala Vidrio, S.A. and Inverbeira, Sociedad de Promoción de Empresas, S.A. have filed consolidated tax returns since 1 January 2013.

Also Crisnova Vidrio, S.A. and Castellar Vidrio, S.A. Taxed on a consolidated tax return basis as of January 1, 2015.

(i) Recognition of deferred tax liabilities

Deferred tax liabilities are recognized for all temporary differences, except those derived from the initial recognition of goodwill, as well as those associated with investments in subsidiaries, associates and entities under joint control in which Vidrala can control the reversal of these and is likely not to revert in the foreseeable future.

(ii) Recognition of deferred tax assets

The Group recognises deferred tax assets, provided that it is probable that sufficient taxable income will be available against which they can be utilised.

Tax planning opportunities are only considered when assessing the recoverability of deferred tax assets if the Group intends to use these opportunities or it is probable that they will be utilised.

A deferred tax asset is recognised for unused tax losses, tax credits and deductions to the extent that it is probable that future taxable profits will be available against which they can be utilised. Certain deductions for investments in property, plant and equipment or business acquisitions are applied in line with the depreciation period of the assets or business plan of the acquired activities which generated the tax credits with a credit to deferred income (see note 14).

(iii) Measurement

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted. The tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets or liabilities are also reflected in the measurement of deferred tax assets and liabilities.

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces them to the extent that it is no longer probable that sufficient taxable profit will be available to allow the deferred tax assets to be utilised.

Deferred tax assets which do not meet the above conditions are not recognised in the consolidated balance sheet. At the reporting date the Group assesses whether deferred tax assets which were previously not recognised meet the conditions for recognition.

(iv) Offsetting and classification

The Group only offsets deferred tax assets and liabilities if it has a legally enforceable right, when they relate to income taxes levied by the same taxation authority and on the same taxable entity and when the taxation authority permits the Group to make or receive a single net payment, or to recover the assets and settle the liabilities simultaneously in each future year in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Deferred tax assets and liabilities are recognised in the consolidated balance sheet under non-current assets or liabilities, irrespective of the date of realisation or settlement.

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) Environmental issues

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

Expenses derived from environmental activities are recognised as other expenses in the period in which they are incurred. Nonetheless, the Group recognises environmental provisions and, where applicable, reimbursement rights by applying the general criteria described in the note on provisions.

Assets acquired by the Group to minimise the environmental impact of its activity and protect and improve the environment, including the reduction or elimination of future pollution caused by the Group's operations, are recognised in the consolidated balance sheet in line with the recognition, measurement and disclosure criteria detailed in the note on property, plant and equipment.

(t) Foreign currency transactions and balances

The figures disclosed in the consolidated annual accounts are expressed in thousands of euros, the Parent's functional and presentation currency.

Transactions in foreign currency are translated to the functional currency at the foreign exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies have been translated into euros at the closing rate, while non-monetary assets and liabilities measured at historical cost have been translated at the exchange rate prevailing at the transaction date.

In the consolidated statement of cash flows, cash flows from foreign currency transactions have been translated into euros at the exchange rates prevailing at the dates the cash flows occur.

Exchange gains and losses arising on the settlement of foreign currency transactions and the translation into euros of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Exchange gains or losses on monetary financial assets or financial liabilities denominated in foreign currencies are also recognised in profit or loss.

4. Segment reporting

As described below, the Group is organised internally into operating segments, defined as strategic business units. The different strategic business units have similar products and services (the manufacture and sale of glass containers), which are managed

separately and aggregated by geographical market as they require different market strategies. The bottling and logistics services provided in the United Kingdom (note 1) do not entail a separate segment in that they are considered a complementary service to the manufacture and sale of glass containers. The ordinary income generated by these services represents less than 10% of the Group's total ordinary income.

The information used at board and management level and for reporting to third parties is broken down by operating segment.

In 2016, as part of the process of integrating the subsidiary Encirc, the Group redefined its operating segments as follows:

- Continental Europe
- United Kingdom & Ireland

Segment performance is measured based on the pre-tax profit generated by each segment. The profit generated by each segment is used as a measure of its performance because the Group considers that this is the most relevant information in the assessment of the profits generated by specific segments in relation to other groups which operate in these businesses.

Details of Group sales and services assigned to each segment by geographical location of production companies are as follows:

	Thousands of Euros	
	2018	2017
Continental Europe	620,404	513,133
United Kingdom & Ireland	<u>335,022</u>	<u>310,064</u>
	<u>955,426</u>	<u>823,197</u>

The table above shows details of sales and services rendered to external customers. Consequently, there are no transactions between geographical segments.

Non-current assets a 31 December are as follows:

	Thousands of Euros	
	2018	2017
Continental Europe	671,247	673,699
United Kingdom & Ireland	<u>287,115</u>	<u>279,861</u>
	<u>958,362</u>	<u>953,560</u>

Profit before income tax from continuing operations and profit for the year after income tax by geographical location of manufacturing companies are as follows:

Area/location	Thousands of Euros			
	2018		2017	
	Profit before income tax from continuing operations	Profit after income tax	Profit before income tax from continuing operations	Profit after income tax
Continental Europe	92,163	76,506	88,490	74,560
United Kingdom & Ireland	<u>48,261</u>	<u>39,452</u>	<u>21,272</u>	<u>14,586</u>
	<u>140,424</u>	<u>115,958</u>	<u>109,762</u>	<u>89,146</u>

Details of finance income and costs by geographical location of manufacturing companies are as follows:

Area/location	Thousands of Euros			
	2018		2017	
	Expenses	Income	Expenses	Income
Continental Europe	10,049	881	9,082	921
United Kingdom & Ireland	100	2,610	302	1,043
	<u>10,149</u>	<u>3,491</u>	<u>9,384</u>	<u>1,964</u>

Finance costs for the Continental Europe segment include Euros 3,884 thousand (Euros 3,224 thousand in 2017) related to the non current syndicated loan (See note 15).

Details of impairment and reversals of impairment relating to receivables and inventory and changes in provisions by geographical location of manufacturing companies are as follows:

Area/location	Thousands of Euros			
	2018		2017	
	Continental Europe	UK & Ireland	Continental Europe	UK & Ireland
Impairment (reversal) of receivables	466	-	501	18
Impairment of inventory	2,702	6,560	(1,262)	(531)
Changes in provisions	8,661	3,612	11,711	870
	<u>11,829</u>	<u>10,172</u>	<u>10,950</u>	<u>357</u>

Information on the main captions in the consolidated annual accounts by geographical location of production assets is as follows:

Area/location	Thousands of Euros					
	2018			2017		
	Assets	Liabilities	Investments made	Assets	Liabilities	Investments made
Continental Europe	946,263	689,118	70,520	938,249	773,782	79,700
United Kingdom & Ireland	461,072	108,219	41,251	466,650	102,981	29,168
	<u>1,407,335</u>	<u>797,337</u>	<u>111,771</u>	<u>1,404,899</u>	<u>876,763</u>	<u>108,868</u>

Investments for 2018 and 2017 comprise additions of property, plant and equipment (see note 6) and intangible assets (see note 7) and do not reflect the value of emission allowances allocated for the year (see note 7).

The sum of impairment losses and amortisation and depreciation by segments for 2018 and 2017 is as follows:

Area/location	Thousands of Euros			
	Depreciation/amortisation			
	2018		2017	
Property, plant and equipment	Intangible assets	Property, plant and equipment	Intangible assets	
Continental Europe	56,918	5,027	46,674	2,473
United Kingdom & Ireland	29,899	439	28,944	161
	<u>86,817</u>	<u>5,466</u>	<u>75,618</u>	<u>2,634</u>

5. Business combinations

On 26 July 2017, Vidrala, through subsidiary Inverbeira Sociedad de Promoción de Empresas, S.A., entered into purchase-sale agreements for the acquisition of all the shares of Portuguese company Santos Barosa Vidros, S.A.

The transaction was completed on October 13, 2017 after clearance was given by the pertinent anti-trust authorities and the rest of the conditions precedent were met. The integration date in the consolidation perimeter was October 1, 2017.

Santos Barosa Vidros manufactures and sells glass containers through a major production facility located in Marinha Grande, Portugal. The scale of Santos Barosa's cutting-edge production facilities, its geographic fit and strong commercial relationships with its customers prompted the acquisition of this company by the Vidrala Group as part of its strategy to bolster its footprint in the attractive Iberian glass packaging market.

The business acquired contributed revenue and profit before tax to the Group in the period from the acquisition date to December 31, 2017 of Euros 30,762 thousand and Euros 6,430 thousand, respectively.

Had the acquisition been carried out on January 1, 2017, the Group's consolidated revenue and profit for the year ended December 31, 2017 would have reached Euros 925,344 thousand and Euros 102,889 thousand, respectively.

The amounts recognised in 2018, by significant class at the date of acquisition of the assets, liabilities and contingent liabilities are as follows:

	Thousand euros	
	Fair value	Book value
Goodwill	150,657	-
Property, plant and equipment	76,170	79,743
Intangible assets	13,664	427
Deferred tax assets	1,784	522
Inventories	11,861	11,861
Other current assets	4,991	4,991
Trade and other receivables	29,682	29,682
Cash and cash equivalents of the acquiree	7,184	7,184
Total assets	295,993	134,410
Deferred income	-	1,956
Trade and other payables	13,341	13,341
Other non-commercial debts	12,075	12,075
Provisions	2,524	14
Deferred tax liabilities	3,686	11
Other liabilities	18,865	18,865
Total liabilities and contingent liabilities	50,491	46,262
Total net assets acquired	245,502	88,148
Cash outflow for the acquisition	245,502	

The above amount, which was fully paid through new financing obtained for the acquisition (see note 15), comprised the price of the assets and the assumption of all debt.

The cash outflow arising from the acquisition of Santos Barosa Vidros, S.A. is as follows:

	<u>Cash flows from the acquisition</u>
Net cash acquired from the subsidiary	(10,269)
Cash paid	<u>245,502</u>

The total price of the acquisition (Enterprise value) as of October 13, 2017 amounted to 252,709 thousand euros.

Regarding items related to receivables, "Trade and other receivables" includes outstanding balances receivable from third parties net of impairment, while "Other current assets" includes receivables from Public Entities.

The Euros 150 million of goodwill arising on the business combination was due, among other factors, to the synergies with the Parent of the Vidrala Group, mostly cost savings, as the Company has its own sales force that will support the acquiree, and skilled staff that will drive savings in personnel costs.

Expenses derived from the acquisition amounting to 4,185 thousand euros have been recorded against results.

The accounting for the business combination is completed as of the date of preparation of these Consolidated Annual Accounts for the year ended December 31, 2018. During fiscal year 2018 no adjustments were made to the amounts recognized in the financial statements as of 2017, broken down into the previous table.

6. Property, Plant and Equipment

Details of property, plant and equipment and movement during 2018 and 2017 are as follows:

	Thousands of Euros						Balances at 31.12.2018
	Balances at 31.12.2017	Additions	Business combination	Disposals	Translation differences	Transfers	
2018							
Cost							
Land and buildings	324,868	6,743	-	(1,227)	(866)	7,396	336,914
Technical installations and machinery	811,559	50,654	-	(39,758)	(2,118)	27,731	848,068
Moulds	97,237	10,341	-	(10,665)	(216)	1,232	97,929
Furniture	11,212	20	-	(3)	(3)	(304)	10,922
Other property, plant and equipment	3,764	2,564	-	(4,530)	-	1,633	3,431
Work in progress	57,874	22,826	-	(228)	(157)	(37,688)	42,627
	1,306,514	93,148	-	(56,411)	(3,360)	-	1,339,891
Depreciation							
Land and buildings	(92,925)	(9,781)	-	532	138	-	(102,036)
Technical installations and machinery	(442,681)	(58,929)	-	35,364	981	704	(464,561)
Moulds	(65,778)	(11,785)	-	9,396	197	-	(67,970)
Furniture	(10,426)	(153)	-	2,655	3	279	(7,642)
Other property, plant and equipment	(3,037)	(2,064)	-	5,252	-	(983)	(832)
	(614,847)	(82,712)	-	53,199	1,319	-	(643,041)
Impairment							
Moulds	(8,631)	(4,306)	-	201	-	-	(12,736)
Carrying amount	683,036						684,114

Thousands of Euros

2017	Balances at 31.12.2016	Additions	Disposals	Translation differences	Transfers	Balances at 31.12.2017
<u>Cost</u>						
Land and buildings	297,917	5,001	(2,102)	(3,679)	6,445	324,868
Technical installations and machinery	742,445	16,271	(28,906)	(9,160)	47,566	811,559
Moulds	83,863	9,691	-	(795)	2,303	97,237
Furniture	11,494	22	(474)	(13)	2	11,212
Other property, plant and equipment	3,582	-	(72)	-	24	3,764
Work in progress	35,389	70,169	-	(301)	(56,338)	57,874
	<u>1,174,690</u>	<u>101,154</u>	<u>(31,554)</u>	<u>(13,948)</u>	<u>2</u>	<u>1,306,514</u>
<u>Depreciation</u>						
Land and buildings	(87,598)	(7,560)	1,940	293	-	(92,925)
Technical installations and machinery	(417,392)	(56,247)	28,661	2,297	-	(442,681)
Moulds	(55,807)	(10,406)	-	435	-	(65,778)
Furniture	(10,789)	(112)	467	8	-	(10,426)
Other property, plant and equipment	(2,999)	(41)	3	-	-	(3,037)
	<u>(574,585)</u>	<u>(74,366)</u>	<u>31,071</u>	<u>3,033</u>	<u>-</u>	<u>(614,847)</u>
<u>Impairment</u>						
Moulds	(7,378)	(1,746)	493	-	-	(8,631)
<u>Carrying amount</u>	<u>592,727</u>					<u>683,036</u>

Main additions for 2018 correspond to the investment plans for the complete update of the production plants located in Italy (Euros 27,958 thousand) and the United Kingdom (Euros 33,733 thousand), as well as the production plant associated with the Group company of the Castellar Vidrio (Euros 16,329 thousand).

Likewise, main decreases recorded during 2018 correspond to the updates made to the assets related to the production plants in Italy (Euros 24,610 thousand) and Castellar Vidrio (Euros 9,213 thousand).

(a) Government grants received

Deferred income in the consolidated balance sheet includes government grants received for investments made by Group companies in property, plant and equipment. Income pending recognition from these grants amounts to Euros 11,731 thousand at 31 December 2018 (Euros 16,772 thousand at 31 December 2017) (see note 14).

(b) Commitments

Commitments for the acquisition of property, plant and equipment are as follows:

	Thousands of Euros	
	2018	2017
Technical installations and machinery	<u>9,484</u>	<u>18,963</u>

(c) Insurance

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

(d) Fully depreciated assets

At 31 December 2018 the restated cost of fully depreciated property, plant and equipment in use amounts to Euros 362 million (Euros 207 million at 31 December 2017).

7. Intangible Assets

Details of intangible assets and movement during 2018 and 2017 are as follows:

	Thousands of Euros							
	R&D expenditure	Emission allowances	Computer software	Work in progress	Other Intangible assets	Customer portfolio	Goodwill	Total
2018								
Cost								
Balances at 31 December 2017	3,057	3,195	18,378	359	285	13,237	209,890	248,401
Additions	126	14,645	3,841	-	11	-	-	18,623
Transfers	355	-	(355)	-	-	-	-	-
Disposals	-	(11,187)	(180)	-	-	-	-	(11,367)
Translation differences	-	(2)	(30)	-	-	-	-	(32)
	<u>3,538</u>	<u>6,651</u>	<u>21,654</u>	<u>359</u>	<u>296</u>	<u>13,237</u>	<u>209,890</u>	<u>255,625</u>
(Balances at 31 December 2018)								
Amortisation								
Balances at 31 December 2017	(2,505)	-	(11,625)	-	(9)	(1,018)	-	(15,157)
Additions	(239)	-	(1,132)	-	(22)	(4,073)	-	(5,466)
Disposals	-	-	24	-	-	-	-	24
Balances at 31 December 2018	<u>(2,744)</u>	<u>-</u>	<u>(12,733)</u>	<u>-</u>	<u>(31)</u>	<u>(5,091)</u>	<u>-</u>	<u>(20,599)</u>
Carrying amount								
At 31 December 2017	<u>552</u>	<u>3,195</u>	<u>6,753</u>	<u>359</u>	<u>276</u>	<u>12,219</u>	<u>209,890</u>	<u>233,244</u>
At 31 December 2018	<u>794</u>	<u>6,651</u>	<u>8,921</u>	<u>359</u>	<u>265</u>	<u>8,146</u>	<u>209,890</u>	<u>235,026</u>

	Thousands of Euros							
2017	R&D expenditure	Emission allowances	Computer software	Work in progress	Other Intangible assets	Customer portfolio	Goodwill	Total
Cost								
Balances at 31 December 2016	2,970	5,494	15,711	359	-	-	59,233	83,767
Additions	21	3,237	2,822	-	6	-	150,657	156,743
Business Combinations	-	154	-	-	273	13,237	-	13,664
Transfers	66	-	(74)	-	6	-	-	(2)
Disposals	-	(5,682)	-	-	-	-	-	(5,682)
Translation differences	-	(8)	(81)	-	-	-	-	(89)
(Balances at 31 December 2017)	3,057	3,195	18,378	359	285	13,237	209,890	248,401
Amortisation								
Balances at 31 December 2016	(1,939)	-	(10,585)	-	-	-	-	(12,524)
Additions	(566)	-	(1,040)	-	(9)	(1,018)	-	(2,633)
Disposals	-	-	-	-	-	-	-	-
Balances at 31 December 2017	(2,505)	-	(11,625)	-	(9)	(1,018)	-	(15,157)
Carrying amount								
At 31 December 2016	1,031	5,494	5,126	359	-	-	59,233	71,243
At 31 December 2017	552	3,195	6,753	359	276	12,219	209,890	233,244

(a) Impairment and allocation of goodwill to CGUs

For impairment testing purposes, goodwill has been allocated to the Group's cash-generating units (CGUs) based on the production unit that generated the cash, as follows:

Cash Generating Unit	Country	Thousands of Euros	
		2018	2017
Gallo Vidro	Portugal	20,799	20,799
Castellar Vidrio	Spain	26,155	26,155
Vidrala Italia	Italy	12,279	12,279
Santos Barosa Vidrio	Portugal	150,657	150,657

The recoverable amount of a CGU is determined based on value in use calculations using the discounted cash flow method. These calculations are based on cash flow projections for a five-year period from the financial budgets approved by management. Cash flows beyond this period are extrapolated using the estimated growth rates indicated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The Vidrala Group carried out its impairment tests using the best information available on the growth of sales and gross margin for each CGU. It used data on past performance of each plant and the best forecasts for market performance and trends in manufacturing costs, as well as outlooks included in industry reports. The average increases in sales and gross margin for the projection period are 2.7% and 3.0%, respectively, which the Group considers reasonable in light of the current market environment.

The discount rates reflect the specific risks of each CGU.

The pre-tax discount rate and the annual growth rate considered for each CGU after the projection period are as follows:

Cash-Generating Unit	2018 Discount rate	2017 Discount rate
Gallo Vidro	7.0%	7.2%
Castellar Vidrio	6.8%	6.9%
Vidrala Italia	6.9%	7.1%
Santos Barosa Vidros	7.0%	-

The Vidrala Group also performed a sensitivity analysis of the key assumptions to a reduction in/flat sales and gross margin of +/- 2%. This change in assumptions would not give rise to impairment of any CGU.

The Vidrala Group does not consider any reasonably possible changes in the key assumptions, including the discount rates, that would result in the recognition of impairment of any of its CGUs.

(b) Fully amortised assets

At 31 December 2018, there were fully amortised items of intangible assets still in use with an updated cost of Euros 15 million (Euros 12 million at 31 December 2017).

8. Derivative Financial Instruments

Details of derivative financial instruments are as follows:

	Thousands of Euros			
	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Hedging derivatives				
Interest rate swaps	-	3,132	-	2,473
Inflation swaps	92	51	300	-
Energy price options	<u>8,850</u>	<u>8,496</u>	<u>4,969</u>	<u>-</u>
Total (note 13)	<u>8,942</u>	<u>11,679</u>	<u>5,269</u>	<u>2,473</u>

These financial instruments are classified in accordance with categories established in IFRS 13 using the valuation method, input level 2: unquoted prices obtained from observable markets.

Swaps and options

The Group uses swaps and options on interest rates, inflation, foreign currencies and energy prices to manage its exposure to fluctuations in these variables.

The fair values of these instruments are determined by direct reference to observable market interest rate curves at the measurement date.

The Group applies hedge accounting to these swap and option contracts.

Interest rate hedging instruments contracted between 2016 and 2018 have an accumulated nominal of Euros 458,500 thousand at 31 December 2018. Under these contracts, effective until 2023, the Group will pay a fixed interest rate of between (0.335)% and 0.535%

The inflation hedging instruments contracted in the year 2018, recorded a cumulative nominal as of December 31, 2018 of 28,500 thousand euros for the period covered until 2019 and 10,000 thousand euros for 2020. Through these contracts, the Group guaranteed a maximum salary increase in certain costs related to the variation of the Spanish consumer price index that will be between 0.85% and 1.75%.

Energy price hedging instruments have an accumulated nominal of Euros 71,119 thousand at December 31, 2018. As a result of these contracts, effective until 2021, the Group estimates that it has hedged approximately 45% of its expected exposure to fluctuations in energy markets over the aforementioned period.

Total cash flow hedges recognised in equity and taken to other comprehensive income under finance costs, are as follows:

	Thousands of Euros	
	Income/(Expenses)	
	2018	2017
Other comprehensive income	(3,075)	(375)
Reclassification to finance costs	<u>(2,458)</u>	<u>1,486</u>
	<u>(5,533)</u>	<u>1,111</u>

The classification of cash flow hedges by reporting periods in which the cash flows are expected to occur, which coincides with those expected to impact the consolidated income statement, is as follows:

	Thousands of Euros						
	Carrying amount	Expected cash flows	2018				
			Occurrence of cash flows				
		2019	2020	2021	2022	2023	
Interest rate swaps	<u>(3,132)</u>	<u>(3,205)</u>	<u>(1,572)</u>	<u>(1,096)</u>	<u>(588)</u>	<u>35</u>	<u>16</u>
Inflation swaps	<u>41</u>	<u>41</u>	<u>41</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Energy price options	<u>354</u>	<u>354</u>	<u>2,241</u>	<u>(1,062)</u>	<u>(825)</u>	<u>-</u>	<u>-</u>

Thousands of Euros							
2017							
Carrying amount	Expected cash flows	Occurrence of cash flows					
		2018	2019	2020	2021	2022	
Interest rate swaps	(2,473)	(2,546)	(1,135)	(1,565)	(299)	452	1
Exchange rate swaps							
Inflation swaps	300	300	43	128	129	-	-
Energy price options	4,969	4,969	3,569	1,191	209	-	-

9. Income Tax

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

Thousands of Euros						
Deferred tax assets	Loans for losses to be offset	Provisions for personnel	Rights to tax deductions and credits	Financial liabilities	Other	Total
At 31 December 2016	4,660	702	10,811	2,211	21,383	39,768
(Debit) credit to income statement	(3,112)	28	(2,672)	-	17	(5,739)
Debit (credit) to other comprehensive income	-	-	-	(795)	-	(795)
Business combinations	-	-	-	-	1,784	1,784
Translation differences	-	-	-	-	286	286
At 31 December 2017	1,548	730	8,139	1,416	23,470	35,304
(Debit) credit to income statement	1,235	7	(3,315)	-	3,073	1,000
Debit (credit) to other comprehensive income	-	-	-	2,418	-	2,418
Translation differences	-	-	-	-	(27)	(27)
At 31 December 2018	2,783	737	4,824	3,834	26,516	38,695

Deferred tax liabilities	Thousands of Euros				
	Goodwill	Property, plant and equipment	Financial assets	Other	Total
At 31 December 2016	21,764	24,051	1,713	338	47,866
Debit (credit) to income statement	1,944	4,236	-	(286)	5,894
Debit (credit) to other comprehensive income	-	-	203	(522)	(319)
Translation differences	-	(279)	-	-	(279)
Transfer	(11,733)	-	-	-	(11,733)
Business combinations	-	-	-	3,686	3,686
At 31 December 2017	11,975	28,008	1,916	3,216	45,115
Debit (credit) to income statement	3,465	3,558	-	(2,346)	4,677
Debit (credit) to other comprehensive income	-	-	990	-	990
Translation differences	-	(97)	-	-	(97)
At 31 December 2018	15,440	31,469	2,906	1,331	51,146

“Other” includes mainly temporary differences arising on the acquisition of Santos Barosa (see note 5) and of Encirc in 2015. The Directors of the Company consider that the current level of profits ensures the recoverability of the full amount of deferred tax assets.

In 2013 the Company restated its balance sheet in accordance with Law 16/2012 of 27 December 2012, and Regulatory Decree 15/2012 of 28 December 2012 on urgent tax measures applicable to Group companies registered for tax in Alava, which introduced several fiscal measures to consolidate public finances and boost economic activity. Restating its balance sheet, which had no effect for accounting purposes, raised the tax base of property, plant and equipment by Euros 5,991 thousand. Consequently, the Group recognised a deferred tax asset of Euros 1,758 thousand under 'other', with a charge to income tax for 2013, net of the 'one-off tax charge' of Euros 299 thousand.

As permitted by Decree Law 66/2016 published by the Portuguese government on 3 November 2016, the Company revalued certain assets of its Portuguese subsidiary for tax purposes in 2016. As a result of this revaluation, the tax value of the assets has increased by Euros 8,887 thousand, giving rise to a deferred tax asset of Euros 2,311 thousand.

Deferred taxes on items debited/(credited) directly to other comprehensive income in 2017, corresponding to hedging operations, amounted to Euros 1,383 thousand (Euros 311 thousand at 31 December 2017).

Details of the income tax expense are as follows:

	Thousands of Euros	
	2018	2017
Current tax		
Present year	21,188	10,523
Prior year adjustments	<u>(253)</u>	<u>(488)</u>
Deferred tax		
Source and reversal of temporary differences	3,913	6,310
Income from reduction in deferred tax liabilities	3,088	2,444
Adjustments for change type of tax	(1,877)	(520)
Expense for reduction of assets for taxes deferred	376	4,440
Prior year adjustments	206	470
Other	357	-
Deferred income taken to income tax (note 14)	<u>(2,532)</u>	<u>(2,563)</u>
Total	<u>24,466</u>	<u>20,616</u>

Details of the income tax expense related to profit from continuing operations are as follows:

	Thousands of Euros	
	2018	2017
Profit for the year before income tax from continuing operations	<u>140,424</u>	<u>109,762</u>
Compensation of negative tax bases from previous years	<u>(1,184)</u>	<u>(2,536)</u>
Tax calculated at the tax rate of each country	30,392	26,463
Deductions for the year	(587)	(1,018)
Prior year adjustments	(48)	(149)
Adjustments for changes in tax rate	(1,877)	(520)
Expense for reduction in deferred tax assets	376	4,440
Deferred income taken to income tax (note 14)	(2,532)	(2,563)
Permanent differences	<u>(1,258)</u>	<u>(6,037)</u>
Income tax expense	<u>24,466</u>	<u>20,616</u>

In general, each Group company has open to inspection by the taxation authorities the years which have not prescribed in accordance with tax legislation applicable to each company.

The years open to inspection by the taxation authorities vary for the different companies of the consolidated tax group, but mainly cover the last three or four years.

Permanent differences arise from the application of the tax rate to non-taxable income, which mainly consists of the following:

- In accordance with applicable tax regulations, the Company has applied a 60% reduction to income deriving from the temporary transfer of intangible assets developed by the Company to Group companies for an amount of Euros 5,809 thousand.
- The Company has applied a reduction of 10% of the amount of the increase in its equity for tax purposes compared to the average for the two prior periods for an amount of Euros 8,000 thousand. In this regard, it has apportioned an amount equal to non-distributable reserves for a minimum period of five years, except for the portion of the increase that is incorporated into capital.

In accordance with current legislation in Spain, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed. At 31 December 2018 all main applicable taxes since 31 December 2013 are open to inspection by the taxation authorities. Due to the treatment permitted by fiscal legislation of certain transactions, additional tax liabilities could arise in the event of inspection. In any event, the directors do not consider that any such liabilities that could arise would have a significant effect on the 2018 consolidated annual accounts taken as a whole.

10. Inventories

Details of inventories are as follows:

	Thousands of Euros	
	2018	2017
Raw materials	13,138	14,278
Auxiliary and production materials	76,870	70,821
Finished goods and work in progress	<u>118,172</u>	<u>118,501</u>
	208,180	203,600
Impairment	<u>(23,033)</u>	<u>(13,771)</u>
	<u>185,147</u>	<u>189,829</u>

At 31 December 2018 and 2017 there are no inventories with a recovery period of more than 12 months from the consolidated balance sheet date.

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

The effect of the change in impairment has been recognised under changes in inventories of finished goods and work in progress.

11. Trade and Other Receivables

Details of trade and other receivables are as follows:

	Thousands of Euros	
	2018	2017
Trade receivables	224,080	204,919
Other loans	2,119	8,109
Less impairment due to uncollectibility	<u>(7,113)</u>	<u>(6,647)</u>
Total	<u>219,086</u>	<u>206,381</u>

The carrying amount of trade and other receivables does not differ significantly from their fair value.

Based on recoverability levels, the Company considers all balances older than 30 days to be past due.

As explained in the note on risks in the directors' report, the level of actual recoverability of matured loans in the past is significant, thus bringing actual uncollectibility to below the aforementioned percentage.

There is no concentration of credit risk as regards trade receivables as the Group has a large number of customers worldwide.

At 31 December 2018 and 2017 the Company has no trade and other receivables discounted at financial institutions.

12. Other Current Assets and Liabilities

Details of other current assets are as follows:

	Thousands of Euros	
	2018	2017
Public entities		
Value added tax	12,903	8,946
Other items	<u>115</u>	<u>181</u>
	<u>13,018</u>	<u>9,127</u>

Details of other current liabilities are as follows:

	Thousands of Euros	
	2018	2017
Public entities		
Value added tax	20,942	10,749
Withholdings and payments on account	2,594	5,463
Social Security	3,643	3,564
Other	<u>4,140</u>	<u>1,078</u>
	<u>31,319</u>	<u>20,854</u>

13. Equity

Details of equity and movement during the year are shown in the statement of changes in equity.

Details of other reserves and retained earnings and movement during the year are shown in the Appendix.

(a) Capital

Movement of issued and outstanding shares in 2018 and 2017 is as follows:

	Number of shares outstanding	Thousands of Euros		
		Ordinary shares	Own shares	Total
At 31 December 2016	24,734,442	25,290	(2,824)	22,466
Acquisition of own shares	(70,918)	-	(3,529)	(3,529)
Sale of own shares	64,317	-	3,006	3,006
At 31 December 2017	24,727,841	25,290	(3,347)	21,943
Acquisition of own shares	(34,244)	-	(2,852)	(2,852)
Sale of own shares	25,000	-	1,325	1,325
	1,236,429	1,265	-	1,265
At 31 December 2018	25,955,026	26,555	(4,874)	21,681

At 31 December 2017 the share capital of Vidrala, S.A. is represented by 24,794,341 ordinary shares represented by book entries of Euros 1.02 par value each, fully paid and listed on the on the Madrid and Bilbao stock exchanges.

At the Annual General Meeting of Vidrala, S.A. held on 29 May 2018, approval was given to increase share capital by a specific amount according to the terms of the resolution via the issuance of new ordinary shares with par value of one euro and 2 cents (Euros 1.02) each, without a share premium, all of the same class and series as those outstanding, with a charge to unrestricted reserves. The objective was to allocate them freely to Company shareholders in the proportion of one (1) new share for every twenty (20) existing shares. The admission to trading of the shares was verified by the National Securities Market Commission (Comisión Nacional del Mercado de Valores) via a resolution of 29 November 2018 and the new shares began trading on the Bilbao and Madrid stock exchanges on 30 November 2018.

As a result, share capital increased by Euros 1,265 thousand via the issuance and circulation of 1,239,718 new ordinary shares of Euros 1.02 par value each.

Vidrala, S.A.'s share capital post-increase amounted to Euros 26,555 thousand, divided up into 26,034,059 shares of one euro and two euro cents (Euros 1.02) par value each.

All the shares, except for treasury shares, have the same voting and dividend rights. Voting and dividend rights of treasury shares have been suspended, except for the right to the free allocation of new shares, as provided for in Article 148 of the Corporate Enterprises Act.

The number of shares resulting from the capital increase does not include treasury shares.

All of the shares of the Company are admitted to official trading on the Spanish continuous market. There are no restrictions on the free transferability of the shares. No shareholder has an ownership interest equal to or greater than 10%.

In addition, at the Annual General Meeting of Vidrala, S.A. held on 29 May 2018, shareholders gave the Board of Directors authorisation for the derivative acquisition of treasury shares, directly or through group companies, and for a reduction of share capital, as appropriate, to cancel the treasury shares, conferring the necessary powers to the Board of Directors to execute them.

Under the scope of this authorisation, on 20 December 2018, the Board of Directors resolved to carry out a share buyback programme, cancelling the shares and reducing the Company's share capital with the objective of contributing to the shareholder remuneration policy by raising earnings per share.

Under this programme, the Company intends to repurchase shares representing up to 1% of share capital on the market. As the Company will contribute to this programme the 69,073 treasury shares already held at that time, it will acquire up to a maximum of 192,000 shares, for a maximum cash amount of Euros 16 million. The share buyback programme will last up to twelve (12) months, although the Company reserves the right to end it before then if it reaches the maximum cash amount or the maximum number of shares authorised by the Board of Directors, or if other circumstances warrant.

In 2018 and 2017, a total of 34,244 and 70,918 shares, respectively, were acquired on the market, for a total amount of Euros 2,852 thousand and Euros 3,529 thousand, respectively.

The Group manages its capital with the aim of safeguarding its capacity to continue operating as a going concern, so as to continue providing shareholder remuneration and benefiting other stakeholders, while maintaining an optimum capital structure to reduce the cost of capital.

To maintain and adjust the capital structure, the Group can adjust the amount of dividends payable to shareholders, repurchase or sell own shares, reducing capital if necessary by redeeming own shares, reimburse capital, issue shares or dispose of assets to reduce debt.

The Vidrala Group controls its capital structure using a number of different indicators. One of these is the ratio of equity as a percentage of total equity and liabilities on the consolidated balance sheet, which it endeavours to keep no lower than 20%.

In 2018, as a result of the increase in debt due to the extraordinary financing assumed for the acquisition of Santos Barosa in the year (see note 15), the Group's capital ratios decreased, as shown in the following ratios for 2018 and 2017:

	Thousands of Euros	
	2018	2017
Total equity	609,998	528,136
Total equity and liabilities	1,407,335	1,404,899
Total equity/total equity and liabilities	<u>43.3%</u>	<u>37.59%</u>

The Vidrala Group controls its levels of net financial debt based on net debt as a percentage of equity.

This calculation was performed as follows:

	Thousands of euros	
	2018	2017
Net financial debt	411,094	487,295
Equity	609,998	528,136
Debt ratio	<u>0.67</u>	<u>0.92</u>

Net financial debt is understood as the sum of current and non-current loans and borrowings, less cash and cash equivalents in the accompanying consolidated balance sheet.

In conclusion, year-end solvency indicators for the Group have strengthened, showing a debt-to-equity ratio of 0.67 (0.92 at the 2017 close) and debt equivalent to 1.7 times accumulated EBITDA (2.2 at the 2017 close). The interest coverage ratio, measured as EBITDA for the year divided by the consolidated net finance cost, is 35.8.

(b) Other reserves

- **Revaluation reserve Provincial Law 4/1997**

This revaluation reserve comprises the revaluation carried out by the Parent as permitted by Alava Provincial Law 4/1997 of 7 February 1997, whereby Vidrala revalued its property, plant and equipment in 1996 by a net amount of Euros 3.8 million.

- **Revaluation reserve Decree Law 66/2016**

In fiscal year 2018 no movements have been recorded under this heading.

- **Capitalisation reserve**

The capitalisation reserve was allocated in accordance with Article 51 of Regional Law 37/2013, of 13 December, on Corporate Income Tax in Alava, which requires allocation of the reserve in the amount eligible for deduction from the tax group's taxable income for the year.

Taxpayers may deduct from the tax base an amount equal to 10% of the increase in equity net of the related tax effect from the previous year. In these cases, they must earmark the increase to a non-distributable reserve for a minimum period of five years starting from the end of the tax period in which the deduction was taken, except for the portion of the increase included in capital. During this five-year period, the amount of the Company's equity net of the related tax effect must remain unchanged or increase, except in the event of a reduction caused by accounting losses. The increase in equity net of the related tax effect arising from the allocation to legal or bylaw-stipulated reserves is not eligible for applying this article.

At 31 December 2018 the Group has included a non-distributable capitalisation reserve of Euros 210,671,076.11 within voluntary reserves.

- **Legal reserve**

The legal reserve has been appropriated in compliance with article 274 of the Revised Spanish Companies Act, which requires that companies transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital.

The legal reserve is not distributable to shareholders and if it is used to offset losses, in the event that no other reserves are available, the reserve must be replenished with future profits.

(c) **Other comprehensive income**

Movement in cash flow hedges and the tax effect, is as follows:

	Thousands of Euros		
	Cash flow hedges	Tax effect	Net
Balances at 31 December 2016	1,747	(489)	1,258
Income and expenses generated during the year	(375)	105	(270)
Reclassification to profit or loss	1,486	(416)	1,070
	2,858	(800)	2,058
Balances at 31 December 2017			
Income and expenses generated during the year	(3,075)	768	(2,307)
Reclassification to profit or loss	(2,458)	615	(1,843)
	(2,675)	583	(2,092)
Balances at 31 December 2018			

Translation differences

Translation differences fully comprise the effect of converting the financial statements of the subsidiary Encirc, the functional currency of which is the Pound Sterling, giving a negative impact for the year of Euros 3,753 thousand (Euros 14,057 thousand in 2017) deriving from the appreciation of the euro against the pound.

Defined benefit plans

These fully comprise the cost of defined benefit plans for pensions and other post-employment medical benefits for the subsidiary Encirc, the impact of which on other comprehensive income is Euros 623 thousand (see note 19).

(d) Dividends and restrictions on distribution of dividends

Total dividends distributed by Vidrala, S.A. to shareholders in 2018 amounted to Euros 23,784 thousand (Euros 19,827 thousand in 2017), which is equivalent to 96.19 euro cents per share outstanding (80.16 euro cents in 2017). The dividends reflect the distribution of 2017 profit.

The amount paid as an attendance bonus to the General Shareholders' Meeting during the financial year 2018 amounted to Euros 867 euros (Euros 668 thousand in 2017).

The distribution of Company profits and reserves for the year ended 31 December 2017, approved by the shareholders at their annual general meeting held on May 29, 2018, was as follows:

<u>Basis of allocation</u>	<u>Euros</u>
Profit for the year	121,652,807.75
<u>Distribution</u>	
Other reserves	97,869,198.28
Dividend	6,559,301.59
Interim dividend	<u>17,224,307.88</u>
	<u>121,652,807.75</u>

On 20 December 2018 the directors agreed to distribute an interim dividend on 2018 profit of 76.64 euro cents per share to shareholders, totalling Euros 19,899 thousand, which was paid on February 14, 2019.

The amount distributed did not exceed the profits reported by the Parent since the end of the previous reporting period, after deducting the estimated income tax payable on these profits, as required by article 277 of the Revised Spanish Companies Act.

The provisional accounting statement prepared in accordance with statutory requirements demonstrating that sufficient cash was available for distribution of the aforementioned dividend is as follows:

	<u>Thousands of Euros</u>
Forecast distributable profit for 2018	
Projected profit after income tax to 31.12.2018	
Interim dividend distributed	19,899
Forecast cash flow for the one-year period from 20 December 2018	
Cash and cash equivalents at agreement date	1,666
Credit facilities available at agreement date	87,633
Projected operating receipts and payments (net)	64,483
Other cash disbursements	<u>(23,176)</u>
Credit facilities available (one year later)	<u>130,606</u>

The proposed distribution of 2018 profit and other Parent reserves to be submitted to the shareholders for approval at their annual general meeting is as follows:

<u>Basis of application</u>	<u>Euros</u>
Profit for the year	83,104,310.27
<u>Distribution</u>	
Other reserves	55,633,352.54
Dividend	7,571,600.18
Interim dividend	<u>19,899,357.55</u>
	<u>83,104,310.27</u>

The proposed distribution of dividends is equivalent to a total unit dividend, including the interim dividend paid, of Euros 1.0581 per share outstanding at the reporting date.

14. Deferred Income

Details of this caption are as follows:

	<u>Thousands of Euros</u>	
	<u>2018</u>	<u>2017</u>
Capital grants (note 6(a))	11,731	16,772
Tax credits for investments	<u>6,107</u>	<u>8,639</u>
	<u>17,838</u>	<u>25,411</u>

During 2018, the Group has added additional capital grants amounting to Euros 662 thousand (no new capital grants were added in 2017), being the gross allocation during 2018 to the consolidated profit and loss account amounting to Euros 4,250 thousand (3,286 thousand euros in 2017) (see note 22).

Tax credits capitalised in 2004 and 2005 were recorded as deferred income and taken to the income statement in line with the depreciation of the financed assets, in the case of property, plant and equipment, or the recovery of the investments in the case of business combinations. In this regard, during fiscal year 2018 and 2017, 2,532 and 2,563 thousand euros, respectively, have been charged to the profit and loss account as a lower amount of the income tax item (see note 9).

15. Debt with Financial Institutions

Details of current and non-current loans and borrowings are as follows:

	Thousands of Euros			
	2018		2017	
	Non-current	Current	Non-current	Current
Loans and borrowings	346,787	36,234	476,265	37,871
Finance Lease	40,916	-	-	-
Other financial liabilities	7,184	2,370	11,554	3,255
Accrued interest	-	276	-	393
	<u>394,887</u>	<u>38,880</u>	<u>487,819</u>	<u>41,519</u>

Some of these contracts contain financial covenant clauses. At 31 December 2018 and 2017 the Group complies with these requirements.

Other financial liabilities include interest-free loans from public entities.

The terms and conditions of these loans and borrowings are as follows:

Type	Extended	Maturity	Limit extended/ nominal amount	Thousands of Euros	
				Current	Non-current
Loan	2015	2023	440,000	28,437	258,412
Loan	2018	2021	15,000	-	15,000
Credit facility	2018	2021	15,000	-	3,375
Loan	2018	2021	25,000	-	2,000
Loan	2017	2029	45,000	-	45,000
Credit facility	2010	2021	30,000	-	-
Other short-term credit facilities	2018	2019	107,750	7,797	-
				<u>36,234</u>	<u>346,787</u>

Non-current loans and borrowings mature as follows:

	Thousands of Euros	
	2018	2017
Between 1 and 2 years	77,509	11,498
Between 2 and 5 years	289,442	353,696
More than 5 years	<u>27,936</u>	<u>122,625</u>
	<u>394,887</u>	<u>487,819</u>

In the following table changes in liabilities from financing activities have been disclosed, with the aim of providing information about historical movements in cash and cash equivalents, as required by IAS 7:

	Thousand of euros				31 December 2018
	1 January 2018	Cash Flows	Changes in fair value	Other	
Current loans and borrowing	41,519	(2,639)	-	-	38,880
Non-current loans and borrowings	487,819	(95,289)	-	2,357	394,887
Dividends payable	17,225	(17,225)	-	19,899	19,899
Total liabilities arising from financing activities	<u>546,563</u>	<u>(115,153)</u>	<u>-</u>	<u>22,256</u>	<u>453,666</u>

On January 12, 2015 Vidrala, S.A. entered into a secure financing agreement for an amount of Euros 465 million, divided into three tranches - a bridge loan, a non-current loan and a revolving credit facility - in order to transitionally fund the acquisition of Encirc Ltd., which was paid on January 14, 2015 through its subsidiary Inverbeira Sociedad Promoción de Empresas, S.A.

With a view to structuring its non-current defined financing model, on March 13, 2015 Vidrala cancelled the aforementioned agreement, refinancing it entirely through a single new non-current syndicated financing agreement with a group of nine financial institutions for an amount of Euros 465 million. The new financing agreement comprised a non-current loan of Euros 440 million, with maturity on March 21, 2021, and a revolving credit facility of up to Euros 25 million. The following Group Companies are listed as guarantors of the abovementioned loan: Inverbeira Sociedad de Promoción de Empresas, S.A., Aiala Vidrio, S.A.U., Crisnova Vidrio, S.A, Castellar Vidrio, S.A. and Vidrala Italia S.R.L.

On December 10, 2015 Vidrala agreed with all of the financial institutions to renew the loan, changing the applicable interest rate.

On November 14, 2016, Vidrala agreed with the financial institutions to further renew the loan, changing the applicable interest rate, the repayment period and maturity date.

On October 11, 2017, this loan was again renewed as agreed previously between Vidrala and the financial institutions on 1 August 2017. The applicable interest rate was maintained, but there were changes to the repayment period and maturity, which was extended to September 13, 2023. The amount was also increased by Euros 150 million, Euros 50 million in a long-term loan and Euros 100 in a revolving credit facility, for the acquisition of Santos Barosa Vidros, S.A. paid out on October 13, 2017 through subsidiary Inverbeira Sociedad Promoción de Empresas, S.A. As the terms of the new loan are not substantially different from the previous one (the percentage difference between the present value of the cash flows of the new financial liability compared to the amended one is 0.1%), it is considered an amendment of the previous loan, rather than an exchange of liabilities (see note 3 (f)).

As a result, the balance of the non-current syndicated loan at year end is Euros 220 million, as early repayments totalling Euros 70 million have been made since the loan was extended. The applicable interest rate on the loan is a variable rate equivalent to Euribor plus a spread of 1.00%, reviewed on an annual basis by tranche based on the evolution of the net debt/consolidated EBITDA ratio. In 2019 the loan will be in a grace period and as such the Company has no obligation to repay the principal. The information contained in the annual accounts reflects the Company's best estimate of principal repayments of loans and loans received. The total average length of the group's financing at 2018 year end is around four years.

The agreement has clauses containing commitments linked to certain stipulations (covenants), typical of agreements of this nature, failure to comply with which could give rise to the early maturity of the financing.

At the date of authorisation for issue of these annual accounts, these commitments have been complied with, as reflected by the results of the following indicators at December 31, 2018:

Net financial debt / consolidated EBITDA: 1.7x

Consolidated EBITDA / consolidated net finance cost: 35.8x

In addition, in light of planned investments in the production plant in Italy (Vidrala Italia, S.P.A.), on 17 July 2017, Vidrala arranged a long-term Euros 45 million loan with the European Investment Bank (“EIB”) falling due on October 23, 2029.

In 2017, new long-term bilateral financing facilities were arranged for an aggregate amount of Euros 40 million and 3-year maturity and possibility of extension of maturity between one and two years.

Loans and borrowings, including the financing facilities and loans described above, have a combined limit of Euros 610 million and Euros 552 million at December 31, 2018 and 2017, respectively. Consequently, Euros 199 million and Euros 147 million, respectively, were available for draw down at those dates. Furthermore, a limit of Euros 20 million was available in discounting lines in 2018 and 2017, with no amounts having been used at either of the year-end closes.

The average effective interest rates (APR) at the reporting dates for bank borrowings were approximately 1.1% and 1.41% in 2018 and 2017, respectively.

Financial liabilities under this heading comprise debts and payables at amortised cost.

The carrying amount and fair values of current and non-current liabilities do not differ significantly.

Group financial liabilities are measured in Euros.

16. Trade and Other Payables

Details of trade and other payables are as follows:

	Thousands of Euros	
	2018	2017
Trade payables	163,793	168,370
Salaries payable	14,179	15,735
Dividends to shareholders	19,899	17,225
Suppliers of fixed assets	6,769	20,401
Other payables	<u>1,620</u>	<u>1,835</u>
	<u>206,260</u>	<u>223,566</u>

The carrying amount of trade and other payables does not differ significantly from their fair value.

17. Average Supplier Payment Period. “Reporting Requirement”, Third Additional Provision of Law 15/2010 of 5 July 2010

Information on the average Spanish supplier payment period by the Spanish companies in 2018 and 2017 is as follows:

	Days	
	2018	2017
Average supplier payment period	68.61	68.60
Transactions paid ratio	74.06	74.19
Transactions payable ratio	39.91	44.59

	Amount (Thousands of Euros)	
	2018	2017
Total payments made	189,366	170,950
Total payments outstanding	35,936	39,816

18. Risk Management Policy

Business risks

Risk management at Vidrala involves procedures drawn up by management, overseen by the directors and implemented in the daily running of the organisation.

Operational risk

The Vidrala Group's manufacturing and sales activity, carried out through eight industrial centres, is continuous, intensive and subject to inherent risks linked to routine operations.

In 2018, work continued on the identification, evaluation and monitoring of business risks defined as operational. The aim is to identify potential risks, through continuous review, gain a perspective on their impact and probability of occurrence and, principally, to link each area of operations and each business process to adequate control and monitoring systems in order to minimise their potential adverse effects.

i. Environmental risks

The Vidrala Group declares itself firmly committed to protecting the environment. With this objective in mind, Vidrala implements specific action plans in relation to emissions in the atmosphere, dumping, waste, the consumption of raw materials, energy, water and noise.

Glass manufacturing is an inherently energy-intensive process as melting furnaces are in operation 24 hours a day, 365 days a year. Given the industrial nature of the process, one of management's objectives is to reduce the associated environmental impact. In order to achieve this, specific investments are made to upgrade factory facilities and adapt them to the most efficient technological systems for reducing environmental impacts. Additionally, operating priorities are focused on intensifying the growing use of recycled products as the main raw material for manufacturing glass, the effect of which is twofold as it not only avoids the consumption of natural raw materials, but also contributes to reducing fossil fuel consumption and the resulting pollution.

One of the Group's strategic guidelines is the implementation of environmental management systems. In line with this commitment, all the Group's production facilities have ISO 14001:2004 certification, demonstrating that Vidrala operates under a global, externally verified and recognised environmental management system. Furthermore, in keeping with its undertaking to continuous improvement, the implementation and certification of new environmental standards has begun, such as ISO 14064:2012, related to the voluntary declaration of CO2 emissions, or the ISO 50001:2011 energy management system standard, both of which, CO2 emissions and energy, are of clear environmental significance in our industrial process.

In addition, Vidrala has a specific commitment to invest in minimising the potential polluting effect of its facilities. Of particular relevance during 2017 in this regard was the conclusion of a major project to install special atmospheric emissions purification systems, called electrostatic precipitators or electrofilters, in all production centres. These installations, which have cost the Group more than Euros 20 million over the last eight years, are aimed exclusively at reducing emissions of particulate pollutants, and are recognised under European legislation as the best currently available technology in this regard. Electrofilters work by attracting and retaining particles generated during the melting process through electrical fields, and reduce typical melting furnace emissions by more than 90%. The electrofilters installed in Vidrala have been accompanied by systems for purifying SOx emissions, desulfurizers, which have considerably reduced the emission of this pollutant.

As proof of our environmental commitment, Vidrala's advancement towards environmental efficiency is documented in detail in its annual sustainability report published on the Company's website as well in the statement of non-financial information contained in the Management report of the consolidated annual accounts of Vidrala Group.

ii. Occupational health and safety

Vidrala's daily activity is carried out by some 3,700 employees, the majority of whom work in an industrial or manufacturing environment.

Consequently, the Vidrala Group remains committed to establishing the soundest occupational health and safety measures. This commitment is endorsed by the gradual implementation of occupational health and safety management systems based on OSHAS 18001:2007, which are certified by independent entities accrediting the existence of an internationally recognised management framework.

With a specific view to preventing labour-related accidents, Vidrala implements specific and systematic ongoing staff training and awareness plans. The sustainability report, attached to this report, details the progress of occupational health and safety management indicators. These plans are developed and distributed among all agents involved in the organisation, allowing health and safety trends to be objectively measured and documented, and enabling the actual effectiveness of the processes and controls implemented to be observed, and whether additional corrective measures are needed.

iii. Supply chain risk

Production-intensive, continuous-service industries such as Vidrala's can be vulnerable to risks of distortion in the supply chain.

As regards supply risk affecting key products, materials, installations or technologies for the production process, management initiatives include the continual and specialised

search for supply sources and strengthening ties with suppliers, diversifying and forging long-term relationships, establishing ongoing audit and standardisation processes and developing supply alternatives in all relevant areas.

Steps taken to address customer service and product quality risks include the development of a specific departmental area separate from the rest of the organisational areas dedicated exclusively to quality. There is a specific investment project nearing completion that aims to guarantee product quality targets and optimise product quality control through the implementation of state of the art technology across all the Group's facilities.

Concerning inventory risk, the Group systematically carries out a specific and periodic controls to ensure the quality of finished products in the warehouse, and optimise ageing and rotation so that both the volume and value of stocks are balanced to sales forecasts. These controls have resulted in the implementation of automated stock monitoring processes and the subsequent application of specific adaptation, physical and valuation measures, which are giving rise to inventory impairment adjustments in the income statement.

Tax risk

The Vidrala Group operates on a multinational level through companies that do business in Spain, Portugal, the UK, Ireland, Italy, France and Belgium, and subject to different tax regulations.

Vidrala's tax policy is designed to comply with applicable regulations in all tax jurisdictions where the Group operates, in line with the activity carried out in each. This principle of compliance with tax laws is consistent with the purpose of the business to create sustained value for shareholders, avoid tax risks and seek tax efficiencies in the execution of its business decisions.

Tax risks are understood as the risks arising from the application of tax laws, their interpretation in the framework of the Group's corporate structure or adaption to amendments in tax legislation.

Vidrala has a comprehensive risk management system that includes the main tax risks and control mechanisms. In addition, the Board of Directors' powers include oversight of the tax strategy.

To include these principles of control in the corporate tax planning, Vidrala's practices include:

- Prevention, taking decisions on taxes based on a reasonable and advised interpretation of regulations, avoiding potential disputes in interpretation by using instruments created by the related authorities, such as prior consultation or tax agreements, evaluating investments or transactions with special tax features before performing them and, above all, avoiding the use of opaque or contrived structures, or dealings with companies resident in tax havens or any others designed to avoid paying taxes.
- Cooperation with taxation authorities to find resolutions regarding tax practices in the countries where the Vidrala Group operates, providing information and tax documentation as requested by the taxation authorities promptly and completely, promoting agreement and, ultimately, fostering ongoing dialogue with tax

administrations to reduce tax risks and prevent conduct that could give rise to them.

- Reports to the Board of Directors through the Audit and Compliance Committee, providing information on tax policies and criteria applied and on tax implications where material.

Financial risk

Global uncertainty in the financial markets and the growing scale of Vidrala's operations expose activities to potentially destabilising elements of an external nature. These financial risks require the implementation of specific control mechanisms.

The management of Vidrala focuses financial risks on the identification, analysis and monitoring of market fluctuations in items that could affect the business's profits. This involves defining systematic measurement, control and monitoring processes to minimise any potential adverse effects and structurally reduce the volatility of results. To hedge certain risks, Vidrala employs, or is in a position to employ, derivative financial instruments the volume and characteristics of which are described in the annual report.

The most relevant financial risks are as follows:

i. Currency risk

Vidrala operates at international level and is therefore exposed to currency risk on transactions in currencies other than the euro.

The current business structure's exposure to currency risk is concentrated mainly in subsidiary Encirc Limited, which operates in the UK and Ireland. With 33.03% of sales and 34.67% of operating profit, or EBITDA, generated in pounds sterling, reporting in euros is exposed to translation risks arising from fluctuations in sterling's exchange rate vis-à-vis the euro. There is also risk in translating cash generated from business in the UK in sterling, as depreciation by the pound could reduce the equivalent value in euros, thereby reducing the cash generated by the business.

To quantify the sensitivity to currency risk, taking 2018 data, average depreciation by sterling of 5% in a full year, *ceterus paribus*, and assuming the absence of currency hedges, would have an impact of approximately 2% on the Group's consolidated profit and a reduction of approximately 3% in its annual cash flow.

ii. Interest rate risk

Borrowings contracted at variable interest rates expose Vidrala to the risk of interest rate fluctuations, which in turn affects and in the expected cash payments.

The Group's financing policy is to focus its borrowings on variable rate instruments. Vidrala manages interest rate risks in cash flows through interest rate swaps or caps. These derivative hedging instruments convert variable interest rates on borrowings to fixed interest rates (swaps) or limit the cost of variable rate borrowings (caps). Generally the Vidrala Group obtains long-term variable rate borrowings and swaps them for fixed interest rates. This gives better rates than had the financing been obtained directly with fixed interest rates. Through interest rate swaps the Vidrala Group undertakes to periodically exchange the difference between fixed and variable interest with other financial entities. The difference is calculated based on the contracted notional amount. Under interest rate caps Vidrala has the right, and the counterparty the obligation, to

settle the difference between the variable interest rate and the stipulated rate if this is positive. The effectiveness of these instruments as regards fixing the interest rate of contracted financing is assessed and documented using accepted methodologies under applicable accounting legislation.

On account of this risk control policy, at the 2018 reporting date Vidrala has interest rate swaps for an accumulated equivalent of Euros 458.5 million, which start and expire progressively until 2023. As a result, it is expected that practically the entire cost to be assumed by the group in the form of interest on the debt during the year 2019 will be insured against fluctuations in the interest rate markets.

iii. Credit risk

The Vidrala Group has specific policies to mitigate the credit risk of receivables. The procedure begins with developing systemised sales authorisation processes for customers with adequate credit records and solvency in order to minimise the risk of default. This control process involves ongoing solvency analysis, setting specific, assumable risk limits for each customer, analysing variables such as specific credit metrics, the segment or geographical area in which they operate and preparing individual classifications of ratings typical of evolved credit control systems. In summary, the procedure is done through the creation and maintenance of an internal customer credit rating system.

Furthermore, control of collection risk is intensified with a second level of control involving credit insurance policies with external insurance entities. The aim of these credit insurance policies is to cover the economic impact of eventual situations involving significant amounts where the internal system is ineffective in predicting a risk of default.

In order to demonstrate the collection risk system implemented, Vidrala has subjected the quality of its processes to official external certification. Obtaining this certification, and the resolve to periodically renew it, will guarantee the validity, effectiveness and efficiency of the system in place, and will require formal audits, dynamic monitoring and ongoing improvements.

Other credit risks: financing, derivative and cash transactions are only carried out with financial institutions with high credit ratings.

iv. Liquidity risk

Vidrala's liquidity risk basically stems from the maturing of current and non-current debt obligations, transactions with derivative instruments and payment commitments with other trade creditors. Vidrala's policy is to continually monitor and ensure that sufficient resources are available to meet these obligations, maintain internal control processes through follow-ups of budgets and deviations, and implement any necessary contingency plans.

In order to accomplish these objectives, Vidrala prudently manages its liquidity risk by adapting maturities to the maturity of assets to be financed, diversifying the sources of financing used and maintaining the availability of immediate financing.

At 31 December 2018 the Vidrala Group had Euros 199 million in immediately available, external undrawn credit, representing 48% of total debt.

v. Debt and solvency

As of December 31, 2018, Vidrala had a consolidated net financial debt of 411.1 million euros, which represents a reduction of 76.2 million euros compared to the end of the precedent year.

As a result, the financial solvency indicators at the end of 2018 reflect an indebtedness equivalent to 1.7 times the EBITDA operating result of the last twelve months, evidencing the financial capacity of the business and the stability of Vidrala's equity position.

The long-term syndicated financing agreement entered into with a syndicate of nine banks, with an available amount at year-end of Euros 290 million, makes up the bulk of the financing structure. The loan falls due on 13 September 2023, and is gradually repayable from 13 September 2021. There is a grace period on repayment in 2019, with no obligations to repay principal. The information contained in note 15 "Financial Debts" of the annual accounts reflects the Company's best estimate of the amortization of principal of loans and loans received. The average duration of the Group's total financing at the end of 2018 stood at around four years.

This loan has certain covenants requiring the Group to meet certain financial targets, which are typical in these types of contracts. At the reporting date, all the covenants were being met, as shown by the following solvency indicators:

Net financial debt / consolidated EBITDA 1.7x

Consolidated EBITDA / consolidated net finance cost 35.8x

vi. Price risk in energy purchases

Energy consumption, principally natural gas and electricity, represents a significant source of operating costs inherent in Vidrala's glass production and manufacturing activity. Fluctuations in the variables that determine their prices, represented in the natural volatility of the global energy commodities markets, has a bearing on the profitability of the business.

In order to manage the potential impact of this risk, the Group employs specific control processes to mitigate potential unexpected effects on operating margins that would arise in the event of inflationary tendencies in the market.

These measures involve implementing adapted price-setting formulas, continuous monitoring of market variables through dedicated management and control departments and risk control through price hedging strategies, including the contracting of tariffs at fixed prices and the use of derivative hedging instruments.

As a result of this risk control policy, at the 2018 reporting date Vidrala has hedging derivatives on energy commodities for a nominal equivalent of Euros 71 million. As a result of the existence of such contracts, effective until 2021, the Group estimates that it has approximately 45% of its expected exposure to changes in the energy markets during the mentioned period.

vii. Other risks. Result of the Brexit referendum

Vidrala has strategic business interests in the UK and Ireland through its Encirc Limited division, acquired at the beginning of 2015. Encirc is a manufacturer of glass containers aimed at the domestic food and drinks market in Ireland and the UK, where it operates

two plants. It offers a complete range of services, from the manufacture of glass containers to state of the art packaging processes and logistics services.

As a whole, Encirc is eminently domestic, producing glass containers in the UK for sale throughout the British Ireland, including the Republic of Ireland, and the volume of exports outside these regions is immaterial.

On 23 June 2016, the UK voted in a referendum on whether to remain in the European Union, resulting in the now famous Brexit. As a result, a political process has begun to negotiate the terms and conditions of the referendum whose implications are still uncertain.

One immediate effect of the referendum was sterling depreciation against the euro, whose impacts and control measures are outlined in the section on foreign currency risk. Long term, the structural fundamentals of glass packaging demand in the UK remain sound, supported by the region's level of socio-demographic development, the ongoing shift in consumer preferences towards quality products and inherently limited elasticity of demand for food and beverage products. Encirc optimises these market fundamentals thanks to its business positioning, underpinned by the relationships forged with world class customers, a stable market share, a strong competitive positioning backed by cutting-edge industrial facilities and the added value they lend to packaging services, whose unique competitive advantages have been strengthened for owners wishing to export in bulk towards growing demand in the UK.

19. Provisions

Movement in provisions in 2018 and 2017 is as follows:

	Thousands of Euros			
	Emission allowances	Personnel	Other provisions	Total
At 31 December 2017	<u>5,387</u>	<u>6,352</u>	<u>12,597</u>	<u>24,336</u>
Charge against profit or loss	17,563	123	-	17,686
Actuarial gains and losses due to changes in financial assumptions	-	(477)	-	(477)
Payments	(4,314)	-	(649)	(4,963)
Translation differences	-	23	-	23
Transfer	-	-	4	4
At 31 December 2018	<u>18,636</u>	<u>6,021</u>	<u>11,952</u>	<u>36,609</u>

	Thousands of Euros			
	Emission allowances	Personnel	Other provisions	Total
At 31 December 2016	<u>5,307</u>	<u>5,099</u>	<u>1,349</u>	<u>11,755</u>
Charge against profit or loss	4,461	250	-	4,711
Actuarial gains and losses due to changes in financial assumptions	-	(252)	-	(252)
Payments	(4,381)	-	(485)	(4,866)
Business combination	-	1,365	-	1,365
Translation differences	-	(110)	-	(110)
Transfer	-	-	11,733	11,733
At 31 December 2017	<u>5,387</u>	<u>6,352</u>	<u>12,597</u>	<u>24,336</u>

The provision for emission allowances includes the estimated surrender of emission allowances in 2018 and 2017 measured at the grant date, as described in note 3.

The personnel provision reflects defined benefit plans and other obligations with employees. The Group makes contributions to a defined benefit plan in the UK, which consists of ensuring a pension for retired employees and post-retirement medical coverage. The plan is managed separately from the Company, and defined benefit plans are valued by an independent expert, Xafinity Consulting Limited, pursuant to IAS 19.

20. Contingencies

The Group has contingent liabilities for bank and other guarantees related to routine business operations amounting to Euros 3,916 thousand (Euros 3,460 thousand in 2017). These guarantees mainly comprise those extended to public entities for commitments assumed. The Group's directors do not expect any significant liabilities to arise from these guarantees.

21. Environmental Information

In 2010 positive results were obtained in the ISO 14001/2004 certification in recognition of the organisation's ongoing efforts to improve the environment.

The total cost of initiatives taken by the Vidrala Group in 2018 to comply with the Kyoto Protocol and emissions analyses amounted to Euros 75 thousand (Euros 70 thousand in 2017).

Environmental expenses mainly related to waste management incurred during 2017 totalled Euros 2,271 thousand (Euros 2,074 thousand in 2017).

Environment-related plant investments came to Euros 1,580 thousand (Euros 20,013 thousand in 2017).

22. Revenue and Other Income

Details of revenue are shown in note 4, Segment Reporting.

Details of other income are as follows:

	Thousands of Euros	
	2018	2017
Operating grants	-	79
Capital grants taken to income (note 14)	4,250	3,286
Grants for emission allowances	6,141	2,361
Other income	<u>11,600</u>	<u>2,807</u>
	<u>21,991</u>	<u>8,533</u>

23. Other Expenses

Details of other expenses are as follows:

	<u>Thousands of Euros</u>	
	<u>2018</u>	<u>2017</u>
External services	46,108	45,196
Electricity	54,366	44,077
Sales expenses	87,944	77,753
Surrender of emission allowances (note 19)	17,563	4,461
Taxes	6,330	6,159
Impairment and uncollectibility of trade and other payables (note 11)	466	(497)
Other operating expenses	8,990	7,412
	<u>221,767</u>	<u>184,561</u>

24. Employee Benefits Expense

Details of the employee benefits expense in 2018 and 2017 are as follows:

	<u>Thousands of Euros</u>	
	<u>2018</u>	<u>2017</u>
Salaries, wages and similar	153,864	139,278
Contributions to defined contribution plans	1,612	1,430
Other employee benefits	35,105	34,221
	<u>19,581</u>	<u>174,929</u>

The average headcount of the Group in 2018 and 2017, distributed by category, is as follows:

	<u>Average headcount</u>	
	<u>2018</u>	<u>2017</u>
Senior management and proxies	46	45
Junior management	395	386
Administrative staff	466	404
Operators	2,825	2,428
	<u>3,732</u>	<u>3,263</u>

At 31 December 2018 and 2017 the distribution by gender of Group personnel and directors is as follows:

	<u>Number</u>			
	<u>2018</u>		<u>2017</u>	
	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>
Board members	3	7	3	8
Management	3	43	3	42
Junior management	63	332	54	311
Administrative staff	160	314	127	278
Operators	283	2,581	198	2,126
	<u>512</u>	<u>3,277</u>	<u>385</u>	<u>2,765</u>

25. Finance Income and Finance Costs

Details of finance income and finance costs are as follows:

<u>Finance income</u>	<u>Thousands of Euros</u>	
	<u>2018</u>	<u>2017</u>
Exchange gains	2,393	1,942
Other finance income	<u>1,098</u>	<u>22</u>
Total finance income	<u>3,491</u>	<u>1,964</u>

<u>Finance costs</u>	<u>Thousands of Euros</u>	
	<u>2018</u>	<u>2017</u>
Interest on loans and borrowings	6,618	5,034
Hedging derivatives	2,944	2,306
Other finance costs	<u>587</u>	<u>2,044</u>
Total finance costs	<u>10,149</u>	<u>9,384</u>

26. Earnings per Share

(a) Basic

Basic earnings per share is calculated by dividing the profit or loss for the year attributable to equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held (see note 13).

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

	<u>2018</u>	<u>2017</u>
Profit for the year attributable to equity holders of the Parent (thousands of Euros)	115,958	89,146
Weighted average number of ordinary shares outstanding (thousands)	<u>25,966</u>	<u>24,722</u>
Basic earnings per share (Euros per share)	<u>4.47</u>	<u>3.61</u>

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

	<u>2018</u>	<u>2017</u>
Ordinary shares outstanding at 1 January	24,727,841	24,734,442
Effect of own shares	<u>1,238,360</u>	<u>(11,738)</u>
Weighted average number of ordinary shares outstanding at 31 December	<u>25,966,201</u>	<u>24,722,704</u>

(b) Diluted

Diluted earnings per share is determined by adjusting the profit or loss for the year attributable to equity holders of the Parent and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. The Company has no dilutive potential ordinary shares.

27. Related Party Balances and Transactions

(a) Commercial transactions

During 2018 and 2017 the Group has not carried out any transactions with related parties vis-à-vis the sale or purchase of goods or the rendering of services.

(b) Related party balances

The Group has no related party balances.

(c) Conflicts of interest concerning the directors

The directors of Vidrala, S.A. and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

(d) Remuneration of key management personnel and directors

Details are as follows:

	<u>Thousands of Euros</u>	
	<u>2018</u>	<u>2017</u>
Salaries and other current remuneration paid to employees, management and directors	<u>3,382</u>	<u>4,295</u>

Likewise, during 2018, incentive payments were made for an amount of Euros 1,732 thousand.

The number of directors as of December 31, 2018 has amounted to 13 people (13 number of people in 2017).

Loans to senior managers at 31 December 2018 amounted to Euros 458 thousand (Loans to senior managers at 31 December 2017 amounted to Euros 610).

(e) Remuneration of the directors of Vidrala

The Company has not extended any amounts to the members of the board of directors of the Parent in respect of guarantees, advances, loans or any pension-related rights. Total remuneration accrued by the board during the year, including salaries, allowances and other items, amounted to Euros 1,313 thousand (Euros 1,451 thousand in 2017).

Likewise, during 2018, incentive payments were made for an amount of Euros 348 thousand.

28. Audit Fees

The firm auditing the annual accounts of the Group has accrued net fees for professional services during the years ended 31 December 2018 and 2017 as follows:

	<u>Thousands of euros 2018</u>
Ernst&Young, S.L.	222
Audit services	<u>52</u>
Other services	<u>274</u>
Total EY	
	<u>298</u>

	<u>Thousands of euros 2017</u>
Ernst&Young, S.L.	252
Audit services	46
Other services	<u>46</u>
Total EY	<u>298</u>

These amounts include all fees for services rendered during 2018 and 2017, irrespective of the date of invoice.

During 2018, other auditors have invoiced the Group audit fees of Euros 121 thousand (Euros 106 thousand in 2017).

	Revaluation reserves	Legal reserve	Voluntary reserves	Reserves in fully consolidated companies	Profit for the year	Total
At 31 December 2016	2,311	5,234	276,405	137,803	67,671	489,424
Distribution of 2016 profit						
Reserves	-	-	35,130	12,714	(47,844)	-
Dividends	-	-	-	-	(19,827)	(19,827)
Own shares sold	-	-	164	-	-	164
Profit for 2017	-	-	-	-	89,146	89,146
At 31 December 2017	2,311	5,234	311,699	150,517	89,146	558,907
Distribution of 2017 profit						
Reserves	-	-	97,869	(32,507)	(65,362)	-
Dividends	-	-	-	-	(23,784)	(23,784)
Ampliación de capital social	-	-	1,103	-	-	1,103
Own shares sold	-	77	(1,342)	-	-	(1,265)
Profit for 2018	-	-	-	-	115,958	115,958
At 31 December 2018	2,311	5,311	410,641	118,010	115,958	652,231