Vidrala, S.A. and Subsidiaries

Consolidated Annual Accounts
31 December 2020

Consolidated Directors' Report
2020

(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 2020 and 2019

(Expressed in thousands of Euros)

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

	Note	2020	2019
ASSETS			
Non-current assets			
Property, plant and equipment	**6**	728,397	692,399
Right-of-use assets	**2.e**	1,303	1,672
Goodwill	**7**	209,890	209,890
Other Intangible assets	**7**	27,104	27,986
Other financial assets		28	28
Deferred tax assets	**9**	39,116	36,726
Derivative financial instruments	**8**	1,294	27
Other non-current assets		127	305
		1,007,259	**969,033**
Current assets			
Inventories	**10**	161,514	194,617
Trade and other receivables	**11**	220,949	248,534
Current tax assets		5,883	656
Derivative financial instruments	**8**	1,378	5,646
Other current assets	**12**	12,286	10,580
Cash and cash equivalents		112,178	28,795
		514,188	**488,828**
Total assets		**1,521,447**	**1,457,861**

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Balance Sheets

31 December 2020 and 2019

(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	2020	2019
Equity	**13**		
Share capital		28,989	27,883
Other reserves		7,833	7,622
Retained earnings		863,051	757,213
Own shares		(7,679)	(21,386)
Other comprehensive income		(52,153)	(25,154)
Interim dividend distributed during the year		(23,885)	(22,819)
Equity attributed to equity holders of the Parent		**816,156**	**723,359**
Non-current liabilities			
Deferred income	**14**	7,279	12,024
Loans and borrowings	**15**	185,518	231,906
Derivative financial instruments	**8**	6,941	4,708
Deferred tax liabilities	**9**	54,461	52,603
Provisions	**19**	26,210	29,024
Other non-current liabilities		886	1,008
		281,295	**331,273**
Current liabilities			
Loans and borrowings	**15**	160,142	131,787
Derivative financial instruments	**8**	3,884	1,189
Trade and other payables	**16**	215,202	225,988
Current tax liabilities		13,740	9,681
Provisions	**19**	10,893	6,234
Other current liabilities	**12**	20,135	28,350
		423,996	**403,229**
Total liabilities		**705,291**	**734,502**
Total equity and liabilities		**1,521,447**	**1,457,861**

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Income Statements
for the years ended
31 December 2020 and 2019

(Expressed in thousands of Euros)

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

	Note	2020	2019
Revenues	**4 & 21**	988,370	1,010,833
Services rendered		554	104
Other income	**21**	30,076	16,837
Changes in inventories of finished goods and work in progress		(21,886)	7,753
Merchandise, raw materials and consumables used	**22**	(317,783)	(332,694)
Employee benefits expense	**24**	(185,795)	(197,543)
Amortisation and depreciation	**6 & 7**	(84,144)	(91,088)
Impairment of non-current assets	**6**	(1,415)	(6,003)
Other expenses	**23**	(213,709)	(230,651)
Profit loss from operating activities		**194,268**	**177,548**
Finance income	**25**	1,746	1,004
Finance costs	**25**	(6,848)	(6,595)
Impairment and result from disposals of financial instruments	**1**	-	(5,977)
Profit before income tax from continuing operations		**189,166**	**165,980**
Income tax expense	**9**	(29,703)	(22,705)
Profit for the year from continuing operations		**159,463**	**143,275**
Profit for the year		**159,463**	**143,275**
Profit for the year attributable to equity holders of the Parent		**159,463**	**143,275**
Earnings per share (expressed in Euros)			
- Basic	26	**5.62**	**5.27**
- Diluted	26	**5.62**	**5.27**

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
for the years ended
31 December 2020 and 2019

(Expressed in thousands of Euros)

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

	Note	2020	2019
Profit for the year		**159,463**	**143,275**
Other comprehensive income:			
Translation differences	**13**	(19,615)	16,674
Remeasurements of defined benefit plans	**13**	(1,486)	392
Items to be reclassified in profit or loss			
Cash flow hedges	**8**	(7,929)	2,513
Tax effect	**9**	2,031	(718)
Other comprehensive income, net of income tax		**(26,999)**	**18,861**
Total comprehensive income for the year		**132,464**	**162,136**
Profit for the year attributable to equity holders of the Parent		**132,464**	**162,136**

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
for the years ended
31 December 2020 and 2019
(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								
					Other comprehensive income				
	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 1 January 2019	**26,555**	**7,622**	**644,609**	**(4,874)**	**(2,092)**	**(40,354)**	**(1,569)**	**(19,899)**	**609,998**
Total comprehensive income for the year	-	-	143,275	-	1,795	16,674	392	-	162,136
Own shares redeemed	-	-	-	(16,512)	-	-	-	-	(16,512)
Share capital increase	1,328	-	(1,328)	-	-	-	-	-	-
Distribution of 2018 profit									
Dividends	-	-	(27,471)	-	-	-	-	19,899	(7,572)
Interim dividend on account of 2019 profit	-	-	-	-	-	-	-	(22,819)	(22,819)
Other movements	-	-	(1,872)	-	-	-	-	-	(1,872)
Balances at 31 December 2019	**27,883**	**7,622**	**757,213**	**(21,386)**	**(297)**	**(23,680)**	**(1,177)**	**(22,819)**	**723,359**
Total comprehensive income for the year	-	-	159,463	-	(5,898)	(19,615)	(1,486)	-	132,464
Own shares redeemed	-	-	-	(6,191)	-	-	-	-	(6,191)
Share capital increase	1,380	-	(1,380)	-	-	-	-	-	-
Share capital decrease	(274)	-	(19,624)	19,898	-		-	-	-
Dividends	-	-	(31,498)	-	-	-	-	22,819	(8,679)
Interim dividend on account of 2020 profit	-	-	-	-	-	-	-	(23,885)	(23,885)
Other movements	-	211	(1,123)	-	-	-	-	-	(912)
Balances at 31 December 2020	**28,989**	**7,833**	**863,051**	**(7,679)**	**(6,195)**	**(43,295)**	**(2,663)**	**(23,885)**	**816,156**

VIDRALA, S.A. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
for the years ended
31 December 2020 and 2019
(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	2020	2019
Cash flows from operating activities			
Profit for the year		159,463	143,275
Adjusted for:			
Amortisation and depreciation	6 & 7	84,144	91,088
Impairment of non-current assets	6	1,415	6,003
(Reversal of) impairment losses on trade receivables		4,899	655
(Reversal of) impairment losses on inventories	10	14,845	4,916
Exchange (gains) / losses	25	(1,690)	(1,002)
Changes in provisions		1,845	(1,351)
Government grants recognised in the income statement		(2,157)	(3,428)
Result from sales and disposals of financial instruments	5	-	5,977
Finance income	25	(56)	(2)
Finance costs	25	6,848	6,595
Income tax	9	29,703	22,705
		139,796	**132,156**
Changes in working capital			
Inventories		14,318	(14,386)
Trade and other receivables		18,113	(30,103)
Trade and other payables		(5,554)	7,971
Other current liabilities		(21,033)	16,705
Effect of translation differences on operating assets and liabilities of foreign operations		3,281	1,607
Cash used in operating activities		**9,125**	**(18,206)**
Interest paid		(5,279)	(4,450)
Interest received		715	1,004
Income tax paid		(30,467)	(26,431)
Net cash from operating activities		**273,353**	**227,348**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		(132,117)	(103,622)
Acquisition of property, plant and equipment		(2,131)	(3,547)
Net cash used in investing activities		**(134,248)**	**(107,169)**
Cash flows from financing activities			
Proceeds from loans and borrowings	15	10,000	41,698
Proceeds from other debts	15	50,000	100,000
Payments to redeem own shares and other own equity instruments	13	(6,191)	(16,512)
Payments of loans and borrowings		(78,033)	(211,772)
Dividends paid	13	(31,498)	(27,471)
Net cash from/(used in) financing activities		**(55,722)**	**(114,057)**
Net increase/(decrease) in cash and cash equivalents		83,383	6,122
Cash and cash equivalents at 1 December		28,795	22,673
Cash and cash equivalents at 31 December		**112,178**	**28,795**

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 (Álava, Spain).

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

Details of the companies comprising the Vidrala Group, the interest held by the Parent (direct and/or indirect) at 31 December 2020 and 2019 and the location and activity of each company that forms part of the consolidated group are as follows:

		Investment		
Company	**Location**	**2020**	**2019**	**Activity**
Crisnova Vidrio, S.A.	Caudete (Albacete)	100%	100%	Manufacture and sale of glass containers
Inverbeira, Sociedad de Promoción de Empresas, S.A.	Llodio (Álava)	100%	100%	Promotion and development of companies
Aiala Vidrio, S.A.U.	Llodio (Álava)	100%	100%	Manufacture and sale of glass containers
Gallo Vidro, S.A.	Marinha Grande (Portugal)	100%	99,99%	Manufacture and sale of glass containers
Vidrala Logistics, Ltda.	Marinha Grande (Portugal)	100%	100%	Logistic services
Castellar Vidrio, S.A.	Castellar del Vallés (Barcelona)	100%	100%	Manufacture and sale of glass containers
Vidrala Italia, S.r.l.	Córsico (Italia)	100%	100%	Manufacture and sale of glass containers
Investverre, S.A.	Ghlin (Bélgica)	(*)	100%	Holding company
CD Verre, S.A.	Burdeos (Francia)	100%	100%	Commercialisation
Vidrala Desarrollos, S.L.U.	Llodio (Álava)	100%	100%	Promotion and development of companies
Encirc Limited	Derrylin (Irlanda del Norte)	100%	100%	Manufacture of glass containers, packaging and logistical services
Encirc Distribution Limited	Ballyconnell (Irlanda)	100%	100%	Logistical services
Santos Barosa Vidros, S.A.	Marinha Grande (Portugal)	100%	100%	Manufacture and sale of glass containers

(*) Liquidated in 2020.

On December 1, 2019, the Group sold its glass container manufacturing business in Belgium to the French group Saverglass. This activity was carried out through MD Verre, S.A. and Omega Inmobilière et Financière, S.A.

The sale of the Belgium manufacturing activity is part of Vidrala's strategy of focusing on competitive and strategic production sites.

The impact of the transaction on the consolidated income statement for the year ended 31 December 2019 was a non-operating loss of Euros 5,977 thousand recognised under "Impairment and result from disposals of financial instruments" in the consolidated income statement.

On 21 December 2020, the Group liquidated the holding company Investverre S.A., thereby discontinuing its operations in Belgium.

2. Basis of Presentation

The consolidated annual accounts have been prepared based on Vidrala, S.A. and descendants financial statements 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 2020, 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 2020, authorised for issue on 25 February 2021, 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) Effects of the Covid-19 pandemic on the Group’s operations

On March 11, 2020, the World Health Organization escalated the status of the public health crisis triggered by the expansion of the coronavirus (Covid-19) to that of a global pandemic. The speed at which events are unfolding, in Spain and abroad, has caused an unprecedented health crisis that has impacted the macroeconomic environment and the Group's business performance.

A series of measures have been taken in 2020 to deal with the economic and social impact caused by the situation, which included mobility restrictions.

While social distancing measures and restrictions were imposed, glass container manufacturing was deemed to be an essential business given its contribution to helping sustain the food distribution chain. This helped keep Group from making any unplanned shutdowns to its industrial operations, giving it time to draw up contingency plans and response actions to the new paradigm.

Immediately thereafter, the Group implemented a series of measures to ensure safe workspaces for our staff. These included strict occupational health and safety controls at all facilities to contain the spread of the virus and keep operations running. Thanks to these actions, all eight of our production sites remained active at all times throughout the year.

At the same time, logistics processes were reinforced to ensure the procurement of critical supplies and bolster the flow of customer deliveries. All this came with ongoing communication with customers. The Group wanted to keep them updated on their situation, get insight into their expectations and, consequently, implement a productive planning that prioritised service.

As at the date of authorisation for issue of the accompanying consolidated financial statements, there have been no significant impacts on the Group's operation and, based on the Parent's current estimates, none are expected in 2021, unless the pandemic turns worse again. In any event, the pandemic’s main effects on the Group's business in 2020 are described in note 5 to these consolidated financial statements.

(d) <u>Relevant accounting estimates and relevant assumptions and judgements in the application of the accounting policies</u>

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) <u>Relevant accounting estimates and assumptions</u>

- Goodwill impairment:

The Group tests for impairment of goodwill on an annual basis, regardless assigned goodwill existence. 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.

- 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 2020 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.

- Impairment of trade receivables:

The Group set aside an allowance for impairment of trade receivables, reviewing individual balances based on management's review of individual customer creditworthiness, current market trends and aggregate default rate.

- Write-downs of inventories:

The controls put in place by the Group to ensure continuous control of inventories of finished goods included implementing automated inventory tracking processes, enabling Group management to apply specific measures regarding depreciation, physical inventory and carrying amount.

(ii) *Changes in accounting estimates*

Although estimates are calculated by the Company's directors based on the best information available at 31 December 2020, 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.

(e) 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 2019, except for the following standards applied for the first time in 2020:

- Revised version of the Conceptual Framework of IFRS;
- Amendments to IAS 1 and IAS 8 - Definition of material
- Amendments to IFRS 9, IAS 39 and IFRS 7: Modification of the reference interest rate
- Amendments to IFRS 3 Business Combinations
- Modification to IFRS 16 Concessions of income related to CoVid-19

In 2019, the Group made the transition to IFRS 16 using the modified retrospective method, which eliminated the need to restate comparative information. It required recognising the effective of adoption of IFRS 16 on 1 January 2019, measuring the right-of-use asset at an amount equal to the lease liability. The Group applied the standard to arrangements identified as leases when applying IAS 17 and IFRIC 4. Therefore, The Group did not apply the standard to arrangements not identified previously as leases when applying IAS 17 and IFRIC 4.

Lessor accounting under IFRS 16 was substantially unchanged.

Vidrala has classified right-of-use assets and lease liabilities under “Right-of-use assets”, “Non-current financial liabilities” and “Current financial liabilities” in the consolidated balance sheet.

The impact for the Vidrala Group of applying IFRS 16 from 1 January 2019 is as follows:

(Thousands of Euros)	**2019**
Assets	
Right-of-use assets	1,638
Total Assets	**1,638**
Non-current Liabilities	**1,114**
Non-current financial liabilities	1,114
Lease financial liabilities	1,114
Current Liabilities	**524**
Current financial liabilities	524
Lease financial liabilities	524
Total Liabilities	**1,638**
Impacto neto en Patrimonio neto	**-**

The following table provides a reconciliation of lease liabilities arising from application of IFRS 16 and the amount recognised in the prior year for future minimum payments under non-cancellable operating leases:

(Thousands of Euros)	**2019**
Commitments for operating leases as of December 31, 2018	**1,828**
Weighted average discount rate as of January 1, 2019	-
Discounted operating lease commitments as of January 1, 2019	1,828
Minus	
Commitments for immaterial leases	(28)
Other	(162)
Liabilities as of January 1 2019	**1,638**

Set out below is a summary of the impact of IFRS 16 on the consolidated income statement for the year ended 31 December 2020 and 2019.

Consolidated Income Statement:

(Thousands of Euros)	**2020**	**2019**
Other expenses	379	(1,690)
Non-current assets amortisation	(369)	1,672
Operating income	**10**	**(18)**
Financial expenses	(10)	28
Financial result	**(10)**	**28**
Profit before income tax	**-**	**10**
Income Tax	-	*(2)*
Net impact on the Consolidated Income Statement	-	*8*

The detail of the asset for the right of use and the liabilities for leases as well as the movement for the years 2020 and 2019 is as follows:

(Thousands of Euros)	**Technical installations and other tangible assets**
At January 1 2019	1,638
Additions	705
Disposals	(150)
Amortisation expense	(521)
At January 1 2020	1,672
Additions	351
Amortisation expense	(720)
At December 31 2020	**1,303**

(Thousands of Euros)	**Lease liability**
At January 1 2019	1,638
New contracts	705
Contract disposals	(150)
Payments	(493)
Financial expenses	(28)
At January 1 2020	1,672
New contracts	351
Payments	(707)
Financial expenses	(13)
At December 31 2019	**1,303**

Lastly, the total amount of rentals under leases not affected by IFRS 16 is Euros 179 thousand.

(f) 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**
Amendments to IFRS 4 Insurance Contracts – IFRS 9 Deferral	December 16 2020	January 1 2021	January 1 2021
IFRS 17 Insurance Contracts	Pending	Pending	January 1 2023
Amendments to IAS 1: Classification of Liabilities as Current or Non-Current	Pending	Pending	January 1 2023
Amendments to: IFRS 3 Business Combinations IAS 16 Property, Plant and Equipment IFRS 9 Provisions, Contingent Liabilities and Contingent Assets	Pending	Pending	January 1 2022
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 y IFRS 16: Upgrade on the reference interest rate – Phase 2	January 13 2021	January 1 2021	January 1 2021

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.

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

Group as a lessee

The Group is lessee of different kinds of machinery for its production activity. It applies a single recognition and measurement approach for all leases in which it is lessee except for short-term leases and leases of low-value assets.

• Right-of-use assets

The Group recognises right-of-use assets at the commencement date, i.e. the date on which the underlying asset is available for use. Right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the related lease liabilities. The initial cost of right-of-use assets includes the amount of recognised lease liabilities, any initial direct costs and any lease payments made at or before the commencement date of the lease. Any incentives received are deducted from the initial cost.

Right-of-use assets are depreciated over the shorter of the estimated useful life and the lease term.

However, where the Group considers it reasonably certain that it will obtain ownership of the leased asset at the end of the lease term or that it will exercise any purchase option, the right-of-use assets are depreciated over the useful life of the underlying asset. Right-of-use assets are tested for impairment.

The Group's leases do not include obligations to dismantle assets or restore sites.

Right-of-use assets are presented in separate line item in the balance sheet.

• Lease liabilities

At the commencement date of the lease, the Group recognises the lease liabilities at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease cannot be readily determined. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of an option to purchase the underlying asset. The liability is also increased if there is a change to future lease payments resulting from a change in an index or rate used to determine such lease payments.

• Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

• Judgements made in determining the lease term of contracts with renewal option

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised. Also included are any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew.

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. in 2017 attributable to customer acquisition in the business combination, which is amortised in 4 years 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 assesses the existence of indications of potential impairment of the non-financial assets subject to amortisation and depreciation, in order to check whether carrying amount exceeds 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 the expected future cash flows.

The cash-generating units (CGUs) identified by the Group correspond to its production subsidiaries and directly equate to the Group's production plants, except for Encirc Ltd, which includes two inter-related production plants.

Each CGU corresponds to the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other assets or groups of assets.

The discount rate used is obtained through assessments based on the assumptions used by the company. The result is consistent with the discount rates used in independent external financial research on Vidrala. If specific items of property, plant and equipment within a CGU are detected that will not generate future cash inflows, an impairment is recognised.

Measurements to quantify value in use are based on assessing value in use of the production plants identified according to predictive business models and a valuation methodology based on discounted future cash flows.

Negative differences between assets' carrying amount and their recoverable amount are recognised in profit or loss.

(g) <u>Financial instruments</u>

(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*

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*

These are financial assets measured initially at fair value if they are managed within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The initial recognition at fair value includes transaction costs that are directly attributable to the transaction. In subsequent periods, these assets are measured at fair value, with any gain or loss recognised in the statement of other comprehensive income, although accrued interest is recognised in profit or loss. Amounts recognised in the statement of comprehensive income are recycled to profit or loss upon derecognition of the financial assets.

- *Financial assets at fair value through 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 parities, 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.

(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 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) <u>Hedge accounting</u>

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.

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 also enters into agreements to hedge risks arising from changes in exchange and inflation rates.

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 "Merchandise, raw materials and consumables 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 note 3.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 (Italy). 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. Likewise, this heading records a commitment for variable remuneration with certain employees of the UK subsidiary, related to the achievement of certain economic performance targets.

(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 taxes*

Vidrala recognises a provision for taxes arising from ongoing litigation with the taxation authorities based on the best information available at the date of authorisation for issue of these consolidated financial statements (see Note 18).

(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 January 1, 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 filling 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.

In accordance with its location, each plant produces for a specific geographical market through a unified commercial structure designed for that market.

Plants in Spain and Portugal produce products marketed under the Vidrala brand name, through the Parent mostly for the Iberian Peninsula, France, Belgium and Germany. UK plants produce products marketed under the Encirc brand name, through the company of the same name, mostly for the UK and Ireland. Lastly, the Italian plant produces products marketed under Vidrala Italia brand name, through the company of the same name, mostly for Italy.

This segmentation coincides with the lowest level, or the most detailed level, of information used by management and the board of directors, which have information on production activity and manufacturing costs per production plant, and on sales, operating profit or loss, and margins for the identified segments.

In 2019, after the disposal of the manufacturing activity in Belgium carried out in December, the Group redefined the segmentation structure and determined the following reportable operating segments:

- UK and Ireland
- Italy
- Iberian Peninsula and rest of Europe

Segment performance is measured based on profit or loss before tax. Segment profit is used as a performance measure since the Group considers this information to be the most relevant in assessing the results of certain segments compared to other groups operating in those businesses.

Segment information related to the consolidated income statements for the years ended 31 December 2020 and 2019:

	Thousands of Euros			
	2020			
	Iberian Peninsula & Other	**Italy**	**United Kingdom & Ireland**	**Consolidated Financial Statements**
Revenues	564,797	72,273	351,854	988,924
Other income	5,296	4,491	20,289	30,076
Changes in inventories of finished goods and work in progress	(7,395)	(1,083)	(13,408)	(21,886)
Merchandise, raw materials and consumables used	(179,554)	(27,729)	(110,500)	(317,783)
Employee benefits expense	(98,046)	(12,075)	(75,674)	(185,795)
Amortisation costs	(44,933)	(8,834)	(30,377)	(84,144)
Impairment of non-current assets	(1,372)	(43)	-	(1,415)
Other expenses	(123,512)	(15,918)	(74,279)	(213,709)
Finance income	739	22	985	1,746
Finance costs	(5,487)	(1,271)	(90)	(6,848)
Profit before income tax from continuing operations	**110,533**	**9,833**	**68,800**	**189,166**
Income Tax	(17,269)	1,715	(14,149)	(29,703)
Profit for the year from continuing operations	**93,264**	**11,548**	**54,651**	**159,463**

	Thousands of Euros			
	2019			
	Iberian Peninsula & Other	**Italy**	**United Kingdom & Ireland**	**Consolidated Financial Statements**
Revenues	596,934	62,720	351,283	1,010,937
Other income	10,704	521	5,612	16,837
Changes in inventories of finished goods and work in progress	8,033	(159)	(121)	7,753
Merchandise, raw materials and consumables used	(187,636)	(24,020)	(121,038)	(332,694)
Employee benefits expense	(111,550)	(12,348)	(73,645)	(197,543)
Amortisation costs	(49,311)	(8,991)	(32,786)	(91,088)
Impairment of non-current assets	(5,657)	(346)	-	(6,003)
Other expenses	(142,429)	(14,660)	(73,562)	(230,651)
Finance income	234	(1)	771	1,004
Finance costs	(6,554)	(28)	(13)	(6,595)
Impairment and result from disposals of financial instruments	(5,977)	-	-	(5,977)
Profit before income tax from continuing operations	**106,791**	**2,688**	**56,501**	**165,980**
Income Tax	(14,804)	1,307	(9,208)	(22,705)
Profit for the year from continuing operations	**91,987**	**3,995**	**47,293**	**143,275**

Non-current assets allocated at 31 December 2020 and 2019:

	Thousands of Euros	
	2020	**2019**
Iberian Peninsula & Other	549,445	519,657
Italy	118,195	131,829
United Kingdom & Ireland	339,619	317,547
	1,007,259	**969,033**

Information of key line items in the consolidated financial statements by geographical areas according to the location of the production assets:

	Thousands of euros					
	2020			**2019**		
Location	**Assets**	**Liabilities**	**Investments**	**Assets**	**Liabilities**	**Investments**
Iberian Peninsula & Other	835,574	556,599	79,469	766,822	567,579	56,371
Italy	185,061	32,173	4,724	190,419	30,555	6,003
United Kingdom & Ireland	500,812	116,519	52,178	500,620	136,368	49,818
	1,521,447	**705,291**	**136,371**	**1,457,861**	**734,502**	**112,192**

Investments in 2020 and 2019 in the preceding table include additions to property, plant and equipment (see Note 6) and intangible assets (see Note 7) and do not reflect the value of emission rights allocated for the year (see Note 7).

5. 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 nine industrial centres, is continuous, intensive and subject to inherent risks linked to routine operations.

In 2020, 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 14001:2015 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 14064:2018, related to the voluntary declaration of CO2 emissions.

In addition, Vidrala has a specific commitment to invest in minimising the potential polluting effect of its facilities. Of particular relevance during the last years 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 articles 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 3,500 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 ISO 45001:2018, 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.

Moreover, in 2020 the Group recognised an increase in the write-down of inventories exposed to obsolescence risk arising from the change in the business environment caused by Covid-19, which caused sales to plunge from March to May 2020. This resulted in additional depreciation measures, with an impact on profit or loss of Euros 8.9 million.

Tax risk

The Vidrala Group operates on a multinational level through companies that do business in Spain, Portugal, the UK, Ireland, Italy and France, 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. <u>Currency risk</u>

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 33.77% of sales and 39.51% 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 2020 data, average depreciation by sterling of 5% in a full year, *ceteris 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 2020 reporting date Vidrala has interest rate swaps for an accumulated equivalent of Euros 335 million, which start and expire progressively until 2025. 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 2021 will be insured against fluctuations in the interest rate markets.

iii. Credit risk

The Vidrala Group boasts a highly diversified customer base, made up of a combination of large owners of widely recognised global consumer brands, local and regional packaging companies, and container distributors. No single customer represents more than 10% of revenue. The top 10 customers represent approximately 30% of revenue, while the top 23 customers make up the 50th percentile of sales.

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.

In light of these control procedures, affected in 2020 by the Covid-19 pandemic, the Group recognised a loss allowance for receivables of Euros 4.7 million against profit or loss for the period.

Regarding other credit risks, financing transactions, derivative instruments and spot transactions are only entered into 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.

As a result, at 31 December 2020, the Vidrala Group had fully arranged Euros 340 million of external borrowings committed by its funding source, immediately available and undrawn, representing 146% of its total net debt. It also had Euros 112 million in cash, accounting for 32% of gross debt.

v. Debt and solvency

As of December 31, 2020, Vidrala had a consolidated net financial debt of 233.5 million euros, which represents a reduction of 101.4 million euros compared to the end of the precedent year.

As a result, the financial solvency indicators at the end of 2020 reflect an indebtedness equivalent to 0.83 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 260 million, makes up the bulk of the financing structure. The loan falls due on September 13, 2024, and is gradually repayable from September 13, 2023. There is a grace period on repayment in 2021, 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 2020 stood at around three and a half 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 0.83x

Consolidated EBITDA / consolidated net finance cost 50.74x

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 2020 reporting date Vidrala has hedging derivatives on energy commodities for a nominal equivalent of Euros 68 million. As a result of the existence of such contracts, effective until 2023, the Group estimates that it has approximately 46% of its expected exposure to changes in the energy markets during the mentioned period.

vii. General risks related to economic and political conditions

Vidrala is a consumer packaging company. The products and services we offer are an essential part of the food distribution chain. Its demand is, therefore, in some way conditioned by the operating situation of this chain and, structurally, by the progress in the consumption of food and beverage products in the group's regions of activity.

Thus, general economic conditions, including the state of the cycle, the political situation, the degree of confidence of companies and consumers, and employment rates, somehow affect the consumption rate of food and beverage products, conditioning the evolution of the demand. Likewise, the volatility of raw material costs, the state of fluidity of the logistics supply structures and any other disruptive circumstance on the operation of the chain that may affect the normal activity of our facilities or those of our clients or suppliers can punctually affect the status of sales.

In this sense, health crises such as the CoVid-19 pandemic that occurred in this particular year 2020, can have an effect on economic activity, affecting consumption and the demand for glass containers for food products, in the same way that it can create a temporary disruption over supply chains blocking normal activities and temporarily affecting our sales.

In the context of the pandemic, regarding the sustainability of our activity, the manufacture of glass containers for food and beverages has been widely recognized as an essential industry, given its importance in sustaining the food chain. Once the capacity to maintain manufacturing activity was assured due to its essential nature, actions were taken to guarantee adequate supplies and logistics. Likewise, throughout the group, specific measures were implemented to protect the health and safety of all the people who are part of Vidrala. As a result of all the above, until the reporting date, the group's eight production centers have remained permanently operational since the beginning of the pandemic, guaranteeing supply to our customers and the survival of the food chain of which we are part.

Regarding the state of demand, the unprecedented measures to contain the pandemic are having an impact on economic activity and temporarily restricting social habits and some relevant leisure activities including the restaurant channel and tourism, which will inevitably affect the demand for glass containers. However, the geographic diversification and the breadth of services offered by Vidrala, the drive for consumption at home and the unstoppable growing preference of consumers for glass as the most hygienic, inert and healthy material, will offset the negative effects in the long term, allowing us to maintain our long-term industrial vision.

viii. 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.

The UK held a referendum on 23 June 2016 on whether to remain in the European Union. The votes were in favour to exit. After lengthy negotiations, the UK's exit from the European Union became a reality in early 2020. The two regions signed a trade agreement on 24 December 2020. The future relationship entails no tariffs or quotas on any goods Vidrala needs for its business. Nevertheless, as of 1 January 2021, trade transactions between the UK and the EU will be subject to new customs procedures, while taxation and the movement of people must also adapt to new requirements. More importantly, freedom of movement within Ireland is guaranteed, without any border between the Republic of Ireland and Northern Ireland.

In summary, the new policy framework will have a negligible impact on Vidrala’s business as its transactions between the British Isles and the EU are immaterial. In any case, adaptation processes have been implemented to guarantee the continuity of all supplies in compliance with their legal obligations.

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.

6. Property, Plant and Equipment

Details of property, plant and equipment and movement during 2020 and 2019 are as follows:

	Thousands of Euros					
2020	**Balances at 12.31.19**	**Additions**	**Disposals**	**Transfers**	**Translation differences**	**Balances at 12.31.20**
Cost						
Land and buildings	331,718	7,714	(258)	215	(7,067)	332,322
Technical installations and machinery	830,005	87,392	(4,750)	10,724	(19,124)	904,247
Moulds	106,237	8,156	(904)	-	(2,068)	111,421
Furniture	9,919	532	(107)	74	-	10,418
Other property, plant and equipment	875	9,112	(121)	221	(1,862)	8,225
Work in progress	65,593	21,357	-	(11,234)	-	75,716
	1,344,347	**134,263**	**(6,140)**	**-**	**(30,121)**	**1,442,349**
Depreciation						
Land and buildings	(105,601)	(9,183)	207	-	1,107	(113,470)
Technical installations and machinery	(449,486)	(58,405)	4,750	-	7,314	(495,827)
Moulds	(75,429)	(6,061)	904	-	1,479	(79,107)
Furniture	(6,705)	(214)	6	-	-	(6,913)
Other property, plant and equipment	(437)	(2,972)	228	-	251	(2,930)
	(637,658)	**(76,835)**	**6,095**	**-**	**10,151**	**(698,247)**
Impairments						
Moulds	(14,290)	(1,415)	-	-	-	(15,705)
	(14,290)	**(1,415)**	**-**	**-**	**-**	**(15,705)**
Carrying amount	**692,399**					**728,397**

2019	Balances at 12.31.18	Additions	Disposals	Transfers	Translation differences	Balances at 12.31.19
	Thousands of Euros					
Cost						
Land and buildings	336,914	3,701	(14,979)	342	5,740	331,718
Technical installations and machinery	848,068	43,205	(99,702)	23,848	14,587	830,005
Moulds	97,929	12,136	(5,281)	-	1,452	106,237
Furniture	10,922	157	(1,457)	278	18	9,919
Other property, plant and equipment	3,431	470	(3,739)	714	-	875
Work in progress	42,627	48,976	(1,321)	(25,182)	493	65,593
	1,339,891	**108,645**	**(126,479)**	**-**	**22,290**	**1,344,347**
Depreciation						
Land and buildings	(102,036)	(8,749)	6,101	-	(917)	(105,601)
Technical installations and machinery	(464,561)	(64,738)	87,584	-	(7,771)	(449,486)
Moulds	(67,970)	(9,339)	3,003	-	(1,122)	(75,429)
Furniture	(7,642)	(302)	1,441	-	(202)	(6,705)
Other property, plant and equipment	(832)	(2,081)	2,475	-	-	(437)
	(643,041)	**(85,209)**	**100,604**	**-**	**(10,012)**	**(637,658)**
Impairments	(12,736)	(4,109)	2,555	-	-	(14,290)
Carrying amount	**684,114**					**692,399**

Main additions for 2020 and 2019 correspond to the investment plans for the complete update of the production plants located in the United Kingdom (Euros 77,801 thousand and Euros 44,247 thousand respectively) and Portugal (Euros 29,031 thousand and Euros 20,250 thousand respectively).

No significant decreases have been recorded during 2020. Likewise, main decreases recorded during 2019 corresponded to the sale of the manufacturing activity in Belgium, which generated Euros 20,096 thousand net disposals.

(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 6,226 thousand at 31 December 2020 (Euros 8,303 thousand at 31 December 2019) (see note 14).

b) Commitments

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

	Thousands of Euros	
	2020	**2019**
Technical installations and machinery	28,667	23,384

(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 2020 the restated cost of fully depreciated property, plant and equipment in use amounts to Euros 413 million (Euros 408 million at 31 December 2019).

7. Intangible Assets

Details of intangible assets and movement during 2020 and 2019 are as follows:

	Thousands of Euros						
2020	**R&D expenditure**	**Emission allowances**	**Computer software**	**Other Intangible assets**	**Customer portfolio**	**Goodwill**	**Total**
Cost							
Balances at December 31 2019	3,637	12,388	24,769	300	13,237	209,890	264,221
Additions	316	26,558	1,792	-	-	-	28,666
Disposals	-	(21,484)	(357)	-	-	-	(21,841)
Translation differences	-	-	(489)	-	-	-	(489)
Balances at December 31 2020	**3,953**	**17,462**	**25,715**	**300**	**13,237**	**209,890**	**270,557**
Depreciation							
Balances at December 31 2019	**(2,836)**	-	**(14,291)**	**(54)**	**(9,164)**	-	**(26,345)**
Additions	(241)	-	(2,974)	(21)	(4,073)	-	(7,309)
Translation differences	-	-	91	-	-	-	91
Balances at December 31 2020	**(3,077)**	**-**	**(17,174)**	**(75)**	**(13,237)**	-	**(33,563)**
Carrying amount							
At December 31 2019	**801**	**12,388**	**10,478**	**246**	**4,073**	**209,890**	**237,876**
At December 31 2020	**876**	**17,462**	**8,541**	**225**	**-**	**209,890**	**236,944**

	Thousands of Euros							
2019	**R&D expenditure**	**Emission allowances**	**Computer software**	**Work in progress**	**Other Intangible assets**	**Customer portfolio**	**Goodwill**	**Total**
Cost								
Balances at December 31 2018	3,538	6,651	21,654	359	296	13,237	209,890	255,625
Additions	189	22,147	3,348	-	10	-	-	25,694
Transfers	-	-	(462)	462	-	-	-	-
Disposals	(90)	(16,643)	(43)	(821)	(6)	-	-	(17,603)
Translation differences	-	233	272	-	-	-	-	505
Balances at December 31 2019	**3,637**	**12,388**	**24,769**	**-**	**300**	**13,237**	**209,890**	**264,221**
Depreciation								
Balances at December 31 2018	**(2,744)**	-	**(12,733)**	-	**(31)**	**(5,091)**	-	**(20,599)**
Additions	(179)	-	(1,604)	-	(23)	(4,073)	-	(5,879)
Disposals	87	-	46	-	-	-	-	133
Balances at December 31 2019	**(2,836)**	**-**	**(14,291)**	-	**(54)**	**(9,164)**	-	**(26,345)**
Carrying amount								
At 31 December 2018	**794**	**6,651**	**8,921**	**359**	**265**	**8,146**	**209,890**	**235,026**
At 31 December 2019	**801**	**12,388**	**10,478**	**-**	**246**	**4,073**	**209,890**	**237,876**

(a) Impairment and allocation of goodwill to CGUs

The CGUs identified by the Group correspond to its production subsidiaries and directly equate to the Group's production plants, except for Encirc Ltd, which includes two inter-related production plants.

Each CGU corresponds to the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other assets or groups of assets.

Accordingly, the Group's CGUs are:

- Aiala Vidrio (integrated under Aiala Vidrio, S.A.)
- Castellar Vidrio (integrated under Castellar Vidrio, S.A.)
- Crisnova Vidrio (integrated under Crisnova Vidrio, S.A.)
- Vidrala Italia (integrated under Vidrala Italia, S.R.L.)
- Santos Barosa (integrated under Santos Barosa Vidros, S.A.)
- Gallo Vidro (integrated under Gallo Vidro, S.A.)
- Encirc, Derrylin and Elton plants (integrated under Encirc Limited)

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:

		Thousands of euros	
Cash Generating Unit	**Country**	**2020**	**2019**
Gallo Vidro	Portugal	20,799	20,799
Castellar Vidrio	Spain	26,155	26,155
Vidrala Italia	Italy	12,279	12,279
Santos Barosa Vidros	Portugal	150,657	150,657

All Group CGUs are tested for impairment, irrespective of any goodwill allocated, annually or more frequently if there is any indication of a potential loss in the value of the asset. CGUs tested for impairment represent 85% of the value of the group's non-current assets.

Measurements to quantify value in use are based on assessing value in use of the production plants identified according to predictive business models and a valuation methodology based on discounted future cash flows.

The sales growth forecasts are based on the combination of the annual change expected in the general consumer price indexes of each region, as the best reference of forecast changes in selling prices, plus 1% expected annual growth in sales volumes. Given the circumstances arising from the Covid-19 pandemic, forecast models start from the actual 2020 scenario, showing -in some cases- sharp falls in sales and/or output. Sales are not expected to recover quickly in 2021, but rather gradually over the coming years.

The figures for the change in sales -prices and volumes- and capex required for sustainability are consistent with the business' historical figures.

In calculating EBITDA, production costs increase in line with the annual change in the general CPI forecast for each CGU tested, in line with the estimated change in selling prices. Given the importance of energy costs in production plants' cost structure and the particular variability of energy tariffs, specific assumptions are used for changes in energy costs in response to estimated oil prices as the best indicator.

The estimated annual growth rate in all valuation models is 1.5%. This assumption is consistent with long-run industry growth and the macroeconomic outlooks for the geographical regions in which the Vidrala Group operates. It is considered reasonable in light of the stable, mature and reasonably predictable demand typical of the developed economies in which Vidrala carries out its business.

Average growth in sales and EBITDA for the forecast period is 3.1% and 3.3%, respectively (2019: 2.1% and 3.1%, respectively), which the Group considers reasonable in current market circumstances, considering the impacts of the pandemic in the 2020 figures.

The discount rate used is obtained through assessments based on internal assumptions and the result is consistent with the discount rates used in independent external financial research on Vidrala. They also reflect the specific risks of each GCU.

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

Cash Generating Unit	2020 Discount rate	2019 Discount rate
Aiala Vidrio	7.1%	6.8%
Crisnova Vidrio	7.0%	6.7%
Castellar Vidrio	7.1%	6.8%
Gallo Vidro	7.4%	7.0%
Vidrala Italia	7.2%	6.9%
Santos Barosa Vidros	7.4%	7.0%
Encirc	7.1%	7.6%

The following assumptions are used to obtain the discount rates in the preceding table:

- The risk-free rate of the related GCU's country, which ranges from 2.0% to 2.6% (between 1.6% and 2.6% in 2019)
- A 7.0% risk premium (6.5% in 2019).
- A beta for the related GCU's country, which ranges from 1.05 to 1.11 (from 0.94 to 1.01 in 2019)
- A fixed liability structure of 1/3 debt, 2/3 equity (the same as in 2019)

The rest of the key assumptions used in the impairment tests performed are as follows:

- *Changes in consumer price index*

Estimated in 2020	**2020**	**2021 and following**
Spain	(0.2%)	0.9%
Portugal	0%	1.2%
Italy	0%	0.8%
United Kingdom	0.9%	1.6%
Estimated in 2019	**2019**	**2020 and following**
Spain	0.7%	1.1%
Portugal	0.6%	1.1%
Italy	0.7%	0.9%
United Kingdom	1.9%	1.7%

- *Estimated Brent barrel price, in euros:*

	2020	2021	2022	2023	2024	2025
Estimated in 2020	-	48.10	42.70	41.30	45.00	50.00
Estimated in 2019	48.63	48.84	48.34	47.76	47.76	-

Historical analysis of variation in Vidrala's profit or loss on a like-for-like basis (i.e. excluding the effects of acquisitions and disposals) shows average variability, measured as standard deviation, in both sales and margins of less than 2% p.a. The data are consistent with the nature of Western European manufacturing and sale of glass containers for food and beverages, characterised by mature, reasonably stable and predictable demand. Vidrala's production performance shows limited fluctuations at the expense of the recurring capex captured in the valuation models.

In analysing sensitivity of DCF valuations, variations in sales and EBITDA of +/-2% each year are analysed.

Mainly, real sales prices may perform differently than considered in the valuation models, which is linked to general inflation indicators. In this case, there would also be a proportionate increase or decrease in production costs, thereby mitigating the impact on EBITDA to a certain extent. Real production costs could also perform differently than considered in the valuation models, which is linked to general inflation indicators and the estimate of future oil prices. However, in this case, there would also be a proportionate movement in selling costs, thereby mitigating the impact on EBITDA to a certain extent. This sensitivity analysis of sales and EBITDA should also capture the impact in these circumstances. Lastly, depending on the stage in the industrial use cycle where each facility is located, capex each year could be higher or lower than the levels included in the valuation models. Nevertheless, the rate used is considered to be a sound reference for a normalised annual average rate.

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

(b) Fully amortised assets

At 31 December 2020, there were fully amortised items of intangible assets still in use with an updated cost of Euros 19 million (Euros 15 million at 31 December 2019).

8. Derivative Financial Instruments

Details of derivative financial instruments are as follows:

	Thousands of Euros			
	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Hedging derivatives				
Interest rate swaps	-	3,667	-	4,717
Inflation swaps	-	-	27	36
Currency swaps	-	-	374	-
Energy price options	2,672	7,158	5,272	1,144
Total	**2,672**	**10,825**	**5,673**	**5,897**

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.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. The derivatives, primarily swaps to convert variable prices to fixed prices on interest rates and underlying energy prices, are valued using valuation techniques which employ the use of observable market data. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations (discounted cash flows). The models incorporate various inputs including the credit quality of counterparties, US dollar foreign exchange spot and forward rates, euro yield curves, and forward oil (Brent), gas (NBP and TTF) and electricity (OMIE) prices. All of the contracts are fully cash collateralised, thereby eliminating both counterparty risk and the Group's own non-performance risk.

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 2017 and 2020 have an accumulated nominal of Euros 335 million at December 31, 2020 (Euros 436 million at December 31, 2019). At December 31, 2020, Euros 335 million became effective, with Euros 175 million reaching expiry in 2021. Under these contracts, effective until 2025, the Group will pay a fixed interest rate of between (0.275) % and 0.535%.

Energy price hedging instruments have an accumulated nominal of Euros 68 million at December 31, 2019 (Euros 63 million at December 31, 2019).

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

	Thousands of Euros Income/(Expenses)	
	2020	**2019**
Other comprehensive income	(13,173)	6,128
Reclassification to finance costs	5,244	(3,615)
	(7,929)	**2,513**

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						
	2020						
	Carrying Amount	Expected Cash flows	Occurrence of cash flows				
			2021	2022	2023	2024	2025
Interest rate swaps	(3,667)	(3,760)	(1,955)	(940)	(489)	(338)	(38)
Energy price options	(4,486)	(4,489)	(482)	(2,284)	(1,723)	-	-

	Thousands of Euros						
	2019						
	Carrying Amount	Expected Cash flows	Occurrence of cash flows				
			2020	2021	2022	2023	2024
Interest rate swaps	(4,717)	(4,838)	(1,997)	(1,683)	(727)	(315)	(106)
Inflation swaps	(9)	(9)	(9)	-	-	-	-
Currency swaps	374	374	374	-	-	-	-
Energy price options	4,128	4,503	2,975	1,390	138	-	-

9. Income Tax

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

	Thousand 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 2018	**2,783**	**737**	**4,824**	**3,834**	**26,516**	**38,695**
(Debit) credit to income statement	2,488	-	(2,209)	-	(1,146)	(867)
Debit (credit) to other comprehensive income	-	-	-	(1,102)	-	(1,102)
Translation differences	-	-	-	-	-	-
At 31 December 2019	**5,272**	**737**	**2,615**	**2,732**	**25,370**	**36,726**
(Debit) credit to income statement	2,090	636	(2,615)	-	515	626
Debit (credit) to other comprehensive income	-	-	-	1,764	-	1,764
Translation differences	-	-	-	-	-	-
At 31 December 2020	**7,362**	**1,373**	**-**	**4,496**	**25,885**	**39,116**

	Thousands of Euros				
Deferred tax liabilities	**Goodwill**	**Property, plant and equipment**	**Financial assets**	**Other**	**Total**
At 31 December 2018	**15,440**	**31,469**	**2,906**	**1,331**	**51,146**
Debit (credit) to income statement	4,520	(2,933)	-	(462)	1,125
Debit (credit) to other comprehensive income	-	-	(522)	52	(470)
Translation differences	-	802	-	-	802
At 31 December 2019	**19,960**	**29,338**	**2,384**	**921**	**52,603**
Debit (credit) to income statement	2,975	1,988	-	(921)	4,042
Debit (credit) to other comprehensive income	-	-	174	-	174
Translation differences	-	(1,002)	-	-	(1,002)
Other	(1,356)	-	-	-	(1,356)
At 31 December 2020	**21,579**	**30,324**	**2,558**	**-**	**54,461**

“Other” of “Deferred tax assets” includes mainly the temporary differences arising from the acquisitions of Santos Barosa Vidros, S.A. in 2017 and Encirc Limited and Encirc Distribution Limited in 2015.

The Parent's directors consider that recovery of all deferred tax assets is assured with the current level of profits.

“Property, plant and equipment” under “Deferred tax liabilities” includes mainly the tax effect of the accelerated depreciation of various fixed assets.

"Goodwill" relates mainly to the accumulated effect of the tax deductibility applied to goodwill allocated to Santos Barosa Vidros, S.A.

Deferred taxes on items debited/(credited) directly to other comprehensive income in 2020, corresponding to hedging operations, amounted to Euros 2,031 thousand (Euros (718) thousand at 31 December 2019).

Details of the income tax expense are as follows:

	Thousands of Euros	
	2020	**2019**
Current tax		
Present year	31,651	27,626
Prior year adjustments	(4,081)	(626)
Deferred tax		
Source and reversal of temporary differences	(532)	3,831
Application on capitalized deductions	589	1,281
Adjustments for change type of tax	1,663	(120)
Expense for reduction of deferred tax assets	2,144	(692)
Income for increase of deferred tax assets	(1,790)	-
Expense for increase of deferred tax liabilities	2,975	-
Income for reduction of deferred tax liabilities	(1,008)	-
Prior year adjustments	(334)	(651)
Other	649	(5,412)
Deferred income taken to income tax (note 14)	(2,223)	(2,532)
Total	**29,703**	**22,705**

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

	Thousands of Euros	
	2020	**2019**
Profit for the year before income tax from continuing operations	189,166	165,980
Compensation of negative tax bases from previous years	(189)	(885)
Tax calculated at the tax rate of each country	43,019	36,072
Carry forward of unused tax losses	(2,090)	2,433
Deductions for the year	(1,359)	(170)
Prior year adjustments	(4,081)	(1,379)
Adjustments for changes in tax rate	1,663	(140)
Expense for reduction in deferred tax assets	-	(692)
Income for increase in deferred tax assets	(151)	-
Expense for increase in deferred tax liabilities	1,612	-
Other adjustments	783	(6,355)
Deferred income taken to income tax (note 14)	(2,522)	(2,532)
Permanent differences	(7,181)	(4,532)
Income tax expense	**29,703**	**22,705**

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 between four and five years for those located in Spain and between three and four years for those located out of Spain.

“Other adjustments” in 2019 included mainly the use of the provision set aside for tax risk arising on a corporate transaction and the tax treatment of the resulting goodwill, for Euros 11,738 thousand, and the recognition of a provision for potential liabilities arising in connection with the inspection being carried out, amounting to Euros 6,145 thousand.

Permanent differences arise from the application of the tax rate to non-taxable income, which mainly consists 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 6,332 thousand at December 31, 2020 (Euros 6,262 thousand at December 31, 2019).

The Company applied in 2020 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 7,500 thousand (Euros 11,000 thousand in 2019). 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 five years has elapsed. 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 2020 consolidated annual accounts taken as a whole.

10. Inventories

Details of inventories are as follows:

	Thousands of Euros	
	2020	**2019**
Raw materials	16,130	15,871
Auxiliary and production materials	77,026	80,041
Finished goods and work in progress	110,772	123,822
Supplier down payments	380	2,832
	204,308	**222,566**
Impairment	(42,794)	(27,949)
	161,514	**194,617**

At 31 December 2020 and 2019 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.

Impairment on finished goods amounted to Euros 15,532 thousand (2019: Euros 6,696 thousand), and on auxiliary and production materials to Euros 27,262 thousand (2019: Euros 21,253 thousand).

Decreases in the value and reversals of impairment of inventories are recognised with a credit to "Changes in inventories of finished goods and work in progress" in the consolidated income statement for finished goods and work in progress; and "Merchandise, raw materials and consumables used" in the consolidated income statement for the remaining inventories.

11. Trade and Other Receivables

Details of trade and other receivables are as follows:

	Thousands of Euros	
	2020	**2019**
Trade receivables	231,417	253,252
Personnel	-	298
Other loans	2,199	2,752
Less impairment	(12,667)	(7,768)
Total	**220,949**	**248,534**

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

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 2020 and 2019 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 2020	2019
Public entities		
Value added tax	8,952	9,143
Other items	3,334	1,437
	12,286	**10,580**

Details of other current liabilities are as follows:

	Thousands of Euros 2020	2019
Public entities		
Value added tax	13,636	17,292
Withholdings and payments on account	3,111	2,795
Social Security	3,388	4,247
Other	-	4,016
	20,135	**28,350**

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 2020 and 2019 is as follows:

	Number Of shares outstanding	Thousand of euros: Ordinary shares	Own shares	Total
At December 31 2018	**25,955,026**	**26,555**	**(4,874)**	**21,681**
Acquisition of own shares	(205,791)	-	(16,512)	(16,512)
Share capital increase	1,301,702	1,328	-	1,328
At December 31 2019	**27,050,937**	**27,883**	**(21,386)**	**6,497**
Acquisition of own shares	(71,408)	-	(6,191)	(6,191)
Sale of own shares	-	(274)	19,898	19,624
Share capital increase	1,353,352	1,380	-	1,380
At December 31 2020	**28,332,881**	**28,989**	**(7,679)**	**21,310**

The movement on own shares is the following:

	Number of own shares	
	2020	**2019**
At January 1 2020	**284,824**	**79,033**
Acquisition of own shares	71,408	205,791
Sale of own shares	(268,710)	-
At December 31 2020	**87,522**	**284,824**

At 31 December 2019 the share capital of Vidrala, S.A. is represented by 27,335,761 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.

The Board of Directors at its meeting of 19 December 2019, decided to reduce capital by Euros 274 thousand through the cancellation of 268,710 treasury shares. This concluded the share buyback programme agreed on December 20, 2018. After placing the share capital reduction on file with the companies register, Vidrala, S.A.'s share capital will amount to Euros 27,608 thousand, divided up into 27,067,051 shares of one euro and two euro cents (Euros 1.02) par value each.

This capital reduction also had an impact of Euros 19,624 thousand on unrestricted reserves from the difference between nominal amount and the cost of buying back and cancelling shares.

Meanwhile, at the Annual General Meeting of Vidrala, S.A. held on July 2, 2020, approval was given to increase share capital by Euros 1,380 thousand through the issuance and circulation of 1,353,352 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

At 31 December 2020, Vidrala, S.A.'s share capital amounted to Euros 28,989 thousand, divided up into 28,420,403 shares of one euro and two euro cents (Euros 1.02) par value each.

In reference to treasury shares, at the Annual General Meeting of Vidrala, S.A. celebrated on May 28, 2019, 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.

As an additional extraordinary measure, on 18 December 2020, the Company said it was extending the duration of the share buy-back programme for an additional 12 months, repurchasing up to 270,000 shares for a maximum cash amount of Euros 27 million. The purpose of the programme is to redeem treasury shares, with the aim of contributing to the shareholder remuneration policy by raising earnings per share.

In 2020 and 2019, a total of 71,408 and 205,791 shares, respectively, were acquired on the market, for a total amount of Euros 6,191 thousand and Euros 16,512 thousand, respectively.

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

All of the Company's shares are admitted to trading on the Bilbao and Madrid stock exchanges. There are no restrictions on the free transferability of the shares. No shareholder has an ownership interest equal to or greater than 10%.

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.

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 2020, the Group's capital ratios increased, as shown in the following ratios for 2020 and 2019:

	Thousands of Euros	
	2020	**2019**
Total equity	816,156	723,359
Total equity and liabilities	1,521,447	1,457,861
Total equity/total equity and liabilities	53.64%	49.6%

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	
	2020	**2019**
Net financial debt	233,482	334,898
Equity	816,156	723,359
Debt ratio	0.29	0.46

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 0.83 (1.22 at the 2019 close) and debt equivalent to 0.29 times accumulated EBITDA (0.46 at the 2019 close). The interest coverage ratio, measured as EBITDA for the year divided by the consolidated net finance cost, is 50.74 (59.47 at the 2019 close).

(b) Other reserves

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

This revaluation reserve comprises the revaluation carried out by the Parent as permitted by "*Norma Foral de Alava 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 2020 and 2019 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 December 31, 2020 the Group has included a non-distributable capitalisation reserve of Euros 400,000,000 (Euros 320,671,076.11 at December 31, 2019) 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 – Cash flow hedges

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

	Thousands of Euros		
	Cash flow hedges	Tax effect	Net
Balances at December 31 2018	**(2,675)**	**563**	**(2,092)**
Income and expenses generated during the year	6,128	(1,751)	4,377
Reclassification to profit or loss	(3,615)	1,033	(2,582)
Balances at December 31 2019	**(162)**	**(135)**	**(297)**
Income and expenses generated during the year	(13,173)	3,236	(9,396)
Reclassification to profit or loss	5,244	(1,205)	3,498
Balances at December 31 2020	**(8,091)**	**1,896**	**(6,195)**

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 19,615 thousand (Euros 16,149 thousand positive in 2019) 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 1,486 thousand (Euros 392 thousand in 2019) (see note 18).

(d) Dividends and restrictions on distribution of dividends

Total dividends distributed by Vidrala, S.A. to shareholders in 2020 amounted to Euros 31,498 thousand (Euros 27,471 thousand in 2019), which is equivalent to 1.1639 euro per share outstanding (1.0581 euro in 2019). The dividends reflect the distribution of 2019 profit.

The amount paid as an attendance bonus to the General Shareholders' Meeting during the financial year 2020 amounted to Euros 933 thousand (Euros 936 thousand in 2019).

The distribution of Company profits and reserves for the year ended 31 December 2019, approved by the shareholders at their annual general meeting held on July 2, 2020, was as follows:

Basis of allocation	Euros
Profit for the year	144,824,712.78
Distribution	
Legal reserves	210,730.36
Other reserves	113,115,812.75
Dividend	8,680,645.68
Interim dividend	22,817,523.99

On 18 December 2020 the directors agreed to distribute an interim dividend on 2020 profit of 0.8430 euro per share to shareholders, totalling Euros 23,885 thousand, which was paid on February 15, 2021.

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:

	Thousands of Euros
Forecast distributable profit for 2020	
Projected profit after income tax to 12.31.2020	
Interim dividend distributed	23,885
Forecast cash flow for the one-year period from December 20, 2020	
Cash and cash equivalents at agreement date	47,304
Credit facilities available at agreement date	269,000
Projected operating receipts and payments (net)	34,944
Other cash disburments	(33,942)
Credit facilities available (one year later)	**317,306**

The proposed distribution of 2020 profit and other Parent reserves to be submitted to the shareholders for approval at their annual general meeting is as follows:

Basis of application	Euros
Profit for the year	84,724,624.55
Distribution	
Legal reserve	276,083.81
Other reserves	51,471,900.54
Dividend	9,092,021.51
Interim dividend	23,884,618.69
	84,724,624.55

The proposed distribution of dividends is equivalent to a total unit dividend, including the interim dividend paid, of Euros 1.1639 per share outstanding at the reporting date.

14. Deferred Income

Details of this caption are as follows:

	Thousands of Euros	
	2020	**2019**
Capital grants (note 6(a))	6,226	8,303
Tax credits for investments	1,053	3,721
	7,279	**12,024**

During 2020 and 2019, the Group has not added any additional capital grants being the gross allocation during 2020 to the consolidated profit and loss account amounting to 2,157 thousand euros (3,428 thousand euros in 2019) (see note 21).

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 2020 and 2019, 2,223 and 2,532 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			
	2020		**2019**	
	Non-current	**Current**	**Non-current**	**Current**
Loans and borrowings	140,669	6,881	186,089	30,260
Finance Lease	41,135	737	41,352	748
Other financial liabilities	3,714	152,325	4,465	100,532
Accrued interest	-	199	-	247
	185,518	**160,142**	**231,906**	**131,787**

Non-current loans and borrowings mature as follows:

	Thousands of Euros	
	2020	**2019**
Between 1 and 2 years	73,875	71,476
Between 2 and 5 years	93,643	137,930
More than 5 years	18,000	22,500
	185,518	**231,906**

Some of these contracts contain financial covenant clauses. At 31 December 2020 and 2019 the Group complies with these requirements.

On July 26, 2020, the Group Parent company, Vidrala S.A., placed a commercial paper programme on the Spanish Alternative Fixed Income Market (MARF), with a maximum limit of Euros 150 million. The programme is for one year, renewable annually. Through this programme, the Company may issue commercial paper with terms of between 3 and 730 days. Rates will be set according to supply and demand upon issuance, which will depend on market conditions, the time structure of the yield curve, and the investor appreciation or interest in the issuer's credit rating. Interest rates on the Company's commercial paper issued in 2020 ranged from 0.00% to 0.24% p.a., excluding the placement fee. The total amount of commercial paper issued in 2020 was Euros 483 million, of which Euros 150 million were pending maturity at 31 December 2020, recognised in the “Other financial liabilities”. These mature between January and September 2021. In these conditions, the Company expects to meet the maturities of these issues in 2021 via the issuance of new securities, gradually attempting to optimise the term and interest rate structure and further diversifying its funding sources. Anyway, the Group had sufficient liquidity at year-end 2020 in the form of immediately available, undrawn long-term bank borrowings to meet all its maturities.

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

				Thousand euros			
			Limit extended/ Nominal amount	**2020**		**2019**	
Type	**Extended**	**Maturity**		**Current**	**Non-current**	**Current**	**Non-current**
Loan	2015	2024	80,000	-	79,669	-	78,613
Credit facility	2015	2023	65,594	-	-	-	-
Credit facility	2015	2024	114,406	-	-	-	-
Loan	2018	2023	25,000	-	25,000	-	15,000
Credit facility	2018	2023	25,000	-	-	-	5,976
Loan	2018	2020	25,000	-	-	-	25,000
Loan	2017	2029	45,000	4,500	36,000	4,500	40,500
Credit facility	2010	2024	50,000	-	-	-	21,000
Other short-terms credit facilities	2018	2021	128,500	2,381	-	25,760	-
				6,881	**140,669**	**30,260**	**186,089**

The following table presents changes in liabilities from financing activities in compliance with the required disclosures of IAS 7:

	Thousands of Euros				
	1 January 2020	**Cash flows**	**Changes in fair value**	**Other**	**31 December 2020**
Current loans and borrowings	131,787	28,355	-	-	160,142
Non-current loans and borrowings	231,906	(46,388)	-	-	185,518
Dividends payables (Note 16)	22,819	(22,819)	-	23,885	23,885
Total liabilities from financing activities	**386,512**	**(40,852)**	**-**	**23,885**	**369,545**

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 and for the acquisition of Santos Barosa Vidros, S.A. paid out on October 13, 2017 through the subsidiary Inverbeira Sociedad Promoción de Empresas, S.A, 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.

On 21 June 2019, Vidrala, S.A. entered into a novation agreement of its syndicated facility, effective 15 July 2019, adapting it to a sustainable financing structure. With principal of Euros 260 million, the facility comprises a Euros 80 million loan and a Euros 180 million revolving credit line, with maturities between 2023 and 2024.The terms did not imply a substantial modification, so it was considered a modification of the previous agreement.

On 29 July 2020, Vidrala extended the maturity of Euros 114 million of the Euros 180 million revolving credit facility from 2023 and 2024. The remaining Euros 66 million still mature in 2023. The Company has an option for a further extension to 2025 of these Euros 114 million, which it may apply for in 2021.

As a result, at 31 December 2020 and 2019, the long-term syndicated loan amounted to Euros 80 million. The revolving credit line is unused and fully available.

The interest rate applicable to the syndicated facility in 2020 was 0.585% for the loan tranche and 0.335% for the revolving credit line plus a drawn down fee ranging from 0.10% to 0.25% from then. These percentages may be revised by the financial institutions every six months based on the performance of "Consolidated net debt/EBITDA" ratio.

There will be a grace period for the loan between 2021 and 2023, during which there will be no obligations to make principal payments.

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, 2020:

Net financial debt / consolidated EBITDA: 0.83x

Consolidated EBITDA / consolidated net finance cost: 50.74x

The financing contract, because of its sustainable nature, includes certain commitments by the Vidrala Group to improve its environmental performance. The agreed margin applicable to drawdowns of any tranche will change in accordance with carbon dioxide emissions:

CO_2 emissions = Tonnes of CO_2 emitted by the Group/tonnes of glass containers (palletized and labelled).

The emission ranges will impact the margin, applying an increase or decrease of up to 0.015%.

In addition to the syndicated financing and existing commercial paper programme, the Vidrala Group took out a long-term loan from the European Investment Bank (EIB) of Euros 45 million, maturing on 23 October 2029. It signed the loan on 17 July 2018 as part of an investment plan for the production plant in Italy. According to the agreed repayment schedule, the outstanding balance of this finance at 31 December 2020 was Euros 40.5 million, of which 10% of the loan principal, amounting to Euros 4.5 million, will be repaid in 2021.

Lastly, on 12 December 2018, Group companies Aiala Vidrio, S.A. and Crisnova Vidrio, S.A. entered into commercial leasing agreements for assets with an aggregate amount of Euros 40 million, i.e. Euros 20 million in each case. The underlying assets of the leases are specialist machinery at each production plant. Total rents will be paid on expiry of the leases, in 2022 and 2023, respectively, after which the Group companies may exercise the purchase options on the leased assets.

The amounts and maturities of certain bank financing facilities other than those described above were renegotiated in 2020 through bilateral agreements with several financial institutions. This increased and extended a pre-existing bilateral financing line in the form of a loan, raising the amount for a further Euros 10 million, from Euros 15 million to Euros 25 million, and extending maturity by two years, from 2021 to 2023. Bilateral long-term financing lines were also increased and extended, by an additional Euros 45 million, from Euros 30 million to Euros 75 million, extending original maturities of 2021 to 2023 and 2024.

At 31 December 2020, total bank loans and credit facilities with banks, including all the bank financing facilities described above, had a combined limit of Euros 529 million (the same as at 31 December 2019). Consequently, at 31 December 2020, Euros 333 million were available for draw down (2019: Euros 301 million). The Group also had Euros 112 million of cash at 31 December 2020, of which Euros 26 million related to balances in pounds sterling.

The average effective interest rates (APR) at the reporting dates for bank borrowings were approximately 1.10% and 0.98% in 2020 and 2019, 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	
	2020	**2019**
Trade payables	170,868	182,833
Salaries payable	14,044	15,301
Dividends to shareholders	23,885	22,818
Suppliers of fixed assets	6,030	4,695
Other payables	375	341
	215,202	**225,988**

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 2020 and 2019 is as follows:

	Days	
	2020	2019
Average supplier payment period	58.60	62.01
Transactions paid ratio	60.62	66.22
Transactions payable ratio	47.17	40.82
	Amount (Thousands of Euros)	
Total payments made	273,548	235,208
Total payments outstanding	48,255	46,752

18. Provisions

Movement in provisions in 2020 and 2019 is as follows

	Thousands of Euros			
	Emission allowances	Personnel	Other provisions	Total
At 31 December 2019	**21,951**	**6,244**	**7,063**	**35,258**
Charge against profit or loss	18,403	2,827	2,566	23,796
Payments	(21,951)	-	-	(21,951)
Translation differences	-	-	-	-
Other	-	-	-	-
At 31 December 2020	**18,403**	**9,071**	**9,629**	**37,103**

	Thousands of Euros			
	Emission allowances	Personnel	Other provisions	Total
At 31 December 2018	**18,636**	**6,021**	**11,952**	**36,609**
Charge against profit or loss	23,380	337	6,227	29,944
Reversion	-	-	(11,733)	(11,733)
Payments	(17,922)	-	-	(17,922)
Translation differences	-	(114)	-	(114)
Other	(2,143)	-	617	(1,526)
At 31 December 2019	**21,951**	**6,244**	**7,063**	**35,258**

The provision for emission allowances includes the estimated surrender of emission allowances in 2020 and 2019 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.

“Other provisions" includes in 2020 a provision amounting to Euros 6,610 thousand (Euros 6,145 thousand in 2019) relating to certain obligations that will be covered by the Parent Company and which has been recorded on the best estimate. Likewise, in 2019, this item also included the settlement of a provision recorded in relation to a tax risk amounting to Euros 11,738 thousand, which was prescribed during 2019 (see Note 9).

19. Contingencies

The Group has contingent liabilities for bank and other guarantees related to routine business operations amounting to Euros 4,629 thousand (Euros 3,848 thousand in 2019). 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.

20. Environmental Information

Positive results have been 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 2020 to comply with the Kyoto Protocol and emissions analyses amounted to Euros 257 thousand (Euros 1,478 thousand in 2019).

Environmental expenses mainly related to waste management incurred during 2020 totalled Euros 2,335 thousand (Euros 3,869 thousand in 2019). These expenses are related to waste management.

Environment-related plant investments came to Euros 4,889 thousand (Euros 4,219 thousand in 2019).

21. Revenue and Other Income

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

Details of other income are as follows:

	Thousands of Euros	
	2020	**2019**
Capital grants taken to income (note 14)	2,157	3,428
Grants for emission allowances	16,071	9,037
Other income	11,848	4,372
	30,076	**16,837**

22. Merchandise, raw materials and consumables used

Details of Merchandise, raw materials and consumables used are as follows:

	Thousand euros	
	2020	2019
Net purchases	(309,018)	(321,569)
Change in inventories	(2,756)	(5,904)
Impairment	(6,009)	(5,221)
	(317,783)	**(332,694)**

23. Other Expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2020	2019
External services (note 23.1)	(42,066)	(45,338)
Electricity	(40,307)	(50,954)
Sales expenses (note 23.2)	(96,835)	(95,522)
Surrender of emission allowances (note 18)	(18,403)	(23,380)
Taxes	(3,061)	(4,968)
Impairment and uncollectibility of trade and other payables (note 11)	(4,899)	(655)
Other operating expenses	(8,138)	(12,834)
	(213,709)	**(230,651)**

23.1 External services

The detail of “External services” is as follows:

	Thousand euros	
	2020	2019
Repair and maintenance	(27,920)	(31,167)
Independent profesional services	(1,098)	(1,560)
Insurance	(4,587)	(3,742)
Supplies	(914)	(965)
Other services	(7,547)	(7,904)
	(42,066)	**(45,338)**

23.2 Sales expenses

The amount broken down under that heading corresponds mainly to expenses for the provision of logistics services (storage and transportation) and other marketing expenses.

24. Employee Benefits Expense

Details of the employee benefits expense in 2020 and 2019 are as follows:

	Thousands of Euros	
	2020	**2019**
Salaries, wages and similar	141,589	156,735
Contributions to defined contribution plans	1,530	2,722
Other employee benefits	42,676	38,086
	185,795	**197,543**

The average headcount of the Group in 2020 and 2019, distributed by category, is as follows:

	Average headcount	
	2020	**2019**
Senior management and proxies	47	48
Junior management	399	395
Administrative staff	447	495
Operators	2,634	2,828
	3,527	**3,766**

At 31 December 2020 and 2019 the distribution by gender of Group personnel and directors is as follows:

	Number			
	2020		**2019**	
	Female	**Male**	**Female**	**Male**
Board members	3	8	3	8
Management	1	47	1	43
Junior management	87	356	64	311
Administrative staff	150	255	161	290
Operators	247	2,336	272	2,398
	488	**3,002**	**501**	**3,050**

25. Finance Income and Finance Costs

Details of finance income and finance costs are as follows:

	Thousands of Euros	
Finance income	**2020**	**2019**
Exchange gains	1,690	1,002
Other finance income	56	2
Total finance income	**1,746**	**1,004**

Finance costs	Thousands of Euros 2020	2019
Interest on loans and borrowings	(3,159)	(4,787)
Hedging derivatives	(3,448)	(1,751)
Other finance costs	(241)	(57)
Total finance costs	**(6,848)**	**(6,595)**

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:

	2020	2019
Profit for the year attributable to equity holders of the Parent (thousands of Euros)	159,463	143,275
Weighted average number of ordinary shares outstanding (thousands)	28,266	27,174
Basic earnings per share (Euros per share)	5.62	5.27

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

	2020	2019
Ordinary shares outstanding at 1 January	28,420,403	27,335,761
Effect of own shares	54,888	162,015
Weighted average number of ordinary shares outstanding at 31 December	**28,365,515**	**27,173,746**

The profit per share for the 2019 financial year, adjusted for the effect of the increase of released capital carried out in December 2020, would amount to 5.02 euros per share.

(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 2020 and 2019 the Group has not carried out any transactions with related parties vis-á-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:

	Thousands of Euros	
	2020	**2019**
Salaries and other current remuneration paid to employees, management and directors	3,285	3,161

Likewise, during 2020, incentive payments were made for an amount of Euros 600 thousand (Euros 1,040 thousand in 2019).

The number of directors as of December 31, 2020 has amounted to 12 people (12 number of people in 2019).

Loans to senior managers at 31 December 2020 amounted to Euros 103 thousand (Euros 321 thousand as of December 31, 2019).

(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 1,419 thousand (Euros 1,387 thousand in 2019).

Likewise, during 2020 incentive payments have been made for Euros 189 thousand (none in 2019).

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 2020 and 2019 as follows:

	Thousands of Euros	
	2020	**2019**
Ernst&Young, S.L.		
Audit services	289	287
Other services	12	17
Total EY	**301**	**304**

These amounts include all fees for services rendered during 2020 and 2019, irrespective of the date of invoice.

During 2020 and 219, other auditors have invoiced the Group audit fees of Euros 98 thousand for auditing fees.

29. Events after the reporting period

No events with a significant impact on the accompanying consolidated financial statements took place between the reporting date and the date of authorisation for issue of the consolidated financial statements.

NOTE. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

The original Annual Accounts prepared in Spanish were signed by the Company's Members of the Board in accordance with applicable legislation.

VIDRALA, S.A. AND SUBSIDIARIES

Detail of the Movement of Other Reserves and Accumulated Earnings
for the years ended
31 December 2020 and 2019

(Expressed in thousands of Euros)

	Revaluation reserves	Legal reserve	Voluntary reserves	Reserves in fully consolidated companies	Profit for the year	Total
At January 1 2019	**2,311**	**5,311**	**410,641**	**118,010**	**115,958**	**652,231**
Distribution of 2019 profit						
Reserves	-	-	55,633	32,854	(88,487)	-
Dividends	-	-	-	-	(27,471)	(27,471)
Share capital increase	-	-	(1,328)	-	-	(1,328)
Profit for 2019	-	-	-	-	143,275	143,275
Other	-	-	(1,872)	-	-	(1,872)
At December 31 2019	**2,311**	**5,311**	**463,074**	**150,864**	**143,275**	**764,835**
Distribution of 2019 profit						
Reserves	-	211	113,116	(1,550)	(111,777)	-
Dividends	-	-	-	-	(31,498)	(31,498)
Share capital increase	-	-	(1,380)	-	-	(1,380)
Share capital decrease	-	-	(19,624)	-	-	(19,624)
Profit for 2020	-	-	-	-	159,463	159,463
Other	-	-	-	(912)	-	(912)
At December 31 2020	**2,311**	**5,522**	**555,186**	**148,402**	**159,463**	**870,884**

This appendix forms an integral part of note 13 to the consolidated annual accounts, in conjunction with which it should be read.